ABBEY COVERED BONDS LLP

Registered in England and Wales
No: OC312644

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED
31 DECEMBER 2015

STRATEGIC REPORT

The Members submit the Strategic Report together with their Report of the members and the audited financial statements for the year ended 31 December 2015. The Strategic Report is also required by law to be prepared in accordance with the Companies Act 2006, as applicable to qualifying partnerships.

Principal activity

Abbey Covered Bonds LLP (the "Partnership") is a special purpose vehicle whose business is to acquire, inter alia, loans and their related security from Santander UK plc pursuant to the terms of the Mortgage Sale Agreement and to guarantee the Covered Bonds. The Partnership will hold the portfolio and the other charged property in accordance with the terms of the transaction documents.

The Partnership has provided a guarantee covering all guaranteed amounts when the same shall become due for payment, but only following service of a Notice to Pay or an LLP Acceleration Notice. The obligations of the Partnership under the Covered Bond Guarantee and the other transaction documents to which it is a party are secured by the assets from time to time of the Partnership and recourse against the Partnership is limited to such assets.

The programme

Under the terms of the Covered Bond Programme, Abbey National Treasury Services plc (the 'Issuer') will issue Covered Bonds to Covered Bondholders on each Issue Date. The Covered Bonds will be direct, unsecured and unconditional obligations of the Issuer.

Santander UK plc (the 'Group Guarantor') has, under the terms of the Trust Deed, provided a guarantee, on a several basis as between itself and the Partnership, in respect of all Covered Bonds issued from time to time by the Issuer under the Programme and all other amounts payable by the Issuer under the Trust Deed. The obligations of the Group Guarantor under the Group Guarantee constitute direct, unsecured and unconditional obligations of, and rank pari passu among themselves and equally with all other unsecured and unsubordinated obligations of, the Group Guarantor.

Under the terms of the Trust Deed, the Partnership has also provided a guarantee, on a several basis as between the Group Guarantor and itself, in respect of payments of interest and principal under the Covered Bonds. The Partnership has agreed to pay an amount equal to the Guaranteed Amounts when the same shall become due for payment but which would otherwise be unpaid by the Issuer or the Group Guarantor. The obligations of the Partnership under the Covered Bond Guarantee constitute direct and (following service of a Notice to Pay or an LLP Acceleration Notice) unconditional obligations of the Partnership, secured as provided in the Deed of Charge. The Bond Trustee will be required to serve a Notice to Pay on the Partnership following the occurrence of an Abbey Event of Default and service of an Abbey Acceleration Notice. An LLP Acceleration Notice may be served by the Bond Trustee on the Partnership following the occurrence of an LLP Event of Default.

If an LLP Acceleration Notice is served, the Covered Bonds will (if an Abbey Acceleration Notice has not already been served) become immediately due and payable as against the Issuer and the Group Guarantor and the Partnership's obligations under the Covered Bond Guarantee will be accelerated.

Payments made by the Partnership under the Covered Bond Guarantee will be made subject to, and in accordance with, the Guarantee Priority of Payments or the Post-Enforcement Priority of Payments, as applicable. The recourse of the Covered Bondholders to the Partnership under the Covered Bond Guarantee will be limited to the assets of the Partnership from time to time.

The loans within the portfolio are monitored and assessed for impairment on a regular basis at a group level as, under International Accounting Standard ("IAS") 39 'Financial Instruments: Recognition and Measurement,' the beneficial interest in a mortgage portfolio fails the criteria for recognition within the Partnership's financial statements and remains in the Balance Sheet of Santander UK plc. The impairment policy applied by Santander UK plc is equivalent to the impairment of financial assets policy of the Partnership.

The loans included within the underlying portfolio include repayment loans and interest only loans with balances of less than £1million.

The members believe that the performance of the portfolio has been positive.

Key performance

The Partnership received interest and similar income of £626m (2014: £726m) and incurred interest expense and similar charges of £597m (2014: £699m) during the year. The decrease in the loans and debts due to related parties of £2,925m (2014: increase of £207m) is largely due to the £3,309m of bonds redeemed in the year (2014: £1,444bn) less £1,372bn of new bonds issued in the year (2014: £2,193bn) on its behalf by Abbey National Treasury Services plc.

STRATEGIC REPORT (CONTINUED)

Fair review of the Partnership's business

Santander UK Group Holdings plc group (the "Group") manages its operations on a divisional basis. For this reason, the members believe that further key performance indicators for the Partnership are not necessary or appropriate for an understanding of the development, performance or position of the business. The performances of the divisions of Santander UK plc, which include the Partnership, are discussed in the Group's Annual Report which does not form part of this Report.

The purpose of this Report is to provide information to the members of the Partnership and as such it is only addressed to those members. The Report may contain certain forward-looking statements with respect to the operations, performance and financial condition of the Partnership. By their nature, these statements involve inherent risks and uncertainties since future events, circumstances and other factors can cause results and developments to differ materially from the plans, objectives, expectations and intentions expressed in such forward-looking statements. Members should consider this when relying on any forward-looking statements. The forward-looking statements reflect knowledge and information available at the date of preparation of this Report and the Partnership undertakes no obligation to update any forward-looking statement during the year. Nothing in this Report should be construed as a profit forecast.

Principal risks and uncertainties facing the Partnership

The Partnership's principal risks and uncertainties together with the processes that are in place to monitor and mitigate those risks where possible can be found in Notes 3 and 16.

Payment policy

Given the nature of the Partnership's business, the Partnership does not have any suppliers and therefore does not operate a payment policy. The Partnership has no creditors and is unable to quantify the practice on payment of creditors.

Approved by the members

Rachel Morrison
Management Board
For and on behalf of the Partnership

1 April 2016

Registered Office Address: 2 Triton Square, Regent's Place, London, NW1 3AN

MEMBERS' REPORT

The members submit their report together with the Strategic Report and the audited financial statements for the year ended 31 December 2015.

Principal activity

The Partnership is a special purpose vehicle whose business is to acquire, inter alia, loans and their related security from Santander UK plc pursuant to the terms of the Mortgage Sale Agreement and to guarantee the Covered Bonds. The Partnership will hold the portfolio and the other charged property in accordance with the terms of the transaction documents.

The Partnership has provided a guarantee covering all guaranteed amounts when the same shall become due for payment, but only following service of a Notice to Pay or an LLP Acceleration Notice. The obligations of the Partnership under the Covered Bond Guarantee and the other transaction documents to which it is a party are secured by the assets from time to time of the Partnership and recourse against the Partnership is limited to such assets.

Likely future developments

The members do not expect any significant change in the nature of business in the foreseeable future.

Results

The total profit for the year ended 31 December 2015 amounted to £313m (2014: loss £334m).

Post Balance Sheet events

On 9 February 2016, the Partnership issued a further Covered Bond as Series 63 for €1,000m. The Sterling equivalent of the new issuance was £761.8m.

