

# **HOLMES FINANCING (NO.8) PLC**

**Registered in England and Wales  
No. 4992222**

## **ANNUAL REPORT AND ACCOUNTS**

**FOR THE YEAR ENDED  
31 DECEMBER 2008**

**TUESDAY**



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## HOLMES FINANCING (NO.8) PLC

### Management Report for the year ended 31 December 2008

Holmes Financing (NO.8) PLC sets out below its Management Statement for the year ended 31 December 2008.

Summarised statutory income statement

Continuing Operations	Year ended 31 December 2008	Year ended 31 December 2007
	£000	£000
Net interest income	1	1
Other operating (expenses)/ income	(688)	1,732
(Loss)/ before tax	(687)	1,733
Tax	229	(508)
(Loss)/profit attributable to equity holders of the company	(458)	1,225

Due to the nature of the business the net interest income has not changed. The movement within the other operating (expenses)/income is due to the changes in the fair value of the currency swaps and exchange rates of the currency bonds.

During the year the Company received interest of £102.2m (2007: £122.6m) from Holmes Funding Limited. The Company used £11m of these cash resources to pay interest to the currency swap providers, receiving \$19.3m in return. The Company paid £96.1m (2007: £109.0m) to the holders of the debt securities. The Company received repayments of principal £724.9m (2007: £886.7m) on the intercompany loans and made payments of principal of £724.9m to the holders of the debt securities (2007: £886.7m). All amounts were paid in full and on time.

#### Important Events occurring after the financial year end.

The loan notes were fully redeemed on the 15<sup>th</sup> January 2009.

#### Principal risks and uncertainties

A full list of the principal risks can be found within the prospectus under the "Risk Factors" section, or these can be obtained from the Holmes reporting website, [www.holmesreporting.com](http://www.holmesreporting.com)

Our 2008 Annual Report details our assessment of the principal risks and uncertainties facing the Company, together with the processes that are in place to monitor and mitigate those risks where possible. Financial risks are described in note 2 to the Annual Report entitled Financial Risk Management.

Financial Risks are:

- Market risk
- Liquidity risk
- Credit risk

Material Risk Factor:

The material risk factor arising from the Company's financial instruments is currency risk. The Company has floating rate debt securities in issue denominated in Sterling and US Dollar. The Board reviews and agrees policies for managing this risk. The Company's policy is to eliminate all exposures arising from movements in exchange rates by the use of currency swaps to hedge payments of interest and principal on the securities.

#### Forward Looking Statements

The purpose of this Report is to provide information to the members of the Company and as such it is only addressed to those members. The Report may contain certain forward-looking statements with respect to the operations, performance and financial condition of the Company. By their nature, these statements involve inherent risks and uncertainties since future events, circumstances and other factors can cause results and developments to differ materially from the plans, objectives, expectations and intentions expressed in such forward-looking statements. Members should consider this when relying on any forward-looking statements. The forward-looking statements reflect knowledge and information available at the date of preparation of this Report and the Company undertakes no obligation to update any forward-looking statement during the year. Nothing in this Report should be construed as a profit forecast.

## **HOLMES FINANCING (NO.8) PLC**

### **Management Report for the year ended 31 December 2008 (continued)**

This announcement is not a form of statutory accounts. The information for the year ended 31 December 2008 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. A copy of the statutory accounts for 2008 has been signed. The auditors report on those accounts was not qualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

Key performance indicators can be found in the Report of the Directors.

# HOLMES FINANCING (NO.8) PLC

## Report of the Directors

- The Directors submit their report together with the financial statements for the year ended 31 December 2008.

### Principal activity and enhanced business review

The principal activity of the Company is to issue asset-backed notes and enter into all financial arrangements in that connection.

During the year the Company received interest of £102.2m (2007: £122.6m) from Holmes Funding Limited. The Company used those cash resources to pay interest of £96.1m (2007: £109.0m) on the debt securities. The Company received repayments of principal £724.9m (2007: £886.7m) and made payments of principal of £724.9m (2007: £886.7m). All amounts were paid in full and on time.

