

Mortgage Agency Services Number Five Limited
Directors' report and financial statements
for the year ended 31 December 2011

Registered Number: 4420522

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Mortgage Agency Services Number Five Limited

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Mortgage Agency Services Number Five Limited

Directors and advisors

Directors

Mr K Alderson
Mr P M Garlick
Mr W E Newby
Mr D Tweedy
Mr P A Wilson

Secretary

Mrs S Moss

Independent auditor

KPMG Audit Plc
St James Square
Manchester
M2 6DS

Registered office

New Century House
Corporation Street
Manchester
M60 4ES

Registered number

4420522

Mortgage Agency Services Number Five Limited

Directors' report for the year ended 31 December 2011

The directors present their report and the audited financial statements of Mortgage Agency Services Number Five Limited (Registered Company No 4420522) for the year ended 31 December 2011

Principal activities

The Company was incorporated in England with the principal activities of investment in mortgage loans secured by first charges over residential properties within the UK and receiving deferred consideration for previously owned mortgage portfolios

Review of business and future developments

The ability to secure funding for mortgages via securitisation and external funding, and the ability to sell mortgages to external parties has been impacted by recent market conditions. However the Company has appropriate arrangements in place to ensure that it can continue to operate for the foreseeable future

The mortgage assets have decreased in line with the repayments received and the deemed loan liabilities have decreased in line with the mortgages they represent. This is expected to continue into the future

The residential mortgage interest income and the deemed loan interest expense have increased due to remodelling of effective interest rate assumptions. The interest receivable is in line with management's expectations

Key performance indicators (KPIs)

The directors monitor the progress of the Company by reference to several KPIs which are analysed below

New mortgages

New mortgages for the year amounted to £753K (2010 £2,402K). The only obligations in 2011 were further advances and ported mortgages

Closing loan balance

The loan book decreased during the year to £2,263,472K (2010 £2,442,243K). The decrease of 7.32% is due to redemptions and is consistent with expectations

Arrears greater than 90 days as a percentage of loan book balance

During 2011 arrears greater than 90 days have decreased to 12.27% (2010 17.82%). Further information is provided in note 11 loans and advances to customers

Mortgage Agency Services Number Five Limited

Directors' report for the year ended 31 December 2011 (continued)

Principal risks and uncertainties

The financial risks faced by the Company are credit risk, interest rate risk and liquidity risk. A summary of these risks is included below and more detail regarding the management of these risks is included in note 10 to the financial statements.

- credit risk is the risk that a customer or counterparty will not be able to meet its obligations to the Company as they become due. Credit risk arises on loans and advances to customers and other receivables. Credit risk on loans and advances to customers is impacted by economic factors in the UK, which could affect the ability of the Company's customers to repay their loans. The credit risk policies are approved by The Co-operative Banking Group's Risk Management Committee (delegated authority from The Co-operative Banking Group's Board). The majority of credit risk related decisions are based on well founded and robust decision making mechanisms designed to segregate customers into risk categories. The Credit Risk Control Unit (CRCU) provides an independent view of credit risk in order to support the business' decision making. CRCU does not directly benefit from decisions to extend credit. The CRCU provides risk oversight by virtue of its independence from the business management functions. The CRCU function is in house and is not outsourced. It is the responsibility of the Credit Risk Control Unit to design, select, implement, maintain and monitor the systems used to assess credit risk. Other receivables are held primarily with group undertakings and consequently, the credit risk on these items is considered to be minimal,
- interest rate risk arises from movements in interest rates on the Company's mortgage portfolios. The Co-operative Bank plc manages this risk using derivatives, and
- liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due, or can only do so at excessive cost. The Co-operative Bank plc provides the funding for the Company. This funding is provided on the basis of the Company's ability to repay. The funding is not expected to be withdrawn in the foreseeable future, therefore the liquidity risk is considered to be minimal. Liquidity risk arises on deemed loans and amounts due to group undertakings.

As set out more fully in the statement of accounting policies, these financial statements have been prepared under the current International Financial Reporting Standards (IFRS) framework, as endorsed by the European Union (EU). All financial information given in this directors' report is taken solely from the statutory results prepared on the above basis.

Results and dividends

The profit for the year after taxation amounted to £35,276K (2010 £19,262K). The net assets of the Company at 31 December 2011 were £45,410K (2010 £29,134K). The directors propose a dividend for the year ending 31 December 2011 of £38,000K (2010 £19,000K). Further information regarding the dividends proposed and paid is included in note 21.

Directors and their interests

The directors who held office during the year are given below.

Mr K Alderson (appointed 6 April 2011)
Mr P M Garlick (appointed 19 January 2011)
Mr W E Newby
Mr D Tweedy
Mr P A Wilson (appointed 20 January 2011)

No director had a beneficial interest in the share capital of the Company or any other company in The Co-operative Group Limited at any time during the year under review.

Going concern

The directors have considered the Company's business activities together with its financial position and the factors likely to affect its future development and performance.

Consequently, after making enquiries, the directors are satisfied that the Company has sufficient resources to continue in business for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements.