Designated members

The designated members who served throughout the year and to the date of this report were as follows:

Santander UK plc
Abbey Covered Bonds (LM) Limited

Members' interests

The policy regarding the allocation of results to members and the treatment of capital contributions and drawings is set out in the accounting policies in Note 1 to the financial statements.

Statement of members' responsibilities

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

The Limited Liability Partnerships (Accounts & Audit) (Application of Companies Act 2006) Regulations 2008 require the members to prepare financial statements for each financial year. Under that law, the members have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are also required by law to be prepared in accordance with the Companies Act 2006, as applicable to qualifying partnerships.

International Accounting Standard 1 'Presentation of Financial Statements' requires that financial statements present fairly for each financial year the Partnership's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses as set out in the International Accounting Standards Board's Framework for the preparation and presentation of financial statements. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, members are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Partnership's ability to continue as a going concern.

The members are responsible for keeping adequate accounting records which are sufficient to show and explain the Partnership's transactions and which disclose with reasonable accuracy at any time the financial position of the Partnership and enable them to ensure that the financial statements comply with the Companies Act 2006, as applicable to qualifying partnerships. They are also responsible for safeguarding the assets of the firm and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

MEMBERS' REPORT (CONTINUED)

Statement of going concern

The Partnership's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Partnership, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, Notes 3 and 16 to the financial statements include the Partnership's financial risk management objectives; its exposures to credit risk and liquidity risk; and its policies and processes for managing its capital.

The members acknowledge that the Partnership is in a net liability position. However, under the terms of the bonds in issue, the mortgage balance in the Partnership has to be maintained at a value at least equivalent to the value of note principal in issue. As at 31 December 2015, the book value of residential mortgage loans that Santander UK plc had assigned legal title to the Covered Bond structure was £23.6bn (2014: £25.6bn). The Covered Bond structure is over collateralised by £6.8bn (2014: £6.1bn). The Covered Bond structure acquired interest in a portfolio of mortgage loans was £23.6bn (2014: £25.6bn) and the sterling equivalent of notes issued by the Covered Bond programme was £16.8bn (2014: £19.5bn).

In addition, the Partnership has cash balances and reserves totalling £3,035m (2014: £2,419m).

Payments on the loan notes are guaranteed by Santander UK plc and its Board has confirmed that it is a going concern.

The members, having considered the financial position of the Partnership and the Covered Bond structure as a whole, believe that the Partnership is well placed to manage its business risks successfully.

The members have a reasonable expectation that the Partnership has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the Annual Report and Accounts.

Financial instruments

The Partnership's financial instruments, other than derivatives, comprise loans and other debts to group undertakings, borrowings, cash and liquid resources, and various items, such as other assets and liabilities that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The Partnership also enters into derivative transactions (principally cross currency swaps and interest rate swaps). The purpose of such transactions is to manage the currency and interest rate risks arising from the Partnership's operations and its sources of finance.

It is, and has been throughout the year under review, the Partnership's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Partnership's financial instruments are currency risk and interest rate risk. The Partnership has debt securities in issue denominated in Euros and Norwegian Kroner. The Board reviews and agrees policies for managing these risks. The Partnership's policy is to eliminate all exposures arising from movements in exchange rates and interest rates by the use of cross currency swaps or interest rate swaps to hedge payments of interest and principal on the securities.

All other assets, liabilities and transactions are denominated in Sterling.

Further disclosures regarding the financial risk management objectives and policies and the Partnership's exposure to principal risks can be found in Note 3.

Payment policy

Given the nature of the Partnership's business, the Partnership does not have any suppliers and therefore does not operate a payment policy. The Partnership has no creditors and is unable to quantify the practice on payment of creditors.

MEMBERS' REPORT (CONTINUED)

Auditors

Each of the members as at the date of approval of this report confirms that:

- so far as the member is aware, there is no relevant audit information of which the Partnership's auditors are unaware; and
- the member has taken all reasonable steps that he/she ought to have taken as a member to make himself/herself aware of any relevant audit information and to establish that the Partnership's auditors are aware of that information.

This confirmation is given and should be interpreted 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.

In accordance with Sections 485 and 487 of the Companies Act 2006, Deloitte LLP vacated office as auditor of the Partnership and PricewaterhouseCoopers LLP was duly appointed auditor for the Partnership with effect from 1 April 2016.

Approved by the members

For and on behalf of the Partnership
Designated Member
1 April 2016

Registered Office Address: 2 Triton Square, Regent's Place, London, NW1 3AN

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ABBEY COVERED BONDS LLP

We have audited the financial statements of Abbey Covered Bonds LLP for the year ended 31 December 2015 which comprise the Statement of Comprehensive Income, the Statement of Changes in Members' Interests, the Balance Sheet, the Statement of Cash Flows and the related Notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the partnership's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as applicable to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. Our audit work has been undertaken so that we might state to the partnership's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the limited liability partnership and the limited liability partnership's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of members and auditor

As explained more fully in the members' Responsibilities Statement, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the limited liability partnership's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the members; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the limited liability partnership's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006, as applied to limited liability partnerships.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 1 to the financial statements, the partnership in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements comply with IFRSs as issued by the IASB.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Members' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

AJ Morley

Alastair Morley (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
1st April 2016

PRIMARY FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

Continuing operations	Notes	**Year ended 31 December 2015 £000**	Year ended 31 December 2014 £000
Interest and similar income	5	**626,475**	725,860
Interest expense and similar charges	6	**(597,433)**	(698,774)
Net interest income		**29,042**	27,086
Administration expenses		**(28,540)**	(26,776)
Impairment loss on loans and other debts		**(304)**	(307)
Net other operating income / (expense)	7	**312,697**	(334,277)
Total operating profit / (loss) for the year	8	**312,895**	(334,274)
Other comprehensive income for the year		**-**	-
Total comprehensive income / (expense) for the year		**312,895**	(334,274)

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN MEMBERS' INTERESTS

For the year ended 31 December 2015 and 2014

	Members' capital £000	**Other reserves £000**	**Total £000**	**Loans due to/(from) members £000**	**Total £000**
Members' interest as at 1 January 2014	-	(311,687)	(311,687)	(15,585,761)	(15,897,448)
Allocated result:					
Loss for the year available for division among members	-	(334,274)	(334,274)	-	(334,274)
Credit to loan capital	-	-	-	(2,173,247)	(2,173,247)
Members' interest as at 31 December 2014 and 1 January 2015	-	(645,961)	(645,961)	(17,759,008)	(18,404,969)
Allocated result:					
Profit for the year available for division among members	-	312,895	312,895	-	312,895
Debit to loan capital	-	-	-	2,557,888	2,557,888
Members' interest as at 31 December 2015	**-**	**(333,066)**	**(333,066)**	**(15,201,120)**	**(15,534,186)**

The accompanying notes form an integral part of the financial statements.