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

Key Performance Indicators	Net interest margin		Net assets	
	2008	2007	2008	2007
Closing date of securitisation	£000	£000	£000	£000
1 April 2004	1	1	170	628

The purpose of this Report is to provide information to the members of the Company and as such it is only addressed to those members. The Report may contain certain forward-looking statements with respect to the operations, performance and financial condition of the Company. By their nature, these statements involve inherent risks and uncertainties since future events, circumstances and other factors can cause results and developments to differ materially from the plans, objectives, expectations and intentions expressed in such forward-looking statements. Members should consider this when relying on any forward-looking statements. The forward-looking statements reflect knowledge and information available at the date of preparation of this Report and the Company undertakes no obligation to update any forward-looking statement during the year. Nothing in this Report should be construed as a profit forecast.

### Results and dividends

The loss for the year on ordinary activities after taxation amounted to £0.5m (2007: profit of £1.2m).

The Directors do not recommend the payment of a dividend (2007: £nil).

### Going Concern

The Company has the ability to continue in existence for the foreseeable future and to meet all of its obligations as they fall due. However, IAS 1 requires that financial statements for any Company that has ceased to trade or where there is an intention for the Company to cease to trade in the next twelve months are prepared on an "other than going concern" basis. Accordingly the financial statements have been prepared on an "other than going concern" basis as there is the intention for trade to cease in the next twelve months. Preparation of the financial statements on an "other than going concern" basis has had no impact on the amounts reported.

### Directors

The Directors who served throughout the year were:

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

At the year end and the previous year end, Holmes Holdings Limited and Mr M McDermott jointly held one share in the Company.

Wilmington Trust SP Services (London) Limited and Mr M McDermott jointly held one share in the holding company, Holmes Holdings Limited, at the year end. The other share in Holmes Holdings Limited was held by Wilmington Trust SP Services (London) Limited. Mr M McDermott is also a Director of Wilmington Trust SP Services (London) Limited.

None of the other Directors had a beneficial interest in the shares of the Company, or of the holding company, Holmes Holdings Limited, and its subsidiaries, at the year end.

## **HOLMES FINANCING (NO.8) PLC**

### **Report of the Directors (continued)**

#### **Financial risk management and objectives**

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

The Company also enters into derivatives transactions (principally cross currency swaps). The purpose of such transactions is to manage the currency risks arising from the Company's operations and its sources of finance.

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

The main risk arising from the Company's financial instruments is currency risk. The Company has debt securities in issue denominated in US Dollars. The Board reviews and agrees policies for managing this risk. The Company's policy is to eliminate all exposures arising from movements in exchange rates by the use of cross currency swaps to manage the currency risk on the securities.

All other 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 2.

#### **Statement of Directors' responsibilities**

The Directors are responsible for preparing the Annual 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 1985.

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. However, 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 1985. 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.

#### **Third party indemnities**

Since 2005, Abbey National plc has issued advanced indemnities (initially under the Companies (Audit, Investigations and Community Enterprise) Act 2004 and currently under the Companies Act 2006) to certain Directors of the Company against liabilities and associated costs which they could incur in the course of their duties to the Company. The indemnities remain in force as at the date of this Annual Report and Accounts. A copy of each of the indemnities is kept at the registered office address of Abbey National plc.

#### **Payment policy**

Given the nature of the Company's business, the Company does not have any suppliers and therefore does not operate a payment policy. The Company has no creditors and is unable to quantify the practice on payment of creditors.

## **HOLMES FINANCING (NO.8) PLC**

### **Report of the Directors (continued)**

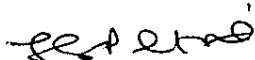
#### **Auditors**

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

Each of the persons who are a Director at the date of approval of this annual Report confirms that:

- so far as each of the Directors are aware, there is no relevant audit information (as defined in s234ZA of the Companies Act 1985) of which the Company's auditors are unaware; and
- each of the Directors has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information (as defined in s234ZA of the Companies Act 1985) and to establish that the Company's auditors are aware of that information.