Mortgage Agency Services Number Five Limited

Directors' report for the year ended 31 December 2011 (continued)

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRS as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company, and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRS as adopted by the EU, 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 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. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Disclosure of information to auditor

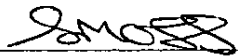
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

On behalf of the Board

Signed


Mrs S. Moss

Secretary

Date 16 April 2012

Mortgage Agency Services Number Five Limited

Independent auditor's report to the members of Mortgage Agency Services Number Five Limited

We have audited the financial statements of Mortgage Agency Services Number Five Limited for the year ended 31 December 2011 set out on pages 6 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRS as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

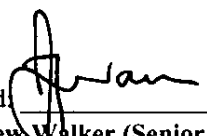
In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Signed


Andrew Walker (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
KPMG Audit Plc
St James Square
Manchester
M2 6DS

Date

16 April 2012

Mortgage Agency Services Number Five Limited

Statement of comprehensive income for the year ended 31 December 2011

	Notes	2011 £000	2010 £000
Interest receivable and similar income	2	93,071	91,673
Interest expense and similar charges	3	(42,555)	(56,612)
Net interest income		50,516	35,061
Fee and commission income	4	3,545	3,848
Gains less losses from financial instruments	5	-	(165)
Other operating income		3,545	3,683
Total income		54,061	38,744
Other operating expenses	7	(5,083)	(5,308)
Impairment losses on loans and advances	11	(552)	(8,649)
Profit before taxation		48,426	24,787
Taxation	8	(13,150)	(5,525)
Profit attributable to equity holders	17	35,276	19,262

All results are from continued operations

There are no recognised gains or losses other than profits for the current year

The accounting policies and notes on pages 10 to 28 form part of these financial statements

Mortgage Agency Services Number Five Limited

Balance sheet as at 31 December 2011

	Notes	2011 £000	2010 £000
Assets			
Cash and cash equivalents	9	-	140
Loans and advances to customers	11	2,217,404	2,383,498
Deferred tax asset	8	3,699	5,303
Other receivables	12	2,471	1,432
Total assets		2,223,574	2,390,373
Liabilities			
Deposits from banks	13	444	-
Deemed loans due to group undertakings	14	1,846,637	1,990,325
Other payables	15	319,537	366,114
Current tax liabilities		11,546	4,800
Total liabilities		2,178,164	2,361,239
Equity			
Called-up share capital	16	2,500	2,500
Retained earnings	17	42,910	26,634
Total equity and liabilities		2,223,574	2,390,373

The accounting policies and notes on pages 10 to 28 form part of these financial statements

Approved by the Board of Directors on 16 April 2012 and signed on its behalf by

Signed


Mr W. Newby
Director

Date 16 April 2012

Mortgage Agency Services Number Five Limited

Statement of changes in equity for the year ended 31 December 2011

	Share Capital £000	Retained Earnings £000	Total £000
Year ended 31 December 2011			
Balance at the beginning of the year	2,500	26,634	29,134
Profit for the year	-	35,276	35,276
Dividend paid	-	(19,000)	(19,000)
Balance at the end of the year	2,500	42,910	45,410
Year ended 31 December 2010			
Balance at the beginning of the year	2,500	7,372	9,872
Profit for the year	-	19,262	19,262
Balance at the end of the year	2,500	26,634	29,134

The accounting policies and notes on pages 10 to 28 form part of these financial statements

Mortgage Agency Services Number Five Limited

Statement of cash flows for the year ended 31 December 2011

	Notes	2011 £000	2010 £000
Net cash flows from operating activities	18	(584)	(641)
Net increase in cash and cash equivalents		(584)	(641)
Cash and cash equivalents at the beginning of the year		140	781
Cash and cash equivalents at the end of the year	13, 9	(444)	140

The accounting policies and notes on pages 10 to 28 form part of these financial statements

Mortgage Agency Services Number Five Limited

Statement of accounting policies for the year ended 31 December 2011

Basis of preparation

Mortgage Agency Services Number Five Limited is a company incorporated and domiciled in England

The Company's financial statements have been prepared under the historical cost convention

The Company is required to prepare its financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and implemented in the UK, interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and with those parts of the Companies Act 2006 applicable to organisations reporting under IFRS

In preparing these financial statements, the Company has adopted the following pronouncements during the year that are new or revised but have no material impact on the financial statements

IAS 24 – Related Party Disclosure (revised November 2009)

IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments (issued November 2009)

There are no significant uncertainties applied in the basis of preparing these financial statements

Functional and presentational currencies

The financial statements are presented in sterling, which is the Company's functional currency (ie the primary currency in which it transacts business) and presentational currency

Interest income and expense

This comprises

- interest income and expense for financial assets and liabilities at amortised cost through the statement of comprehensive income, calculated using the effective interest rate method. This includes accrued interest income on financial assets written down as a result of impairment, and
- deferred consideration

Effective interest rate

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial 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 Company estimates cash flows considering all contractual terms of the financial instrument. The calculation includes all amounts receivable or payable by the Company that are an integral part of the overall return.

When a financial asset has been written down as a result of impairment or loss, subsequent interest income continues to be recognised using the original effective interest rate applied to the reduced carrying value of the financial instrument.

Fee and commission income

Fee and commission income, other than that directly related to loans is recognised over the year for which service has been provided or on completion of an act to which the fee relates.

