

ABBAY COVERED BONDS (LM) LIMITED

Registered in England and Wales
Company Number 05365645

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2016



REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2016.

The Report of the Directors has been prepared taking into consideration the entitlement to small company's exemption from preparing a strategic report provided in section 414B (b) of the Companies Act 2006.

Principal activity and review of the year

The principal activity of Abbey Covered Bonds (LM) Limited (the "Company") as defined in the Securitisation Transaction document which can be found at <http://www.santander.co.uk/uk/about-santander-uk/debt-investors/santander-uk-covered-bonds> is to be a designated member of an associated limited liability partnership and earn fees for this service. The Company continued to receive fixed fee income during the year.

The Company's immediate parent company is Abbey Covered Bonds (Holdings) Limited, a company registered in England and Wales, which holds 80% of the Company's share capital. Santander UK plc, which holds 20% of the share capital, has the controlling interest in the Company.

Likely Future Developments

The Directors do not expect any significant change in the level of business in the foreseeable future.

Results and dividends

The profit for the year on ordinary activities after taxation amounted to £480 (2015: £480).

The Directors do not recommend the payment of a final dividend (2015: £nil).

Directors

The Directors who served throughout the year and to the date of this report (except as noted) were as follows:

M H Filer (resigned 7 April 2017)
D Wynne (appointed 20 March 2017)
T Ranger
Wilmington Trust SP Services (London) Limited

M H Filer and D Wynne are also Directors of Wilmington Trust SP Services (London) Limited.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law directors 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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

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

REPORT OF THE DIRECTORS (continued)

Statement of Going Concern

The financial position of the Company, its liquidity position and borrowing facilities are set out in the financial statements. In addition, notes 7 and 10 to the financial statements include the Company's financial risk management objectives; its exposures to credit risk and liquidity risk; and its policies and processes for managing its capital.

The Company is part of the Santander UK Group. Although the Company has net assets, it is reliant on other companies in the Santander UK Group for a significant proportion of its funding. The Company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries.

The Company has sufficient funds to enable it to continue as a going concern for the foreseeable future.

The Directors, having assessed the responses of the Directors of the Company's parent Santander UK plc to their enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of Santander UK plc and group to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the Company's financial position and of the enquiries made of the Directors of Santander UK plc, the Company's Directors have a reasonable expectation that the Company will be able 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.

Qualifying Third Party Indemnities

Enhanced indemnities are provided to certain Directors of the Company by Santander UK plc (where such person has been nominated in writing by Santander UK plc as its representative on the board) against liabilities and associated costs which they could incur in the course of their duties to the Company. All of the indemnities remain in force as at the date of the Annual Report and Financial Statements. A copy of each of the indemnities is kept at the registered office address of Santander UK plc.

Independent Auditors

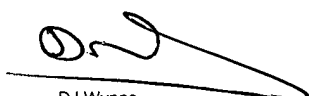
Each of the Directors as at the date of approval of this report has confirmed that:

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

PricewaterhouseCoopers LLP are deemed to be re-appointed as auditors under Section 487(2) of the Companies Act 2006.

By Order of the Board



D J Wynne
For and on behalf of
Wilmington Trust SP Services (London) Limited
Secretary

13 April 2017

Registered Office Address: c/o Wilmington Trust SP Services (London) Limited, Third Floor, 1 King's Arms Yard, London, EC2R 7AF

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ABBEY COVERED BONDS (LM) LIMITED

Report on the financial statements

Our opinion

In our opinion, Abbey Covered Bonds (LM) Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Report of the Directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Report of the Directors. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ABBEY COVERED BONDS (LM) LIMITED (CONTINUED)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 1, the directors 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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 company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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. With respect to the Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.



