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HOLMES HOLDINGS LIMITED

**Registered in England and Wales
No. 3689577**

REPORT AND ACCOUNTS

**FOR THE YEAR ENDED
31 DECEMBER 2009**



HOLMES HOLDINGS LIMITED

Report of the Directors

The Directors submit their report together with the financial statements for the year ended 31 December 2009

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

Principal activity and review of the year

The principal activity of Holmes Holdings Limited, Company Number 3689577 (the "Company") is to be that of a holding Company

Results and dividends

The profit for the year on ordinary activities after taxation amounted to £21,451 (2008 £14,127)

The Directors do not recommend the payment of a final dividend (2008 £nil)

Directors

The Directors who served throughout the year and to the date of this report, except as noted, were

Mr D M Green	
Mr S Masson	(Alternate Director to R Samson)
Mr M McDermott	
Ms R Samson	
Wilmington Trust SP Services (London) Limited	

Statement of Directors' responsibilities

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. The financial statements are required by law to be properly prepared in accordance with IFRSs as adopted by the European Union and the Companies Act 2006

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

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to 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

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Directors' report (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 9 and 11, 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.

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 confirms 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 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.

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

By Order of the Board



For and on behalf of
Abbey National Nominees Limited, Secretary

12 March 2010

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HOLMES HOLDINGS LIMITED

We have audited the financial statements of Holmes Holdings Limited (the "Company") for the year ended 31 December 2009 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 12. 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 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 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 auditors

As explained more fully in the Statement of Directors Responsibilities, 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 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 (APB'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.

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 2009 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, or
- the Directors were not entitled to take advantage of the small companies exemption in preparing the Directors' report.



Caroline Britton (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
12 March 2010

HOLMES HOLDINGS LIMITED

Statement of Comprehensive Income

For the year ended 31 December 2009

Continuing Operations	Notes	Year ended	Year ended
		31 December 2009	31 December 2008
		£	£
Dividend income	3	21,451	14,127
Profit before tax		21,451	14,127
Tax	4	-	-
Profit for the year		21,451	14,127
Other comprehensive income for the year		-	-
Total comprehensive income for the year attributable to the Equity holders of the Company		21,451	14,127

The accompanying notes form an integral part of the accounts

Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital	Retained earnings	Total
	£	£	£
At 1 January 2008	2	-	2
Profit for the year	-	14,127	14,127
At 31 December 2008 and 1 January 2009	2	14,127	14,129
Profit for the year	-	21,451	21,451
At 31 December 2009	2	35,578	35,580

HOLMES HOLDINGS LIMITED

Balance Sheet


As at 31 December 2009

	Notes	2009 £	2008 £
Non-current assets			
Interests in subsidiary undertakings	5	300,008	550,006
Current assets			
Cash and cash equivalents		30,572	14,129
Total assets		330,580	564,135
Liabilities			
Trade and other payables	6	(295,000)	(550,006)
Net current liabilities		(264,428)	(535,877)
Net assets		35,580	14,129
Equity			
Share capital	7	2	2
Retained earnings	8	35,578	14,127
Equity attributable to equity holders of the Company		35,580	14,129

The accompanying notes form an integral part of the accounts

The financial statements were approved by the board of Directors and authorised for issue on 12 March 2010

They were signed on its behalf by


DAVID ALLEN
 Director

Holmes Holdings Limited, Company Registration Number 3689577

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Cash Flow Statement

For the year ended 31 December 2009

	Note	Year ended 31 December 2009 £	Year ended 31 December 2008 £
Net cash from operating activities			
Investing activities			
Dividends received from group companies	3	21,451	14,127
Net cash from investing activities		21,451	14,127
Increase in cash and cash equivalents		21,451	14,127
Cash and cash equivalents at beginning of year		14,129	2
Cash and cash equivalents at end of year		35,580	14,129

The accompanying note forms an integral part of the accounts

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Notes to the financial statements for the year ended 31 December 2009

1 Accounting policies

The principal accounting policies applied to Holmes Holdings 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. 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 set out in the Report of the Directors.

Interests in subsidiary undertakings

Investments in subsidiary undertakings are carried at cost less any provision for impairment. The accounting reference date of the Company and its subsidiary undertakings is 31 December.

Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Impairment of financial assets

At each balance sheet date, the Company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets classified as available for sale or loans and receivables have become impaired. Evidence of impairment may include indications that the borrower or group of borrowers have defaulted or are experiencing significant financial difficulty.