Mortgage Agency Services Number Five Limited

Statement of accounting policies for the year ended 31 December 2011 (continued)

Taxation

Tax on the profit for the year comprises current tax and movements in deferred tax

Current tax

The expected tax payable on the results for the year is called current tax. It is calculated using the tax rates in force during the reporting period. The current tax charge includes adjustments to tax payable in prior periods.

Deferred tax

Deferred tax is provided in full using the liability method where there are temporary differences between the carrying value of assets and liabilities for accounting and for tax purposes.

Deferred tax is calculated using the tax rates that are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

The principal temporary differences arise due to loss provisions.

Deferred tax assets are only recognised as an asset where it is probable that there will be future taxable profits against which to offset them.

Movements in deferred tax are recognised in the statement of comprehensive income.

Financial assets

The Company's financial assets are categorised as follows:

a. Financial assets at fair value through income or expense

These are either:

- acquired or incurred principally for the purpose of selling or repurchasing in the short term,
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or
- designated at fair value through income or expense upon initial recognition to eliminate or significantly reduce a measurement or recognition inconsistency.

This category covers assets acquired principally for the purpose of selling in the short term or assets so designated at initial recognition by management.

Financial assets at fair value through income and expense are initially recognised at fair value on the date that the Company commits to purchase the derivative. The fair values of quoted investments in active markets are based on current bid prices. Associated transaction costs are taken directly to the statement of comprehensive income. Gains and losses arising from changes in fair values are included in the statement of comprehensive income in the period in which they arise.

b. Loans and receivables

Loans and receivables are assets with fixed or determinable payments that are not quoted in an active market. They comprise loans and advances to customers.

Loans and receivables are recognised when the cash is advanced. They are carried at amortised cost using the effective interest rate method, with all movements being recognised in the statement of comprehensive income.

Mortgage Agency Services Number Five Limited

Statement of accounting policies for the year ended 31 December 2011 (continued)

Derecognition of financial assets

Financial assets are derecognised when

- the rights to receive cash flows from the assets have ceased, or
- the Company has transferred substantially all the risks and rewards of ownership of the assets

Impairment of financial assets

An asset is impaired if the recoverable amount of the asset (ie the discounted future cash flows from the asset) is less than the carrying value of the asset on the balance sheet

Assets carried at amortised cost

At the end of each reporting period, the Company assesses whether there is objective evidence that any of its financial assets carried at amortised cost are impaired. The Company assesses assets individually and collectively where a group of assets has similar risk characteristics.

Objective evidence that an asset (or group of assets) may be impaired includes observable data that loss events, such as

- late or missed repayments of capital or interest,
- other evidence that borrowers are experiencing financial difficulties, or
- national or local economic conditions that indicate an increased likelihood that borrowers will default,

have occurred subsequent to initial recognition and their impact on the estimated future cash flows of the asset (or group of assets) can be reliably estimated.

The Company first assesses whether evidence of impairment exists for individual financial assets. Where the Company concludes that there is no evidence of impairment for individually assessed assets it includes those assets in groups of assets with similar credit characteristics and collectively assesses these groups for impairment.

Where the Company identifies evidence that an individual asset or group of assets is impaired it reduces its value on the balance sheet and charges the provision to the statement of comprehensive income. The amount of the provision made is calculated as the difference between the carrying value of the asset and the present value of future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate.

In estimating these future cash flows, the Company takes into account such factors as the expected net proceeds from the sale of repossessed properties, the time taken to repossess and any further payments expected from the borrower.

When a loan is considered uncollectible, it is written off against the allowance account on the balance sheet. Such loans are written off after all the possible collection procedures have been completed and the amount of the loss has been determined. Any recoveries made in future periods are offset against the impairment charge in the statement of comprehensive income.

Deemed loans due to group undertakings

The Company has entered into various securitisation transactions in which it sells mortgages to special purpose entities (SPEs). Management considers that the Company retains substantially all the risks and rewards of ownership of the securitised assets. The Company therefore continues to recognise these assets as loans and advances to customers and recognises a financial liability for consideration received. This financial liability is termed as the deemed loan.

In subsequent periods, income from the securitised mortgages is recognised by the Company in the normal manner using the effective interest rate method. Amounts payable to SPEs, together with the expenses of the securitisation are accrued as an expense on the financial liability.

Mortgage Agency Services Number Five Limited

Statement of accounting policies for the year ended 31 December 2011 (continued)

Deemed loans due to group undertakings (continued)

The deemed loan is carried at amortised cost using the effective interest rate method with all movements being recognised in the statement of comprehensive income

Deferred consideration receivable

Deferred consideration receivable is netted off against the deemed loan since they are due to and from the same counterparty

Deferred consideration receivable is deducted from interest expense since the Company does not recognise expenditure which it has not incurred. Contingent deferred consideration arising in future years is recorded in the statement of comprehensive income in the year in which it arises

Financial liabilities

Financial liabilities are contractual obligations to deliver cash or some other asset to a third party. They include

- derivatives, and
- other borrowed funds and liabilities

Financial liabilities are recognised initially at fair value. Fair value includes the issue proceeds (the fair value of consideration received) net of issue costs incurred.