#### **By Order of the Board**



For and on behalf of  
Abbey National Nominees Limited, Secretary

30 March 2009

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

# HOLMES FINANCING (NO.8) PLC

## Independent auditors' Report to the members of Holmes Financing (No.8) plc

We have audited the financial statements of Holmes Financing (No.8) plc for the year ended 31 December 2008 which comprise the Income Statement, the Statement of Recognised Income and Expense, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

This Report is made solely to the Company'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 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

The Directors' responsibilities for preparing the Report of the Directors 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 Directors' 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 in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company 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 Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report 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 judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company'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 Company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

### Separate opinion in relation to IFRSs

As explained in Note 1 to the financial statements, the Company 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 Company's affairs as at 31 December 2008 and of its loss for the year then ended.

### Emphasis of matter - Financial statements prepared on a basis other than that of a going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements, which explains that the financial statements have been prepared on a basis other than that of a going concern.

  
Deloitte LLP

Chartered Accountants and Registered Auditors  
London  
30 March 2009

## HOLMES FINANCING (NO.8) PLC

### Income Statement

For the year ended 31 December 2008

Discontinuing operations	Notes	Year ended	Year ended
		31 December 2008 £000	31 December 2007 £000
Interest and similar income	4	102,200	122,607
Interest expense and similar charges	5	(102,199)	(122,606)
Net interest income		1	1
Other operating (expense)/income	6	(688)	1,732
Loss/profit before tax	7	(687)	1,733
Tax credit/(charge)	8	229	(508)
<b>(Loss)/profit attributable to equity holders of the Company</b>		<b>(458)</b>	<b>1,225</b>

The accompanying notes form an integral part of the accounts.

### Statement of Recognised Income and Expense

For the year ended 31 December 2008

The Company has no recognised income or expenses other than the results for the current and previous year as set out in the Income Statement.



# HOLMES FINANCING (NO.8) PLC

## Balance Sheet

As at 31 December 2008

	Notes	2008 £000	2007 £000
Loans and advances to group companies	9	1,278,565	2,003,495
Derivative financial instruments	10	74,522	69,037
Other assets	11	17,341	27,574
Cash and cash equivalents	13	18	17
<b>Total assets</b>		<b>1,370,446</b>	<b>2,100,123</b>
Debt securities in issue	14	(1,352,972)	(2,050,339)
Derivative financial instruments	10	-	(21,390)
Deferred tax liability	12	-	(229)
Other liabilities	15	(17,304)	(27,537)
<b>Total liabilities</b>		<b>(1,370,276)</b>	<b>(2,099,495)</b>
<b>Equity</b>			
Share capital	16	(50)	(50)
Retained earnings	17	(120)	(578)
<b>Total liabilities and equity</b>		<b>(1,370,446)</b>	<b>(2,100,123)</b>

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 30 March 2009. They were signed on its behalf by:



D M Green  
Director

# HOLMES FINANCING (NO.8) PLC

## Cash Flow Statement

For the year ended 31 December 2008

	Notes	Year ended 31 December 2008 £000	Year ended 31 December 2007 £000
Net cash from operating activities	18	1	1
<b>Investing activities</b>			
Repayment of loans provided to group companies		724,929	886,700
<b>Net cash from investing activities</b>		<b>724,929</b>	<b>886,700</b>
<b>Financing activities</b>			
Repayment of debt securities in issue		(724,929)	(886,700)
<b>Net cash used in financing activities</b>		<b>(724,929)</b>	<b>(886,700)</b>
<b>Net increase in cash and cash equivalents</b>		<b>1</b>	<b>1</b>
Cash and cash equivalents at beginning of year		17	16
<b>Cash and cash equivalents at end of year</b>		<b>18</b>	<b>17</b>

The accompanying note forms an integral part of the accounts.

