ABBEY COVERED BONDS LLP

Registered in England and Wales
No: OC312644

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2022

STRATEGIC REPORT

The Members submit the Strategic Report together with the Members' Report and the audited financial statements for the year ended 31 December 2022. The Strategic Report is required by law to be prepared in accordance with the Companies Act 2006, as applicable to qualifying partnerships.

Principal activities

Abbey Covered Bonds LLP (the "Partnership") is part of the Santander UK Group Holdings plc group of companies (the "Group").

The principal activity of the Partnership as defined in the securitisation transaction documents (the "transaction documents") which can be found at http://www.santander.co.uk/uk/about-santander-uk/debt-investors/santander-uk-covered-bonds is to be a special purpose vehicle whose business is to acquire, inter alia, mortgage backed loans and their related security from Santander UK plc (the "Issuer") 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 as defined in the transaction documents. 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 of the Partnership, comprising loans to Santander UK plc 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.

The programme

The Issuer issues covered bonds, which are a direct, unsecured and unconditional obligation of the Issuer. The Covered Bonds benefit from a guarantee from the Partnership. The Issuer makes a term advance to The Partnership equal to the sterling proceeds of each issue of covered bonds. The Partnership uses the proceeds of the term advance to purchase portfolios of residential mortgage loans and their security from Santander UK plc. Under the terms of the guarantee, The Partnership has agreed to pay an amount equal to the guaranteed amounts when the same shall become due for payment but with limited recourse.

Under the terms of the Trust Deed, the Partnership has provided a guarantee, in respect of payments of interest and principal under the Covered Bonds. 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 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 owed by Santander UK plc within the portfolio are monitored and assessed for impairment on a regular basis at a Group level as, under International Financial Reporting Standard ("IFRS") 9 'Financial Instruments', the beneficial interest in the mortgage portfolio fails the criteria for recognition within the Partnership's financial statements and remains in the Balance Sheet of Santander UK plc. Consequently, the Partnership has recognised a deemed loan which is included within Loans and other debts due from members. 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 or equal to £1million.

The key members believe that the performance of the portfolio in the current year has been positive having generated an operating profit of £141m (2021: £141m).

Key performance

The Partnership received interest and similar income of £136m (2021: £233m) and incurred interest expense and similar charges of £307m (2021: £256m) during the year. The excess of interest expense over interest income was offset by derivative interest gains of £181m (2021: £73m).

The increase in the loans and debts due to related parties of £2,587m (2021: decrease of £6,484m) is due to the net increase in advances to members represented by £4,077m new bonds issued in the year (2021: £nil) less £1,947m of bonds redeemed in the year (2021: £5,568m bonds redeemed) plus the foreign exchange loss of £506m (2021: foreign exchange gain £841m) less hedging movement of £49m (2021: £71m).

The key performance indicators used by management are predominantly consideration of whether there have been breaches of the transaction documents. However, there are certain measures (triggers) set out in the transaction documents which are relevant to the Partnership including assessing whether all counterparties involved in the transaction have a rating that remains adequate to support their on-going roles in the programme, and arrears related events.

STRATEGIC REPORT (CONTINUED)

Fair review of the Partnership's business

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 and is available from the Corporate Governance Office, Santander UK plc, 2 Triton Square, Regent's Place, London, NW1 3AN.

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.

The Partnership continues to monitor geopolitical issues on the financial performance of the Partnership. See Members' Report for further details.

Approved by the members

Management Board
For and on behalf of the Partnership

19 June 2023

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 2022.

Results

The total profit for the year ended 31 December 2022 amounted to £141m (2021: profit £141m).

On 22 March 2022, a new issuance was made comprising a £1.5bn 4-year floating rate Covered Bond from the Santander UK plc Global Covered Bond Programme, due on 12 March 2026.

On 7 April 2022, a new issuance was made comprising a €1.75bn 5-year fixed rate Covered Bond from Santander UK plc Global Covered Bond Programme, due on 12 March 2027.

On 1 June 2022, a new issuance was made comprising a US$1.0bn 4-year floating rate Covered Bond from the Santander UK plc Global Covered Bond Programme, due on 12 June 2026. Also on 1 June 2022, a new issuance was made comprising a £300m 4-year floating rate Covered Bond from the Santander UK plc Global Covered Bond Programme, due on 12 March 2026.

Subsequent events

There were no adjusting or significant non-adjusting events that have occurred between the 31 December 2022 and the date of authorisation of these financial statements.