Financial liabilities, other than derivatives, are subsequently stated at amortised cost. Any difference between issue proceeds net of issue costs and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate method.

Dividends

Dividends are only recognised in the financial statements by the Company once they have been approved by the shareholders.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months to maturity from the date of acquisition.

Critical accounting estimates and judgments in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. Impairment losses on loans and advances

In accordance with the accounting policy, the methods and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience, as set out in note 11. At the year end, the Company carried impairment provisions of £20,668K (2010 £28,846K) against loans and advances to customers. To the extent that the net present value of estimated future cash flows differs by 10%, the provision would change by an estimated £4,564K (2010 £8,083K).

b. Fair Values

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Financial instruments entered into as trading transactions, are measured at fair value and the resultant profits and losses are included in the statement of comprehensive income. Assets and liabilities resulting from gains and losses on financial instruments held for trading are reported gross in assets and liabilities.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2011

1 Profit before taxation

Profit on ordinary activities before taxation is stated after charging

	2011 £000	2010 £000
Audit fees for the audit of the Company's financial statements	5	6

2 Interest receivable and similar income

	2011 £000	2010 £000
On financial assets not at fair value through income and expense		
Interest receivable on loans and advances	93,071	91,673
	93,071	91,673

Included within interest receivable is £9,757K of interest accrued on impaired financial assets (2010 £19,168K)

3 Interest expense and similar charges

	2011 £000	2010 £000
On financial assets not at fair value through income and expense		
Deemed loan interest payable	78,668	81,004
Adjustment to the carrying value of deemed loan	(9,608)	(8,089)
Deferred consideration receivable (note 14)	(29,369)	(19,351)
Interest and similar charges payable to group undertakings	2,864	3,048
	42,555	56,612

4 Fee and commission income

	2011 £000	2010 £000
On financial assets not at fair value through income and expense		
Administrative fees receivable	1,525	1,738
Other fees	2,020	2,110
	3,545	3,848

5 Gains less losses from financial instruments

	2011 £000	2010 £000
Amortisation of fair value adjustment for hedged risk on cancelled swaps	-	(165)
	-	(165)

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2011 (continued)

6 Directors' emoluments

The directors received emoluments from The Co-operative Bank plc for services rendered to all companies in the Group. However, these are not apportioned to the individual companies.

At 31 December 2011, five directors had benefits accruing under The Co-operative Group pension schemes (2010 one). Particulars of the latest actuarial valuations of the Group pension schemes are disclosed in the accounts of The Co-operative Bank plc.

The Company had no employees during the current or prior year.

7 Other operating expenses

	2011 £000	2010 £000
Staff/finance recharges	-	1,231
Central recharges from Group	540	-
Professional and accountancy fees	17	93
General expenses	34	17
Mortgage administration and management charges	4,456	3,928
Subscriptions	17	19
Bank charges	19	17
Mortgage interest compensation	-	3
	5,083	5,308

The central recharges from Group consist of centralised costs from The Co-operative Banking Group, these include staff and cost recharges, which are apportioned between all companies in the Group using an allocations based model.

8 Taxation

	2011 £000	2010 £000
UK tax at 26.49% (2010: 28%)		
Corporation tax		
Current	11,546	4,800
Total corporation tax	11,546	4,800
Deferred tax		
Current	1,604	2,336
Adjustment in respect of prior years	-	(1,611)
	13,150	5,525

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2011 (continued)

8 Taxation (continued)

Factors affecting tax charge for the year

The average effective rate of corporation tax assessed for the year is higher than the standard effective rate of corporation tax in the UK of 26.49% (2010 28%). The differences are explained below

	2011 £000	2010 £000
Profit on ordinary activities before tax	48,426	24,787
Profit before tax multiplied by standard rate of tax	12,830	6,940
Effects of		
Adjustment in respect of prior years	-	(1,611)
Change in rate	320	196
	13,150	5,525

The recognised deferred tax asset includes the following amounts

	2011 £000	2010 £000
Short-term timing differences	3,699	5,303
	3,699	5,303

The reconciliation of the opening and closing deferred tax is shown below

	2011 £000	2010 £000
Net deferred tax at the beginning of the year	5,303	6,028
Deferred tax charged to the statement of comprehensive income	(1,604)	(725)
Net deferred tax at the end of the year	3,699	5,303

The deferred tax asset arises due to short-term timing differences and is therefore considered to be recoverable. Deferred tax assets expected to be recoverable after one year are £3,699K (2010 £5,303K).

The 2012 budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and a further reduction to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012. This will reduce the Company's future current tax charge accordingly. The tax disclosures for the period reflect deferred tax at the 25% substantively enacted rate at the balance sheet date. It has not yet been possible to quantify the full anticipated effect of the further announced rate reductions, although this will further reduce the Company's future current tax charge and reduce the Company's deferred tax asset accordingly.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2011 (continued)

9 Cash and cash equivalents

	2011 £000	2010 £000
Bank deposits	-	140
	-	140

10 Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability of another entity. The Company's financial instruments consist principally of loans and advances to customers, deemed loans due to group undertakings, amounts owed to group undertakings and cash and cash equivalents.