## **HOLMES FINANCING (NO.8) PLC**

### **Notes to the financial statements for the year ended 31 December 2008**

#### **1. Accounting policies**

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

##### **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 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, except for derivatives.

Due to the nature of the business the Directors are of the opinion that it is more appropriate to use net interest income rather than revenue in presenting the income statement.

##### **Going Concern**

The Company has the ability to continue in existence for the foreseeable future and to meet all of its obligations as they fall due. However, IAS 1 requires that financial statements for any Company that has ceased to trade or where there is an intention for the Company to cease to trade in the next twelve months are prepared on an "other than going concern" basis. Accordingly the financial statements have been prepared on an "other than going concern" basis as the Company will likely cease to trade during the next year. Preparation of the financial statements on an "other than going concern" basis has had no impact on the amounts reported.

##### **Foreign currency translation**

Items included in the financial statements of the entity are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the functional currency"). The functional currency of the Company is Pounds Sterling. The presentation currency is also Pounds Sterling.

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

##### **Interest income and expense**

Interest income and expense is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. The effective interest rate is the rate that exactly discounts estimated future cash receipts/payments through the expected life of the financial asset/financial liability to that asset's/liability's initial net carrying amount. Interest income and expenditure is shown gross on the face of the income statement.

##### **Offsetting financial instruments**

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

##### **Derivative financial instruments**

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative are recognised in the income statement.

## **HOLMES FINANCING (NO.8) PLC**

### **Notes to the financial statements for the year ended 31 December 2008**

#### **1. Accounting policies (continued)**

##### **Income taxes, including deferred income taxes**

The tax expense represents the sum of the income tax currently payable and deferred income tax.

Income tax payable on profits, based on the applicable tax law in each jurisdiction is recognised as an expense in the period in which profits arise. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. 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 tax 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. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets (other than in a business combination) and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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 assets**

Financial assets include loans and advances to group companies shown on the face of the balance sheet, accrued interest receivable shown within other assets and cash and cash equivalents shown on the face of the balance sheet. Derivatives are classified as fair value and are shown on the face of the balance sheet.

Financial assets are considered to be "loans and receivables" as defined by IAS 39 – "Financial Instruments: Recognition and Measurement". They are therefore accounted for on the amortised cost basis.

The amortisation is to be calculated under the standards on an Effective Interest Rate ("EIR") method. The EIR method spreads the expected net income arising from a loan over its expected life. The EIR is that rate of interest which, at inception, exactly discounts the future cash payment and receipts arising from the loan to the initial carrying amount.

The difference between the EIR method prescribed and the accrued cost accounting adopted, is considered immaterial.

##### **Cash and cash equivalents**

For the purposes of the 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

##### **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.

## **HOLMES FINANCING (NO.8) PLC**

### **Notes to the financial statements for the year ended 31 December 2008**

#### **1. Accounting policies (continued)**

##### **Financial liabilities**

Financial liabilities include debt securities in issue shown on the face of the balance sheet, and accrued interest shown within other liabilities.

Financial liabilities are accounted for on an amortised cost basis.

The amortisation is to be calculated under the standards on an Effective Interest Rate ("EIR") method. The EIR method spreads the expected net income arising from a loan over its expected life. The EIR is that rate of interest which, at inception, exactly discounts the future cash payment and receipts arising from the loan to the initial carrying amount.

The difference between the EIR method prescribed and the accrued cost accounting adopted, is considered immaterial.

#### **2. Financial risk management**

The Company's activities expose it to a variety of financial risks. The Company's risk management focuses on the major areas of fair value, interest rate risk, credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the central risk management function of the Abbey National Group. Abbey's Risk Framework ensures that risk is managed and controlled on behalf of shareholders, customers, depositors, employees and the Abbey Group's regulators. Effective and efficient risk governance and oversight provide management with assurance that the Abbey Group's business activities will not be adversely impacted by risks that could have been reasonably foreseen. This in turn reduces the uncertainty of achieving the Abbey Group's strategic objectives. Authority flows from the Abbey National plc Board of Members 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 Abbey Group has three tiers of risk governance.

