# HOLMES HOLDINGS LIMITED

Registered in England and Wales
Company number 03689577

# ANNUAL REPORT AND FINANCIAL STATEMENTS

# FOR THE YEAR ENDED 31 DECEMBER 2018

# REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2018.

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 activities and review of the year

The principal activity of Holmes Holdings Limited (the "Company") is that of a holding company with investments in its subsidiary companies.

Wilmington Trust SP Services (London) Limited, a company incorporated in Great Britain and registered in England and Wales, holds the entire share capital of the Company as Trustee under a discretionary charitable trust, dated 17 February 1999, for the benefit of certain charities.

The Company meets the definition of a Special Purpose Entity and is consolidated within the Santander UK Group Holdings plc group financial statements in accordance with IFRS10.

The Company is part of a securitisation arrangement whereby related party Holmes Funding Limited receives proceeds from related party Holmes Master Issuer plc, which issues debt securities in the international capital markets, and makes such funds available to the Santander UK Group Holdings plc group by purchasing a beneficial interest in a UK residential mortgage loan portfolio held by related party Holmes Trustees Limited (the 'Holmes Master Trust').

The Securitisation Transaction document which sets out the securitisation arrangements in more detail can be found at www.santander.co.uk/uk/about-santander-uk/investor-relations/holmes-master-trust.

As at 31 December 2018, the book value of residential mortgage loans that Santander UK plc had assigned legal title to the Holmes securitisation structure was £4.41bn (2017: £4.30bn). The Holmes securitisation structure comprising fellow subsidiaries is over collateralised by £1.18bn (2017: £2.60bn). The Holmes securitisation structure acquired interest in a portfolio of mortgage loans (Funder share) was £3.23bn (2017: £1.70bn) and the Santander UK plc seller share was £1.18bn (2017: £2.60bn). The seller share does not provide credit enhancement.

The Holmes securitisation structure has cash balances and reserves of £0.47bn (2017: £0.30bn) which also acts as a credit enhancement feature.

### Likely Future Developments

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

### Results and dividends

The loss for the year on ordinary activities after taxation amounted to £56 (2017: £278).

The Directors do not recommend the payment of a final dividend (2017: £nil).

### Directors

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

Mrs R J Morrison
Mr D J Wynne
Wilmington Trust SP Services (London) Limited

None of the other Directors had a beneficial interest in the shares of the Company or its subsidiaries, at the year-end.

### Statement of Directors' Responsibilities

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

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 the 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

# REPORT OF THE DIRECTORS (CONTINUED)

### Statement of Directors' Responsibilities (continued)

The directors 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.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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.

### Statement of Going Concern

The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, notes 10 and 12 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 is part of a securitisation arrangement whereby related party Holmes Funding Limited receives proceeds from related party Holmes Master Issuer plc, which issues debt securities in the international capital markets, and makes such funds available to the Santander UK Group Holdings plc group by purchasing a beneficial interest in a UK residential mortgage loan portfolio held by related party Holmes Trustees Limited (the 'Holmes Master Trust').

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the period of 12 months from the date the financial statements are authorised for issue. Accordingly, they continue to adopt the going concern basis of accounting in preparing the Annual Report and Financial Statements.

The process for the UK leaving the EU impacts the economic, legal and regulatory environment for our customers and across the financial services industry. In addition, the use of LIBOR, which is expected to cease in 2021, and its transition to (near) Risk Free Reference Rates (RFR) is also a significant issue across the industry. The Santander UK group has put in place appropriate plans to address the potential risks and will update and implement in this Company as necessary.

### 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 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 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 Section 418 of the Companies Act 2006.

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

By order of the Board

RMorrison

Rachel Morrison
Director
26 June 2019

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

# Independent auditors' report to the members of Holmes Holdings Limited

## Report on the audit of the financial statements

### Opinion

In our opinion, Holmes Holdings Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss 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.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

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

*Independence*

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

### Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's activities and the wider economy.

### Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

*Report of the Directors*

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 year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Report of the Directors.

# Independent auditors' report to the members of Holmes Holdings Limited (continued)

**Responsibilities for the financial statements and the audit**

*Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements set out on pages 1 and 2, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

*Auditors' responsibilities for the audit of the financial statements*

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

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

*Use of this report*

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.

## Other required reporting

**Companies Act 2006 exception reporting**

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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

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.

