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HOLMES MASTER ISSUER PLC
STS GUIDANCE - CAPITAL REQUIREMENTS REGULATION

16 JULY 2019

Legislative text ¹	Commentary ²
Chapter 5 - Article 243 - Criteria for STS securitisations qualifying for differentiated capital treatment	
2. Positions in a securitisation, other than an ABCP programme or ABCP transaction, that qualify as positions in an STS securitisation, shall be eligible for the treatment set out in Articles 260, 262 and 264 where the following requirements are met:	
<p>(a) at the time of inclusion in the securitisation, the aggregate exposure value of all exposures to a single obligor in the pool does not exceed 2% of the exposure values of the aggregate outstanding exposure values of the pool of underlying exposures. For the purposes of this calculation, loans or leases to a group of connected clients shall be considered as exposures to a single obligor.</p> <p>In the case of securitised residual leasing values, the first subparagraph of this point shall not apply where those values are not exposed to refinancing or resell risk due to a legally enforceable commitment to repurchase or refinance the exposure at a pre-determined amount by a third party eligible under Article 201(1);</p>	<p>The aggregate outstanding principal balance of all loans to a single borrower does not exceed 2.00% of the aggregate outstanding principal balance of all loans as of the cut-off date. See the form of final terms in the base prospectus (p. 286).</p>
<p>(b) at the time of their inclusion in the securitisation, the underlying exposures meet the conditions for being assigned, under the Standardised Approach and taking into account any eligible credit risk mitigation, a risk weight equal to or smaller than:</p> <p>(i) 40% on an exposure value-weighted average basis for the portfolio where the exposures are loans secured by residential mortgages or fully guaranteed residential loans, as referred to in <i>point</i> (e) of Article 129;</p> <p>(ii) 50% on an individual exposure basis where the exposure is a loan secured by a commercial mortgage;</p> <p>(iii) 75% on an individual exposure basis where the exposure is a retail exposure;</p> <p>(iv) for any other exposures, 100% on an individual exposure basis;</p>	<p>Each loan has a standardised risk weight equal to or smaller than 40% on an exposure value-weighted average basis for the portfolio as at the relevant assignment date, as such terms are described in Article 243 of the Capital Requirements Regulation (see para 1.26 of schedule 1 of the mortgage sale agreement). See loan warranty (z) in the base prospectus section "Assignment of the Loans and Their Related Security—Representations and warranties" (p. 164).</p>
<p>(c) where points (b)(i) and (b)(ii) apply, the loans secured by lower ranking security rights on a given asset shall only be included in the securitisation where all loans secured by prior ranking security rights on that asset are also included in the securitisation;</p>	<p>The portfolio is comprised of residential mortgage loans, each of which constitute a first charge by way of a legal mortgage or a first ranking standard security over residential properties located in England, Wales, or Scotland (see paras 2.3 and 3.1 of schedule 1 of the mortgage sale agreement). See the base prospectus section "The loans" (pp. 131-147).</p>
<p>(d) where point (b)(i) of this paragraph applies, no loan in the pool of underlying exposures shall have a loan-to-value ratio higher than 100%, at the time of inclusion in the securitisation, measured in accordance with point (d)(i) of Article 129(1) and Article 229(1).</p>	<p>No loan has an indexed LTV higher than 100% at the time of inclusion in the securitisation (or such other maximum LTV as may be specified from time to time for the purposes of Article 243 of the Capital Requirements Regulation) (see para 1.25 of schedule 1 of the mortgage sale agreement). See loan warranty (y) in the base prospectus section "Assignment of the Loans and their Related Security—Representations and warranties" (p. 164).</p>

¹ Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms, as amended by Regulation (EU) 2017/2401 of the European Parliament and of the Council of 12 December 2017 (together, the **CRR**). The table contains a summary of the regulations and does not purport to be complete or an indication of what regulations may or may not be relevant to an assessment of any proposed transaction.

² The table contains commentary based on Santander UK's interpretation of the CRR informed by, among other things, the text of the CRR itself and applicable guidelines and recommendations.