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 in respect of the financial statements

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

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

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

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

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

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

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 asset position. 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 2022, the book value of residential mortgage loans that Santander UK plc had assigned legal title to and acquired an interest in the Covered Bond structure was £21.3bn (2021: £15.7bn). The Covered Bond structure is over collateralised by £5.9bn (2021: £2.9bn). The sterling equivalent of notes issued by the Covered Bond programme was £15.4bn (2021: £12.8bn).

In addition, the Partnership has cash balances and reserves totalling £4,687m (2021: £2,743m). The maturity profile of loans owed to members is set out in Note 13. Santander UK 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. 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 Financial Statements.

Recent events within the global banking industry

Significant market uncertainty has been generated by the collapse of Silicon Valley Bank (SVB) in the United States on 10 March 2023 and the rescue of Credit Suisse by UBS following the announcement on 14 March 2023 by Credit Suisse of material weaknesses in its financial controls.

The Company is part of the Santander UK Group which has an established, mature Risk Framework and a stable, low risk business model with highly diversified assets across different markets and businesses. The Santander UK Group's funding is also well diversified with the majority of deposits held by retail customers which, in the majority of cases, are insured by state-backed deposit guarantee schemes.

Uncertain macroeconomic and geopolitical environment

In the past few years, a number of broader, more complex and uncertain risks have evolved which may present future headwinds. These include geopolitical tensions between regions across the world, in particular the current conflict in the Ukraine. This has impacted global energy prices and supply chains which added to inflationary pressures, as well as stretching household finances. These risks accelerate trends towards deglobalisation, and a reduction of variety of goods and services, causing prices to increase over the medium to long-term. These factors are also playing into increased localised political risk across the globe, including in the UK with a second new Prime Minister in 2022.

The Partnership is closely following these developments and the potential for any material impacts, which may need to be taken into consideration in its business plans and intends to take a coordinated approach with the other members of the Santander UK plc group.

Streamlined Energy and Carbon Reporting (SECR)

The Partnership 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.

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 loans payable denominated in Sterling. The Santander 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. Principal risks applicable to the Partnership include credit risk, liquidity risk, operational risk, market risk and interest rate risk.

.

MEMBERS' REPORT (CONTINUED)

Corporate governance

The Members have been charged with governance in accordance with the transaction documents which govern the structure and operation of the transactions to which the Partnership is party.

The governance structure of the Partnership is such that the key policies have been predetermined at the time of issuance and the operational roles have been assigned to third parties with their roles strictly governed by the transaction documents.

The transaction documents provide for procedures that have been designed for safeguarding assets against unauthorised use or disposition, for maintaining proper accounting records, and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives whilst enabling them to comply with the regulatory obligations.

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 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 provisions of Section 418 of the Companies Act 2006.

Independent Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the Partnership's forthcoming Annual General Meeting, in accordance with the Limited Liabilities Partnerships Act and Companies Act 2006.

Approved by the members

For and on behalf of the Partnership
Designated Member

19 June 2023

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

Independent auditors' report to the members of Abbey Covered Bonds LLP

Report on the audit of the financial statements

Opinion

In our opinion, Abbey Covered Bonds LLP's financial statements:

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

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material

Independent auditors' report to the members of Abbey Covered Bonds LLP (continued)

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.

Responsibilities for the financial statements and the audit

Responsibilities of the members for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Based on our understanding of the LLP and industry, we identified that the principal risks of non-compliance with laws and regulations related to a breach of the underlying documents governing the transaction, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the 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 by the engagement team included:

- Making inquiries with management and those charged with governance in relation to known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluating the business rationale for any significant transactoins that are unusual or outside the scope of the underlying legal and transaction documents;
- Testing on a sample basis, that the priority of payments has been applied in accordance with the underlying transaction documents;
- Testing journals using a risk-based approach and evaluating whether there was evidence of bias or fraud; and
- Reviewing minutes of the members' meetings that occurred during the period and made enquiries of management.

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

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

Independent auditors' report to the members of Abbey Covered Bonds LLP

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.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Jennifer Hale

Jennifer Hale (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

19 June 2023

PRIMARY FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

Continuing operations	Note	Year ended 31 December 2022 £000	Year ended 31 December 2021 £000
Interest and similar income	5	136,418	233,422
Interest expense and similar charges	6	(307,182)	(255,825)
Net interest expense		(170,764)	(22,403)
Administration expenses		(23,322)	(24,023)
Net other operating income	7	335,280	187,883
Total operating profit for the year	8	141,194	141,457
Other comprehensive income for the year			-
Total comprehensive income for the year		141,194	141,457