PRIMARY FINANCIAL STATEMENTS

BALANCE SHEET

As at 31 December 2015

	Notes	2015 £000	2014 £000
Cash and cash equivalents	9	**3,426,112**	3,113,700
Derivative financial instruments - assets	10 & 11	**894,764**	1,509,736
Loans and other debts due from members	12	**15,201,120**	17,759,008
Total assets		**19,521,996**	22,382,444
Derivative financial instruments - liabilities	10 & 11	**(1,567,761)**	(1,443,845)
Loans and debts due to related parties	13	**(17,623,737)**	(20,548,363)
Other liabilities	14	**(663,564)**	(1,036,197)
Total liabilities		**(19,855,062)**	(23,028,405)
Net liabilities attributable to members		**(333,066)**	(645,961)
Members' other interests			
Members' capital		**-**	-
Other reserves		**(333,066)**	(645,961)
Total members' other interests		**(333,066)**	(645,961)
Total members' interests			
Members' other interests		**(333,066)**	(645,961)
Loans and other debts due from members		**(15,201,120)**	(17,759,008)
Total members' interests		**(15,534,186)**	(18,404,969)

The accompanying notes form an integral part of the financial statements.

The financial statements were approved by the members and authorised for issue on 1 April 2016. They were signed on its behalf by:

Jason Wright

For and on behalf of the Partnership
Abbey Covered Bonds LLP

PRIMARY FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Note	**Year ended 31 December 2015 £000**	Year ended 31 December 2014 £000
Cash flows generated by / (used in) operating activities			
Profit / (loss) for the year		**312,895**	(334,274)
Adjustments for non-cash items included in profit:			
Foreign exchange (loss) / gain on loans and debts due to related parties		**(738,158)**	892,704
Foreign exchange loss / (gain) on derivative financial instruments		**805,826**	(957,041)
Foreign exchange (loss) / gain on other liabilities		**(6,093)**	412
Fair value hedge accounting adjustments		**120,384**	(484,484)
Operating cash flows before movements in working capital		**494,854**	(882,683)
(Decrease) / increase in total derivative financial instruments		**(66,938)**	904,271
Decrease in other liabilities		**(366,540)**	(173,182)
Net cash generated by / (used in) operating activities		**61,376**	(151,594)
Cash flows generated by / (used in) investing activities			
Loans repaid by / (paid to) members		**2,557,888**	(2,173,247)
Net cash generated by / (used in) investing activities		**2,557,888**	(2,173,247)
Cash flows (used in) / generated by financing activities			
Net (redemption) / issuance of loans to related parties		**(2,306,852)**	755,024
Net cash (used in) / generated by financing activities		**(2,306,852)**	755,024
Net increase / (decrease) in cash and cash equivalents during the year		**312,412**	(1,569,817)
Cash and cash equivalents at beginning of year		**3,113,700**	4,683,517
Cash and cash equivalents at end of year	9	**3,426,112**	3,113,700

The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the presentation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB), including interpretations issued by the IFRS Interpretations Committee (IFRIC) of the IASB (IFRS). The Partnership has also complied with its legal obligation to comply with International Financial Reporting Standards as adopted by the European Union as there are no applicable differences between the two frameworks for the periods presented.

The financial statements have been prepared on the going concern basis using the historical cost convention, as modified by financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts. An assessment of the appropriateness of the adoption of the going concern basis of accounting is disclosed in the statement of going concern set out in the members' report.

Future accounting developments

The Partnership has not yet adopted the following significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective for the Partnership:

a) IFRS 9 'Financial Instruments' (IFRS 9) – In July 2014, the IASB issued the final version of IFRS 9 which includes the completion of all phases of the project to replace IAS 39 'Financial Instruments: Recognition and Measurement' as discussed below.

Phase 1: Classification and measurement of financial assets and financial liabilities. Financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics. The standard also introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments. The requirements for the classification and measurement of financial liabilities were carried forward unchanged from IAS 39, however, the requirements relating to the fair value option for financial liabilities were changed to address own credit risk and, in particular, the presentation of gains and losses within other comprehensive income.

Phase 2: Impairment methodology. IFRS 9 fundamentally changes the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit. It is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition.

Phase 3: Hedge accounting. These requirements align hedge accounting more closely with risk management and establish a more principle-based approach to hedge accounting. Dynamic hedging of open portfolios is being dealt with as a separate project and until such time as that project is complete, entities can choose between applying the hedge accounting requirements of IFRS 9 or to continue to apply the existing hedge accounting requirements in IAS 39. The revised hedge accounting requirements in IFRS 9 are applied prospectively.

The effective date of IFRS 9 is 1 January 2018. For annual periods beginning before 1 January 2018, an entity may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss. At the date of publication of these financial statements the standard is awaiting EU endorsement and the impact of the standard is currently being assessed. It is not yet practicable to quantify the effect of IFRS 9 on these financial statements.

b) IFRS 15 'Revenue from Contracts with Customers' (IFRS 15) – In May 2014, the IASB issued IFRS 15. The effective date of IFRS 15 is 1 January 2018. The standard establishes the principles that shall be applied in connection with revenue from contracts with customers including the core principle that the recognition of revenue must depict the transfer of promised goods or services to customers in an amount that reflects the entitlement to consideration in exchange for those goods and services. IFRS 15 applies to all contracts with customers but does not apply to lease contracts, insurance contracts, financial instruments and certain non-monetary exchanges. At the date of publication of these financial statements the standard is awaiting EU endorsement. Whilst it is expected that a significant proportion of the Partnership's revenue will be outside the scope of IFRS 15, the impact of the standard is currently being assessed. It is not yet practicable to quantify the effect of IFRS 15 on these financial statements.

c) IFRS 16 'Leases' (IFRS 16) – In January 2016, the IASB issued IFRS 16. The standard is effective for annual periods beginning on or after 1 January 2019. Earlier adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure for both lessees and lessors.

For lessee accounting, IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases with a term of more than 12 months, unless the underlying asset is of low value.

For lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements from the existing leasing standard (IAS 17) and a lessor continues to classify its leases as operating leases or finance leases and to account for those two types of leases differently.

At the date of publication of these financial statements the standard is awaiting EU endorsement. The impact of the standard is currently being assessed; however, it is not yet practicable to quantify the effect of IFRS 16 on these financial statements.

d) There are a number of other standards which have been issued or amended that are expected to be effective in future periods. However, it is not practicable to provide a reasonable estimate of their effects on the Partnership's financial statements until a detailed review has been completed.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation

Items included in the financial statements of the Partnership are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Partnership (the "functional currency"). The functional and presentation currency of the Partnership is Sterling.

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities that are denominated in foreign currencies are translated into the functional currency of the Partnership at the rates in effect at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign currency translation differences are recognised in profit or loss and are included in the Statement of Comprehensive Income.

