HOLMES MASTER ISSUER plc

Registered in England and Wales
No: 05953811

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2021

STRATEGIC REPORT

The Directors submit the Strategic Report together with their Report of the Directors and the audited financial statements for the year ended 31 December 2021.

Principal activities

Holmes Master Issuer Plc (the 'Company') was established as a special purpose company for the purposes of issuing debt securities (the 'Notes') in the international capital markets and lending the proceeds thereof to group (Santander UK plc and its subsidiaries – the 'Group') company, Holmes Funding Limited on a limited recourse basis. In turn Holmes Funding Limited made such funds available to Santander UK plc, its subsidiaries and associated undertakings by purchasing a beneficial interest in a UK residential mortgage loan portfolio held by Holmes Trustees Limited (the 'Holmes Master Trust'). The sale of the underlying assets under the securitisation arrangement fails the de-recognition criteria and are therefore deemed to be loans.

The principal activities of the Company as defined in the Securitisation transaction document (the "Transaction document") which can be found at www.santander.co.uk/uk/about-santander-uk/investor-relations/holmes-master-trust include holding loans under intercompany loan agreement to Holmes Funding Limited, entering into financial instruments, issuing the Notes and other activities reasonably incidental thereto (the "Transaction").

As at 31 December 2021, the book value of residential mortgage loans that Santander UK plc had assigned legal title to the Holmes securitisation structure was £2,294m (2020: £3,073m). The Holmes securitisation structure comprising fellow subsidiaries is over collateralised by £1,739m (2020: £2,083m). The Holmes securitisation structure acquired interest in a portfolio of mortgage loans (Funder share) was £556m (2020: £989m) and the Santander UK plc seller share was £1,739m (2020: £2,083m). The seller share does not provide credit enhancement.

The Holmes securitisation structure has cash balances and reserves of £129m (2020: £383m) which also acts as a credit enhancement feature

The programme

The mortgage backed programme was established on 28 November 2006 (the "Programme"). Notes issued under the Programme have been and will be issued in series. Each series will normally: (a) be issued on a single date; (b) be subject to the terms and conditions of the Notes; and (c) consist of one or more classes (or sub-classes) of Notes. Notes of the same class rank pari passu and pro rata among themselves. Each series of the same class will not, however, be subject to identical terms in all respects (for example, interest rates, interest calculations, expected maturity and final maturity dates may differ).

The Company's obligations to pay principal and interest on the Notes are funded primarily from the payments of principal and interest received by it from Holmes Funding Limited under the intercompany loan. The Company's primary asset will be its rights to mortgages under the intercompany loan agreement. Holmes Funding Limited uses the amounts received from its share in the trust property to meet its obligations to pay interest and principal due to the Company under the intercompany loan. Under the documents governing the transaction, Santander UK plc and its subsidiaries are not obliged to support any losses that may be suffered by holders of the debt securities in issue.

The loans included within the underlying portfolio include repayment loans and interest only loans with balances of less than £750,000.

The loans within the portfolio are monitored and assessed for impairment on a regular basis as, under International Financial Reporting Standard (IFRS) 9 – 'Financial Instruments' the beneficial interest in a mortgage portfolio fails the criteria for recognition within the Company's financial statements as the loans fail derecognition at Santander UK plc level.

The only asset held by the Company that is at risk of material impairment is the loan to Holmes Funding Limited, the repayment of which is dependent upon the performance of the residential mortgage portfolio. The risk of impairment is mitigated by the collateral and credit enhancements within the Holmes securitisation structure.

The performance of the mortgage portfolio is continually assessed by Santander UK plc and external credit rating agencies. It follows that the impairment policies of Santander UK plc are applied by the Company. The Directors believe that the performance of the portfolio is in line with the Directors' expectations.

Key performance indicators

During the year the Company received interest income of £5m (2020: £21m) from Holmes Funding Limited and Santander UK plc. The Company used its cash resources to pay interest expense of £7m (2020: £29m) on the debt securities in issue. During the year, the Company issued debt securities of £64m (2020: £nil), made net draw-downs of intercompany loans of £562m (2020: £1,214m) and made payments of principal on its redemption of issued debt securities of £612m (2020: £1,254m). All amounts were paid in full and on time. The next payments of principal on its redemption of issued debt securities is due 18 October 2054.

The key performance indicators used by management are predominantly consideration of whether there have been breaches of the transaction documents. However, there are certain measures (triggers) set out in the transaction documents which are relevant to the Company including assessing whether all counterparties involved in the transaction have a rating that remains adequate to support their on-going roles in the Programme, and arrears related events. There were no triggers breached in the year.

Fair review of the Company's Business

The Santander UK plc Group manages its operations on a divisional basis. For this reason, the Company's Directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the divisions of Santander UK plc, which include the Company, are discussed in the Group's Annual Report which does not form part of this report.

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.

STRATEGIC REPORT (CONTINUED)

Fair review of the Company's Business (continued)

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.

Section 172(1) statement

As a Special Purpose Vehicle (SPV) the governance structure of the Company is such that the key policies have been predetermined at the time of issuance. The Directors have had regards to the matters set out in section 172(1) of the Companies Act 2006 as follows:

(a) the transaction documents have been formulated to achieve the Company's purpose and business objectives, safeguard the assets and promote the success of the Company and as disclosed in Note 9 in accordance with relevant securitisation legislation the Company is only permitted to retain minimal profit;
(b) the company has no employees;
(c) the operational roles have been assigned to third parties with their roles strictly governed by the transaction documents and fee arrangements agreed in advance
(d) as a securitisation vehicle the company has no physical presence or operations and accordingly has minimal impact on the community and the environment;
(e) the operational roles have been assigned to third parties, fee arrangements agreed in advance and supplier invoices paid strictly in accordance with the transaction documents including a priority of payments, if applicable; and
(f) the Company has a sole member with the issued shares all held on a discretionary trust basis for the benefit of undisclosed charities.

The Directors consider the ongoing suitability of the governance structure of the Company by reference to the borrowing requirements of Santander UK plc and the performance of its mortgage portfolio and make changes where necessary.

Principal risks and uncertainties facing the Company

The Company's principal risks and uncertainties together with the processes that are in place to monitor and mitigate those risks where possible can be found in Note 3.

COVID-19

In 2021, there were ongoing challenges in terms of navigating the changing circumstances presented by the Covid-19 pandemic, including its impact on the economy and upon home and office working arrangements. The Company continues to monitor the impact of Covid-19 on its operations and customers and intends to take a coordinated approach with the other members of the Santander UK plc group where applicable. There has been no significant change to the carrying value of its assets and liabilities at the reporting date.