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

19 April 2017

PRIMARY FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

For the years ended 31 December

Continuing operations	Note	2016 £	2015 £
Fee income		600	600
Profit before tax	2	600	600
Tax charge on profit for the year	3	(120)	(120)
Profit for the year after tax		480	480
Other comprehensive income for the year		-	-
Total net comprehensive income for the year attributable to the equity holders of the Company		480	480

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

STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December

	Share capital £	Retained earnings £	Total Equity £
At 1 January 2015	10	4,675	4,685
Profit for the year after tax and Total comprehensive income	-	480	480
At 31 December 2015 and 1 January 2016	10	5,155	5,165
Profit for the year after tax and Total comprehensive income	-	480	480
At 31 December 2016	10	5,635	5,645

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

PRIMARY FINANCIAL STATEMENTS

BALANCE SHEET

As at 31 December

	Notes	2016 £	2015 £
Current assets			
Trade and other receivables	4	6,451	5,851
Current liabilities			
Trade and other payables	5	(806)	(686)
Net assets		5,645	5,165
Equity			
Share capital	6	10	10
Retained earnings		5,635	5,155
Total equity		5,645	5,165

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

The financial statements were approved by the Board of Directors, authorised for issue, and signed on its behalf by:



D J Wynne
For and on behalf of Wilmington Trust SP Services (London) Limited

13 April 2017

PRIMARY FINANCIAL STATEMENTS

CASH FLOW STATEMENT

For the years ended 31 December

	2016 £	2015 £
Profit before tax	600	600
Increase in amounts due from group undertakings	(600)	(600)
Increase in amounts due to group undertakings	120	120
Corporation tax paid	(120)	(120)
Net cash generated in operating activities	-	-
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at the beginning of the year	-	-
Cash and cash equivalents at the end of the year	-	-

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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 Company is a limited liability company, domiciled and incorporated in the United Kingdom and is part of a European listed group whose ultimate parent is Banco Santander SA. The registered office address of the Company is 2 Triton Square, Regent's Place, London NW1 3AN.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

The function and presentation currency of the Company is sterling. 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. An assessment of the appropriateness of the adoption of the going concern basis of accounting is disclosed in the Directors' Statement of Going Concern set out in the Report of the Directors.

Future accounting developments

The Company 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 Company:

- a) IFRS 9 'Financial Instruments' (IFRS 9) – In July 2014, the International Accounting Standards Board (IASB) approved IFRS 9 to replace IAS 39 'Financial Instruments: Recognition and Measurement', in accordance with the guidelines which were prepared during the G-20 meeting in April 2009.

IFRS 9 sets out the requirements for recognition and measurement of both financial instruments and certain types of contracts for the sale of non-financial items. The main new developments of the standard are discussed below.

Classification and measurement of financial assets and financial liabilities: Under IFRS 9, financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. For many financial assets, the classification and measurement outcomes will be similar to IAS 39. However, under IFRS 9, embedded derivatives are not separated from host financial assets and equity securities are measured at fair value either through profit or loss or, in certain circumstances, an irrevocable election may be made to present fair value movements in other comprehensive income. 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.

Impairment: IFRS 9 introduces fundamental changes to the impairment of financial assets measured at amortised cost or at fair value through other comprehensive income, lease receivables and certain commitments to extend credit and financial guarantee contracts. It is no longer necessary for losses to be incurred before credit losses are recognised. Instead, under IFRS 9, an entity always accounts for expected credit losses (ECLs), and any changes in those ECLs. The ECL approach must reflect both current and forecast changes in macroeconomic data over a horizon that extends from 12 months to the remaining life of the asset if a borrower's credit risk is deemed to have deteriorated significantly at the reporting date compared to the origination date. These macroeconomic forecasts are required to be unbiased and probability weighted amounts determined by evaluating a range of possible outcomes and considering reasonable and supportable information at the reporting date. Similar to the current incurred credit loss provisioning approach, management will exercise judgement as to whether additional adjustments are required in order to adequately reflect possible events or current conditions that could affect credit risk.

For financial assets, an ECL is the current value of the difference between the contractual cash flows owed to the entity according to the contract and the cash flows which the entity expects to receive. For undrawn loan commitments, an ECL is the current value of the difference between the contractual cash flows owed to the entity and the cash flows which the entity expects to receive if the loan is drawn.

An assessment of each facilities' credit risk profile will determine whether they are to be allocated to one of three stages:

- Stage 1: when it is deemed there has been no significant increase in credit risk since initial recognition, a loss allowance equal to a 12-month ECL – i.e. the proportion of lifetime expected losses resulting from possible default events within a the next 12-months - will be applied;
- Stage 2: when it is deemed there has been a significant increase in credit risk since initial recognition, but no credit impairment has materialised, a loss allowance equal to the lifetime ECL – i.e. lifetime expected loss resulting from all possible defaults throughout the residual life of a facility – will be applied; and
- Stage 3: when it has been deemed there has been a significant increase in credit risk since initial recognition, and the facility is considered credit impaired, a loss allowance equal to the lifetime ECL will be applied. Similar to incurred losses under IAS 39, objective evidence of credit impairment is required.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

The assessment of whether a significant increase in credit risk has occurred since initial recognition involves the application of both quantitative measures and qualitative factors, and requires management judgement.