Interest income and expense

Interest income on financial assets that are classified as loans and receivables and interest expense on financial liabilities other than those at fair value through profit and loss are determined using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the instrument excluding future credit losses. The calculation includes all amounts paid or received by the Partnership that are an integral part of the overall return, direct incremental transaction costs related to the acquisition, issue or disposal of the financial instrument and all other premiums or discounts.

Interest income and expense is shown gross in the Statement of Comprehensive Income.

Loans and other debts due from members

The Partnership's beneficial interest in the mortgage portfolio has been acquired from Santander UK plc. The sale by Santander UK plc of the beneficial interest does not, however, pass the recognition criteria as described in IAS 39 and therefore no beneficial interest in a mortgage portfolio is shown in the Balance Sheet as at 31 December 2015. This is further described in the paragraphs below.

Recognition
Under IAS 39, the legal transfer of the beneficial interest in a mortgage portfolio from Santander UK plc to the Partnership fails the criteria for recognition in the financial statements of the Partnership. As no transfer has occurred for accounting purposes the beneficial interest has not been recognised in the Partnership's financial statements and remains in the Balance Sheet of Santander UK plc.

The beneficial interest in the mortgage portfolio is replaced by a related party deemed loan included in Loans and other debts due from members on the Partnership's Balance Sheet. The related party loan is recorded at the book value of the issuance at the time of transfer less any subsequent repayments of capital less deferred consideration due.

Financial assets and liabilities

Financial assets and liabilities are initially recognised when the Partnership becomes a party to the contractual terms of the instrument. The Partnership determines the classification of its financial assets and liabilities at initial recognition. Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, available-for-sale and held to maturity financial assets. The Partnership does not hold available-for-sale and held to maturity financial assets.

Financial assets are derecognised when the rights to receive cash flows have expired or the Partnership has transferred its contractual right to receive the cash flows from the assets and either: (1) substantially all the risks and rewards of ownership have been transferred; or (2) the Partnership has neither retained nor transferred substantially all of the risks and rewards, but has transferred control. Financial liabilities are derecognised when extinguished, cancelled or expire.

A regular way purchase is a purchase of a financial asset under a contract whose terms require delivery of the asset within the timeframe established generally by regulation or convention in the market place concerned. Regular way purchases of financial assets classified as loans and receivables are recognised on settlement date; all other regular way purchases are recognised on trade date.

a) Financial assets and liabilities at fair value through profit or loss
Financial assets and financial liabilities are classified as fair value through profit or loss if they are designated at fair value through profit or loss on initial recognition. Financial assets and financial liabilities classified as fair value through profit or loss are initially recognised at fair value and transaction costs are taken directly to the Statement of Comprehensive Income. Gains and losses arising from changes in fair value are included directly in the Statement of Comprehensive Income. The Partnership's financial assets and liabilities that are classified as fair value through profit or loss are derivatives that are not designated in a hedging relationship.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

b) Borrowings
Borrowings (which include loans and debts due to related parties shown in the Balance Sheet and accrued interest shown within other liabilities) are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transactions costs incurred. Borrowings are subsequently valued at amortised cost, using the effective interest method, or fair value through profit or loss dependent on designation at initial recognition.

The exception to this are financial liabilities which are designated in fair value hedge accounting relationships and are re-measured to fair value at each reporting period.

For each class of assets and liabilities not measured at fair value in the Balance Sheet but for which the fair value is disclosed, an entity discloses the information required by paragraph 93(b), (d) and (i) of IFRS 13 'Fair Value Measurement'. However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorised within Level 3 of the fair value hierarchy required by paragraph 93(d) of IFRS 13. For such assets and liabilities, an entity does not need to provide the other disclosures required by this IFRS.

Derivative financial instruments

Derivative financial instruments ('derivatives') are contracts or agreements whose value is derived from one or more underlying indices or asset values inherent in the contract or agreement, which require no or little initial net investment and are settled at a future date.

The Partnership holds cross currency swaps in order to manage foreign currency risk arising on the foreign denominated loans due to related parties. The Partnership also holds interest rate swaps to hedge significant future transactions and cash flows dependent on movement in interest rates.

Derivatives are recognised initially (on the date on which a derivative contract is entered into), and are subsequently remeasured, at their fair value. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow and option pricing models. The Partnership holds no exchange traded derivatives.

Derivatives are contracted with Abbey National Treasury Services plc or counterparties that meet Group credit policies. If subsequently there is a ratings downgrade of the counterparty credit rating, remedial measures include provision of collateral for obligations under the relevant swap.

Hedge accounting

The Partnership applies hedge accounting to represent, to the maximum possible extent permitted under accounting standards, the economic effects of its risk management strategies. Derivatives are used to hedge exposures to interest rates and exchange rates.

At the time a financial instrument is designated as a hedge (i.e., at the inception of the hedge), the Partnership formally documents the relationship between the hedging instrument(s) and hedged item(s), its risk management objective and strategy for undertaking the hedge. The documentation includes the identification of each hedging instrument and respective hedged item, the nature of the risk being hedged (including the benchmark interest rate being hedged in a hedge of interest rate risk) and how the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk is to be assessed. Accordingly, the Partnership formally assesses, both at the inception of the hedge and on an on-going basis, whether the hedging derivatives have been and will be highly effective in offsetting changes in the fair value attributable to the hedged risk during the period that the hedge is designated. A hedge is normally regarded as highly effective if, at inception and throughout its life, the Partnership can expect, and actual results indicate, that changes in the fair value or cash flow of the hedged items are effectively offset by changes in the fair value or cash flow of the hedging instrument. If at any point it is concluded that it is no longer highly effective in achieving its documented objective, hedge accounting is discontinued.

Where derivatives are held for risk management purposes, and when transactions meet the required criteria for documentation and hedge effectiveness, the derivatives may be designated as either: (i) hedges of the change in fair value of recognised assets or liabilities or firm commitments ('fair value hedges'); (ii) hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ('cash flow hedges'); or (iii) a hedge of a net investment in a foreign operation ('net investment hedges'). The Partnership applies fair value hedge accounting but not cash flow hedge accounting or hedging of a net investment in a foreign operation.

a) Fair value hedge accounting
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Statement of Comprehensive Income, together with the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, changes in the fair value of the hedged item attributable to the hedged risk are no longer recognised in the Statement of Comprehensive Income. For fair value hedges of interest rate risk, the cumulative adjustment that has been made to the carrying amount of the hedged item is amortised to the Statement of Comprehensive Income using the effective interest method over the period to maturity.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Partnership about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Partnership, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Partnership would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Partnership, including:
    - adverse changes in the payment status of borrowers in the Partnership; or
    - national or local economic conditions that correlate with defaults on the assets in the Partnership.

The Partnership first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If there is no objective evidence of impairment for an individually assessed financial asset it is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.

Impairment for collectively assessed loans are calculated based on the probability of default, exposure at default and the loss given default, using recent historical data adjusted as considered appropriate to reflect current market conditions. An adjustment is made for the effect of discounting cash flows.