Fair values of financial instruments

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the balance sheet at fair value, unless there is no significant difference between the carrying and fair values.

	Carrying value 2011 £000	Fair value 2011 £000
Loans and advances to customers	2,217,404	2,184,086
Deemed loans due to group undertakings	(1,846,637)	(1,821,224)
	Carrying value 2010 £000	Fair value 2010 £000
Loans and advances to customers	2,383,498	2,324,027
Deemed loans due to group undertakings	(1,990,325)	(1,944,756)

Fair values have been determined as follows:

Loans and advances to customers

Loans and advances to customers are stated net of provisions for impairment. The estimated fair value of loans and advances and deemed loans represents the balance after deducting the lifetime expected losses and after applying an interest-rate adjustment, on a discounted cash flow basis, to reflect the value inherent in fixed rate, base and tracker products compared to market pricing. The lifetime expected losses have been calculated using Basel models used to calculate the expected loss in a 12 month period and extending it for the life of the loans. The fair value of loans and advances to customers is not necessarily the price achievable in the market due to distressed market conditions.

Deemed loans

The estimated fair value of deemed loans represents the balance after deducting the lifetime expected losses calculated on the mortgage loans that balance represents. The lifetime expected losses have been calculated using Basel models used to calculate the expected loss in a 12 month period and extending it for the life of the loans.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2011 (continued)

10 Financial instruments (continued)

Risk management and control

The financial risks faced by the Company include the following

- interest rate risk,
- credit risk, and
- liquidity risk

As a subsidiary of The Co-operative Banking Group, the Company applies The Co-operative Banking Group's formal structure for managing risk. The Co-operative Banking Group's Risk Management Committee is responsible for review and challenge of the adequacy of capital risks (including operational risk), and for technical risk management activities and portfolio exposures including

- operation of mandates and limits and any breaches thereof,
- risk management policy approval,
- risk management information reporting and integrity of relevant data,
- identification and measurement of risk,
- risk and portfolio exposure management strategy,
- adequacy of the risk mitigation process,
- review and discussion of risk issues identified as a result of internal audit work, and
- review and challenge of the impact assessment of the strategic plan on the risk and capital profile

Interest rate risk

At 31 December 2011 the fixed rates on mortgages varied from 2.48% to 4.7% (2010: 4.50% to 5.98%) and the average funding at a floating rate was 0.85% (2010: 0.77%) (1 month LIBOR plus 21 basis points)

The Company is exposed to movements in interest rates and The Co-operative Bank plc manages this exposure using derivatives. Interest rate risk arises on the mortgages of the Company which contain both fixed and variable loans. The funding for these is variable based on LIBOR. The Bank monitors interest rate risk on the whole balance sheet in detail and reports this to the Assets and Liabilities Committee on a monthly basis. Working across a number of business areas, movements in customer balances and external markets are managed on a daily or weekly basis and strategic interest rate risk decisions are made as required. This is monitored using a risk management system and operates within limits set out by The Co-operative Banking Group's Risk Management Committee.

The Co-operative Bank plc uses fixed interest rate swaps to manage interest rate risk. The effective hedges were implemented at inception to avoid adverse effects of interest rate fluctuations. Consequently, The Co-operative Bank plc has never experienced significant financial losses as a result of movements in interest rates and therefore, the directors are satisfied that The Co-operative Bank plc has managed any significant interest rate repricing exposure to the Company. The Company itself does not hold any interest rate swaps.

Interest rate risk management measures are used at Bank level (such as value at risk sensitivity analysis) to monitor the potential gains or losses from market volatility within a statistical confidence level.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2011 (continued)

10 Financial instruments (continued)

Credit risk

Credit risk is the risk that a customer or counterparty will not be able to meet its obligations to the Company as they become due. Credit risk arises on cash and cash equivalents, loans and advances to customers and other receivables.

The table below represents a worst-case scenario of credit risk exposure to the Company at 31 December 2011 and 2010, without taking into account any collateral held or other credit enhancements attached. The exposures are based on gross carrying amounts as reported in the balance sheet.

Category (as defined by IAS 39)	Class	2011 £000	Restated 2010 £000
Loans and receivables	Loans and advances to customers	2,217,404	2,383,498
Loans and receivables	Other receivables	2,471	1,432
Cash and cash equivalents	Cash and cash equivalents	-	140
		2,219,875	2,413,916

The 2010 loans and advances to customers figure has been restated to include allowances for losses on loans and advances.

The Company holds collateral for loans and advances in the form of mortgages over residential properties.

Loans and advances to customers

Credit risk in respect of the Company's residential mortgage assets is managed as follows:

- original due diligence on any acquisitions is undertaken by both The Co-operative Bank plc personnel and external experts,
- credit management is conducted in accordance with the service contract and service specifications with Western Mortgage Services Limited (WMS), who administers the Company's loans and advances to customers,
- arrears, possessions and redemptions statistics are reported to The Co-operative Banking Group's Portfolio Credit Committee, and
- The Co-operative Banking Group's Portfolio Credit Committee maintains limits and recommends policy.

There are no specific concentrations of credit risk on the loans and advances to customers.