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

STATEMENT OF CHANGES IN MEMBERS' INTERESTS

For the year ended 31 December

	Members' capital £000	Members' retained gains £000	Members' other interests £000
Members' interest as at 31 December 2020 and 1 January 2021	-	63,193	63,193
Allocated result:			
Profit for the year available for division among members	-	141,457	141,457
Members' interest as at 31 December 2021 and 1 January 2022	-	204,650	204,650
Allocated result:			
Profit for the year available for division among members	-	141,194	141,194
Members' interest as at 31 December 2022	-	345,844	345,844

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

PRIMARY FINANCIAL STATEMENTS

BALANCE SHEET

As at 31 December

	Notes	2022 £000	2021 £000
NON-CURRENT ASSETS			
Derivative financial instruments – assets	11	959,380	468,460
CURRENT ASSETS			
Cash and cash equivalents	9	4,341,020	2,538,024
Derivative financial instruments – assets	11	82,274	124,449
Loans and other debts due from members	12	10,981,138	10,660,321
Total current assets		15,404,432	13,322,794
Total assets		16,363,812	13,791,254
CURRENT LIABILITIES			
Derivative financial instruments – liabilities	11	(230,905)	(19,695)
Loans and debts due to members	13	(2,004,120)	(1,952,581)
Other liabilities	14	(127,296)	(221,161)
Total current liabilities		(2,362,321)	(2,193,437)
Net current assets		13,042,111	11,129,357
NON-CURRENT LIABILITIES			
Derivative financial instruments – liabilities	11	(53,116)	(325,957)
Loans and debts due to members	13	(13,602,531)	(11,067,210)
Total non-current liabilities		(13,655,647)	(11,393,167)
Total liabilities		(16,017,968)	(13,586,604)
Net assets attributable to members		345,844	204,650
Members' other interests			
Members' capital		-	-
Members' accumulated gains		345,844	204,650
Total members' other interests		345,844	204,650
Total members' interests			
Members' retained gains		345,844	204,650
Loans and other debts due from members	12	(10,981,138)	(10,660,321)
Derivative financial instruments – liabilities	11	284,021	345,652
Loans and debts due to related parties	13	15,606,651	13,019,791
Total members' interests		5,255,378	2,909,772

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

The financial statements on pages 9 to 24 were approved by the members and signed on its behalf by:

For and on behalf of the Partnership
The Partnership

19 June 2023

PRIMARY FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

For the year ended 31 December

	Note	2022 £000	2021 £000
Cash flows used in operating activities			
Total operating profit for the year		141,194	141,457
Adjustments for non-cash items included in profit:			
Foreign exchange movement on loans and debts due to related parties		456,752	(840,606)
Foreign exchange movement on derivative financial instruments		(495,121)	840,635
Fair value gains on derivatives	7	(88,052)	(44,723)
Foreign exchange movements on other liabilities	7	(17,688)	(29)
Amortisation of discontinued hedges	7	(48,814)	(70,403)
Operating cash flows before movements in working capital		(51,729)	26,331
Net movement in total derivative financial instruments		121,611	103,399
Decrease in other liabilities		(76,175)	(550,426)
Net cash used in operating activities		(6,293)	(420,696)
Cash flows (used in)/ generated from investing activities			
Loans (advanced to)/ repaid by members		(320,818)	5,928,491
Net cash (used in)/ generated from investing activities		(320,818)	5,928,491
Cash flows generated from/ (used in) financing activities			
Redemption of loans to related parties		(1,946,883)	(5,568,296)
Issue of loans to related parties		4,076,990	-
Net cash generated from/ (used in) financing activities		2,130,107	(5,568,296)
Net increase/ (decrease) in cash and cash equivalents during the year		1,802,996	(60,501)
Cash and cash equivalents at beginning of year		2,538,024	2,598,525
Cash and cash equivalents at end of year	9	4,341,020	2,538,024

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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.

General Information

The Partnership is a limited liability partnership, domiciled and incorporated in the United Kingdom, registered in England and Wales and is part of a European listed group whose ultimate parent is Banco Santander SA. The registered office address of the Partnership is 2 Triton Square, Regent's Place, London NW1 3AN. These financial statements are prepared under the Companies Act 2006.

Basis of preparation

The Partnership's financial statements have been prepared in accordance with UK-adopted international accounting standards (IAS) 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 under the historical cost convention and on a going concern basis as disclosed in the statement of going concern set out in the Members' Report, 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.

The functional and presentation currency of the Partnership is Pound Sterling.

Recent accounting developments

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB amended IAS 1 'Presentation of Financial Statements' to require entities to disclose their material rather than their significant accounting policies. To support this amendment, the IASB also amended IFRS Practice Statement 2 'Making Materiality Judgements' to provide guidance on how to apply the concept of materiality. The amendments are effective for annual periods beginning on or after 1 January 2023 with earlier application permitted. The amendments have been applied in preparing these financial statements and, consequently, only material accounting policy information is disclosed.