Valuation of financial instruments

Financial instruments that are classified or designated at fair value through profit or loss and all derivatives are stated at fair value. The fair value of such financial instruments 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 Partnership has access at that date. The fair value of a liability reflects its non-performance risk.

Changes in the valuation of such financial instruments, including derivatives, are included in the line item 'Net other operating income' in the Statement of Comprehensive Income.

(i) Initial measurement
The best evidence of the fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include significant data from observable markets. Any difference between the transaction price and the value based on a valuation technique where the inputs are not based on data from observable current markets is not recognised in the Statement of Comprehensive Income on initial recognition. Subsequent gains and losses are only recognised to the extent that they arise from a change in a factor that market participants would consider in setting a price.

(ii) Subsequent measurement
The Partnership applies the following fair value hierarchy that prioritises the inputs to valuation techniques used in measuring fair value. The hierarchy establishes three categories for valuing financial instruments, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The three categories are: quoted prices in active markets (Level 1), internal models based on observable market data (Level 2) and internal models based on other than observable market data (Level 3). If the inputs used to measure an asset or a liability fall to different levels within the hierarchy, the classification of the entire asset or liability will be based on the lowest level input that is significant to the overall fair value measurement of the asset or liability.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Valuation of financial instruments (continued)

The Partnership categorises assets and liabilities measured at fair value within the fair value hierarchy based on the inputs to the valuation techniques as follows:

Level 1: Unadjusted quoted prices for identical assets or liabilities in an active market that the Partnership has the ability to access at the measurement date. The Partnership has no assets or liabilities measured at fair value that are classified as Level 1.

Level 2: Quoted prices in non-active markets, quoted prices for similar assets or liabilities, recent market transactions, inputs other than quoted market prices for the asset or liability that are observable either directly or indirectly for substantially the full term, and inputs to valuation techniques that are derived principally from or corroborated by observable market data through correlation or other statistical means for substantially the full term of the asset or liability. Level 2 positions include exchange rate derivatives and interest rate derivatives (note 10).

Level 3: Inputs to the pricing or valuation techniques that are significant to the overall fair value measurement of the asset or liability are unobservable. The Partnership includes interest rate derivatives that are classified as Level 3 (note 10).

Financial instruments valued using a valuation technique
In the absence of a quoted market price in an active market, management uses internal models to make its best estimate of the price that the market would set for that financial instrument. In order to make these estimations, various techniques are employed, including extrapolation from observable market data and observation of similar financial instruments with similar characteristics. Wherever possible, valuation parameters for each product are based on prices directly observable in active markets or that can be derived from directly observable market prices. Chosen valuation techniques incorporate all the factors that market participants would take into account in pricing transactions.

The Partnership did not make any material changes to the valuation techniques and internal models it used during the year ended 31 December 2015.

Valuation techniques
The main valuation techniques employed in the Partnership's internal models to measure the fair value of the financial instruments disclosed above at 31 December 2015 and 2014 are set out below. The Partnership did not make any material changes to the valuation techniques and internal models it used during the years ended 31 December 2015 and 2014.

A In the valuation of financial instruments requiring static hedging (for example interest rate and exchange derivatives), the 'present value' method is used. Expected future cash flows are discounted using the interest rate curves of the applicable currencies. The interest rate curves are generally observable market data and reference yield curves derived from quoted interest rates in appropriate time bandings, which match the timings of the cash flows and maturities of the instruments.

B In the valuation of derivatives used to manage the interest rate risk associated with the beneficial interest on the mortgage portfolio, the 'present value' method is used. Expected future cash flows are discounted using the three month sterling LIBOR rate curves. The three month sterling LIBOR rate curves are generally observable market data which match the timings of the cash flows and maturities of the instruments. The future repayment of mortgages, which is a key input in the calculation of the future cash flows, is not observable market data.

Internal models based on observable market data - derivative assets and liabilities
These instruments consist of exchange rate contracts and interest rate contracts. The models used in estimating the fair value of these derivatives do not contain a high level of subjectivity as the methodologies used in the models do not require significant judgement, and the inputs used in the models are observable market data such as plain vanilla interest rate swaps and option contracts. As the inputs used in the valuation are based on observable market data, these derivatives are classified within level 2 of the valuation hierarchy.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Contributions and drawings

Under the terms of the Limited Liability Partnership Deed describing the sale of the beneficial interest in the mortgage portfolio, Santander UK plc is legally treated as having made a capital contribution to the Partnership in an amount equal to the difference between the current balance of the loans assigned at transfer date and the cash payment made by the Partnership for the loans and relevant security on that transfer date. Transfers of mortgages in kind are also treated as capital contributions.

The member companies of the Partnership are Santander UK plc, the controlling party and Abbey Covered Bonds (LM) Limited. Both companies are incorporated in England and Wales.

Each member may from time to time make cash contributions to the Partnership which will constitute cash capital contributions. It is not intended that Abbey Covered Bonds (LM) Limited will make any capital contributions to the Partnership either in cash or in kind. No interest is paid on the members' capital balances.

Capital distributions are made in accordance with the Limited Liability Partnership Deed only once payments of a higher priority have been made and if sufficient principal receipts are available. All profits will be retained within the partnership until the maturity or redemption of the debt in issue. All retained profits will be allocated to Santander UK plc at this time.

As the sale of the beneficial interest in the mortgage portfolio does not pass the recognition criteria as described in IAS 39, capital contributions represent cash capital contributions only, as it has been deemed that the transfer of mortgages has never occurred. Therefore no capital contributions in kind have been recorded in these financial statements.

Under the priority of payments, payment pro rata and pari passu to the members of the sum of £3,000 (or such other sum as may be agreed by members from time to time) in aggregate, is allocated and paid to each member in proportion to their respective legal capital contribution balances calculated as per the Limited Liability Partnership Deed as at the relevant calculation date subject to a minimum of £1 per annum each, as their profit for their respective interests as members of the Partnership.

Deferred purchase consideration

Under the terms of the mortgage sale agreement, Santander UK plc, as the originator of the mortgage loans, legally retains the right to receive excess income ("deferred consideration") arising on those loans, after certain higher priority payments have been met by the Partnership. Deferred consideration is treated as a reduction in the interest due from Santander UK plc on the loans and other debts due from members arising on the failure to recognise the sale of the mortgages. Incremental elements of deferred consideration are recognised on an effective interest rate basis; all other elements are accounted for as incurred.

Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise assets with less than three months' maturity from the date of acquisition, including cash, restricted balances and non restricted balances with central banks, loans and advances to banks and amounts due from other banks.

2. CRITICAL ACCOUNTING POLICIES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT

The preparation of the Partnership's financial statements requires management to make estimates and judgements that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Management evaluates its estimates and judgements on an on-going basis. Management bases its estimates and judgements on historical experience and on other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

The following accounting estimates and judgements are considered important to the portrayal of the Partnership's financial results and financial condition because: (i) they are highly susceptible to change from period to period as assumptions are made to calculate the estimates, and (ii) any significant difference between the estimated amounts and actual amounts could have a material impact on the Partnership's future financial results and financial condition.

