

ABBAY COVERED BONDS (LM) LIMITED

**Registered in England and Wales
No. 05365645**

ANNUAL REPORT AND ACCOUNTS

**FOR THE YEAR ENDED
31 DECEMBER 2014**

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ABBEY COVERED BONDS (LM) LIMITED - 05365645

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2014.

This Directors' report has been prepared in accordance with the special provisions relating to small companies under sections 415(A)(1)&(2) of the Companies Act 2006.

Principal activity and review of the year

The principal activity of Abbey Covered Bonds (LM) Limited (the "Company") 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, 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.

Results and dividends

The profit for the year on ordinary activities after taxation amounted to £480 (2013: £480).

The Directors do not recommend the payment of a final dividend (2013: £nil).

Directors

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

MH Filer	(appointed 5 December 2014)
M McDermott	(resigned 5 December 2014)
T Ranger	
Wilmington Trust SP	
Services (London) Limited	

Directors' Responsibilities Statement

The directors are responsible for preparing the report 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 elected to prepare 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, International Accounting Standard 1 requires that directors:

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

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.

ABBAY COVERED BONDS (LM) LIMITED - 05365645

Report of the Directors (continued)

Statement of Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out above. The financial position of the Company, its cash flows, 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 objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk.

The Company has adequate financial resources. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

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

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 this Report and Accounts. A copy of each of the indemnities is kept at the registered office address of Santander UK plc.

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 auditor is unaware; and
- the Director has taken all 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 auditor is aware of that information.

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

In accordance with Sections 485 and 487 of the Companies Act 2006, Deloitte LLP are deemed to have been re-appointed as auditor of the Company.

By Order of the Board



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

30 June 2015

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

ABBEY COVERED BONDS (LM) LIMITED - 05365645

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

We have audited the financial statements of Abbey Covered Bonds (LM) Limited for the year ended 31 December 2014 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Cash Flow Statement, the Balance Sheet and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

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

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

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.
- the Directors were not entitled to take advantage of the small companies exemption from preparing a Strategic Report and in preparing the Report of the Directors.



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

30 June 2015

ABBNEY COVERED BONDS (LM) LIMITED - 05365645

Statement of Comprehensive Income For the year ended 31 December 2014

Continuing Operations	Notes	2014 £	2013 £
Fee income		600	600
Profit before tax	2	600	600
Tax	3	(120)	(120)
Profit for the year after tax		480	480
Other comprehensive income for the year		-	-
Total comprehensive income for the year attributable to the equity holders of the Company		480	480

The accompanying notes 1 to 11 form an integral part of the accounts.

Statement of Changes in Equity For the year ended 31 December 2014

	Share capital £	Retained earnings £	Total £
At 1 January 2013	10	3,715	3,725
Profit for the year	-	480	480
At 31 December 2013 and 1 January 2014	10	4,195	4,205
Profit for the year	-	480	480
At 31 December 2014	10	4,675	4,685

Cash Flow Statement For the year ended 31 December 2014

The Company has not undertaken any cash transactions in the current or previous year and so no cash flows have occurred.

ABBHEY COVERED BONDS (LM) LIMITED - 05365645

Balance Sheet

As at 31 December 2014

	Notes	2014 £	2013 £
Current assets			
Trade and other receivables	4	5,251	4,651
Current liabilities			
Trade and other payables	5	(566)	(446)
Net assets		4,685	4,205
Equity			
Share capital	6	10	10
Retained earnings		4,675	4,195
Equity attributable to equity holders of the Company		4,685	4,205

The accompanying notes 1 to 11 form an integral part of the accounts.

These accounts have been prepared in accordance with the special provisions relating to the small companies regime and the directors make this statement in accordance with section 414(3) of the Companies Act 2006.

The financial statements were approved by the board of Directors and authorised for issue on 30 June 2015. They were signed on its behalf by:



Mignon Clarke
For and on behalf of Wilmington Trust SP Services (London) Limited
Director

ABBEY COVERED BONDS (LM) LIMITED - 05365645

Notes to the financial statements for the year ended 31 December 2014

1. Accounting policies

The principal accounting policies applied to Abbey Covered Bonds (LM) Limited (the "Company") in the preparation of financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union that are effective or available for early adoption at the Company's reporting date. The Company, in addition to complying with its legal obligation to comply with IFRSs as adopted for use in the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical cost convention and on the going concern basis as disclosed in the Directors' statement of going concern as set out in the Report of the Directors.

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 tax expense represents the sum of the income tax currently payable.

Income tax payable on profits, based on the applicable tax law in each jurisdiction is recognised as an expense in the year in which profits arise. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Recent accounting developments

In 2014, the Company adopted the following new accounting pronouncements and amendments to standards which became effective for financial years beginning on 1 January 2014.

- a) IAS 32 'Financial Instruments: Presentation' - In December 2011, the IASB issued amendments to IAS 32 entitled 'Offsetting Financial Assets and Financial Liabilities' which clarified the requirements for offsetting financial instruments and addressed inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial Instruments: Presentation'. The amendments are effective for annual periods beginning on or after 1 January 2014 with early adoption permitted and are required to be applied retrospectively. The amendments did not have a material effect on the Company's financial statements.
- b) There are a number of other changes to IFRS that were effective from 1 January 2014. Those changes did not have a significant impact on the Company's financial statements.

