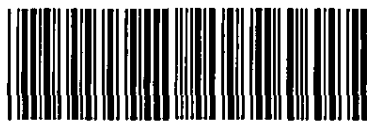


Alliance & Leicester Covered Bonds LLP

Partnership Number OC332032

**Reports and Accounts
For the period ended 31 December 2008**

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Alliance & Leicester Covered Bonds LLP

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Registered Office:

35 Great St. Helen's, London, EC3A 6AP

Alliance & Leicester Covered Bonds LLP

Members' Report

For the period ended 31 December 2008

On behalf of the Members of Alliance & Leicester Covered Bonds LLP, the Members submit their annual report, together with the financial statements for the period from incorporation on 12 October 2007 ('date of inception') to 31 December 2008.

Principal activity and business review

The principal activity of Alliance & Leicester Covered Bonds LLP ('the Partnership') is to acquire an interest in a portfolio of mortgage loans, entering into financing arrangements with group companies.

The Partnership was registered in England and Wales on 12 October 2007 as a Limited Liability Partnership.

The Partnership guaranteed the issue of £500m of bonds by Alliance & Leicester plc on 15 April 2008 and a further £2,000m on 9 October 2008.

	Net interest income 2008 £000	Cash and cash equivalents 2008 £000
Key Performance Indicators	<u>2,319</u>	<u>739,495</u>

The performance requirements of the Partnership are set out in the legal documents that govern the wider funding transaction of which it forms a part. To date it has complied with those requirements, principally the generation of positive cashflows as shown in the Cash Flow Statement. The Alliance & Leicester plc 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 performance of the divisions of Alliance & Leicester plc, which include the Partnership, are discussed in the Group's Annual Report which does not form part of this Report.

Results

The profit for the period ended 31 December 2008 was £3k.

Members' interests

The policy regarding the allocation of profits to Members and the treatment of capital contributions is set out in the accounting policies statement in note 1 to the financial statements.

Post balance sheet event

On 9 January 2009, ownership of Alliance & Leicester plc was transferred within the Santander Group from Banco Santander, S.A. to Abbey National plc.

Designated members

The designated Members during the period were:

Alliance & Leicester plc	Appointed 12 October 2007
Alliance & Leicester Covered Bonds (LM) Limited	Appointed 12 October 2007

Alliance & Leicester Covered Bonds LLP

Members' Report

For the period ended 31 December 2008 (continued)

Financial Instruments

The Company's financial instruments comprise loans to group undertakings, borrowings, cash and liquid resources, and various items, such as debtors and creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Company's operations.

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

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

Further disclosures regarding financial risk management objectives and policies and the Company's exposure to principal risks can be found in note 13.

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 above. The financial position of the Partnership, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. The Partnership's objectives, policies and processes for managing its capital are described in note 14 to the financial statements.

Details of the Partnership's financial risk management objectives, its financial instruments and hedging activities; and its exposures to operational, liquidity risk and other risks are set out in note 13 to the financial statements.

The activities of the Partnership are dependent upon the future funding strategies within the Alliance & Leicester Group. There are no plans to terminate the operations of the Partnership within the next year.

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

After making enquiries, 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 in preparing the annual report and accounts.

Auditors

At the forthcoming Annual Meeting of the Partnership it will be proposed that Deloitte LLP be re-appointed as auditors.

For and on behalf of the Partnership on



C R Annis

Director

Alliance & Leicester Covered Bonds (LM) Limited

19 February 2009

Alliance & Leicester Covered Bonds LLP

Statement of Members' Responsibilities For the period ended 31 December 2008

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

The Limited Liability Partnerships (LLP) Regulations 2001, as amended by The Limited Liability Partnerships (Amendment) Regulations 2005, made under the Limited Liability Partnerships Act 2000 require the Members to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Partnership and of the profit or loss of the Partnership for that period. In preparing these financial statements, the Members are required to:

- select appropriate accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare financial accounts on the going concern basis unless it is inappropriate to assume that the Partnership will continue to be in business.