In calculating each estimate, a range of outcomes was calculated based principally on management's conclusions regarding the input assumptions relative to historic experience. The actual estimates were based on what management concluded to be the most probable assumptions within the range of reasonably possible assumptions. There were no changes in the year.

Valuation of financial instruments

When estimating the value of its derivative assets and liabilities management considers a range of interest rates, exchange rates, counterparty credit ratings and other similar inputs, all of which vary across maturity bands. These are chosen to best reflect the particular characteristics of each transaction based on observable inputs and adjustments to these inputs for Level 2 instruments. Detailed disclosures on financial instruments can be found in note 1 and 11.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

3. FINANCIAL RISK MANAGEMENT

The Partnership's risk management focuses on the major areas of credit risk, market risk and liquidity risk. Risk management is carried out by the central risk management function of the Santander UK Group. Authority flows from the Santander UK plc Board to the Chief Executive Officer and from him to his direct reports. Delegation of authority is to individuals. Formal standing committees are maintained for effective management of oversight.

Credit risk

Credit risk is the risk that counterparties will not meet their financial obligations and may result in the Partnership losing the principal amount lent, the interest accrued and any unrealised gains, less any security held. The main source of credit risk is in the loans and other debts due from members and derivative financial instruments assets.

The maximum exposure to credit risk without taking into account collateral or credit enhancements is the carrying amount of the loans and other debts due from members of £15.2bn (2014: £17.8bn) and the fair value of derivative financial assets of £0.9bn (2014: £1.5bn).

As at 31 December 2015, the book value of residential mortgage loans that Santander UK plc had assigned legal title to the Covered Bond structure was £23.6bn (2014: £25.6bn). The Covered Bond structure is over collateralised by £6.8bn (2014: £6.1bn). The Covered Bond structure acquired interest in a portfolio of mortgage loans was £23.6bn (2014: £25.6bn) and the sterling equivalent of notes issued by the Covered Bond programme was £16.8bn (2014: £19.5bn).

Derivatives are contracted with Abbey National Treasury Services plc or counterparties that meet Group credit policies. If subsequently there is a ratings downgrade of the counterparty credit rating, remedial measures include provision of collateral for obligations under the relevant swap.

The loans within the portfolio are monitored and assessed for impairment on a regular basis at a group level as, under International Accounting Standard ("IAS") 39 'Financial Instruments: Recognition and Measurement,' the beneficial interest in a mortgage portfolio fails the criteria for recognition within in the Partnership's financial statements and remains in the Balance Sheet of Santander UK plc. The impairment policy applied by Santander UK plc is equivalent to the impairment of financial assets policy of the Partnership.

In addition, payments on the loan notes are guaranteed by Santander UK plc. Santander UK plc is rated periodically by credit rating agencies Standard & Poor's, Moody's Investors Service and Fitch Ratings, Ltd.

Santander UK plc's credit ratings are disclosed below as the financial assets of the Covered Bond structure are secured on mortgage assets within Santander UK plc. A fellow Group subsidiary of Santander UK Group, Abbey National Treasury Services plc, issues covered bonds on behalf of the Covered Bonds securitisation structure, which are guaranteed by a pool of Santander UK plc's mortgage loans that it has transferred into the structure and enters into financing arrangements with Group companies.

Further details can be found in the notes to the Group financial statements of Santander UK plc's Annual Report and Accounts and monthly investor reports of Abbey Covered Bond.

Santander UK plc's current credit ratings were:

	S & P	Moody's	Fitch
Long-term rating	A	A1	A
Long-term rating outlook	Stable	Stable	Positive
Short term rating	A-1	P-1	F1

Liquidity risk

Liquidity risk is the potential that, although remaining solvent, the Partnership does not have sufficient liquid financial resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.

In recognition that the Partnership is in a net liabilities position, the members ensure there are sufficient funds to meet payments as they fall due through related party funding.

The Partnership does not issue debt securities. These are issued by Abbey National Treasury Services plc on behalf of the Covered Bonds securitisation structure. The loans due from members are repayable when the associated bonds in issue are redeemed.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Maturities of financial liabilities
The table below analyses the maturities of the undiscounted cash flows relating to the financial liabilities of the Partnership based on the remaining period to the contractual maturity date at the Balance Sheet date. There are no significant financial liabilities related to financial guarantee contracts.

At 31 December 2015	**On demand £000**	**1-3 months £000**	**3-12 months £000**	**1-5 years £000**	**Over 5 years £000**	**2015 Total £000**
Loans and debts due to related parties	-	-	(2,734,702)	(6,990,297)	(7,898,738)	**(17,623,737)**
Derivative financial liabilities	-	(55,432)	(605,993)	(750,102)	(156,234)	**(1,567,761)**
Interest payable to related parties	(50,766)	(96,620)	(421,385)	(1,428,836)	(962,853)	**(2,960,460)**
Total	**(50,766)**	**(152,052)**	**(3,762,080)**	**(9,169,235)**	**(9,017,825)**	**(22,151,958)**

At 31 December 2014	On demand £000	1-3 months £000	3-12 months £000	1-5 years £000	Over 5 years £000	2014 Total £000
Loans and debts due to related parties	-	(750,000)	(2,660,496)	(8,680,630)	(8,457,237)	(20,548,363)
Derivative financial liabilities	-	(81,266)	(188,259)	(795,734)	(378,587)	(1,443,846)
Interest payable to related parties	(60,070)	(112,864)	(474,787)	(1,741,173)	(1,279,586)	(3,668,480)
Total	(60,070)	(944,130)	(3,323,542)	(11,217,537)	(10,115,410)	(25,660,689)

The maturity analyses above for derivative financial liabilities include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows. The undiscounted cash flows for the derivative financial instruments comprise only the amounts payable under the contract. Under the terms of the contract these cash outflows are accompanied by related cash inflows.

Collateral calls on derivatives positions can pose a significant liquidity risk. Collateral calls may arise at times of market stress and when asset liquidity may be tightening. The timing of the cash flows on a derivative hedging an asset may be different to the timing of the cash flows of the asset being held, even if they are similar in all other respects. Collateral calls may be triggered by a credit downgrading. The Partnership manages these risks by including collateral calls in stress tests on liquidity, and by maintaining a portfolio of assets held for managing liquidity risk. As at 31 December 2015, the Partnership held cash collateral of £391m (2014: £695m).

Market risk

Market risk is potential for loss of income or decrease in the value of net assets caused by movements in the levels and prices of financial instruments. The Partnership is subject to market risk in the form of interest rate risk and currency risks from the fluctuations in the Euro and Norwegian Krone currencies.

In order to hedge against currency risks, the Partnership enters into cross currency swaps and as a result of this, the Partnership's total interest income and expense on financial assets and liabilities is based on the same rate of sterling LIBOR; it therefore has no material cash flow sensitivity to changes in currency rates in either 2015 or 2014. As a result, no sensitivity analysis is presented for currency risk as the changes to the two instruments will be equal and offsetting.