Jessica Miller

Jessica Miller (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 June 2019

# STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

| Continuing operations | Note | 2018<br>£ | 2017<br>£ |
|---|---|---|---|
| Interest expense and similar charges | 4 | (56) | (278) |
| **Loss before tax** | | (56) | (278) |
| Tax charge on loss for the year | 5 | - | - |
| **Loss for the year** | | (56) | (278) |
| Other comprehensive income for the year | | - | - |
| **Total comprehensive expense for the year** | | (56) | (278) |

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

# STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

| | Share capital<br>£ | Retained earnings<br>£ | Total equity<br>£ |
|---|---|---|---|
| At 1 January 2017 | 2 | 165,370 | 165,372 |
| Total comprehensive expense | - | (278) | (278) |
| At 31 December 2017 and 1 January 2018 | 2 | 165,092 | 165,094 |
| Total comprehensive expense | - | (56) | (56) |
| **At 31 December 2018** | 2 | 165,036 | 165,038 |

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

# BALANCE SHEET

As at 31 December 2018

| | Note | 2018<br>£ | 2017<br>£ |
|---|---|---|---|
| Non-current assets | | | |
| Investments in subsidiary undertakings | 6 | 50,006 | 50,006 |
| Current assets | | | |
| Amounts owed by group undertakings | 7 | 165,206 | 165,262 |
| **Total assets** | | 215,212 | 215,268 |
| Current liabilities | | | |
| Trade and other payables | 8 | (50,174) | (50,174) |
| **Net current assets** | | 115,032 | 115,088 |
| **Net assets** | | 165,038 | 165,094 |
| Equity | | | |
| Share capital | 9 | 2 | 2 |
| Retained earnings | | 165,036 | 165,092 |
| **Total equity** | | 165,038 | 165,094 |

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

The financial statements on pages 5 to 15 were approved by the Board of Directors and signed on its behalf by:

Rachel Morrison
Director
26 June 2019

# CASH FLOW STATEMENT

For the year ended 31 December 2018

| | Year ended 31 December 2018 £ | Year ended 31 December 2017 £ |
|---|---|---|
| Loss before tax | (56) | (278) |
| **Cash flows from operating activities** | | |
| Increase in accruals | - | 56 |
| Decrease in amounts owed by group undertakings | 56 | 222 |
| **Net cash generated by operating activities** | - | - |
| **Net increase in cash and cash equivalents** | - | - |
| Cash and cash equivalents at beginning of year | - | - |
| **Cash and cash equivalents at end of year** | - | - |

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

# 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 years presented, unless otherwise stated.

### General information

The Company is a limited liability company which is limited by shares, 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 functional 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 disclosed in the Directors' statement of going concern set out in the Report of the Directors. 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.

### Recent accounting developments

On 1 January 2018, the Company adopted IFRS 9 'Financial Instruments' (IFRS 9) and IFRS 15 'Revenue from Contracts with Customers' (IFRS 15). The new or revised accounting policies are set out below, have been applied from 1 January 2018. The application of IFRS 9 had no material impact on the Company and comparatives have not been restated. The application of IFRS 15 had no material impact on the Company as there were no significant changes in the recognition of in scope income.

### Investments 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. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of the recoverable amount. If the recoverable amount of the cash-generating unit is less than the value of the investment, the investment is considered to be impaired and is written down to its recoverable amount. An impairment loss is recognised immediately in the profit and loss account.

### Income taxes

Income tax payable on profits is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available to carry forward are recognised as an asset when it is probable that future taxable profits will be available, against which these losses can be utilised.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

### Financial Instruments

Financial instruments of the Company comprise amounts owed by group undertakings, and trade payables arising from the Company's operations. These instruments are recognised, classified and subsequently measured in accordance with IFRS 9.

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost. Expected credit losses are recognized on all financial assets at amortised cost. The expected credit loss considers forward looking information to recognise impairment allowances earlier in the lifecycle of a product. A three-stage approach to impairment measurement is adopted as follows:

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

# 1. ACCOUNTING POLICIES (CONTINUED)

The measurement of ECL reflects:

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

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

**Amounts owed by group undertakings**
Amounts owed by group undertakings are measured at initial recognition at fair value, and are subsequently measured at amortised cost. Expected credit losses are recognized on all financial assets at amortised cost. The expected credit loss considers forward looking information to recognise impairment allowances earlier in the lifecycle of a product. A three-stage approach to impairment measurement is adopted as described above.

**Accounting policies applied until 31 December 2017**

The Company has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

**Classification**

Until 31 December 2017, the group classified its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments; and
- available-for-sale financial assets.