In April 2020, Santander UK plc followed FCA guidance on how they expect mortgage lenders and administrators to treat customers fairly during the Covid-19 pandemic and restructured all its securitisations to accommodate its obligations as servicer under the principles set out in the FCA Handbook and Mortgage Conduct of Business rules.

The granting of payment holidays to any securitised loans results in a corresponding decrease in revenue receipts available to the trust company to distribute to the funding entity on each distribution date. To mitigate the potential impact to the securitisations, the qualifying structured entities were amended to direct a cash payment to the funding entity in an amount equal to the funding entity's share of the aggregate amount of the interest that would have been due on any loans which are the subject of a payment holiday. To effect such cash payment, Santander UK plc's share of revenue receipts is reduced by such amount and the funding entity's share of revenue receipts increased accordingly, making the impact neutral to the securitisation.

Broader geopolitical and social risks, including invasion by Russia of Ukraine

During the course of the past two years, since the onset of the Covid-19 pandemic, a number of broader risks have evolved and may present future headwinds. These include geopolitical tensions between regions across the world, global supply chain pressures (which have already fuelled inflationary pressures), stretched household finances, and emerging social unrest. These factors are also likely to play into increased localised political risk, including in the UK. The Company is closely following these developments and the potential for any material impacts which may need to be taken into consideration in its future plans and intends to take a coordinated approach with the other members of the Santander UK plc group.

Likely Future Developments.

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

Capital management

The Company is not subject to any external capital requirements, except for the minimum requirement under the Companies Act 2006. The Company has not breached this minimum requirement.

On behalf of the Board

S D Affleck
Director
20 June 2022

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

REPORT OF THE DIRECTORS

The Directors submit their report together with the Strategic Report and the audited financial statements for the year ended 31 December 2021.

Principal activities

The Company was established as a special purpose company for the purposes of issuing notes in the international capital markets and lending the proceeds thereof to a Group company Holmes Funding Limited, on a limited recourse basis. In turn Holmes Funding Limited made such funds available to the Santander UK plc by purchasing a beneficial interest in a UK residential mortgage loan portfolio held by the Holmes Master Trust.

The principal activities of the Company include holding loans under an intercompany loan agreement to Holmes Funding Limited, entering into financial instruments, issuing the Notes and other activities reasonably incidental thereto.

Results and dividends

The loss after tax for the year ended 31 December 2021 amounted to £0.9m (2020: loss £3.4m). The Directors do not recommend the payment of a dividend (2020: £nil). The result for the current and prior year arises from fair value movements which are anticipated to reverse over the life of the Company.

Directors and their interests

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

Mr S D Affleck (appointed 31 December 2021)
Mrs R J Morrison (resigned 31 December 2021)
Mr D J Wynne
Wilmington Trust SP Services (London) Limited

All shares in the Company are held by Holmes Holdings Limited.

All shares in the holding company, Holmes Holdings Limited, are held by Wilmington Trust SP Services (London) Limited.

Mr D J Wynne 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 Holding Limited or its subsidiaries, at the year-end.

Company secretary

The Company secretary during the year and subsequently was Santander Secretariat Services Limited.

Statement of Directors' responsibilities in respect of the financial statements

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 UK-adopted international accounting standards.

Under company law, 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 UK-adopted international accounting standards 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.

The directors are 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 also 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.

The directors are responsible for the maintenance and integrity of the company's financial statements published on the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

REPORT OF THE DIRECTORS (CONTINUED)

Statement of Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, Notes 3 and 20 to the financial statements include the Company's financial risk management objectives; its exposures to credit, liquidity, marketing and operational risk objectives; and its policies and processes for managing its capital.

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

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the period of 12 months from the date the financial statements are authorised for issue. The Directors are comfortable that the net liabilities and loss do not affect the going concern status, since the Notes in issue are limited recourse and the losses are primarily due to foreign currency contract losses. Accordingly, they continue to adopt the going concern basis of accounting in preparing the Annual Report and Financial Statements.

Financial Instruments

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

The Company also enters into derivatives transactions (principally cross currency and interest rate swap contracts). The purpose of such transactions is to manage the currency risks and interest rate 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 and interest rate risk. The Company had (2020: has) debt securities in issue denominated in US Dollars. The Company's Board reviews and agrees policies for managing this risk. The Company's policy is to eliminate all exposures arising from movements in exchange and interest rates by the use of cross currency swap or interest rate swap contracts to hedge payments of interest and principal 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 3.

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.

Enhanced indemnities are provided to the Directors of the Company who are also employees of Wilmington Trust SP Services (London) Limited by M&T Bank Corporation, the ultimate holding company of Wilmington Trust SP Services (London) Limited, against liabilities and associated costs which they could incur in the course of their duties to the Company.

The Company has made qualifying third party indemnity provisions for the benefit of the Directors as set out in a corporate services agreement. These indemnity provisions remain in force at the date of the Annual Report and Financial Statements.

All of the indemnities remain in force as at the date of the Annual Report and Financial Statements. A copy of each of the indemnities is kept at the registered office address of Santander UK plc.

Likely future developments

Details of likely future developments are disclosed in the Strategic Report.

REPORT OF THE DIRECTORS (CONTINUED)

Corporate governance

As more fully described in the Section 172(1) statement in the Strategic Report the Directors have been charged with governance in accordance with the transaction documents describing the structure and operation of the transaction.

The transaction documents provide for procedures that have been designed for safeguarding assets against unauthorised use or disposition, for maintaining proper accounting records, and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives whilst enabling them to comply with the regulatory obligations.

Due to the nature of the securities which have been issued, the Company is largely exempt from the requirements of the Financial Conduct Authority Disclosure and Transparency Rules (DTR) which would otherwise require the Company to have an audit committee in place and include a corporate governance statement in the Report of the Directors. The Directors are therefore satisfied that there is no requirement for an audit committee or to publish a corporate governance statement.

Streamlined Energy and Carbon Reporting (SECR)

The Company is out of scope of the Streamlined Energy and Carbon Reporting (SECR), as it does not meet the numerical thresholds in relation to turnover and number of employees.

Statement of disclosure of information to 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.

Independent auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the Company's forthcoming Annual General Meeting.

On behalf of the Board

S D Affleck
Director

20 June 2022

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

Independent auditors' report to the members of Holmes Master Issuer Plc

Report on the audit of the financial statements

Opinion

In our opinion, Holmes Master Issuer Plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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: Balance Sheet as at 31 December 2021; the Statement of Comprehensive Income, the Cash Flow Statement, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Directors.