The Partnership also enters into interest rate swap contracts with Abbey National Treasury Services plc, a related party, to manage basis risk between interest flows on the cross currency swaps and on interest payments received from Santander UK plc. Hedge accounting is adopted for that funding so that the Partnership is hedged against the exposure to interest rate volatility from the movement in fair value of those interest rate swap contracts.

The sensitivity analysis below has been determined based on the exposure to interest rates for floating rate interest bearing assets at the end of the reporting period. The analysis is prepared assuming that amount outstanding, for which amounts receivable are based upon, was outstanding for the whole year.

A 50bp adverse movement in interest rates, with all other variables held constant, would result in a decrease in operating profit and increase in net liabilities of £32.6m (2014: £37.7m). A 50bp positive movement in interest rates, with all other variables held constant, would result in an increase in operating profit and decrease in net liabilities of £32.6m (2014: £37.7m).

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Partnership operates in one business sector and all of the Partnership's activities are in the UK.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

5. INTEREST AND SIMILAR INCOME

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Interest income from members	**616,054**	716,631
Bank interest income	**10,421**	9,229
	626,475	725,860

6. INTEREST EXPENSE AND SIMILAR CHARGES

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Interest expense to Santander UK plc	**580,108**	697,952
Swap interest expense	**17,325**	822
	597,433	698,774

7. NET OTHER OPERATING INCOME / (EXPENSE)

	Year ended 31 December 2015 £000	Year ended 31 December 2014 £000
Fair value hedging:		
- (Losses) / gains on hedging instruments	**(120,384)**	484,486
- Gains / (losses) on hedged items attributable to hedged risks	**226,298**	(371,237)
Fair value hedging ineffectiveness	**105,914**	113,249
Fair value gains / (losses) on derivatives	**268,358**	(383,601)
Foreign exchange gain on loans and debts due to related parties	**738,158**	892,704
Foreign exchange loss on derivative financial instruments	**(805,826)**	(957,041)
Foreign exchange gain on other liabilities	**6,093**	412
	312,697	(334,277)

The gain / (loss) arising on adjustment for the hedged item in a designated fair value hedge accounting relationship relates to the loans and debts due to related parties, details of which are disclosed in note 13. This gain/ (loss) forms part of the net gains or net losses on financial liabilities carried at amortised cost.

8. TOTAL OPERATING PROFIT / (EXPENSE) FOR THE YEAR

Staff costs

The Partnership had no employees in the current or previous financial year.

Auditor remuneration

The audit fee for the current and prior year has been paid on the Partnership's behalf by Santander UK plc, in accordance with the Partnership's policy, for which no recharge has been made. The audit fee for the current year is £11,996 (2014: £11,655).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

9. CASH AND CASH EQUIVALENTS

	2015 £000	2014 £000
Cash and cash equivalents	**3,426,112**	3,113,700
	3,426,112	3,113,700

Cash and cash equivalent balances due from Abbey National Treasury Services plc, a related party, was £391m (2014: £695m) and cash due from Santander UK plc, also a related party, was £3,035m (2014: £2,419m).

Cash held with Abbey National Treasury Services plc is classified as restricted, as it will be held until the swap is terminated either on maturity or on default, in accordance with the terms of the securitisation structure.

All cash balances held with Santander UK plc are held under a Guaranteed Investment Contract and are classified as restricted funds, as withdrawals are restricted by a priority of payments in accordance with the terms of the securitisation structure.

10. DERIVATIVE FINANCIAL INSTRUMENTS

The Partnership holds derivatives to manage the interest rate risk associated with the beneficial interest on the mortgage portfolio. These derivatives are held with Abbey National Treasury Services plc, a related party, and require the Partnership to pay a weighted average of the mortgage interest earned on the beneficial interest in the mortgage portfolio and receive payments based on a rate linked to three month sterling LIBOR. The derivatives are held at fair value in the Balance Sheet and any gains and losses are recorded in profit and loss in the Statement of Comprehensive Income. These derivatives are held at level 3 (2014: level 2) within the fair value hierarchy.

The Partnership also holds derivatives to economically hedge interest rate exposure and currency risk associated with the related party foreign currency loans. The cross currency swaps require the Partnership to pay a rate linked to three-month Sterling LIBOR and receive fixed rate payment in Euros and Norwegian Krone and the interest rate swaps require the Partnership to pay a rate linked to three-month Sterling LIBOR and receive fixed rate payment in Sterling. These derivatives are held at level 2 (2014: level 2) within the fair value hierarchy.

These derivatives are held at fair value in the Balance Sheet and any gains and losses are recorded in the Statement of Comprehensive Income. A number of cross currency swaps are designated in hedge accounting relationships however no derivatives designated as cash flow hedges.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables summarise the fair values of the financial asset and liability classes accounted for at fair value at 31 December 2015 and 2014, analysed by the valuation methodology used by the Partnership to determine their fair value, including their levels in the fair value hierarchy – level 1, level 2 and level 3.

31 December 2015 Balance Sheet category		Internal models based on Level 1 £000	%	Level 2 £000	%	Level 3 £000	%	Total £000	%	Valuation Technique
Assets										
Derivative assets	Foreign exchange contracts	-	-	380,453	43	-	-	**380,453**	**43**	
	Interest rate swaps	-	-	514,311	57	-	-	**514,311**	**57**	
Total assets at fair value		**-**	**-**	**894,764**	**100**	**-**	**-**	**894,764**	**100**	**A**
Liabilities										
Derivative liabilities	Foreign exchange contracts	**-**	**-**	859,221	95	-	**-**	**859,221**	**55**	**A**
	Interest rate swaps	**-**	**-**	48,737	5	659,803	100	**708,540**	**45**	**B**
Total liabilities at fair value		**-**	**-**	**907,958**	**100**	**659,803**	**100**	**1,567,761**	**100**	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

11. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

31 December 2014				Internal models based on						
Balance Sheet category		Level 1		Level 2		Level 3		Total		Valuation
		£000	%	£000	%	£000	%	£000	%	technique
Assets										
Derivative assets	Foreign exchange contracts	-	-	926,033	61	-	-	926,033	61	
	Interest rate swaps			583,703	39			583,703	39	
Total assets at fair value		-	-	1,509,736	100	-	-	1,509,736	100	A
Liabilities										
Derivative liabilities	Foreign exchange contracts	-	-	430,095	30	-	-	430,095	30	
	Interest rate swaps			1,013,750	70			1,013,750	70	
Total liabilities at fair value		-	-	1,443,845	100	-	-	1,443,845	100	A

The main valuation techniques employed in the Partnership's internal models to measure the fair value of the financial instruments are set out on page 14.

Transfers between levels of the fair value hierarchy
Interest rate swaps shown in derivative liabilities with fair values of £0.7m were transferred from Level 2 to Level 3 on 31 December 2015 principally due to a lack of market transactions in these instruments.