The classification depended on the purpose for which the assets were acquired. Management determined the classification of its assets at initial recognition and, classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

**Impairment of financial assets**

Under IAS39 a financial asset or a group of financial assets was impaired and impairment losses were incurred if, and only if, there was objective evidence of impairment as a result of events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

**Cash and cash equivalents**

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise assets with less than three months' maturity from the date of acquisition, including cash, restricted balances and non-restricted balances with central banks, loans and advances to banks, amounts due from other banks and bank overdrafts.

# 2. CRITICAL ACCOUNTING POLICIES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT

The preparation of the Company's financial statements requires management to make judgements and accounting estimates that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Management evaluates its judgements and accounting estimates, which are based on historical experience and on other factors that are believed to be reasonable under the circumstances, on an on-going basis. Management bases its estimates and judgements on historical experience and on other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

In the course of preparing the financial statements, no significant judgements have been made in the process of applying the Company's accounting policies.

# 3. OPERATING EXPENSES

**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 (2017: £nil).

**Staff costs**

The Company has no employees in the current or previous financial year.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

# 3. OPERATING EXPENSES (CONTINUED)

Auditors' remuneration

Fees payable to the Company's auditors for the audit of the Company's annual Financial Statements for the current year are £5,500 (2017: £5,500) and have been borne by Santander UK plc, for which no recharge was made in the current or prior year).

No fees for non-audit services were paid by the Company to the auditors in the period from 1 January 2018 to 31 December 2018.

# 4. INTEREST EXPENSE AND SIMILAR CHARGES

| | 2018<br>£ | 2017<br>£ |
|---|---|---|
| Loan interest payable | 56 | 278 |
| | 56 | 278 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

# 5. TAX CHARGE ON LOSS FOR THE YEAR

| | 2018<br>£ | 2017<br>£ |
|---|---|---|
| Current tax: | | |
| UK corporation tax on loss for the year | - | - |
| Tax charge on loss for the year | - | - |

UK corporation tax is calculated at 19.00% (2017: 19.25%) of the estimated assessable profits for the year.

The Finance Act 2016 introduced a further reduction in the corporation tax rate to 17% from 2020. The effects have been reflected in the deferred tax balances at both 31 December 2018 and 2017.

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

| | 2018<br>£ | 2017<br>£ |
|---|---|---|
| Loss before tax | (56) | (278) |
| Tax calculated a tax rate of 19.00% (2017: 19.25%) | (11) | (54) |
| Movement in current year deferred tax not recognised | 11 | 54 |
| Tax charge for the year | - | - |

| Deferred tax assets and liabilities are attributable to the following items: | Unprovided Balance Sheet 2018<br>£ | Unprovided Balance Sheet 2017<br>£ |
|---|---|---|
| Deferred tax assets: | | |
| Tax losses carried forward | 395 | 384 |
| | 395 | 384 |

The deferred tax assets scheduled above have not been recognised in the Company on the basis that sufficient future taxable profits are not forecast within the foreseeable future, in excess of the profits arising from the reversal of existing taxable temporary differences, to allow for the utilisation of the assets as they reverse.

# 6. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

| | 2018<br>£000 |
|---|---|
| Cost or valuation: | |
| At 1 January 2018 and 31 December 2018 | 50,006 |
| Impairment: | |
| At 1 January 2018 and 31 December 2018 | - |
| Net book value: | |
| At 31 December 2017 | 50,006 |
| At 31 December 2018 | 50,006 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

# 6. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS (CONTINUED)

The following is a list of the subsidiary undertakings of the Company as at 31 December 2018:

| Name of subsidiary | Place of incorporation, ownership (or registration) and operation | Proportion of ownership interest % | Ultimate proportion of ownership % |
|---|---|---|---|
| Holmes Master Issuer plc | England and Wales | 100 | 100 |
| PECOH Limited | England and Wales | 100 | 100 |
| Holmes Funding Limited | England and Wales | 100 | 100 |
| Holmes Trustees Limited | England and Wales | 100 | 100 |

These financial statements represent Holmes Holdings Limited only. 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 13.

The registered office address of all of the above subsidiaries is 2 Triton Square, Regent's Place, London, NW1 3AN.

# 7. AMOUNTS OWED BY GROUP UNDERTAKINGS

| | 2018 £ | 2017 £ |
|---|---|---|
| Amounts owed by group undertakings | 165,206 | 165,262 |
| | 165,206 | 165,262 |

The balance held by Santander UK plc is accessible by the Company on demand.