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, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope

- The Company is a special purpose vehicle that forms part of a securitisation structure to issue residential mortgage backed debt securities, established primarily as a means of creating collateral to be used for funding and liquidity by Santander UK plc. The Company's operations are governed by underlying legal and transaction documents (the "Transaction documents").
- We tailored the scope of our audit to ensure that we performed sufficient work to enable us to opine on the annual report and financial statements, ensuring audit procedures were performed in respect of every material financial statements line item.
- In establishing the overall approach to the audit, we determined the type of work that needed to be performed by us taking into account the accounting processes and controls in place at Santander UK plc as the parent undertaking.
- We obtained an understanding of the control environment in place at Santander UK plc and adopted a controls and substantive testing approach

Independent auditors' report to the members of Holmes Master Issuer Plc (continued)

Key audit matters

- Risk of error in the priority of payments.

Materiality

- Overall materiality: £6,077,270 (2020: £11,709,280) based on 1% of total assets.
- Performance materiality: £4,557,953 (2020: £8,781,960).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Impact of Covid-19, which was a key audit matter last year, is no longer included because of our consideration that it does not represent an area of increased audit attention in its own right. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Risk of error in the priority of payments. The priority of payments (the "waterfall") is key to ensuring that expenses, interest and principal repayments on the notes in issue are being paid from the interest and principal collections, in the appropriate order on each payment date. The revenue and principal priority of payments are outlined in the Transaction documents. The Transaction documents also include triggers and trigger events, the breach or occurrence of which may affect the waterfall and therefore the financial statements. Related disclosures in the financial statements: Note 1 Accounting policies Note 5 Interest and similar income Note 6 Interest expense and similar charges Note 13 Loans and advances to group companies Note 15 Debt securities in issue	The following work was undertaken by us as part of the audit: ● We understood the design of the structure through a combination of inquiry with management and reviewing the Transaction documents to understand the revenues and principal priority of payments and understanding the relevant trigger events for the Company. ● We read the investor reports and minutes of the meetings of the Board of Directors during the year and up to the signing of the financial statements to identify and investigate any unusual trends or incidents that would indicate a misstatement in the preparation or calculation of the waterfalls. ● We tested on a sample basis that the priority of payments applied was in line with the Transaction documents and the occurrence of any trigger breaches or trigger events per the Transaction documents and any impact on the waterfall and financial statements. We tested payments in the waterfall including expenses, interest and principal payments on notes and notes outstanding at the year-end by agreeing transactions to the cash account records. ● We recalculated the interest expense using interest rates set out in the Transaction documents and, where applicable, independently sourced reference interest rates. We found no material exceptions in performing these tests.

Independent auditors' report to the members of Holmes Master Issuer Plc (continued)

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

As part of designing our audit we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of the significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	£6,077,270 (2020: £11,709,280).
How we determined it	1% of total assets
Rationale for benchmark applied	The Company is a not for profit entity, whose main priority is to remit the cash received in respect of its assets so as to repay its liabilities. As such total assets is considered an appropriate benchmark. Where total assets is used, if the company is a public interest entity, a rule of thumb of up to 1% can be applied. Due to the fact the entity has listed debt we consider this to be a public interest entity and have therefore applied 1%.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £4,557,953 (2020: £8,781,960) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Directors that we would report to them misstatements identified during our audit above £303,864 (2020: £585,464) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- An assessment to identify factors that could impact the going concern basis of accounting, including the key terms of the transaction as set out in the Transaction documents, such as what constitutes an event of default;
- Reviewing the appropriateness of the disclosures in the financial statements; and

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Independent auditors' report to the members of Holmes Master Issuer Plc (continued)

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 Strategic report and Report of the directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Report of the directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Report of the directors for the year ended 31 December 2021 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 Strategic report and Report of the directors.

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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Independent auditors' report to the members of Holmes Master Issuer Plc (continued)

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the transaction documents, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries. Audit procedures performed by the engagement team included:

- Making inquiries with management and those charged with governance in relation to known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluating the business rationale for any significant transactions that are unusual or outside the scope of Transaction documents;
- Testing journal entries to supporting documentation using risk-based criteria, and;
- Testing, on a sample basis, that the priority of payments has been applied in accordance with the Transaction documents as detailed in the key audit matter below.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 obtained 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.

Independent auditors' report to the members of Holmes Master Issuer Plc (continued)

Appointment

We were appointed by the directors on 30 June 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ended 31 December 2016 to 31 December 2021.

Jessica Miller (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21/6/2022

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

Continuing operations	Note	2021 £000	2020 £000
Interest and similar income	5	5,240	20,690
Interest expense and similar charges	6	(5,871)	(22,384)
Net interest expense		(631)	(1,694)
Net other operating income/(expense)	7	468	(836)
Administration expenses		(758)	(839)
Loss before tax	8	(921)	(3,369)
Taxation	9	-	-
Loss for the year		(921)	(3,369)
Other comprehensive income that may be reclassified to profit or loss subsequently			
Cash flow hedges			
- Gains on cash flow hedges transferred to profit or loss net of tax - £nil (2020: £nil)	11	21	283
Total other comprehensive income for the year		21	283
Total comprehensive expense for the year		(900)	(3,086)

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

	Share capital £000	Accumulated losses £000	Hedging reserve £000	Total £000
At 1 January 2020	50	(5,647)	(304)	(5,901)
Loss for the year	-	(3,369)	-	(3,369)
Other comprehensive income for the year	-	-	283	283
At 31 December 2020 and 1 January 2021	50	(9,016)	(21)	(8,987)
Loss for the year	-	(921)	-	(921)
Other comprehensive income for the year	-	-	21	21
At 31 December 2021	50	(9,937)	-	(9,887)

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

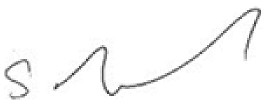
BALANCE SHEET

As at 31 December

	Note(s)	2021 £000	2020 £000
Assets			
Non-current assets			
Loans and advances to group companies	13	605,271	1,166,655
Total non-current assets		605,271	1,166,655
Current assets			
Cash and cash equivalents	10	1,042	1,407
Other assets	14	1,414	2,866
Total current assets		2,456	4,273
Total assets		607,727	1,170,928
Liabilities			
Current liabilities			
Derivative financial instruments - liabilities	11 & 12	2	12,837
Other liabilities	16	3,976	4,965
Total current liabilities		3,978	17,802
Non-current liabilities			
Debt securities in issue	15	613,636	1,162,113
Total non-current liabilities		613,636	1,162,113
Total liabilities		617,614	1,179,915
Equity			
Share capital	17	50	50
Hedging reserve	18	-	(21)
Accumulated losses		(9,937)	(9,016)
Total equity		(9,887)	(8,987)
Total liabilities and equity		607,727	1,170,928