Under the LLP Regulations, the Members are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Partnership and which enable them to ensure that the financial statements comply with those regulations. The Members have a general responsibility for safeguarding the assets of the Partnership and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report to the Members of Alliance & Leicester Covered Bonds LLP

We have audited the financial statements of Alliance & Leicester Covered Bonds LLP for the period ended 31 December 2008 which comprise the Income Statement, the Statement of Changes in Members' Interests, the Balance Sheet, the Cash Flow Statement, and the related notes 1 to 16. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Partnership's Members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Partnership's Members those matters we are required to state to them in an auditors' 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 Partnership and the Partnership's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of members and auditors

The Members' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Members' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared as applicable to Limited Liability Partnerships. We also report to you whether in our opinion the information given in the Members' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Partnership has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Members' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Partnership's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

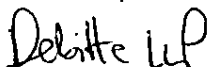
In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Partnership's affairs as at 31 December 2008 and of its profit for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985;

Separate opinion in relation to IFRSs

As explained in note 1 to the financial statements, the Partnership in addition to complying with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the Partnership's affairs as at 31 December 2008 and of its profit for the period then ended.



Deloitte LLP

Chartered Accountants and Registered Auditors
Birmingham, United Kingdom
On 19 February 2009

Alliance & Leicester Covered Bonds LLP

Income Statement

For the period ended 31 December 2008

	Note	12 October 2007 to 31 December 2008 £000
Interest receivable	3	14,035
Interest payable	4	(11,716)
Net interest income		<u>2,319</u>
Administrative expenses	5	(2,316)
Profit for the financial period before Members' remuneration and profit shares	6	<u><u>3</u></u>

All results derive from continuing operations.

Statement of Changes in Members' Interest

For the period ended 31 December 2008

	Note	12 October 2007 to 31 December 2008 £000
Members' interest at inception		-
Profit for period	11	3
Members' interest at 31 December		<u><u>3</u></u>

Alliance & Leicester Covered Bonds LLP

Balance Sheet

As at 31 December 2008

	Note	31 December 2008 £000
CURRENT ASSETS		
Cash and cash equivalents	8	739,495
CURRENT LIABILITIES		
Accruals and deferred income	9	(38)
NET CURRENT ASSETS		<u>739,457</u>
NET ASSETS ATTRIBUTABLE TO MEMBERS		<u><u>739,457</u></u>
REPRESENTED BY:		
LOANS AND OTHER AMOUNTS DUE TO MEMBERS		
Amounts due to Members		739,454
Other reserves		3
	11	<u><u>739,457</u></u>
TOTAL MEMBERS' INTERESTS		
Amounts due to Members		739,454
Amounts due from Members		(739,495)
Members other interests		3
TOTAL MEMBERS' INTERESTS	11	<u><u>(38)</u></u>

The attached notes 1 to 16 form an integral part of the financial statements.

These financial statements were approved by the Members and authorised for issue on 19 February 2009. They were signed on their behalf by:



C R Annis
Director
Alliance & Leicester Covered Bonds (LM) Limited

Alliance & Leicester Covered Bonds LLP

Cash Flow Statement

For the period ended 31 December 2008

	Note	12 October 2007 to 31 December 2008 £000
Operating activities		
Profit before tax		3
Cash flows from operating profits before changes in operating assets and liabilities		3
Changes in operating assets and liabilities:		
Net increase in accruals	9,11	2,311
Net increase in other liabilities	10	737,181
		739,492
Net cash from operating activities		739,495
Net cash from investing activities		-
Net cash from financing activities		-
Net increase in cash and cash equivalents		739,495
Cash and cash equivalents at inception		-
Cash and cash equivalents at end of period	8	739,495

Alliance & Leicester Covered Bonds LLP

Notes to the Financial Statements For the period ended 31 December 2008

1. Principal accounting policies

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 Partnership's reporting date. The Partnership, 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.

These policies have been consistently applied during the period.

The activities of the Partnership are dependent upon the future funding strategies within the Alliance & Leicester Group. The accounts have been prepared on a going concern basis as there are no plans to terminate the operations of the Partnership within the next year.

a. Accounting convention

The Partnership prepares its accounts under the historical cost convention and on the going concern basis as disclosed in the statement of going concern set out in the Report of the Directors.

b. Presentation of income statement

The nature of the business is to receive and provide interest-bearing loans and advances, therefore the Members are of the opinion that it is more appropriate to use 'interest receivable' rather than 'Revenue' in presenting the Income Statement.

c. Income recognition

Interest income and expense on financial assets and liabilities held at amortised cost is measured using the effective interest rate method, which allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

d. Income taxes, including deferred income taxes

Income tax payable on Partnership profits is the liability of the Partnership Members based on the proportion of their capital contributions. No provision for income or deferred taxation of Partnership profits is therefore shown in these accounts.

e. Intercompany transaction

The intercompany transactions between Alliance & Leicester plc and the Partnership are part of a wider transaction for which the accounting is considered in its entirety. No cash or other consideration transferred from or to the Partnership for either the purchase of the mortgage portfolio, or the grant of the subsequent intercompany loan. Therefore no accounting entries are recorded for these transactions. The related cross currency and basis swaps are also not recognised.