Transition: IFRS 9 has been endorsed for use in the European Union. The mandatory effective date of IFRS 9 is 1 January 2018. The classification and measurement and impairment requirements will be applied retrospectively by adjusting the opening balance sheet at the date of initial application. There is no requirement to restate comparative information. The Company is assessing the likely impacts of the new financial asset classification & measurement and impairment requirements. Upon the satisfactory completion of this work, including formal testing of the ECL models during 2017, the Company will quantify the indicative impact when that information is known or reasonably estimable, and by no later than the end of 2017. However, there will be no significant impact in these financial statements with the application of IFRS 9.

- b) A number of new standards and amendments to standards and interpretations have been issued but are not yet effective for the current accounting period. None of these are expected to have a material impact on the financial statements of the Company.

Critical accounting judgements and judgements

In the application of the Company's accounting policies the directors are required to make Judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There are no critical judgements that the directors have made in the process of applying the Company's accounting policies that have significant effect on the amounts recognised in financial statements.

There are no key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fee income

Fee income payable to Abbey Covered Bonds (LM) Limited from Abbey Covered Bonds LLP is recorded on an accruals basis as the service is provided.

Income taxes

The directors are satisfied that the Company meets the definition of a 'securitisation company' as defined by both the Finance Act 2005 and the subsequent secondary legislation and that no incremental unfunded tax liabilities will arise. As a result, no deferred tax amounts are recognised.

Under the powers conferred by the Act, secondary legislation was enacted in 2006 which ensures that, subject to certain conditions being met and an election being made, for periods commencing on or after 1 January 2007, corporation tax for a 'securitisation company' will be calculated by reference to the profit of the securitisation company required to be retained in accordance with the relevant capital market arrangement.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Financial liabilities

The entity classifies its financial liabilities, including intercompany financial liabilities, as payables and other financial liabilities, which are held at cost. The carrying values of financial liabilities are a fair approximation of their fair values.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

2. PROFIT BEFORE TAX

Directors' emoluments

No Directors were remunerated for their services to the Company. Directors' emoluments are borne by Santander UK plc and Wilmington Trust SP Services (London) Limited. No emoluments were paid by the Company to the Directors during the year (2015: £nil).

Staff costs

The Company had no employees in the current or previous year.

Audit remuneration

Fees payable to the Company's Auditors' for the audit of the Company's Financial statements for the current year are £5,000 (2015: £5,227) and have been borne by Santander UK plc, for which no recharge has been made in the current or prior year.

3. TAX CHARGE ON PROFIT FOR THE YEAR

	2016 £	2015 £
Current tax:		
UK corporation tax on profit for the year	120	120
Tax charge for the year	120	120

For UK corporation tax purposes, the Company has been considered as a Securitisation Company under the 'Taxation of Securitisation Companies Regulations (SI 2006/3295)'. Therefore the Company is not required to pay corporation tax on its accounting profit or loss. Instead, the Company is required to pay tax on its retained profits as specified in the documentation governing the Transaction.

UK corporation tax is calculated at 20% (2015: 20%) of the estimated assessable profits of the year.

The tax on the Company's profit before tax does not differ from the theoretical amount that would arise using the tax rate of the Company as follows:

	2016 £	2015 £
Profit before tax	600	600
Tax at the UK corporation tax rate of 20% (2015: 20%)	120	120
Tax charge for the year	120	120

4. TRADE AND OTHER RECEIVABLES

	2016 £	2015 £
Amounts owed by group undertakings	6,441	5,841
Unpaid share capital	10	10
	6,451	5,851

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

5. TRADE AND OTHER PAYABLES

	2016 £	2015 £
Amounts owed to group undertakings	686	566
Corporation tax	120	120
	806	686

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

6. SHARE CAPITAL

	2016 £	2015 £
Issued and fully paid share capital:		
10 (2015: 10) ordinary shares of £1 each	10	10

The proceeds from the share issue are held on behalf of the Company by Wilmington Trust SP Services (London) Limited, a group company, as disclosed in note 8.