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

The financial statements on pages 12 to 30 were approved by the Board of Directors, and signed on its behalf by:



S D Affleck
Director

20 June 2022

CASH FLOW STATEMENT

For the year ended 31 December

	Note	2021 £000	2020* £000
Loss before tax		(921)	(3,369)
Adjustments for non-cash items included in profit:			
Loss on foreign exchange on retranslation of debt securities in issue	7	-	28,554
Fair value gains on derivative financial instruments	7	(468)	(27,718)
Add: Interest expense		5,871	22,384
Less: Interest income		(5,240)	(20,690)
Operating cash flows before movements in working capital		(758)	(839)
Change in operating assets		1,473	7,007
Increase in derivative financial instruments		(12,835)	14,963
Change in operating liabilities		(105)	(164)
Net cash (used in)/generated by operating activities		(12,225)	20,967
Investing activities			
Loans repaid by group companies	13	561,852	1,241,611
Interest received		5,240	20,690
Net cash generated by investing activities		567,092	1,262,301
Financing activities			
Issue of new debt securities		63,636	-
Redemption of debt securities		(612,113)	(1,254,300)
Interest paid		(6,755)	(29,449)
Net cash used in financing activities		(555,232)	(1,283,749)
Net decrease in cash and cash equivalents		(365)	(481)
Cash and cash equivalents at the beginning of the year		1,407	1,888
Cash and cash equivalents at the end of the year	10	1,042	1,407

* The 2020 comparatives £22,384,000 of Interest expense and £20,690,000 of interest income as part of operating cash flow movements before movements in working capital. Previously, these amounts were included within cash flows from operating activities. The change has been made to better reflect the nature of these items.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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 the years presented, unless otherwise stated.

General information

The Company is a public 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

These financial statements are prepared for Holmes Master Issuer Plc (the Company) under the Companies Act 2006.

The Company's financial statements have been prepared in accordance with UK-adopted international accounting standards (IAS). On 31 December 2020, International Financial Reporting Standards (IFRSs) as adopted by the European Union at that date were brought into UK law and became UK-adopted IAS, with future changes being subject to endorsement by the UK Endorsement Board. The Company transitioned to UK-adopted IAS in its financial statements on 1 January 2021, however, this change had no impact on recognition, measurement or disclosures in the periods reported.

The functional and presentation currency of the Company is sterling.

The financial statements have been prepared on a going concern basis using the historical cost convention as modified by the revaluation of financial assets and financial liabilities held at fair value through profit and loss. 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.

Future accounting developments

At 31 December 2021, for the Company, there were no significant new or revised standard and interpretations, and amendments thereto, which have been issued but which are not yet effective or which have otherwise not been early adopted where permitted.

Interest Rate Benchmark Reform

In 2020, the Company applied 'Interest Rate Benchmark Reform – Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' to all loans whose interest rates were based on LIBOR that were transitioning to alternative benchmark interest rates. During 2021, the Company applied the practical expedient in these amendments, to account for a change in the basis for determining the contractual cash flows by updating the effective interest rate using the guidance in IFRS 9. This resulted in no immediate gain or loss being recognised. There were no loans or other instruments remaining that are affected by IBOR reform as at 31 December 2021.

As the Company has no IAS 39 compliant hedge accounting relationships, the Phase 1 amendments and the amendments relating to hedge accounting in Phase 2 do not apply.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

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 and presentation currency of the Company is Sterling.

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities that are denominated in foreign currencies are translated into the functional currency of the Company at the rates in effect at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Foreign currency translation differences are recognised in profit or loss and are included in the Statement of Comprehensive Income.

Interest income and expense

Interest income on financial assets that are classified as financial assets at amortised cost and interest expense on financial liabilities other than those at fair value through profit and loss are determined using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the instrument excluding future credit losses. The calculation includes all amounts paid or received by the Company that are an integral part of the overall return, direct incremental transaction costs related to the acquisition, issue or disposal of the financial instrument and all other premiums or discounts.

Interest income and expense is shown gross in the Statement of Comprehensive Income.

Financial Instruments

Financial instruments of the Company comprise loans and advances to Group companies, derivative financial instruments, debt securities in issue, cash and cash equivalents and other financial assets and financial liabilities arising from the Company's operations. These instruments are recognised, classified and subsequently measured in accordance with IFRS 9 as described below.

a) Initial recognition and measurement

Financial assets and liabilities are initially recognised when the Company becomes a party to the contractual terms of the instrument. The Company determines the classification of its financial assets and liabilities at initial recognition and measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at Fair Value through profit and loss (FVTPL), transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost.

b) Financial assets and liabilities

Classification and subsequent measurement

The Company classifies its financial assets in the following measurement categories:

– those to be measured subsequently at fair value (either through OCI or through profit or loss); and
– those to be measured at amortised cost.

Financial assets and financial liabilities which are required to be held at Fair Value through profit and loss (FVTPL) include:

– Financial assets and financial liabilities held for trading
– Debt instruments that do not have solely payments of principal and interest (SPPI) characteristics. Otherwise, such instruments are measured at amortised cost.

Financial assets and financial liabilities are classified as held for trading if they are derivatives or if they are acquired or incurred principally for the purpose of selling or repurchasing in the near-term, or form part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking.

In certain circumstances other financial assets and financial liabilities are designated at FVTPL where this results in more relevant information. This may arise because it significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on a different basis, where the assets and liabilities are managed and their performance evaluated on a fair value basis or, in the case of financial liabilities, where it contains one or more embedded derivatives which are not closely related to the host contract.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

Financial assets: debt instruments

Classification and subsequent measurement of debt instruments depend on the Company's business model for managing the asset, and the cash flow characteristics of the asset.

Business model
The business model reflects how the Company manages the assets in order to generate cash flows and, specifically, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of the assets. If neither of these is applicable, such as where the financial assets are held for trading purposes, then the financial assets are classified as part of an 'other' business model and measured at FVTPL. Factors considered in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported to key management personnel and how risks are assessed and managed.

Solely Payment of Principal and Interest ("SPPI")
Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the assets' cash flows represent SPPI. In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the related asset is classified and measured at FVTPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

Based on these factors, the Company classifies its debt instruments into one of the following measurement categories:

– Amortised cost – Financial assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL recognised. Interest income from these financial assets is included in 'Finance income' using the effective interest rate method. When the estimates of future cash flows are revised, the carrying amount of the respective financial assets or financial liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the income statement.