The first is provided by the Abbey Board which approves Abbey's risk appetite for each of the risks below, in consultation with Banco Santander S.A. as appropriate, and approves the strategy for managing risk and is responsible for the Abbey Group's system of internal control. Within this tier, there is a process for transaction review and approval within certain thresholds, discharged by the Credit Approval Committee. Transactions reviewed which exceed the threshold limits set are subject to prior review by Santander Risk before final approval by the Credit Approval Committee.

The second comprises the Abbey Board and is supported by the Risk Division. The role of the Chief Risk Officers and Risk Division include development of risk measurement methodologies, risk approval, risk monitoring, risk reporting and escalation of risk issues in line with the relevant risk policies for all risks in the Abbey Group. The Abbey Group's central risk function provides services to the Company, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which ensure compliance with Group policies and limits, including risk policies, limits and parameters, an approval process relating to transactions that exceed local limits and the systematic review of exposures to large clients, sectors, geographical areas and different risk types.

The third tier comprises Risk Assurance, who provides independent objective assurance on the effectiveness of the management and control of risk across all of the Abbey Group. This is provided through the Non-Executive Directors, Internal Audit function and the Audit and Risk Committee.

##### **Market risk**

Market risk is the potential for loss of income or decrease in the value of net assets caused by movements in the levels and prices of financial instruments. The Company is subject to market risk in the form of interest rate and currency risks. As a result of the cross currency swaps the Company's total interest income and expenditure on financial assets and liabilities is based on the same rate of sterling LIBOR, it therefore has no material cash flow sensitivity to changes in interest rates or currency rates in either 2008 or 2007.

## HOLMES FINANCING (NO.8) PLC

### Notes to the financial statements for the year ended 31 December 2008

#### 2. 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

The table below analyses the Company's undiscounted liabilities into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity date:

At 31 December 2008	On demand £000	1-3 months £000	3-12 months £000	1-5 years £000	Over 5 years £000	2008 Total £000
Debt securities in issue	-	-	-	-	(1,352,977)	(1,352,977)
Derivative financial instruments	-	-	-	-	(270,665)	(270,665)
Interest payable on bonds	-	(3,352)	(77,091)	(321,773)	(2,131,745)	(2,533,961)
Interest payable on Derivatives	-	(567)	(13,054)	(54,485)	(360,963)	(429,069)
<b>Total</b>	-	<b>(3,919)</b>	<b>90,145</b>	<b>(376,258)</b>	<b>(4,116,350)</b>	<b>(4,586,672)</b>

At 31 December 2007	On demand £000	1-3 months £000	3-12 months £000	1-5 years £000	Over 5 years £000	2007 Total £000
Debt securities in issue	-	-	-	-	(2,051,507)	(2,051,507)
Derivative financial instruments	-	-	-	-	(995,595)	(995,595)
Interest payable on bonds	-	(4,824)	(110,943)	(478,952)	(2,616,600)	(3,211,319)
Interest payable on Derivatives	-	(2,094)	(48,163)	(208,312)	(755,954)	(1,014,523)
<b>Total</b>	-	<b>(6,918)</b>	<b>(159,106)</b>	<b>(687,264)</b>	<b>(6,419,656)</b>	<b>(7,272,944)</b>

The undiscounted cash flows for the derivative financial instruments comprise only the amounts payable under the contract.

Liquidity is managed by the Company by matching the terms of the financial instruments so that cash inflows meet cash outflows. The receipts from the intercompany loan asset and the payments in respect of the derivative financial instruments described above are matched. The receipts from the derivative financial instruments and the payments required in respect of the debt securities in issue described above are also matched.

##### 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. The main source of credit risk is in the intercompany balances held.

The maximum exposure to credit risk without taking into account collateral or credit enhancements is the carrying amount of the loans and advances to group companies as disclosed in Note 9 and the fair value of derivative financial assets as shown in the Balance Sheet.