Notes to the financial statements for the year ended 31 December 2014

1. Accounting policies (continued)

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 IASB issued the final version of IFRS 9 which includes the completion of all phases of the project to replace IAS 39 'Financial Instruments: Recognition and Measurement' as discussed below.

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

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

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

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

- b) IFRS 15 'Revenue from Contracts with Customers' ('IFRS 15') – In May 2014, the IASB issued IFRS 15. The effective date of IFRS 15 is 1 January 2017. The standard establishes the principles that shall be applied in connection with revenue from contracts with customers including the core principle that the recognition of revenue must depict the transfer of promised goods or services to customers in an amount that reflects the entitlement to consideration in exchange for those goods and services. IFRS 15 applies to all contracts with customers but does not apply to lease contracts, insurance contracts, financial instruments and certain non-monetary exchanges. At the date of publication of these financial statements the standard is awaiting EU endorsement. Whilst it is expected that a significant proportion of the Company's revenue will be outside the scope of IFRS 15, the impact of the standard is currently being assessed. It is not yet practicable to quantify the effect the effect of IFRS 15 on these financial statements.
- c) There are a number of other standards which have been issued or amended that are expected to be effective in future periods. However, it is not practicable to provide a reasonable estimate of their effects on the Company's financial statements until a detailed review has been completed.

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

2. Profit before tax

Fees payable to the Company's auditors for the audit of the Company's annual accounts for the current year are £5,079 (2013: £5,000) and have been borne by Santander UK plc, for which no recharge has been made in the current or prior year.

No Directors were remunerated for their services to the Company. Directors' emoluments for Mr T Ranger are borne by Santander UK plc. No emoluments were paid by the Company to Directors during the year (2013: £nil).

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

ABBEY COVERED BONDS (LM) LIMITED - 05365645

Notes to the financial statements for the year ended 31 December 2014

3. Tax

	2014 £	2013 £
Current tax:		
UK corporation tax on profit for the year	120	120
Tax charge for the year	120	120

The company is taxed at the small companies' rate of 20% (2013: 20%).

UK corporation tax is calculated at 20% (2013: 20%) of the estimated assessable profits of the year.

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2014 £	2013 £
Profit before tax	600	600
Tax at the UK corporation tax rate of 20% (2013: 20%)	120	120
Tax charge for the year	120	120

4. Trade and other receivables

	2014 £	2013 £
Amounts due from group companies	5,241	4,641
Share capital	10	10
	5,251	4,651

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

5. Trade and other payables

	2014 £	2013 £
Amounts due to group companies	446	326
Corporation tax	120	120
	566	446

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

6. Share capital

	2014 £	2013 £
Issued and fully paid share capital:		
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.

ABBEY COVERED BONDS (LM) LIMITED - 05365645

Notes to the financial statements for the year ended 31 December 2014

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 her to her 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 loans and advances to group companies as disclosed in note 8.

As at 31 December 2014, the book value of residential mortgage loans that Santander UK plc had assigned legal title to the Covered Bond securitisation structure was £25.6bn (2013: £21.2bn). The Covered Bond structure is over collateralised by £6.1bn (2013: £1.6bn). The Covered Bond structure acquired interest (Funder share) was £25.6bn (2013: £21.2bn) and the Santander (UK) plc seller share was £19.5bn (2013: 19.6bn).

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

Santander UK plc's credit ratings are disclosed below as the financial assets of the Covered Bond 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 consolidated financial statements of Santander UK plc's Annual Report and Financial Statements and quarterly investor reports of Abbey Master Trust.

Santander UK plc's current credit ratings are:

	S & P	Moody's	Fitch
Long-term rating	A	A2	A
Long-term rating outlook	Negative	RuR up	Stable
S & P	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.

At 31 December 2014	On Demand £	Up to 3 months £	3-12 months £	1-5 years £	Over 5 years £	Total
Intercompany liabilities	446	-	-	-	-	446
Total financial liabilities	446	-	-	-	-	446

At 31 December 2013	On Demand £	Up to 3 months £	3-12 months £	1-5 years £	Over 5 years £	Total
Intercompany liabilities	326	-	-	-	-	326
Total financial liabilities	326	-	-	-	-	326

ABBEY COVERED BONDS (LM) LIMITED - 05365645

Notes to the financial statements for the year ended 31 December 2014

8. Related party transactions

The following were the balances with related parties as at 31 December 2014 and 31 December 2013.

Amounts due from group undertakings	2014 £	2013 £
Abbey Covered Bonds LLP	5,241	4,641
Wilmington Trust SP Services (London) Limited	10	10

Amounts due to group undertakings	2014 £	2013 £
Santander UK plc	446	326

Transactions with related parties comprise primarily amounts receivable in relation to the fee income from Abbey Covered Bonds LLP 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.

10. Capital management and resources

Capital held by the Company and managed centrally as part of the Santander UK plc Group, comprises share capital and reserves which can be found in the Balance Sheet on page 5.

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 due on the intercompany loans have been received and amounts owing to the bondholders 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. Santander UK plc has the controlling interest in the Company.

The Company's ultimate controlling party is Banco Santander S.A., a company incorporated in Spain. Banco Santander, S.A. is the parent undertaking of the largest group of undertakings for which group accounts 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 accounts are drawn up.

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.

Copies of all sets of group accounts, which include the results of the Company, are available from Secretariat, Santander UK plc, 2 Triton Square, Regents Place, London, NW1 3AN.