Future accounting developments

At 31 December 2022, for the Santander UK group, there were no other significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective, or which have otherwise not been early adopted where permitted.

Material accounting policy information

The following material accounting policies have been applied in preparing these financial statements. Those material accounting policies which involve the application of judgements or accounting estimates that are determined to be critical to the preparation of these financial statements are set out in the section headed "Critical accounting estimates and areas of significant management judgement".

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 financial assets at amortised cost 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

ACCOUNTING POLICIES (CONTINUED)

Financial Instruments

Under IFRS 9 the beneficial interest in the mortgage portfolio fails the criteria for recognition within the Partnership's financial statements and remains in the Balance Sheet of Santander UK plc as the securitised assets are held outside of the Partnership. Consequently, the Partnership recognises a deemed loan to Santander UK plc, the repayment of which is dependent upon the performance of the underlying residential mortgage portfolio.

Financial instruments of the Partnership comprise loans and other debts due from members, derivative financial instruments, cash and cash equivalents and other receivables and payables arising from the Partnership's operations. These instruments are recognised, classified and subsequently measured in accordance with IFRS 9 as described below.

a) Initial recognition and measurement

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 and measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the Statement of Comprehensive Income. Immediately after initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost.

b) Financial assets and liabilities

Classification and subsequent measurement
The Partnership classifies its financial assets in the measurement categories of amortised cost and FVTPL.
Financial assets and financial liabilities are classified as FVTPL where there is a requirement to do so or where they are otherwise designated at FVTPL on initial recognition. Financial assets and financial liabilities which are required to be held at FVTPL include:

- Financial assets and financial liabilities held for trading
- Debt instruments that do not have solely payments of principal and interest (SPPI) characteristics. Otherwise, such instruments are measured at amortised cost.

Financial assets and financial liabilities are classified as held for trading if they are derivatives or if they are acquired or incurred principally for the purpose of selling or repurchasing in the near-term, or form part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking.

In certain circumstances other financial assets and financial liabilities are designated at FVTPL where this results in more relevant information. This may arise because it significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on a different basis, where the assets and liabilities are managed and their performance evaluated on a fair value basis or, in the case of financial liabilities, where it contains one or more embedded derivatives which are not closely related to the host contract.

c) Financial assets: debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans. Classification and subsequent measurement of debt instruments depend on the Partnership's business model for managing the asset, and the cash flow characteristics of the asset.

Business model

The business model reflects how the Partnership manages the assets in order to generate cash flows and, specifically, whether the Partnership's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of the assets. If neither of these is applicable, such as where the financial assets are held for trading purposes, then the financial assets are classified as part of an 'other' business model and measured at FVTPL. Factors considered in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported to key management personnel and how risks are assessed and managed.

Solely Payment of Principal and Interest (SPPI)

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Partnership assesses whether the assets' cash flows represent SPPI. In making this assessment, the Partnership considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the related asset is classified and measured at FVTPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. ACCOUNTING POLICIES (CONTINUED)

Based on these factors, the Partnership classifies its debt instruments into one of the following measurement categories:

- Amortised cost – Financial assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL recognised. Interest income from these financial assets is included in 'Finance income' using the effective interest rate method. When the estimates of future cash flows are revised, the carrying amount of the respective financial assets or financial liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the income statement.

- FVTPL – Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL, including any debt instruments designated at fair value, is recognised in profit or loss and presented in the income statement in 'Other gains/losses' in the period in which it arises.

The Partnership reclassifies financial assets when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

Impairment of debt instrument financial assets

Expected credit losses are recognised on all financial assets at amortised cost or at fair value through other comprehensive income. The expected credit loss considers forward looking information to recognise impairment allowances earlier in the lifecycle of a product. A three-stage approach to impairment measurement is adopted as follows:

- Stage 1 - the recognition of 12 month expected credit losses (ECL), that is the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, if credit risk has not increased significantly since initial recognition;
- Stage 2 - lifetime expected credit losses for financial instruments for which credit risk has increased significantly since initial recognition; and
- Stage 3 - lifetime expected credit losses for financial instruments which are credit impaired.

The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial assets are written off when it is reasonably certain that receivables are irrecoverable.

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 Santander UK plc or counterparties laid out in transaction documents. If subsequently there is a ratings downgrade of the counterparty credit rating, remedial measures include provision of collateral for obligations under the relevant swap.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. ACCOUNTING POLICIES (CONTINUED)

Contributions and drawings (continued)

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 IFRS 9, 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.

Taxation

The Partnership is not required to pay tax as per applicable laws.

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.