A balance with a fellow group undertaking is recognised for the net funding of cash balances, along with a net income or expense for associated Income Statement items.

f. Financial assets

The Partnership classifies its financial assets as Loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category comprises 'Financial assets: loan and receivables' and 'Cash and cash equivalents'. Financial assets are held at amortised cost. Interest income is recognised in the income statement using the effective interest rate method.

g. Financial liabilities

Financial liabilities are held at amortised cost. Finance costs are charged to the Income Statement using the effective interest rate method.

h. Cash and cash equivalents

For the purposes of the Balance Sheet and Cash Flow Statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short term investments in securities.

Alliance & Leicester Covered Bonds LLP

Notes to the Financial Statements For the period ended 31 December 2008 (continued)

1. Principal accounting policies (continued)

i. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

j. Contributions and Drawings

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. Under the priority of payments, payment pro rata and pari passu to the Members of a sum specified in the Limited Liability Partnership Deed (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, as their profit for their respective interests as Members of the Partnership.

k. Changes to IFRS not adopted in 2008 accounts

The International Accounting Standards Board has published the following IAS's, IFRS's and International Financial Reporting Interpretations Committee (IFRIC) interpretations:

Standard/Interpretation		Issued	Effective for periods commencing on or after
IFRIC 13	Customer loyalty programmes	1 Oct 2007	1 July 2008
IFRIC 15	Amendments for the construction of real estate	1 Jul 2008	1 Jan 2009
IFRIC 16	Hedges of net investment in foreign operation	1 Jul 2008	1 Oct 2008
Amendment to IAS 1	Presentation of financial statements	1 Sep 2007	1 Jan 2009
Amendment to IAS 32	Financial instruments: Presentation	1 Feb 2008	1 Jan 2009
Amendment to IAS 39	Eligible hedged items	1 Jul 2008	1 Jul 2009
IAS 23 (revised)	Borrowing costs	1 Mar 2007	1 Jan 2009
IAS 27 (revised)	Consolidated and separate financial statements	1 Jan 2008	1 Jul 2009
IFRS 3 (revised)	Business combinations	1 Jan 2008	1 Jul 2009

The Partnership has not elected to adopt these early in these financial statements. The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Partnership.

l. Related party transactions

Alliance & Leicester plc, the Partnership's UK controlling undertaking is incorporated in Great Britain and registered in England and Wales. The administration, operations, accounting and financial reporting functions of the Partnership are performed by Alliance & Leicester plc.

Related party transactions with group undertakings are detailed in their respective notes.

2. Segmental reporting

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

Alliance & Leicester Covered Bonds LLP

Notes to the Financial Statements

For the period ended 31 December 2008 (continued)

3. Interest receivable

12 October
2007 to 31
December
2008
£000

Interest on cash deposits with Alliance & Leicester plc 14,035

4. Interest payable

12 October
2007 to 31
December
2008
£000

Interest on loan from Alliance & Leicester plc 11,716

5. Administrative expenses

12 October
2007 to 31
December
2008
£000

Professional fees 44
Administration fees and bank charges payable to Alliance &
Leicester plc 2,272
2,316

6. Profit for the financial period before Members' remuneration and profit shares

12 October
2007 to 31
December
2008
£000

Profit for the period is stated after charging:

Fees payable to the Partnership's auditors for the audit of the
Partnership's accounts (including irrecoverable VAT)

6

The audit fee for the current period has been paid on the Partnership's behalf by its UK controlling undertaking, Alliance & Leicester plc, in accordance with company policy, for which a recharge has been made. The audit fee for the current period (including irrecoverable VAT) is £5,904.