– FVTPL – Financial assets that do not meet the criteria for amortised cost are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL, including any debt instruments designated at fair value, is recognised in profit or loss and presented in the income statement in 'Other gains/losses' in the period in which it arises.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

Impairment of debt instrument financial assets

Expected credit losses are recognized on all financial assets at amortised cost or at fair value through other comprehensive income. 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.

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.

Loans and advances to Group companies represent a loan to Holmes Funding Limited, the repayment of which is dependent upon the performance of the underlying residential mortgage portfolio. At each balance sheet date an assessment is made as to whether, as a result of one or more events, there is a significant increase in credit risk since initial recognition. In assessing the loans and advances to Group companies for impairment, the Directors first consider the impairment of the underlying mortgage loans using the above 3 stage approach and consider the ECL of the loans and advances to Group companies taking into account the relevant credit enhancements available for the Company in the structure. Expected losses for loans and advances to Group companies are immaterial and are only likely to be material if the ECL on the underlying assets exceeded the available credit enhancements.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Debt securities in issue

Debt securities in issue are initially recognised at fair value plus transaction costs that are incremental and directly attributable to the issue. Subsequent to initial recognition, debt securities in issue are stated at amortised cost with any difference between cost and redemption value recognised in the statement of comprehensive income over the period of the borrowings on an effective interest rate basis.

Loans and advances to group companies

Loans and advances to group companies are debt instrument financial assets measured at amortised cost. The Directors consider that the relevant business model for the loans and advances to group companies to be 'hold to collect' in order to service the Company's liabilities. The Directors assessed that the contractual cash flows under the intercompany loan agreement represent SPPI.

Derivative financial instruments

Derivative financial instruments ('Derivatives') are contracts or agreements whose value is derived from one or more underlying indices or asset values inherent in the contract or agreement, which require no or little initial net investment and are settled at a future date.

The Company holds cross currency swap contracts in order to manage foreign currency risk arising on the foreign currency denominated debt securities in issue. The Company also holds interest rate swap contracts to hedge significant future transactions and cash flows risk dependent on movement in interest rates.

Derivatives are recognised initially (on the date on which a derivative contract is entered into), and are subsequently remeasured, at their fair value. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow and option pricing models. The Company holds no exchange traded derivatives.

Derivatives are contracted with Santander UK plc or counterparties that meet standards set out in the relevant Prospectus. If subsequently there is a ratings downgrade of the counterparty credit rating, remedial measures include provision of collateral for obligations under the relevant swap contract.

Income taxes

The Directors are satisfied that the Company meets the definition of a 'securitisation company' as defined by both the Finance Act 2005 and the subsequent secondary legislation and that no incremental unfunded tax liabilities will arise. As a result, no deferred tax amounts are recognised.

Under the powers conferred by the Act, secondary legislation was enacted in 2006 which ensures that, subject to certain conditions being met and an election being made, for periods commencing on or after 1 January 2007, corporation tax for a 'securitisation company' will be calculated by reference to the profit of the securitisation company required to be retained in accordance with the relevant capital market arrangement.

For the purposes of the Cash Flow Statement, 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 and amounts due from other banks.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

2. CRITICAL ACCOUNTING ESTIMATES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT

There were no critical accounting judgements applied by management during the year. The following accounting estimates are considered important.

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. Actual results may differ from these estimates under different assumptions or conditions.

The following accounting estimates and judgements are considered important to the portrayal of the Company's financial results and financial condition because: (i) they are highly susceptible to change from period to period as assumptions are made to calculate the estimates, and (ii) any significant difference between the estimated amounts and actual amounts could have a material impact on the Company's future financial results and financial condition:

Impairment of Loans and advances to group companies

As described under the 'Impairment of debt instrument financial assets' above, the repayment of the loans and advances to group companies is dependent on the performance of the underlying residential mortgage portfolio. At each balance sheet date an assessment is made as to whether, as a result of one or more events, there is a significant increase in credit risk since initial recognition. In assessing the loans and advances to group companies for impairment, the Directors first consider the impairment of the underlying mortgage loans using the above 3 stage approach and consider the ECL of the loans and advances to group companies taking into account the relevant credit enhancements available for the Company in the structure. Expected losses for loans and advances to group companies are immaterial and are only likely to be material if the ECL on the underlying assets exceeded the available credit enhancements.

Derivative fair values

The Company holds cross currency swap contracts in order to manage foreign currency risk arising on the foreign currency denominated debt securities in issue. The Company also holds interest rate swap contracts to hedge significant future transactions and cash flows risk dependent on movement in interest rates.

Derivatives are recognised initially (on the date on which a derivative contract is entered into), and are subsequently remeasured, at their fair value. If subsequently there is a ratings downgrade of the counterparty credit rating, remedial measures include provision of collateral for obligations under the relevant swap contract.

The Company also enters into interest rate swap contracts with Santander UK plc, a related party, and counterparties that meet standards set out in the relevant Transaction documents to manage basis risk between interest flows on the cross currency swap contracts and on interest payments received from Santander UK plc.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

3. FINANCIAL RISK MANAGEMENT

The Company's risk management focuses on the major areas of credit risk, market risk, liquidity risk and operational risk. Risk management is carried out by the central risk management function of the Santander UK Group. Authority flows from the Santander UK plc Board to the Chief Executive Officer and from him to his direct reports. Delegation of authority is to individuals. Formal standing committees are maintained for effective management of oversight.

Credit risk

Credit risk is the risk that counterparties will not meet their financial obligations and may result in the Company losing the principal amount lent, the interest accrued and any unrealised gains, less any security held. The main source of credit risk is in the loans and advances to group companies, derivative financial instruments assets and other assets.

Key metrics introduced 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 loans and other debts due from related parties of £605m (2020: £1,167m), the fair value of derivative financial assets of £nil (2020: £nil) and the carrying amount of other assets of £1.4m (2020: £2.9m).

Loans and advances to group companies (see note 13) represents a loan to Holmes Funding Limited, the repayment of which is dependent upon the performance of the underlying residential mortgage portfolio. At each balance sheet date, an assessment is made as to whether, as a result of one or more events, there is a significant increase in credit risk since initial recognition. In assessing the loan to Holmes Funding Limited for impairment, the Directors first consider the impairment of the underlying mortgage loans using the above 3-stage approach and consider the ECL of the loan taking into account the relevant credit enhancements available for the Company in the structure. Accordingly, expected losses for the loans to Holmes Funding Limited would arise if the ECL on the underlying assets is greater than the available credit enhancements.

At the balance sheet date no ECL allowance was recognised on all financial assets subject to credit risk due to the credit enhancement features applied by the Company (2020: nil).