Financial Guarantee

Financial guarantees are defined as contracts whereby an entity undertakes to make specific payments on behalf of a third party if the latter fails to do so, irrespective of the various legal forms they may have, such as guarantees, insurance policies or credit derivatives.

The financial guarantee is reviewed periodically to determine any credit risk exposure associated with the guarantee and, if appropriate, to consider whether a provision is required.

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.

Cash collateral

Cash collateral is cash, negotiable instruments, documents of title, securities, deposit accounts, and other cash equivalents in which the Partnership has an interest. Cash collateral is segregated from other assets.

2. CRITICAL ACCOUNTING ESTIMATES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT

The preparation of the Partnership’s financial statements requires management to make judgements and accounting estimates 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 judgements and accounting estimates, which are based on historical experience and on other factors that are believed to be reasonable under the circumstances, on an on-going basis. Actual results may differ from these estimates under different assumptions or conditions.

The Members have determined that the carrying value of Loans and other debts due from members and derivatives requires a significant element of judgement.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. CRITICAL ACCOUNTING ESTIMATES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT (CONTINUED)

Impairment of Loans and advances to group companies (judgement)

As described under the 'Impairment of debt instrument financial assets' above, the repayment of the loans and advances to group companies is dependent on the performance of the underlying residential mortgage portfolio. At each balance sheet date an assessment is made as to whether, as a result of one or more events, there is a significant increase in credit risk since initial recognition. In assessing the loans and advances to group companies for impairment, the Members first consider the impairment of the underlying mortgage loans using the above 3 stage approach and consider the ECL of the loans and advances to group companies taking into account the relevant credit enhancements available for the Company in the structure. Accordingly expected losses for loans and advances to group companies are immaterial and are only likely to be material if the ECL on the underlying assets exceeded the available credit enhancements.

Fair value of derivatives (estimate)

The fair value of derivatives is dependent on the market conditions prevailing at the date of valuation. At each balance sheet date an assessment is made on the fair value of derivative assets and liabilities and any resulting gains or losses arising since the previous reporting period are taken to net other operating income in the statement of comprehensive income. Sensitivity disclosures in respect of Level 3 derivatives are not provided as they are deemed immaterial (note 11).

Derecognition of mortgage loans

The loans within the portfolio are monitored and assessed for impairment on a regular basis at a group level as, under International Financial Reporting Standard ("IFRS") 9 'Financial Instruments', 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. Consequently, the Partnership has recognised a deemed loan which is included within Loans and other debts due from members.

The impairment policy applied by Santander UK plc is equivalent to the impairment of financial assets policy of the Partnership.

3. FINANCIAL RISK MANAGEMENT

Risk management is carried out in accordance with the Covered Bond Transaction Document by the central risk management function of the Santander UK Group Holdings plc 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. Risks associated with the Covered Bond programme are outlined in the transaction documents.

Credit risk

Credit risk is the risk that counterparties will not meet their financial obligations and may result in the Partnership losing amounts advanced together with interest on those advances. The main source of credit risk is in the loans and other debts due from members and derivative financial instruments assets.

Key metrics under IFRS 9 are as follows:

Metric	Description
Expected credit losses (ECL)	ECL tells the Partnership what credit risk is likely to cost either over the next 12 months on qualifying exposures, or defaults over the lifetime of the exposure where there is evidence of a significant increase in credit risk (SICR) since origination. ECL calculation is explained below.
Stages 1, 2 and 3	The Partnership assesses each facility's credit risk profile to determine which stage to allocate them to, and it monitors where there is a SICR and transfers between the stages. Allocation of a facility to Stage 1, 2 or 3 is explained below.
Significant increase in credit risk (SICR)	Loans which have suffered a SICR since origination are subject to a lifetime ECL assessment which extends to a maximum of the contractual maturity of the loan. Loans which have not experienced a SICR are subject to 12 month ECL. The Partnership assesses each facility's credit risk profile to determine which of three stages to allocate them to, see the Partnership's accounting policies on Note 1.

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 £11.0bn (2021: £10.7bn) and the fair value of derivative financial assets of £1.0bn (2021: £0.6bn). At the balance sheet date no ECL allowance was recognised on all financial assets subject to credit risk.

As at 31 December 2022, the book value of residential mortgage loans that Santander UK plc had assigned legal title to the Covered Bond structure was £21.3bn (2021: £15.7bn). The Covered Bond structure is over collateralised by £5.9bn (2021: £2.9bn). The Covered Bond structure acquired interest in a portfolio of mortgage loans was £21.3bn (2021: £15.7bn) and the sterling equivalent of notes issued by the Covered Bond programme was £15.4bn (2021: £12.8bn).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

The loans included within the underlying portfolio include repayment loans and interest only loans with balances of less than £1million. These are all secured on residential properties in the UK. For details on repurchase of loans please refer to the Securitisation transaction document which can be found at http://www.santander.co.uk/uk/about-santander-uk/debt-investors/santander-uk-covered-bonds.