Effect of changes in significant unobservable assumptions to reasonably possible alternatives (Level 3)
The fair value of financial instruments are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market da ta and, as such require the application of a degree of judgement. Changing one or more of the inputs to the valuation models to reasonably possible alternative assumptions would change the fair values significantly. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions.

Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable input as described in the table below. The potential effects do not take into effect any hedged positions.

31 December 2015

				Sensitivity	
	Fair value £'000	**Assumption description**	**Shift**	**Favourable changes £'000**	**Unfavourable changes £'000**
Derivative liabilities: Interest rate swaps	(659,803)	Weighted Average Mortgage Rate Payable	1%	39,321	(39,321)

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy
The following table provides a reconciliation of the movement between opening and closing balances of level 3 financial instruments, measured at fair value using a valuation technique with significant unobservable inputs:

	Derivatives	
	Assets £'000	**Liabilities £'000**
At 1 January 2015	-	-
Transfers in	-	(659,803)
Total gains/(losses) recognised in profit/(loss):		
-Fair value movements	-	-
At 31 December 2015	**-**	**(659,803)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

12. LOANS AND OTHER DEBTS DUE FROM MEMBERS

	2015 £000	2014 £000
Loans and other debts due from Santander UK plc	**15,201,120**	17,759,008

13. LOANS AND DEBTS DUE TO RELATED PARTIES

	2015 £000	2014 £000
Loans and debts due to related parties	**17,623,737**	20,548,363
These borrowings are repayable as follows:		
Less than 3 months	**-**	750,000
Between 3 and 12 months	**2,734,702**	2,660,496
Between 1 and 5 years	**6,990,297**	8,680,630
Greater than five years	**7,898,738**	8,457,237
	17,623,737	20,548,363

The amount owing to related parties comprises a term advance equivalent to the amounts raised by Abbey National Treasury Services plc under its Covered Bond programme. The rate of interest payable in respect of each term advance matches the interest rate payable in respect of the corresponding tranche or series of covered bonds that funded the tranche.

Abbey National Treasury Services plc will not be relying on repayment of any term advances by the Partnership or the interest thereon in order to meet its repayment or interest obligations under the Covered Bond programme. The term advances will not be repaid by the Partnership until all amounts payable under the corresponding series of covered bonds have been repaid in full. Amounts owed by the Partnership to Abbey National Treasury Services plc will be subordinated to amounts owed by the Partnership under the Covered Bond Guarantee described below.

The covered bonds issued by Abbey National Treasury Services plc are unconditionally and jointly and severally guaranteed by Santander UK plc. Under the terms of the trust deed, the Partnership has also provided a guarantee as to payments of interest and principal under the covered bonds, where amounts would otherwise be unpaid by Abbey National Treasury Services plc. The obligations of the Partnership under its guarantee constitute direct obligations of the Partnership secured against the assets of the Partnership and recourse against the Partnership is limited to such assets. The principal asset is the interest in the mortgage portfolio acquired from Santander UK plc.

The amounts due to Abbey National Treasury Services plc mature at various dates between 8 September 2016 and 6 February 2032. The carrying amount of loans and debt from related parties approximates to its fair value.

Included in the carrying amount of loans from related parties are the following fair value hedge accounting valuation adjustments arising from these loans.

	2015 £000	2014 £000
Fair value hedge accounting valuation adjustments	**816,622**	1,079,433

The movements of the fair value hedge accounting valuation adjustments were:

	£000
At 1 January 2014	743,639
Movements during the year	371,237
Foreign exchange adjustments	(35,443)
At 31 December 2014 and 1 January 2015	**1,079,433**
Movements during the year	**(226,298)**
Foreign exchange adjustments	**(36,513)**
At 31 December 2015	**816,622**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

14. OTHER LIABILITIES

	2015 **£000**	2014 £000
Accrued interest payable	**272,882**	341,186
Cash collateral (restricted)	**390,682**	695,011
	663,564	1,036,197

Other liabilities include £272.8m (2014: £341.2m) of accrued interest payable to Abbey National Treasury Services plc. Other liabilities are deemed repayable within one year.

15. RELATED PARTY TRANSACTIONS

During the year, the Partnership entered into the following transactions with related parties:

	Interest income 2015 £000	**Interest expense 2015 £000**	**Amounts due from related parties 2015 £000**	**Amounts due to related parties 2015 £000**	**Derivative financial instruments receivable 2015 £000**	**Derivative financial instruments payable 2015 £000**
Santander UK plc	**626,475**	**-**	**15,201,120**	**-**	**-**	**-**
Abbey National Treasury Services plc	**-**	**597,433**	**-**	**17,623,737**	**894,764**	**1,567,761**

	Interest income 2014 £000	Interest expense 2014 £000	Amounts due from related parties 2014 £000	Amounts due to related parties 2014 £000	Derivative financial instruments receivable 2014 £000	Derivative financial instruments payable 2014 £000
Santander UK plc	725,860	-	17,759,008	-	-	-
Abbey National Treasury Services plc	-	698,774	-	20,548,363	1,509,736	1,443,845

16. CAPITAL MANAGEMENT AND RESOURCES

Santander UK plc adopts a centralised capital management approach, based on an assessment of both regulatory requirements and the economic capital impacts of businesses in the Santander UK group. Disclosures relating to the Partnership's capital management can be found in the Santander UK Annual Report and Accounts.

Capital held by the Partnership and managed centrally as part of Santander UK plc, comprises members' interests which can be found in the Balance Sheet on page 8. The Partnership's capital is not externally regulated.

Capital is managed by way of processes set up at inception of the Partnership and subsequently there is no active process for managing its own capital. The Partnership is designed to hold minimum reserves once all amounts due on the related party loans have been received and amounts owing, including deferred consideration, have been paid.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

17. PARENT UNDERTAKING AND CONTROLLING PARTY

The member companies of the Partnership are Santander UK plc, the controlling party, and Abbey Covered Bonds (LM) Limited. Both companies are registered in England and Wales.

The administration, operations, accounting and financial reporting functions of the Partnership are performed by Santander UK plc, which is incorporated in Great Britain and registered in England and Wales.

Santander UK plc has been delegated administration and servicing functions in respect of the loans on behalf of the mortgages' trustee and the beneficiary as the service providers.

The Partnership meets the definition of a Special Purpose Entity and is therefore consolidated within the Santander UK Group Holdings plc group accounts.

The Partnership's ultimate controlling party is Banco Santander, S.A. a company incorporated in Spain. Banco Santander, S.A. is the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Partnership is a member. Santander UK plc is the parent undertaking of the smallest group of undertakings for which the group financial statements are drawn up and of which the Partnership is a member.

Copies of all sets of group financial statements, which include the results of the Partnership, are available from Secretariat, Santander UK plc, 2 Triton Square, Regent's Place, London, NW1 3AN.