Recent developments

In 2009, the Company adopted the following new or revised IFRS:

- 1) IAS 1 'Presentation of Financial Statements' – On 6 September 2007, the IASB issued an amendment to IAS 1 'Presentation of Financial Statements' which changes the way in which non-owner changes in equity are required to be presented. As a result, a 'Statement of Changes in Equity' has been included as a separate primary financial statement showing changes in equity during the periods presented. In addition, the Statement of Recognised Income and Expenses has been replaced with a 'Statement of Comprehensive Income'. The adoption of the amendment to IAS 1 did not have any impact on the Company's profit or loss or financial position.
- 2) IFRS 7 'Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments' – On 5 March 2009, the IASB issued an amendment to IFRS 7 'Financial Instruments: Disclosures' which requires enhanced disclosures about fair value measurements and liquidity risk. Among other things, the amendment (1) requires disclosure of any change in the method for determining fair value and the reasons for the change, (2) establishes a three-level hierarchy for making fair value measurements, (3) requires disclosure for each fair value measurement in the balance sheet of which level in the hierarchy was used and any transfers between levels, with additional disclosures whenever level 3 of the hierarchy is used including a measure of sensitivity to a change in input data, (4) clarifies that the current maturity analysis for non-derivative financial instruments should include issued financial guarantee contracts, and (5) requires disclosure of a maturity analysis for derivative financial liabilities. The disclosures required by the amendment to IFRS 7 may be found on pages 10 and 11.

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Notes to the financial statements for the year ended 31 December 2009

1 Accounting policies (continued)

Future developments

The Group has not yet adopted the following new or revised IFRS or IFRIC interpretations, which have been issued but which are not yet effective for the Group

- 1) IFRS 9 'Financial Instruments' - On November 12, 2009, the IASB issued IFRS 9 'Financial Instruments' which significantly overhauls the accounting requirements for financial instruments under IFRS. IFRS 9 is mandatory for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 9 requires that a financial asset be classified into one of three categories for measurement and income recognition: (1) Amortised cost, (2) Fair value through profit or loss (FVTPL) and (3) Fair value through other comprehensive income. The standard requires reclassification between amortised cost and FVTPL (or vice versa) if a financial asset no longer meets the criteria for its original classification. IFRS 9 replaces the existing classification and measurement requirements in IAS 39 for financial assets. It changes the manner in which entities classify and measure investments in debt and equity securities, loan assets, trade receivables, and derivative financial assets by requiring entities to classify financial assets as being measured at either amortised cost or fair value depending on the entity's business model and the contractual cash flow characteristics of the asset. The Company is currently evaluating the requirements of IFRS 9.

2 Profit from operations

Directors' emoluments are borne by Santander UK plc. No emoluments were paid by the Company to Directors during the year (2008: £nil).

The Company has no employees (2008: none).

Fees payable to the Company's auditors for the audit of the Company's annual accounts for the current year are £5,000 (2008: £15,000) and have been borne by Santander UK plc, for which no recharge has been made in the current or prior year.

3 Dividend income

	2009 £	2008 £
Dividend income	21,451	14,127

4 Tax

	2009 £000	2008 £000
Current tax		
UK corporation tax current year	-	-
Adjustment in respect of prior periods	-	-
	-	-

Corporation tax is calculated at 28% (2008: 28.5%) of the assessable profit for the year.

The charge for the year can be reconciled to the profit per the Statement of Comprehensive Income as follows:

	2009 £000	2008 £000
Profit before tax	21,451	14,127
Tax at the UK corporation tax rate of 28% (2008: 28.5%)	(6,006)	(4,026)
Non-taxable dividend income	6,006	4,026
Tax charge for the year	-	-

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Notes to the financial statements for the year ended 31 December 2009

5 Interests in subsidiary undertakings

The following is a list of the subsidiary undertakings of the Company as at 31 December 2009

Name of subsidiary	Country of Incorporation, ownership (or registration) and operation	Proportion of voting interest %	Proportion of power held %
Holmes Financing (No 1) plc	England & Wales	100	100
Holmes Financing (No 8) plc (in liquidation)	England & Wales	100	100
Holmes Financing (No 9) plc	England & Wales	100	100
Holmes Financing (No 10) plc	England & Wales	100	100
Holmes Master Issuer plc	England & Wales	100	100
Holmes Master Issuer 2 plc	England & Wales	100	100
PECOH Limited	England & Wales	100	100
Holmes Funding Limited	England & Wales	100	100
Holmes Funding 2 Limited	England & Wales	100	100
Holmes Trustees Limited	England & Wales	100	100

These financial statements are separate financial statements. The Company has taken advantage of the IAS 27 (10) exemption not to prepare consolidated financial statements as it is a wholly controlled subsidiary, whose ultimate controlling party produces separate consolidated financial statements for public use that comply with IFRS. Details of the Company's ultimate controlling party are disclosed in Note 12.