Derivatives are contracted with Santander UK plc or counterparties laid out in transaction documents. If subsequently there is a ratings downgrade of the counterparty credit rating, remedial measures include provision of collateral for obligations under the relevant swap.

Loans and advances to group companies represent a loan to Santander UK plc, the repayment of which is dependent upon the performance of the underlying residential mortgage portfolio. At each balance sheet date, an assessment is made as to whether, as a result of one or more events, there is a significant increase in credit risk since initial recognition. In assessing the loan to Santander UK plc for impairment, the Members first consider the impairment of the underlying mortgage loans using the above 3-stage approach and consider the ECL of the loan taking into account the relevant credit enhancements available for the Partnership in the structure. Accordingly, expected losses for the loans to Santander UK plc would arise if the ECL on the underlying assets is greater than the available credit enhancements.

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. Santander UK 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 Financial Statements and monthly investor reports of The Partnership available from the Corporate Governance Office, Santander UK plc, 2 Triton Square, Regent's Place, London, NW1 3AN.

Santander UK plc's current credit ratings at the date of approval of these financial statements are:

	S & P	Moody's	Fitch
Long-term rating	A	A1	A+
Long-term rating outlook	Stable	Negative	Stable
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.

The members ensure there are sufficient funds to meet payments as they fall due through related party funding in circumstances when the Partnership is in a net liabilities situation.

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

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.

At 31 December 2022	On demand £000	1-3 months £000	3-12 months £000	1-5 years £000	Over 5 years £000	2022 Total £000
Loans and debts due to related parties	(483)	(1,047,566)	(956,071)	(12,491,180)	(1,111,351)	(15,606,651)
Derivative financial liabilities	-	(12,940)	(217,965)	(73,834)	20,718	(284,021)
Interest payable to related parties	-	(153,596)	(443,461)	(1,223,454)	(98,087)	(1,918,598)
Total	**(483)**	**(1,214,102)**	**(1,617,497)**	**(13,788,468)**	**(1,188,720)**	**(17,809,270)**

At 31 December 2021	On demand £000	1-3 months £000	3-12 months £000	1-5 years £000	Over 5 years £000	2021 Total £000
Loans and debts due to related parties	(482)	-	(1,952,581)	(7,674,301)	(3,392,427)	(13,019,791)
Derivative financial liabilities	-	3,423	(23,118)	(340,401)	14,444	(345,652)
Interest payable to related parties	-	(43,598)	(128,880)	(547,697)	(152,484)	(872,659)
Total	(482)	(40,175)	(2,104,579)	(8,562,399)	(3,530,467)	(14,238,102)

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 2022, the Partnership held cash collateral of £nil (2021: £121m).

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes regulatory, legal and compliance risk. Operational risk is monitored and managed within the Group. An independent central operational risk function has responsibility for establishing the framework within which these risks are managed and is aligned to operational risk professionals within business areas to ensure consistent approaches are applied across the Group. The primary purpose of the framework is to define and articulate the Group-wide policy, processes, roles and responsibilities.

The day-to-day management of operational risk is the responsibility of business managers who identify, assess and monitor the risks, in line with the processes described in the framework. The operational risk function ensures that all key risks are regularly reported to the Group's risk committee and Board of Members.

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 from fluctuations in interest rates and currency risks from the fluctuations in the United States Dollar and Euro.

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 sterling interest rates; it therefore has no material cash flow sensitivity to changes in currency rates in either 2022 or 2021. 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 Santander UK 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 was adopted for that funding so that the Partnership was hedged against the exposure to interest rate volatility from the movement in fair value of those interest rate swap contracts. Derivative interest gains are disclosed in note 7. Hedge accounting has been discontinued.

Interest rate risk

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 year. The analysis is prepared assuming that amount outstanding, for which amounts receivable are based upon, was outstanding for the whole year.

A 50bp positive or 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 £31.3m (2021: £13.3m). 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 £31.3m (2021: £13.3m).