Forbearance

Where a borrower is unable to clear their arrears in full, the Company will endeavour to agree an arrangement with the borrower to repay the outstanding arrears over a period of time, or may agree to accept payments of less than the contractual amount during a period of temporary financial hardship. In these instances the loan continues to be reported as impaired until such time as the arrears are cleared in full. Arrangements can be made directly with the customer or through a third party whom they have chosen to represent them.

A negative disposable income account is where the customer's current financial situation means they are unable to make any monthly payments to their unsecured creditors. In such circumstances the bank may refrain from further action during the period of financial hardship. The customer's circumstances will be reviewed on a regular basis, with a view to resolving the situation when the customer's circumstances improve. These loans continue to be reported as impaired, and will have a higher dedicated provision rate than the standard provisioning rates.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2011 (continued)

10 Financial instruments (continued)

Credit risk (continued)

Forbearance (continued)

A number of options are available to assist borrowers in financial difficulty. The bank will make every effort to rehabilitate the borrower so that they are able to meet their repayments. Repossession of the property will only be considered when all other avenues have been explored. The precise treatment selected will depend on the borrower's individual circumstances, but may include

- arrangements to repay outstanding arrears over a period of time,
- short term concessions,
- temporary conversion of a mortgage to interest only repayments,
- a permanent switch from capital and interest repayments to interest only repayments,
- an extension to the term of the mortgage, and
- capitalisation

The table below analyses mortgage forbearance by concession allowed

	2011		2010	
	Exposure £000	Provision £000	Exposure £000	Provision £000
Arrangements	175,074	7,501	179,439	9,698
Concessions	2,226	24	2,681	49
Interest only switches	78,654	318	70,576	10
Term extensions	5,706	18	5,093	-
	261,660	7,861	257,789	9,757

Other receivables

Other receivables relate primarily to amounts due from group undertakings. There is no formal repayment schedule for these monies, which are repayable on demand. Due to the way the ultimate parent manages the intercompany balances the credit risk on these loans is considered to be minimal.

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due, or can only do so at excessive cost.

Liquidity risk arises on other payables, primarily made up of amounts due to group undertakings. There is no formal repayment schedule for these monies, which are repayable on demand. It is not expected that the ultimate parent will withdraw the funding in the foreseeable future and the liquidity risk on these loans is considered to be minimal.

The liquidity risk on deemed loans due to group undertakings is not considered to be material as in practice the contractual repayments coincide with the repayments of the loans and advances to customers, as they become due, as described further in note 14.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2011 (continued)

10 Financial instruments (continued)

Capital management

The Company's primary objective in respect of capital management is to ensure that it has sufficient capital now and in the future to support the risks in the business

The Company is not subject to externally imposed capital requirements in either the current period or the prior period, other than the minimum share capital required by the Companies Act with which it complies. The Company manages its ordinary share capital in order that there is sufficient capital, in the opinion of the directors, to support the transactions and level of business undertaken by the Company

11 Loans and advances to customers

	2011 £000	2010 £000
Loans to individuals		
Mortgages	2,238,072	2,412,344
Less allowance for losses on loans and advances (below)	(20,668)	(28,846)
	2,217,404	2,383,498
Allowance for losses on loans and advances		
Balance at the beginning of the year	(28,846)	(34,882)
Charge for the year	(552)	(8,649)
Net recoveries and amounts utilised	8,730	14,685
Balance at the end of the year	(20,668)	(28,846)

Included within loans and advances to customers above are lending commitments of £168K (2010 £257K)

The above allowance for losses on loans and advances relates entirely to loans and advances to customers. During the year, the Company recovered £2,033K (2010 £787K) against amounts previously written off

Maturity analysis

It is probable that loans and advances to customers will be repaid before their contractual maturity date. The remaining contractual maturity of loans and advances to customers from the balance sheet date is as follows

	2011 £000	2010 £000
Repayable on demand	9,856	13,965
Other loans and advances by residual maturity repayable		
in not more than three months	6,023	3,539
in more than three months but not more than one year	18,327	15,502
in more than one year but not more than five years	120,490	106,764
in more than five years	2,108,776	2,302,473
	2,263,472	2,442,243
Effective interest rate adjustment	(25,400)	(29,899)
Less allowance for losses on loans and advances to customers	(20,668)	(28,846)
	2,217,404	2,383,498

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2011 (continued)

11 Loans and advances to customers (continued)

Credit quality of loans and advances

The credit quality of the loans and advances to customers is demonstrated in the table below, which shows the weighted average loan to value (LTV) of customer lending as at 31 December 2011 and 2010

	2011		2010	
	Weighted average of whole book %	Weighted average of new lending during the year %	Weighted average of whole book %	Weighted average of new lending during the year %
Residential loans	86.76	51.58	85.85	50.75

The LTV percentages are calculated using Halifax house price index linked valuations as at 31 December 2011. The weighted average of the whole book has increased slightly in 2011 but is comparable to the previous year. The LTV percentage of new lending has increased and relates to individual further advances.