7. FINANCIAL RISK MANAGEMENT

The Company's risk management focuses on the major areas of credit 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 Company losing the principal amount lent, the interest accrued and any unrealised gains, less any security held. It occurs in intercompany assets held by the Company.

The maximum exposure to credit risk without taking into account collateral or credit enhancements is the carrying amount of the amount owed by group undertakings as disclosed in note 8.

As at 31 December 2016, the book value of residential mortgage loans that Santander UK plc had assigned legal title to the Covered Bond securitisation structure was £20.3bn (2015: £23.6bn). The Covered Bond securitisation structure is over collateralised by £3.3bn (2015: £6.8bn). The Covered Bond securitisation structure acquired interest in a portfolio of mortgage loans was £20.3bn (2015: £23.6bn) and the sterling equivalent of notes issued by the Covered Bond programme was £17.0bn (2015: £16.8bn).

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.

Santander UK plc's credit ratings are disclosed below as the financial assets of the Covered Bond securitisation 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.

Details of the mortgage assets are disclosed in notes to the Group financial statements of Santander UK plc's Annual Report and financial statements and monthly investor reports of Abbey Covered Bond.

Santander UK plc's current credit ratings are:

	S&P	Moody's	Fitch
Long-term rating	A	Aa3	A
Long-term rating outlook	Negative	Negative	Stable
Short-term rating	A-1	P-1	F1

Liquidity risk

Liquidity risk is the potential that, although remaining solvent, the Company 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 Company manages liquidity risk with the support of its immediate controlling party, ensuring that the Company will have sufficient liquid resources to ensure it can meet its obligations as they fall due.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 directors.

Maturity of financial liabilities

At 31 December 2016	On Demand £	Up to 3 months £	3-12 months £	1-5 years £	Over 5 years £	Total
Amounts owed to group undertakings	686	-	-	-	-	686
Total financial liabilities	686	-	-	-	-	686

At 31 December 2015	On Demand £	Up to 3 months £	3-12 months £	1-5 years £	Over 5 years £	Total
Amounts owed to group undertakings	566	-	-	-	-	566
Total financial liabilities	566	-	-	-	-	566

8. RELATED PARTY TRANSACTIONS

The following were the balances with related parties as at 31 December 2016 and 2015.

	2016 £	2015 £
Amounts owed by group undertakings		
Abbey Covered Bonds LLP	6,441	5,841
Other receivables		
Wilmington Trust SP Services (London) Limited	10	10
Amounts owed to group undertakings		
Santander UK plc	686	566

Transactions with related parties comprise primarily amounts receivable in relation to the fee income from Abbey Covered Bonds LLP, amounts payable in relation to the tax fees paid by Santander UK plc on behalf of the Company and subscription received on issue of shares to Abbey Covered Bonds (Holdings) Limited and Santander UK plc held with Wilmington Trust SP Services (London) Limited.

There were no related party transactions during the year, or existing at the Balance Sheet date, with key management personnel of the Company.

9. INVESTMENT IN LIMITED LIABILITY PARTNERSHIPS

The Company is a designated member of Abbey Covered Bonds LLP a partnership registered in England & Wales. The Company has made no capital contributions to the partnership and currently has a 0% share of ownership interest. There is no intention for the Company to make capital contributions to the partnership in the future.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

10. CAPITAL MANAGEMENT AND RESOURCES

Capital held by the Company and managed centrally as part of the Santander UK Group Holdings plc group, comprises share capital and reserves which can be found in the Balance Sheet on page 6.

Capital is managed by way of processes set up at inception of the Company and subsequently there is no active process for managing its own capital. The Company is designed to hold minimum reserves once all amounts owed by group undertakings have been received and amounts owed to group undertakings have been paid. The Company's capital is not externally regulated.

11. PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent company is Abbey Covered Bonds (Holdings) Limited, a company registered in England and Wales.

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

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

The Company's ultimate controlling party is Banco Santander SA, a company incorporated in Spain. Banco Santander SA is the parent undertakings of the largest group of undertakings for which group Financial Statements are drawn up and of which the Company 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 Company is a member.

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