There were no financial assets past due but not impaired at the year end (2007: none). A description of how impairment is measured can be found in the accounting policies on page 10.

Derivatives are contracted with counterparties that meet Abbey Group credit policies. If subsequently there is a ratings downgrade remedial measures include provision of collateral for obligations under the relevant swap.

The Holmes structure is over collateralised by £8.7 billion.

The structure has a cash balance of £3.6billion, 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.

# HOLMES FINANCING (NO.8) PLC

## Notes to the financial statements for the year ended 31 December 2008

### 2. Financial risk management (continued)

#### Credit Risk (continued)

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

Abbey National plc credit rating is disclosed below as the financial assets of the Holmes securitisation structure are secured on mortgage assets within Abbey National plc. Details of the mortgage assets are disclosed in Note 9 of AN Plc.

Abbey National's current credit ratings are:

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

#### Accounting for derivative financial instruments

The Company holds derivatives in order to manage foreign currency risk arising on the non-sterling debt securities in issue. These require the Company to pay a rate based on three month sterling LIBOR and receive US dollar LIBOR receipts in US dollars. These are initially recognised and subsequently re-measured at fair value.

#### Fair value estimation

Where a financial instrument is primarily sensitive to changes in interest rates, such as derivatives held by the Company, valuation is made using discounted cash flow techniques which reference yield curves derived from quoted interest rates in appropriate time bandings, which match the timings of the cash flows and maturities of the instruments.

### 3. Business and geographical segments

All of the Company's income is derived from activities in the same business and geographical segment, within the UK. There were no discontinued operations during the year.

### 4. Interest and similar income

	Year ended 31 December 2008 £000	Year ended 31 December 2007 £000
Interest receivable from group companies	102,199	122,606
Bank interest receivable	1	1
	<b>102,200</b>	<b>122,607</b>

### 5. Interest expense and similar charges

	Year ended 31 December 2008 £000	Year ended 31 December 2007 £000
Interest payable on debt securities	96,080	108,961
Swap interest payable	6,119	13,645
	<b>102,199</b>	<b>122,606</b>

### 6. Other operating (expense)/income

	Year ended 31 December 2008 £000	Year ended 31 December 2007 £000
Net foreign exchange (losses)/gains	(688)	1,484
Net gains on discontinuance of hedge accounting	-	248
	<b>(688)</b>	<b>1,732</b>

# HOLMES FINANCING (NO.8) PLC

## Notes to the financial statements for the year ended 31 December 2008

### 7. Result before tax

The (loss)/profit before tax has been arrived at after (charging)/crediting:

	Year ended 31 December 2008 £000	Year ended 31 December 2007 £000
Foreign exchange (loss)/gain on liability	(27,562)	1,484
MTM gain on derivative	26,874	-
Net gains on discontinuance of hedge accounting	-	248

Fees payable to the Company's auditors for the statutory audit of the Company's annual accounts for the current year are £15,000 (2007: £15,000) and have been borne by Abbey National plc, for which no recharge has been made in the current or prior year.

No Directors were remunerated for their services to the Company. No emoluments were paid by the Company to Directors during the year (2007: £nil).

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

### 8. Tax

	Year ended 31 December 2008 £000	Year ended 31 December 2007 £000
Current tax	-	-
UK corporation tax	-	-
Deferred tax (note 12):		
Current year	229	(508)
	229	(508)

Corporation tax is calculated at 28.5% (2007: 30%) of the estimated assessable loss for the year.

The credit/(charge) for the year can be reconciled to the (loss)/profit per the income statement as follows:

	Year ended 31 December 2008 £000	Year ended 31 December 2007 £000
(Loss)/profit before tax	(687)	1,733
Tax at the UK corporation tax rate of 28.5% (2007: 30%)	195	(520)
Non taxable derivative fair value movement	(195)	-
Impact of change in tax rate on deferred tax provision	-	12
Impact of change in tax regime	229	-
Tax credit/(charge) for the year	229	(508)

### 9. Loans and advances to group companies

	2008 £000	2007 £000
Repayable:		
Less than 1 year	-	-
1 to 2 years	-	-
2 to 5 years	-	-
Greater than 5 years	1,278,565	2,003,495
	1,278,565	2,003,495

The loans are all denominated in sterling and are at variable rates of interest, based on LIBOR for three-month sterling deposits.