Loans and advances either impaired, or past due but not impaired

	2011 £000	2010 £000
Individually impaired		
90 days past due	274,719	429,771
Impairment recognised	(18,869)	(26,953)
Carrying amount	255,850	402,818
Collectively impaired		
Less than 90 days past due	256,729	62,602
90-179 days past due	-	-
180 days past due	-	-
Impairment recognised	(1,799)	(1,893)
Carrying amount	254,930	60,709
Past due but not impaired		
0-29 days past due	80,663	83,465
30-59 days past due	13,257	18,798
60-89 days past due	6,028	8,732
Carrying amount	99,948	110,995
Neither past due nor impaired		
Low risk	973,007	975,587
Medium to high risk	633,669	833,389
Carrying amount	1,606,676	1,808,976
Total carrying amount	2,217,404	2,383,498
Fair value of collateral on financial assets which are past due but not impaired	129,956	147,210
Fair value of collateral on individually impaired financial assets	293,230	456,450

The collateral held as security comprises mortgages over residential properties.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2011 (continued)

11 Loans and advances to customers (continued)

Loans and advances either impaired, or past due but not impaired (continued)

Impaired assets

Loans and advances are considered impaired where it is determined that the Company will be unable to collect all principal and interest outstanding, according to the contractual terms of the agreements

Past due but not impaired

Loans and advances are considered past due where the contractual interest or principal payments are in arrears, but the Company believes that impairment is not appropriate, as a trigger point for impairment has not been reached. For mortgages, accounts up to 90 days in arrears but with no provision are classed as past due but not impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the probability of default (PD)

For its management purposes, the Company applies an internal ratings based (IRB) approach to the majority of its assets, as laid out and approved by the Financial Services Authority (FSA). The IRB percentages represent the risk weightings applied to each asset class. These percentages are based on the PD and loss given default (LGD) as measured by the outputs of the Company's rating system. These therefore give an indication of the credit quality of the Company's loan portfolio

Within the credit risk analysis table above, low risk has been defined as exposure where the PD is 1% or below over a one year time horizon. Medium to high risk has been defined as a PD of greater than 1% over a one year time horizon

12 Other receivables

	2011 £000	2010 £000
Amounts owed by group undertakings	2,202	1,432
Prepayments and accrued income	269	-
	2,471	1,432

The above amounts owed by group undertakings are expected to be settled within 12 months of the end of the reporting period. They represent amounts owed by Leek Finance Number Twenty plc, Leek Finance Number Twenty One plc, Meerbrook Finance Number Four Limited and Meerbrook Finance Number Six Limited in respect of administrative fees and sundry income due in relation to the loans and advances securitised to those companies

No interest is payable on these intercompany balances

13 Deposits from banks

	2011 £000	2010 £000
Bank overdraft	444	-
	444	-

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2011 (continued)

14 Deemed loans due to group undertakings

	2011 £000	2010 £000
Deemed loan repayable	1,863,122	2,003,566
Deferred consideration receivable	(16,485)	(13,241)
	1,846,637	1,990,325

The deemed loan repayable is repaid as and when the cash is received by the originator from the customers towards principal repayments of the loans and advances. Consequently a proportion of the deemed loan repayable will be repaid within 12 months although the amount cannot be quantified.

Loans and advances to customers have been pledged as collateral for these deemed loan liabilities.

Deferred consideration receivable

Deferred consideration is receivable from Leek Finance Number Twenty plc, Leek Finance Number Twenty One plc, Meerbrook Finance Number Two Limited, Meerbrook Finance Number Four Limited and Meerbrook Finance Number Six Limited dependent on the extent to which the surplus income generated by the mortgage books, sold from Mortgage Agency Services Number Five Limited to those companies exceeds the administration costs of each mortgage book. The surplus income generated during the year ended 31 December 2011 amounted to £29,369K (2010 £19,351K).

	2011 £000	2010 £000
Amounts owed by Leek Finance Number Twenty plc	6,243	6,244
Amounts owed by Leek Finance Number Twenty One plc	(1,685)	(2,989)
Amounts owed by Meerbrook Finance Number Six Limited	8,095	8,949
Amounts owed by Meerbrook Finance Number Two Limited	3,614	564
Amounts owed by Meerbrook Finance Number Four Limited	218	473
	16,485	13,241

The movement in deferred consideration is summarised as follows:

	2011 £000	2010 £000
Balance at the beginning of the year	13,241	14,301
Additional consideration receivable	29,369	19,351
Consideration received in the year	(26,125)	(20,411)
Balance at the end of the year	16,485	13,241

It is anticipated that the majority of the above deferred consideration will be receivable after one year. Repayments of deferred consideration are dependent on market conditions, amongst other factors, and therefore, the directors are unable to reliably estimate the amount that will be receivable within one year.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2011 (continued)

15 Other payables

	2011 £000	2010 £000
Amounts owed to group undertakings	319,385	365,898
Accruals and deferred income	2	57
Other payables	150	159
	319,537	366,114

The above balances owed to group undertakings are expected to be settled more than 12 months after the end of the reporting period. These represent amounts owed to The Co-operative Bank plc and its subsidiaries. There are no formal repayment schedules for these monies. The nature of the loan is such however, that repayment cannot be anticipated within one year but will be repaid as the Company receives funds in respect of loans and advances made to customers.

The effective interest rate on the above amounts owed to group undertakings is 1 month LIBOR plus 21 basis points.