# 8. TRADE AND OTHER PAYABLES

| | 2018 £ | 2017 £ |
|---|---|---|
| Amounts owed to group undertakings | 37,501 | 37,501 |
| Accruals | 168 | 168 |
| Other payables | 12,505 | 12,505 |
| | 50,174 | 50,174 |

The other payables balance comprises loans made available to the Company by Wilmington Trust SP Services (London) Limited in order to enable it to acquire the issued share capital of its subsidiaries. Interest is charged annually on the outstanding balance at 2% plus LIBOR. It is the intention that the loans are repaid in full on winding-up of each subsidiary. It is not considered likely that such an event will occur within the next year. The use of LIBOR, which is expected to cease in 2021, and its transition to (near) Risk Free Reference Rates (RFR) is also a significant issue across the industry. The Santander UK group has put in place appropriate plans to address the potential risks and will update and implement in this Company as necessary.

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

# 9. SHARE CAPITAL

| | 2018 £ | 2017 £ |
|---|---|---|
| **Issued and fully paid:** | | |
| 2 (2017: 2) ordinary shares of £1 each | 2 | 2 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

## 10. 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 Santander UK plc. 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.

The process for the UK leaving the EU impacts the economic, legal and regulatory environment for our customers and across the financial services industry. In addition, the use of LIBOR, which is expected to cease in 2021, and its transition to (near) Risk Free Reference Rates (RFR) is also a significant issue across the industry. The Santander UK group has put in place appropriate plans to address the potential risks and will update and implement in this Company as necessary.

### 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.

On 1 January 2018, IFRS 9 replaced IAS 39, and introduced new rule on how to classify and measure financial assets, as well as new concepts, principles and measures for credit impairment methodology. The methodologies for calculating incurred losses under IAS 39 and ECLs under IFRS 9 are fundamentally different.

Key metrics introduces by adopting IFRS 9 are as follows:

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

The maximum exposure to credit risk without taking into account collateral or credit enhancements is the carrying amount of the amount owed by group undertakings as disclosed in note 11.

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

Santander UK's current credit ratings are:

| | S&P | Moody's | Fitch |
|---|---|---|---|
| Long-term rating | A | Aa3 | A+ |
| Long-term rating outlook | Stable | Positive | Negative |
| 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 2018 (CONTINUED)

# 10. FINANCIAL RISK MANAGEMENT (CONTINUED)

Maturity of financial liabilities

| At 31 December 2018 | On Demand £ | Up to 3 months £ | 3-12 months £ | 1-5 years £ | Over 5 years £ | Total £ |
|---|---|---|---|---|---|---|
| Amounts owed to group undertakings | 37,501 | - | - | - | - | 37,501 |
| Other payables | 12,505 | - | - | - | - | 12,505 |
| Accruals | 168 | - | - | - | - | 168 |
| **Total financial liabilities** | 50,174 | - | - | - | - | 50,174 |

| At 31 December 2017 | On Demand £ | Up to 3 months £ | 3-12 months £ | 1-5 years £ | Over 5 years £ | Total £ |
|---|---|---|---|---|---|---|
| Amounts owed to group undertakings | 37,501 | - | - | - | - | 37,501 |
| Other payables | 12,505 | - | - | - | - | 12,505 |
| Accruals | 168 | - | - | - | - | 168 |
| Total financial liabilities | 50,174 | - | - | - | - | 50,174 |

# 11. RELATED PARTY TRANSACTIONS

The following were the balances with related parties as at 31 December 2018 and 2017.

| Amount owed by group undertakings | 2018 £ | 2017 £ |
|---|---|---|
| Santander UK Plc | 165,206 | 165,262 |

| Amounts owed to group undertakings | 2018 £ | 2017 £ |
|---|---|---|
| Holmes Master Issuer plc | 37,499 | 37,499 |
| PECOH Limited | 2 | 2 |
| Total | 37,501 | 37,501 |

| Amounts owed to related parties | 2018 £ | 2017 £ |
|---|---|---|
| Wilmington Trust SP Services (London) Limited | 12,505 | 12,505 |
| Total | 12,505 | 12,505 |

| Interest payable to related parties | 2018 £ | 2017 £ |
|---|---|---|
| Wilmington Trust SP Services (London) Limited | 56 | 278 |

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

# 12. CAPITAL MANAGEMENT AND RESOURCES

Capital held by the Company and managed centrally as part of the Santander UK 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

# 13. PARENT UNDERTAKING AND CONTROLLING PARTY

Wilmington Trust SP Services (London) Limited, a company incorporated in Great Britain and registered in England and Wales, holds the entire share capital of the Company as trustee under a discretionary charitable trust, dated 17 February 1999, for the benefit of certain charities.

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 been delegated administration and servicing functions in respect of the loans on behalf of the mortgages' trustee and the beneficiary as the service providers.

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

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