As at 31 December 2021, the book value of residential mortgage loans that Santander UK plc had assigned legal title to the Holmes securitisation structure was £2,294m (2020: £3,073m). The Holmes securitisation structure acquired interest in a portfolio of mortgage loans (Funder share) was £556m (2020: £989m) and the Santander UK plc seller share was £1,739m (2020: £2,083m). The seller share does not provide credit enhancement.

The Holmes securitisation structure has cash balances and reserves of £129m (2020: £383m) which also acts as a credit enhancement feature.

Derivatives are contracted with Santander UK plc or counterparties that meet standards set out in the relevant Transaction documents. If subsequently there is a ratings downgrade of the counterparty credit rating, remedial measures include provision of collateral for obligations under the relevant swap contracts.

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. There are no repurchase obligations on the underlying loans.

The loans within the portfolio are monitored and assessed for impairment on a regular basis at a group level. The impairment policy applied by Santander UK plc is equivalent to the impairment of financial assets policy of the Company.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Santander UK plc's credit ratings are disclosed below as the financial assets of the Holmes securitisation structure are secured on mortgage assets within Santander UK plc.

Further details can be found in the notes to the group financial statements of Santander UK plc's Annual Report and Financial Statements and monthly investor reports of Holmes Master Trust.

Santander UK plc's current credit ratings were:

	S & P	Moody's	Fitch
Long-term rating	A	A1	A+
Long-term rating outlook	Stable	Stable	Stable
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.

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 related party loan asset and the payments in respect of the derivative financial instruments described in the Annual Report and Financial Statements 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.

Market risk

Market risk is the potential for loss of income or decrease in the value of net assets caused by movements in foreign currency and interest rates. The Company is subject to market risk in the form of interest rate risk and currency risks from the fluctuations in US Dollars.

The Company also enters into interest rate swap contracts with Santander UK plc, a related party, and counterparties that meet standards set out in the relevant Transaction documents to manage basis risk between interest flows on the cross currency swap contracts and on interest payments received from Santander UK plc.

A 50bp adverse or positive movement in interest rates would have an immaterial impact on profit for the year and on net assets.

During the year, the Company generated fair value gains on derivative financial instruments not in hedging relationships of £1m (2020: gains of £28m). In 2021 there were £nil foreign currency losses on re-translation (2020: fair value gains were substantially offset by foreign currency losses on re-translation of debt securities in issue of £29m). The Company de-designated hedge accounting relationships on 1 January 2019. This volatility is expected to even out over the long term.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes regulatory, legal and compliance risk. Operational risk is monitored and managed within the group. An independent central operational risk function has responsibility for establishing the framework within which these risks are managed and is aligned to operational risk professionals within business areas to ensure consistent approaches are applied across the Group. The primary purpose of the framework is to define and articulate the Group-wide policy, processes, roles and responsibilities.

The day-to-day management of operational risk is the responsibility of business managers who identify, assess and monitor the risks, in line with the processes described in the framework. The operational risk function ensures that all key risks are regularly reported to the Group's risk committee and board of Directors.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

All of the Company's income is derived from activities in the same business and geographical segment, within the UK.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

5. INTEREST AND SIMILAR INCOME

	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Interest income from Holmes Funding Limited	5,225	16,343
Interest income from Santander UK plc	-	4
Swap interest income	15	4,343
	5,240	20,690

6. INTEREST EXPENSE AND SIMILAR CHARGES

	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Interest payable on debt securities in issue	5,871	22,384
	5,871	22,384

7. NET OTHER OPERATING INCOME/(EXPENSE)

	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Fair value gain on derivative financial instruments	468	27,718
(Loss) on foreign currency on re-translation of debt securities in issue	-	(28,554)
	468	(836)

The Company hedges its exposures to various risks, including interest rate risk and foreign currency risk, in connection with the Company's operations and its sources of finance.

In line with the Transaction documents, swap contracts are also in place to hedge fair value, interest rate risk and foreign currency risk on the remaining fixed rate or foreign currency Notes and fair value movements of those swap contracts are accounted in Profit and Loss within the Statement of Comprehensive income.

The gains or losses arising on these assets and liabilities are presented in the table above on a combined basis.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

8. LOSS BEFORE TAX

Directors' emoluments

The Directors' services to the Company are an incidental part of their duties. No Directors were remunerated for their services to the Company. Directors' emoluments are borne by Santander UK plc and corporate service fees, which include the provision of Directors, are borne by Holmes Funding Limited. No emoluments were paid by the Company to the Directors during the year (2020: £nil).

Staff costs

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

Auditors' remuneration

The audit fee for the current and prior years have been paid by the Company. The audit fee for the current year is £22,600 (2020: £22,660).

Non-audit fees of £12,750 were charged to the Company in 2021 for a report on the factual findings of the Agreed Upon Procedures (2020: £19,000 for a comfort letter issued in relation to the update of the Programme).

9. TAXATION

	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Current tax:		
UK corporation tax on loss for the year	-	-
Tax charge on loss for the year	-	-

For UK corporation tax purposes, the Company has been considered as a Securitisation Company under the 'Taxation of Securitisation Companies Regulations (SI 2006/3296)'. Therefore the Company is not required to pay corporation tax on its accounting profit or loss. Instead, the Company is required to pay tax on its retained profits as specified in the documentation governing the Transaction.

UK corporation tax is calculated at 19% (2020: 19%) of the estimated assessable profits for the year.

The UK government announced in it's budget on 3 March 2021 that it would increase the main rate of corporation tax from 19% to 25% with effect from 1 April 2023.

The tax on the Company's loss before tax differs (2020: differs) from the theoretical amount that would arise using the basic tax rate of the Company as follows:

	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Loss before tax	(921)	(3,369)
Tax calculated at a rate of 19% (2020: 19%)	(175)	(640)
Non-taxable income	175	640
Tax charge for the year	-	-

The Company meets the requirements of a securitisation company for tax purposes and is taxed on the margin that it receives in return for participating in the securitisation structure under the waterfall arrangement. Any other amounts that form part of its retained profit and all other amounts that it receives are disregarded for tax purposes.

10. CASH AND CASH EQUIVALENTS

	2021 £000	2020 £000
Deposits with group undertakings	1,042	1,407
	1,042	1,407

Cash and cash equivalent balances due from Santander UK plc, a related party was £1.0m (2020: £1.4m).

All cash balances held with Santander UK plc are held under a Guaranteed Investment Contract and are classified as restricted funds, as withdrawals are restricted by a priority of payments in accordance with the terms of the securitisation structure.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

11. DERIVATIVE FINANCIAL INSTRUMENTS

The Company obtains funding in the international market, issuing fixed rate and floating rate debts in both GBP and USD. As a result of these activities, the Company is exposed to changes in fair value due to changes in market interest rates and/or foreign currency rates, which is mitigated through the use of derivative hedges.