16 Called-up share capital

	2011 £000	2010 £000
Issued and fully paid		
2,500,000 ordinary shares of £1 each	2,500	2,500

The Company's funding consists of share capital and intercompany funding provided by The Co-operative Bank plc. Capital is managed on the whole by The Co-operative Bank plc, which is subject to the capital requirements imposed by its regulator the Financial Services Authority (FSA). During the period, The Co-operative Bank plc complied with the capital requirements set by the FSA.

17 Retained earnings

Movements in retained earnings were as follows:

	2011 £000	2010 £000
Balance at the beginning of the year	26,634	7,372
Profit for the year	35,276	19,262
Dividend paid	(19,000)	-
Balance at the end of the year	42,910	26,634

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2011 (continued)

18 Reconciliation of operating profit to net cash flows from operating activities

	2011 £000	2010 £000
Profit before taxation	48,426	24,787
Increase in prepayments	(269)	-
Decrease in accruals	(55)	(192)
Movement in provisions for bad and doubtful debts	(8,178)	(6,036)
Cash flows from operating activities before changes in operating assets and liabilities	39,924	18,559
Net decrease in loans and advances to customers	174,272	146,033
Net (increase)/ decrease in amounts due from group undertakings	(770)	171
Net decrease in deemed loan liabilities	(143,688)	(95,632)
Net decrease in other payables	(46,522)	(65,729)
Dividend paid	(19,000)	-
Taxation paid	(4,800)	(4,043)
Net cash flows from operating activities	(584)	(641)

19 Ultimate parent undertaking and controlling entity

The Company's immediate parent undertaking and controlling entity is Britannia Treasury Services Limited, a company registered in England

The largest group in which the results of the Company are consolidated is that headed by The Co-operative Group Limited. The Co-operative Group Limited is a mutual organisation owned by its members and consequently has no controlling body. It is incorporated in England and registered under the Industrial and Provident Societies Acts. The financial statements of the ultimate parent company are available from New Century House, Manchester, M60 4ES. The smallest group in which they are consolidated is that headed by The Co-operative Bank plc, which is incorporated in England. The financial statements of this group are available from 1 Balloon Street, Manchester, M60 4EP.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2011 (continued)

20 Related party transactions

As stated in the note above, the Company is a subsidiary of The Co-operative Group Limited. Consequently the directors of the Company consider The Co-operative Group Limited and its subsidiaries to be related parties of the Company. Transactions with The Co-operative Group Limited and its subsidiaries are disclosed below.

Year ended 31 December 2011	Interest receivable and other income £000	Interest expense and other charges £000	Balance due from the Company £000
The Co-operative Bank plc	-	2,864	(319,384)
Western Mortgage Services Limited	-	4,471	-
Leek Finance Number Twenty plc	326	12,841	(386,322)
Leek Finance Number Twenty One plc	696	15,252	(813,896)
Meerbrook Finance Number Two Limited	-	6,301	(453,976)
Meerbrook Finance Number Four Limited	485	1,694	(115,980)
Meerbrook Finance Number Six Limited	73	3,602	(74,261)
Year ended 31 December 2010			
The Co-operative Bank plc	-	3,048	(365,572)
Western Mortgage Services Limited	-	3,608	(320)
Leek Finance Number Twenty plc	344	12,923	(411,489)
Leek Finance Number Twenty One plc	742	17,899	(882,434)
Meerbrook Finance Number Two Limited	-	16,558	(491,127)
Meerbrook Finance Number Four Limited	518	3,440	(127,208)
Meerbrook Finance Number Six Limited	76	2,744	(76,642)

During the year, 24 (2010: 57) properties which the Company had previously repossessed were acquired by Illius Properties Limited, a fellow subsidiary of The Co-operative Group Limited, for £2,495K (2010: £5,456K). The purchase prices were based on independent market valuations.

The following directors have benefits accruing under The Co-operative Group pension schemes and are considered to be related parties:

Mr K Alderson
Mr P M Garlick
Mr W E Newby
Mr D Tweedy
Mr P A Wilson

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

21 Dividend per share

A dividend of £15.20 per share in respect of 2011 is to be proposed (2010: £7.60). Dividends are accounted for in shareholder's equity as an appropriation of retained profit in the year in which they are ratified by the Board of Directors.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2011 (continued)

22 New pronouncements issued in 2011

The following pronouncement has been issued and will be effective for and relevant to the period ending 31 December 2012

- Amended IAS 12 – Income Taxes Deferred Tax, recovery of underlying assets (2010)

This pronouncement is not mandatory for the year ended 31 December 2011, it will become effective for annual periods beginning on or after 1 January 2012 but may be applied earlier

The following pronouncement has been issued and will be effective for and relevant to the period ending 31 December 2013

- Amended IAS 1 – Presentation of Financial Statements on the Statement of Comprehensive Income

This pronouncement is not mandatory for the year ended 31 December 2011, it will become effective for annual periods beginning on or after 1 July 2012 but may be applied earlier

The following pronouncement has been issued and will be effective for and relevant to the period ending 31 December 2015

- IFRS 9 - Financial Instruments

This pronouncement is not mandatory for the year ended 31 December 2011, it will become effective for annual periods beginning on or after 1 January 2015 but may be applied earlier