The carrying amount of loans and advances to group companies approximates to their fair value.

The maturity of these balances is matched to the maturity of the loan notes as stated within Note 2.



# HOLMES FINANCING (NO.8) PLC

## Notes to the financial statements for the year ended 31 December 2008

### 10. Derivative financial instruments

The Company holds derivatives in order to manage foreign currency risk arising on the non-sterling debt securities in issue. These require the Company to pay a rate based on three month sterling LIBOR and receive US dollar LIBOR receipts in US dollars. These are initially recognised and subsequently re-measured at fair value. During 2006 the hedging relationship between the cross currency derivatives and the debt securities in issue was designated as a highly effective hedge and so qualified for hedge accounting treatment of the liabilities. In 2007 hedge accounting was discontinued.

### 11. Other assets

	2008 £000	2007 £000
Called up share capital not paid – due from parent undertaking	37	37
Accrued interest due from group companies	17,304	27,537
	<b>17,341</b>	<b>27,574</b>

The carrying amount of other assets approximates to their fair value.

Other assets are due within one year.

### 12. Deferred tax

Deferred income taxes are calculated on temporary differences under the liability method using the tax rates expected to apply when the liability is settled or the asset is realised. The effective rate for 2008 is 28.0% (2007: 28.5%). The movement on the deferred tax account is as follows:

	2008 £000	2007 £000
At 1 January	(229)	279
Income statement credit/(charge)	229	(508)
At 31 December	-	(229)

The prior year deferred tax asset arose as a result of the Company electing to be taxed under the special regime for securitisation companies in the Finance Act 2005. In 2008 the Company elected to adopt the Taxation of Securitisation Companies Regulations 2006.

### 13. Cash and cash equivalents

The Company holds deposits at banks, which pay interest based on LIBOR.

### 14. Debt securities in issue

	2008 £000	2007 £000
Series 3 Class A Floating Rate Notes 2020	-	726,052
Series 3 Class B Floating Rate Notes 2040	-	24,926
Series 3 Class C Floating Rate Notes 2040	-	42,184
Series 4 Class A1 Floating Rate Notes 2040	900,000	900,000
Series 4 Class A2 Floating Rate Notes 2040	345,072	249,277
Series 4 Class B Floating Rate Notes 2040	39,900	39,900
Series 4 Class C Floating Rate Notes 2040	68,000	68,000
	<b>1,352,972</b>	<b>2,050,339</b>

The debt securities in issue are recorded at amortised cost. The market value of the debt securities based on current trading is £1,269,274,387.

All the Class A notes (irrespective of series) will rank *pari passu* and rateably without any preference or priority except, until enforcement of the security for the notes, as to payments of principal in respect of which the Class A1 notes will rank in priority to the Class A2 notes and the Class A3 notes, and the Class A2 notes will rank in priority to the Class A3 notes.

## HOLMES FINANCING (NO.8) PLC

### Notes to the financial statements for the year ended 31 December 2008

#### 14. Debt securities in issue (continued)

Payments in respect of the Class B and Class C notes will only be made if, and to the extent that, there are sufficient funds after paying or providing for certain liabilities, including liabilities in respect of Class A notes. The Class B notes rank after the Class A notes in point of security but before the Class C notes.

Interest is payable on the notes at variable rates based on the one-month US Dollar LIBOR, three-month sterling and US Dollar LIBOR.