As at 1 January 2019, the Company voluntarily de-designated all hedge relationships. In the case of discontinued fair value hedges, the cumulative adjustment that had been made to the carrying amount of the hedged item is amortised to the Statement of Comprehensive Income using the effective interest method over the period to maturity. In the case of discontinued cash flow hedges, amounts accumulated in equity are reclassified to the Statement of Comprehensive Income in the same period in which the hedged item affects the Statement of Comprehensive Income.

Net gains or losses arising from fair value and cash flow hedges included in net other operating expenses

The following table provides a reconciliation by risk category of components of equity and analysis of OCI items (before tax) resulting from hedge accounting.

	Cash flow hedging reserve 2021 £000	Cash flow hedging reserve 2020 £000
At 1 January	**(21)**	(304)
Income statement transfers		
- Foreign currency risk	**21**	283
Balance as at 31 December	**-**	(21)

Hedged exposures
The following table sets out the exposures covered by the Company's hedging strategies, in connection with the debt securities in issue:

For the year ended 31 December 2021

Cash flow hedges

Hedged Risk	Hedged item balance sheet line item	Change in value used for calculating hedge ineffectiveness £000	Cash flow hedge reserve £000	Balances on cash flow hedge reserve where hedge accounting is no longer applied £000
Foreign currency risk	Debt securities in issue	-	-	-

For the year ended 31 December 2020

Cash flow hedges

Hedged Risk	Hedged item balance sheet line item	Change in value used for calculating hedge ineffectiveness £000	Cash flow hedge reserve £000	Balances on cash flow hedge reserve where hedge accounting is no longer applied £000
Foreign currency risk	Debt securities in issue	-	(21)	(21)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

11. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The following tables summarise the fair values of the financial asset and liability classes accounted for at fair value at 31 December 2021 and 2020, analysed by the valuation methodology used by the Company to determine their fair value, including their levels in the fair value hierarchy – level 1, level 2 and level 3.

31 December 2021		Internal models based on								
Balance Sheet category		Level 1		Level 2		Level 3		Total		Valuation
		£000	%	£000	%	£000	%	£000	%	Technique
Assets										
Derivative assets	Foreign currency contracts	-	-	-	-	-	-	-	-	
Total assets at fair value		-	-	-	-	-	-	-	-	A
Liabilities										
Derivative liabilities	Foreign currency contracts	-	-	(2)	100	-	-	(2)	100	
Total liabilities at fair value		-	-	(2)	100	-	-	(2)	100	A

31 December 2020		Internal models based on								
Balance Sheet category		Level 1		Level 2		Level 3		Total		Valuation
		£000	%	£000	%	£000	%	£000	%	Technique
Assets										
Derivative assets	Foreign currency contracts	-	-	-	-	-	-	-	-	
Total assets at fair value		-	-	-	-	-	-	-	-	A
Liabilities										
Derivative liabilities	Foreign currency contracts	-	-	(12,837)	100	-	-	(12,837)	100	
Total liabilities at fair value		-	-	(12,837)	100	-	-	(12,837)	100	A

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

Valuation of financial instruments

Financial instruments that are classified or designated at fair value through profit or loss and all derivatives are stated at fair value. The fair value of such financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

Changes in the valuation of such financial instruments, including derivatives, are included in the 'Net other operating (expenses)/ income' line item in the Statement of Comprehensive Income.

(i) Initial measurement

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include significant data from observable markets. Any difference between the transaction price and the value based on a valuation technique where the inputs are not based on data from observable current markets is not recognised in the Statement of Comprehensive Income on initial recognition. Subsequent gains and losses are only recognised to the extent that they arise from a change in a factor that market participants would consider in setting a price.

(ii) Subsequent measurement

The Company applies the following fair value hierarchy that prioritises the inputs to valuation techniques used in measuring fair value. The hierarchy establishes three categories for valuing financial instruments, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The three categories are: quoted prices in active markets (Level 1), internal models based on observable market data (Level 2) and internal models based on other than observable market data (Level 3). If the inputs used to measure an asset or a liability fall to different levels within the hierarchy, the classification of the entire asset or liability will be based on the lowest level input that is significant to the overall fair value measurement of the asset or liability.

The Company categorises assets and liabilities measured at fair value within the fair value hierarchy based on the inputs to the valuation techniques as follows:

Level 1: Unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access at the measurement date. The Company has no assets or liabilities measured at fair value that are classified as Level 1.

Level 2: Quoted prices in non-active markets, quoted prices for similar assets or liabilities, recent market transactions, inputs other than quoted market prices for the asset or liability that are observable either directly or indirectly for substantially the full term, and inputs to valuation techniques that are derived principally from or corroborated by observable market data through correlation or other statistical means for substantially the full term of the asset or liability. Level 2 positions include exchange rate derivatives and interest rate derivatives.

Level 3: Inputs to the pricing or valuation techniques that are significant to the overall fair value measurement of the asset or liability are unobservable. The Company has no assets or liabilities measured at fair value that are classified as Level 3.

Financial instruments valued using a valuation technique

In the absence of a quoted market price in an active market, management uses internal models to make its best estimate of the price that the market would set for that financial instrument. In order to make these estimations, various techniques are employed, including extrapolation from observable market data and observation of similar financial instruments with similar characteristics. Wherever possible, valuation parameters for each product are based on prices directly observable in active markets or that can be derived from directly observable market prices. Chosen valuation techniques incorporate all the factors that market participants would take into account in pricing transactions.

The Company did not make any material changes to the valuation techniques and internal models it used during the year ended 31 December 2021.

Valuation techniques

The main valuation techniques employed in the Company's internal models to measure the fair value of the financial instruments disclosed above at 31 December 2021 and 2020 are set out below. In substantially all cases, the principal inputs into these models are derived from observable market data. The Company did not make any material changes to the valuation techniques and internal models it used during the years ended 31 December 2021 and 2020.

A In the valuation of interest rate and exchange rate derivatives, the 'present value' method is used. Expected future cash flows are discounted using the interest rate curves of the applicable currencies. The interest rate curves are generally observable market data and 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

12. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Internal models based on observable market data - derivative assets and liabilities

These instruments consist of exchange rate contracts and interest rate contracts. The models used in estimating the fair value of these derivatives do not contain a high level of subjectivity as the methodologies used in the models do not require significant judgement, and the inputs used in the models are observable market data such as plain vanilla interest rate swaps and option contracts. As the inputs used in the valuation are based on observable market data, these derivatives are classified within level 2 of the valuation hierarchy.