6 Trade and other payables

	2009 £	2008 £
Called up share capital not paid, due to group companies	219,985	412,485
Other payables	75,015	137,521
	295,000	550,006

The other payables above comprise loans made available to the Company in order to enable it to acquire the issued share capital of its subsidiaries. It is the intention that the loans are repaid in full on winding-up of each subsidiary.

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

7 Share capital

	2009 £	2008 £
Issued and fully paid		
2 ordinary shares	2	2

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Notes to the financial statements for the year ended 31 December 2009

8. Retained earnings

	£
Balance at 1 January 2008	-
Profit for the year	14,127
Balance at 31 December 2008 and 1 January 2009	14,127
Profit for the year	21,451
Balance at 31 December 2009	35,578

9 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 Holmes structure is over collateralised by £13.0 billion (2008: £8.7 billion).

The structure has a cash balance of £1.9 billion (2008: £3.6 billion), which is also a credit enhancement feature.

The maximum LTV ratio of the securitised mortgages within the structure at origination is 95% with arrears rates, significantly below the rate that can be absorbed by the level of over collateralisation currently within the structure.

Santander UK plc is rated periodically by credit rating agencies Standard & Poor's, Moody's Investors Service and Fitch Ratings, Ltd.

Santander UK plc credit rating is disclosed below as the financial assets of the Holmes securitisation structure are secured on mortgage assets within Santander UK plc. Details of the mortgage assets are disclosed in the notes to the financial statements of Santander UK plc.

Santander UK's current credit ratings are

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

HOLMES HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2009

9 Financial Risk Management (continued)

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 2009	Demand £	Up to 3 months £	3-12 months £	1-5 years £	Over 5 years £	Total
Intercompany liabilities	219,985	-	-	-	-	219,985
Other payables	-	-	12,501	-	62,514	75,015
Total financial liabilities	219,985	-	12,501	-	62,514	295,000

At 31 December 2008	Demand £	Up to 3 months £	3-12 months £	1-5 years £	Over 5 years £	Total
Intercompany liabilities	412,485	-	-	-	-	412,485
Other payables	-	-	37,506	50,008	50,009	137,523
Total financial liabilities	412,485	-	37,506	50,008	50,009	550,008

10. Related party transactions

The following were the balances with related parties as at 31 December 2009 and 31 December 2008

	2009 £	2008 £
Cash and cash equivalents		
Santander UK Plc	35,580	14,129
Dividend Income		
Holmes Financing (No 2) plc (liquidated)	9,131	-
Holmes Financing (No 6) plc (liquidated)	3,941	-
Holmes Financing (No 7) plc (liquidated)	3,371	-
Holmes Financing (No 8) plc (in liquidation)	5,008	-
Holmes Financing (No 3) plc (liquidated)	-	4,301
Holmes Financing (No 4) plc (liquidated)	-	5,296
Holmes Financing (No 5) plc (liquidated)	-	4,530
	21,451	14,127
Amounts due to group companies		
Holmes Financing (No 1) plc	37,498	37,498
Holmes Financing (No 2) plc (liquidated)	-	37,499
Holmes Financing (No 3) plc (liquidated)	-	37,498
Holmes Financing (No 4) plc (liquidated)	-	37,499
Holmes Financing (No 5) plc (liquidated)	-	37,498
Holmes Financing (No 6) plc (liquidated)	-	37,499
Holmes Financing (No 7) plc (liquidated)	-	37,498
Holmes Financing (No 8) plc (in liquidation)	32,490	37,499
Holmes Financing (No 9) plc	37,498	37,498
Holmes Financing (No 10) plc	37,499	37,499
Holmes Master Issuer plc	37,499	37,498
Holmes Master Issuer 2 plc	37,499	-
PECOH Limited	2	2
Total	219,985	412,485

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

HOLMES HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2009

11. 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.

12 Parent undertaking and controlling party

Wilmington Trust SP Services (London) Limited, a company incorporated in Great Britain and registered in England and Wales, holds all of the shares in the Company (one jointly with M McDermott as nominee) as trustee under a discretionary charitable trust, dated 17 February 1999, for the benefit of nurses employed in the United Kingdom and for charitable purposes.

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. Santander UK plc has delegated administration and servicing functions in respect of the loans on behalf of the mortgages' trustee and the beneficiaries to a service provider.

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

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. Santander UK plc is the parent undertaking of the smallest group of undertakings for which the group accounts are drawn up.

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.