Fees payable to Deloitte LLP and their associates for non-audit services to the Partnership are not required to be disclosed because the Alliance & Leicester plc consolidated financial statements are required to disclose such fees on a consolidated basis.

7. Members' emoluments

The Members received no emoluments in respect of qualifying services during the period ended 31 December 2008.

The Partnership has no employees.

Alliance & Leicester Covered Bonds LLP

Notes to the Financial Statements

For the period ended 31 December 2008 (continued)

8. Cash and cash equivalents

	31 December 2008 £000
Deposits with Alliance & Leicester plc	<u>739,495</u>

9. Accruals and deferred income

	31 December 2008 £000
Accrued administration fees due to: Third parties	<u>38</u> <u>38</u>

10. Loans advanced from Members

	31 December 2008 £000
Due between one and five years: Loan from Alliance & Leicester plc	<u>737,181</u>

The loan from Alliance & Leicester plc represents the net funding of cash balances less the effect of subordinated loans to/(from) fellow group undertakings, along with a net income or expense for associated Income Statement items.

11. Members' capital and reserves

	Members' capital £000	Other reserves £000	Total £000	Loans due (to)/from Members £000	Total £000
Members' interests at inception	-	-	-	-	-
Allocated profit:					
Profit for the year available for division among Members	-	3	3	-	3
Loans advanced from Members:					
Loan from Alliance & Leicester plc	-	-	-	737,181	737,181
Accrued expenses due to Alliance & Leicester plc	-	-	-	2,273	2,273
Members' interest as at 31 December 2008	<u>-</u>	<u>3</u>	<u>3</u>	<u>739,454</u>	<u>739,457</u>

The average number of Members during the period was two. As described in the accounting policies in note 1, entitlement to profit share is based on Members' legal capital balances.

Alliance & Leicester Covered Bonds LLP

Notes to the Financial Statements

For the period ended 31 December 2008 (continued)

12. Related party transactions

There have been no transactions with key management personnel during the period.

13. Risk management policy and control framework

The principal risks arising from the Partnership's financial instruments (both assets and liabilities) are operational risk and liquidity risk. The principal nature of such risks are summarised below.

- Operational risk is defined as 'the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events'. Operational services are provided by Alliance & Leicester plc. The Partnership places reliance upon the specific policies and procedures Alliance & Leicester plc has in place at group level to counteract this risk.
- Liquidity risk is the risk that the Partnership, though solvent, either does not have sufficient financial resources available to meet its obligations as they fall due, or can only secure them at excessive cost. The Partnership's obligations only arise as a result of payments being received by it under intercompany loans. The Partnership cannot therefore be required to make any payments if insufficient cash is available and as such it does not face any liquidity risk.
- Credit risk is the risk of financial loss where counterparties are not able to meet their obligations as they fall due. For the reasons outlined above the exposure to loss as a result of credit risk is not considered material.

Carrying amounts and fair values

The carrying values of all assets and liabilities are considered to be a good approximation of fair value.

14. Capital management and resources

Capital held by the Partnership and managed centrally as part of the Alliance & Leicester group, comprises share capital and reserves.

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

15. Ultimate and immediate parent companies

The member companies of the LLP are the Alliance & Leicester plc, the controlling party and Alliance & Leicester Covered Bonds (LM) Limited, both companies are incorporated in Great Britain and registered in England and Wales.

In accordance with SIC 12 "Consolidation – Special Purpose Entities", the Partnership is controlled by Alliance & Leicester plc and is therefore consolidated in the Alliance & Leicester Group accounts. Alliance & Leicester plc is incorporated in Great Britain and is registered in England and Wales.

The Partnership's ultimate parent and controlling party is Banco Santander, S.A, a company incorporated in Spain.

The smallest group in which the 2008 results of the Partnership are consolidated is the Alliance & Leicester Group; these accounts may be obtained from the Group's registered office at Carlton Park, Narborough, Leicester, LE19 0AL.

The largest group in which the 2008 results of the Partnership are consolidated is the group accounts of Banco Santander, S.A., copies of which may be obtained from Abbey Secretariat, Abbey National House, 2 Triton Square, Regent's Place, London, NW1 3AN.

16. Post balance sheet event

On 9 January 2009, ownership of Alliance & Leicester plc was transferred within the Santander Group from Banco Santander, S.A. to Abbey National plc.