13. LOANS AND ADVANCES TO GROUP COMPANIES

	2021 £000	2020 £000
Receivable:		
Greater than five years	605,271	1,166,655
	605,271	1,166,655

Mortgage Loans underlying the Loans and advances to group companies are amortising however the repayments are not contractually certain. The maturity profile of loans and advances to group undertakings is matched to the maturity profile of the debt securities in issue.

The loans are all denominated in Sterling and are subject to variable rates of interest. The carrying amount of loans and advances to group companies approximates to their fair value.

14. OTHER ASSETS

	2021 £000	2020 £000
Accrued interest due from group companies	827	1,632
Called up share capital not paid – due from Holmes Holdings Limited (see note 17)	37	37
Deferred start-up costs	550	1,197
	1,414	2,866

The carrying amount of other assets approximates to their fair value. Deferred start-up costs due after one year at 31 December 2021 amount to £0.1m (2020: £0.6m).

15. DEBT SECURITIES IN ISSUE

	2021 £000	2020 £000
Residential mortgage backed Notes	613,636	1,162,113
These borrowings are repayable as follows:		
Greater than five years	613,636	1,162,113
	613,636	1,162,113

The classification of the debt securities in issue is in line with the legal maturity dates of the notes however actual redemptions are likely to be made according to the scheduled amortisation as per the Transaction Documents.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

15. DEBT SECURITIES IN ISSUE (CONTINUED)

The tables below disclose the list of debt securities in issue.

Issue: 2016-1	Currency	2021 £000	2021 Issued currency 000	2020 £000	2020 Issued currency 000
Class A2 Floating Rate Notes 2054	GBP	-	-	252,571	252,571
Class Z 2054	GBP	-	-	122,878	122,878
		-	-	375,449	375,449

Issue: 2017-1	Currency	2021 £000	2021 Issued currency 000	2020 £000	2020 Issued currency 000
Class A2 Floating Rate Notes 2054	GBP	250,000	250,000	250,000	250,000
		250,000	250,000	250,000	250,000

Issue: 2018-1	Currency	2021 £000	2021 Issued currency 000	2020 £000	2020 Issued currency 000
Class A3 Floating Rate Notes 2054	GBP	300,000	300,000	300,000	300,000
		300,000	300,000	300,000	300,000

Issue: 2018-2	Currency	2021 £000	2021 Issued currency 000	2020 £000	2020 Issued currency 000
Class A2 Floating Rate Notes 2054	USD	-	-	197,372	269,620
Class Z 2054	GBP	-	-	39,292	39,292
		-	-	236,664	308,912

Issue: 2021-1	Currency	2021 £000	2021 Issued currency 000	2020 £000	2020 Issued currency 000
Class Z 2054	GBP	63,636	63,636	-	-
		63,636	63,636	-	-

Total		613,636		1,162,113	

The book carrying value of debt securities in issue approximates (2020: approximates) to fair values.

Interest is payable on the debt securities in issue at variable rates based on the three-month US Dollar LIBOR and three–month Sterling LIBOR, apart from Class A2 Floating Rate Notes 2054 and Class A3 Floating Rate Notes 2054 which were changed from LIBOR to the Sterling Over Night Index Average (SONIA) on 15 October 2019.

The Company's obligations to note-holders, 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 de-recognition criteria described in IFRS 9 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 debt securities in issue are listed and are included in the amounts shown above.

The Company's debt securities in issue are denominated in Pounds Sterling (2020: US Dollars and Pounds Sterling). All currency borrowings are swapped at inception so that they have the effect of sterling borrowings. These swaps provide an effective hedge against exchange rate movements, but the requirement to carry them at fair value leads, when exchange rates have moved significantly since the issue of the debt securities in issue, to large balances for the swaps being carried in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

16. OTHER LIABILITIES

	2021 £000	2020 £000
Accrued interest payable	826	1,710
Other liabilities payable to group companies	43	43
Other liabilities	3,107	3,212
	3,976	4,965

Accrued interest is deemed payable within one year and includes £0.3m (2020: £0.6m) payable to Santander UK plc. The Directors consider that the carrying amounts of other liabilities approximate to their fair value.

17. SHARE CAPITAL

	2021 £000	2020 £000
Issued and called up:		
50,000 (2020: 50,000) Ordinary shares of £1 each	50	50

18. HEDGING RESERVE

	2021 £000	2020 £000
Cross currency swaps	-	(21)
	-	(21)

The hedging reserve represents the cumulative effective portion of gains and losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of hedging reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss consistent with the Company's accounting policy.

19. RELATED PARTY TRANSACTIONS

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

	Expense		Income		Cash and cash equivalents		Amounts due (to) / from related parties	
	2021 £000	2020 £000	2021 £000	2020 £000	2021 £000	2020 £000	2021 £000	2020 £000
Santander UK plc	2,096	9,446	-	4	1,042	1,407	(183,595)	(333,640)
Holmes Funding Limited	-	-	5,225	16,343	-	-	606,098	1,168,287
Holmes Holdings Limited	-	-	-	-	-	-	37	37

The following derivative balances were held with related party Santander UK limited:

	2021 £000	2020 £000
Derivative financial instruments – assets	-	-
Derivative financial instruments – liabilities	2	12,837

Included in the amounts due from related parties is accrued interest receivable from Holmes Funding Limited of £0.8m (2020: £1.6m). Included in the amounts due to related parties is accrued interest payable to Santander UK plc of £0.3m (2020: £0.6).

In addition to the above, the Company paid £10,000 (2020: £12,033) to Wilmington Trust SP Services (London) Limited for the provision of Directors to the Company.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

20. CAPITAL MANAGEMENT AND RESOURCES

Santander UK plc adopts a centralised capital management approach, based on an assessment of both regulatory requirements and the economic capital impacts of businesses in the Santander UK Group. Disclosures relating to the Company's capital management can be found in the Santander UK Annual Report and Financial Statements.

Capital held by the Company and managed centrally as part of Santander UK plc, comprises share capital and reserves which can be found in the Balance Sheet on page 13. The Company's capital is not externally regulated.

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 related party loans have been received and amounts owing, including deferred consideration, have been paid.

21. PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent company is Holmes Holdings Limited. Wilmington Trust SP Services (London) Limited, a company incorporated in Great Britain and registered in England and Wales, holds the entire share capital of Holmes Holdings Limited 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 and consolidated within the group financial statements of Santander UK Group Holdings plc.

The Company's ultimate controlling party is Banco Santander SA, a company registered 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.