The Company's obligations to noteholders, and to other secured creditors, are secured under a deed of charge that grants security over all of its assets in favour of the security trustee. The principal assets of the Company are loans made to Holmes Funding Limited, a group Company, whose obligations in respect of these loans, are secured under a deed of charge which grants security over all its assets, primarily comprising shares in a portfolio of residential mortgage loans, in favour of the security trustee. These mortgages fail the derecognition criteria described in IAS 39 and as such are represented by a receivable on the balance sheet of Holmes Funding Limited, though legally Holmes Funding Limited is entitled to the income from these mortgages. The security trustee holds this security for the benefit of all secured creditors of Holmes Funding Limited, including the Company.

All the loan notes are listed.

#### 15. Other liabilities

	2008 £000	2007 £000
Accrued interest	17,304	27,537

The carrying amount of other liabilities approximates to their fair value.

Other liabilities are due within one year.

#### 16. Share capital

	2008 £000	2007 £000
<b>Authorised:</b>		
100,000 ordinary shares	100	100
<b>Issued and called up:</b>		
50,000 ordinary shares	50	50

49,998 Ordinary shares are partly paid to 25 pence. Two ordinary shares are fully paid. The unpaid element is disclosed in Note 11.

#### 17. Retained Earnings/(Accumulated losses)

	£000
Balance at 1 January 2007	(647)
Profit for the year	1,225
Balance at 31 December 2007 and 1 January 2008	578
Loss for the year	(458)
Balance at 31 December 2008	120

## HOLMES FINANCING (NO.8) PLC

### Notes to the financial statements for the year ended 31 December 2008

#### 18. Notes to the cash flow statement

	2008 £000	2007 £000
(Loss)/profit before tax	(687)	1,733
Adjustments for:		
Net gains on discontinuance of hedge accounting	-	(248)
Loss/(gain) on foreign exchange	688	(1,484)
<b>Operating cash flows before movements in working capital</b>	<b>1</b>	<b>1</b>
Decrease in receivables	10,233	4,956
Decrease in payables	(10,233)	(4,956)
<b>Cash generated by operations</b>	<b>1</b>	<b>1</b>
<b>Net cash flow from operating activities</b>	<b>1</b>	<b>1</b>

#### 19. Related party transactions

During the year, the Company entered into the following transactions with related parties:

	Interest receivable		Cash and cash equivalents held with related parties		Amounts owed by related parties	
	2008 £000	2007 £000	2008 £000	2007 £000	2008 £000	2007 £000
Abbey National plc	1	1	18	17	-	-
Holmes Funding Limited	102,199	122,606	-	-	1,295,869	2,031,032
Holmes Holdings Limited	-	-	-	-	37	37

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

#### 20. Capital management and resources

Capital held by the Company and managed centrally as part of the Abbey group, comprises share capital and reserves which can be found in the Balance Sheet on page 8.

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.

Movements in reserves, and therefore capital, are primarily due to the unrealised fair value of the cross currency/interest rate derivatives which will unwind over the lifetime of the Company.

#### 21. Parent undertaking and controlling party

The Company's immediate parent Company is Holmes Holdings Limited. Holmes Holdings Limited is owned by Wilmington Trust SP Services (London) Limited, a Company incorporated in Great Britain and registered in England and Wales, holding 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 Abbey National plc, which is incorporated in Great Britain and registered in England and Wales. Abbey National 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.

## **HOLMES FINANCING (NO.8) PLC**

### **Notes to the financial statements for the year ended 31 December 2008**

#### **21. Parent undertaking and controlling party (continued)**

The Company meets the definition of a Special Purpose Entity and is therefore consolidated within the Abbey National 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. Abbey National plc is the controlling undertaking of the smallest group of undertakings for which group accounts are drawn up.

Copies of all sets of group accounts, which include the results of the Company, are available from Abbey Secretariat, Abbey National House, 2 Triton Square, Regent's Place, London, NW1 3AN.

## **HOLMES FINANCING (NO.8) PLC**

### **Notes to the financial statements for the year ended 31 December 2008**

#### **Directors' responsibility statement**

We confirm to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
2. the management report, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the company

By order of the Board



Director  
30 March 2009