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

5. INTEREST AND SIMILAR INCOME

	Year ended 31 December 2022 £000	Year ended 31 December 2021 £000
Interest income from members	**86,432**	231,710
Bank interest income	**49,773**	1,712
Other interest income	**213**	-
	136,418	233,422

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

6. INTEREST EXPENSE AND SIMILAR CHARGES

	Year ended 31 December 2022 £000	Year ended 31 December 2021 £000
Interest expense to Santander UK plc	307,182	255,825
	307,182	255,825

7. NET OTHER OPERATING INCOME

	Year ended 31 December 2022 £000	Year ended 31 December 2021 £000
Fair value hedging:		
- Amortisation of discontinued hedges (note 13)	48,814	70,403
Fair value gains on derivatives	88,052	44,723
Foreign exchange (losses)/ gains on loans and debts due to related parties	(495,121)	840,606
Foreign exchange gains/ (losses) on derivative financial instruments	495,121	(840,635)
Foreign exchange gains on other liabilities	17,688	29
Derivative interest gains	180,726	72,757
	335,280	187,883

8. TOTAL OPERATING PROFIT FOR THE YEAR

Staff costs

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

Auditors' remuneration

The audit fee for the current year is £20,600 (2021: £17,510).

No fees for non-audit services were paid by the Partnership to the auditors during the year (2021: nil).

9. CASH AND CASH EQUIVALENTS

	2022 £000	2021 £000
Cash and cash equivalents	4,341,020	2,538,024
	4,341,020	2,538,024

Cash and cash equivalent balances due from Santander UK plc, a related party, was £4,341m (2021: £2,538m).

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

Hedge accounting

In the case of discontinued fair value hedges, the cumulative adjustment that had 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. In the case of discontinued cash flow hedges, amounts accumulated in equity are reclassified to the Statement of Comprehensive Income in the same period in which the hedged item affects the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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 2022 and 2021, 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. The carrying value of financial instruments approximates to their fair values.

31 December 2022	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	-	-	153,929	83	-	-	153,929	15	
Interest rate swaps	-	-	31,078	17	856,647	100	887,725	85	
Total assets at fair value	-	-	185,007	100	856,647	100	1,041,654	100	A
Liabilities									
Derivative liabilities:									
Foreign exchange contracts	-	-	259,889	92	-	-	259,889	92	A
Interest rate swaps	-	-	24,132	8	-	-	24,132	8	B
Total liabilities at fair value	-	-	284,021	100	-	-	284,021	100	

31 December 2021	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	-	-	315,906	53	-	-	315,906	53	
Interest rate swaps	-	-	277,003	47	-	-	277,003	47	
Total assets at fair value	-	-	592,909	100	-	-	592,909	100	A
Liabilities									
Derivative liabilities:									
Foreign exchange contracts	-	-	160,426	100	-	-	160,426	46	A
Interest rate swaps	-	-	-	-	185,226	100	185,226	44	B
Total liabilities at fair value	-	-	160,426	100	185,226	100	345,652	100	

Derivatives are categorised as level 2 as 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.

Valuation techniques

The main valuation techniques employed in internal models to measure the fair value of the financial instruments at 31 December 2022 and 2021 are set out below. In substantially all cases, the principal inputs into these models are derived from observable market data. The Partnership did not make any material changes to the valuation techniques and internal models it used in 2022 and 2021.

A. In the valuation of financial instruments requiring static hedging (for example interest rate, currency derivatives and property derivatives) and in the valuation of loans and advances and deposits, the 'present value' method is used. Expected future cash flows are discounted using the interest rate curves of the applicable currencies or forward house price index levels, as well as credit spreads. 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. The forward commodity house price index levels are generally observable market data.

B. In the valuation of equity financial instruments requiring dynamic hedging (principally equity securities, options and other structured instruments), proprietary local volatility and stochastic volatility models are used. These types of models are widely accepted in the financial services industry. Observable market inputs used in these models include the bid-offer spread, foreign currency exchange rates, volatility and correlation between indices. In limited circumstances, other inputs may be used in these models that are based on unobservable market data, such as the Halifax's UK HPI volatility, HPI forward growth, HPI spot rate, mortality and mean reversion.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11. FAIR VALUE 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 2 - Internal models based on observable market data

Quoted prices in inactive 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 3 - Significant unobservable assumptions to reasonably possible alternatives

Significant inputs to the pricing or valuation techniques are unobservable. These unobservable inputs reflect the assumptions that market participants would use when pricing assets or liabilities and are considered significant to the overall valuation.

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 market data as described in the table below. The potential effects do not take into effect any hedged positions.

				Sensitivity	
	Fair value £000	Assumption description	Shift	Favourable changes £000	Unfavourable changes £000
Derivative assets: Interest rate swaps	**856,647**	Weighted Average Mortgage Rate Payable	1%	**23,499**	**(23,499)**

Reconciliation of fair value measurements in the fair value hierarchy

The following table provides a reconciliation of the movement between opening and closing balances of financial instruments including their levels in the fair value hierarchy:

	Level 3 £000
At 1 January 2021	(590,345)
Interest movements	7,007
Fair value movements	398,112
At 31 December 2021 and 1 January 2022	**(185,226)**
Interest movements	23,704
Fair value movements	1,018,169
At 31 December 2022	**856,647**

12. LOANS AND OTHER DEBTS DUE FROM MEMBERS

	2022 £000	2021 £000
Loans and other debts due from Santander UK plc	**10,981,138**	10,660,321

The carrying amount of loans and other debts due from members approximates to their fair value and are repayable on demand.

The beneficial interest in the mortgage portfolio fails the criteria for recognition within the Partnership's financial statements and remains in the Balance Sheet of Santander UK plc. Consequently, the Partnership has recognised a deemed loan as detailed above.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

13. LOANS AND DEBTS DUE TO MEMBERS

	2022 £000	2021 £000
Loans and debts due to Santander UK plc	15,606,651	13,019,791

These borrowings are repayable as follows:		
Less than 3 months	1,048,049	482
Between 3 and 12 months	956,071	1,952,581
Between 1 and 5 years	12,491,180	7,674,301
Greater than five years	1,111,351	3,392,427
	15,606,651	13,019,791

The amount owing to related parties comprises a term advance equivalent to the amounts raised by Santander UK 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.

Santander UK 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 Santander UK plc will be subordinated to amounts owed by the Partnership under the Covered Bond Guarantee described below.

Under the terms of the trust deed, the Partnership has provided a guarantee as to payments of interest and principal under the covered bonds, where amounts would otherwise be unpaid by Santander UK 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 Santander UK plc mature at various dates between 12 February 2023 and 6 February 2032. For amounts settled in February 2023, there were no significant differences between the settlement values and the fair values at the balance sheet date. The carrying amount of loans and debt due to related parties approximates to fair value except where shown below:

Loans and debts due to related parties	2022 Book Value £000	2022 Fair Value £000	2021 Book Value £000	2021 Fair Value £000
Value at 31 December	15,606,651	15,433,195	13,019,791	13,809,923

Following a review by management during the year, loans and debts due to related party are disclosed at book value and fair value. This has had no impact on the Statement of Comprehensive Income.

In the case of discontinued fair value hedges, the cumulative adjustment that had 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. In the case of discontinued cash flow hedges, amounts accumulated in equity are reclassified to the Statement of Comprehensive Income in the same period in which the hedged item affects the Statement of Comprehensive Income.

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

	2022 £000	2021 £000
Fair value hedge accounting valuation adjustments	191,992	238,545

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

	£000
At 1 January 2021	313,228
Foreign exchange adjustments	(4,280)
Amortisation of the discontinued hedges	(70,403)
At 31 December 2021 and 1 January 2022	238,545
Foreign exchange adjustments	2,261
Amortisation of the discontinued hedges	(48,814)
At 31 December 2022	191,992

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

14. OTHER LIABILITIES

	2022 £000	2021 £000
Accrued expenses	46	21
Accrued interest payable	127,250	99,863
Cash collateral (restricted)	-	121,277
	127,296	221,161

Other liabilities include £127m (2021: £100m) of accrued interest payable to Santander UK plc. Other liabilities are deemed repayable within one year.

15. RELATED PARTY TRANSACTIONS

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

2022:	Interest income £000	Interest expense £000	Amounts due from related parties £000	Amounts due to related parties £000	Derivative financial instruments receivable £000	Derivative financial instruments payable £000
Santander UK plc	136,205	307,182	15,322,158	15,606,651	1,012,823	284,021

2021:	Interest Income £000	Interest expense £000	Amounts due from related parties £000	Amounts due to related parties £000	Derivative financial instruments receivable £000	Derivative financial instruments payable £000
Santander UK plc	233,422	255,825	13,198,345	13,019,791	437,341	345,652

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 Holdings plc group. Disclosures relating to the Partnership's capital management can be found in the Santander UK plc Annual Report available from the Corporate Governance Office, Santander UK plc, 2 Triton Square, Regent's Place, London, NW1 3AN.

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 10. The Partnership's capital is not externally regulated.

Capital is managed by way of processes set up at inception of the Partnership and documented in the transaction documents, 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.

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 is a Special Purpose Entity controlled by and is therefore consolidated within the Santander UK Group Holdings plc group financial statements.

The Partnership's ultimate controlling party is Banco Santander SA a company incorporated in Spain. Banco Santander SA 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 the Corporate Governance Office, Santander UK plc, 2 Triton Square, Regent's Place, London, NW1 3AN.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

18. SUBSEQUENT EVENTS

There were no adjusting or significant non-adjusting events that have occurred between the 31 December 2022 and the date of authorisation of these financial statements.