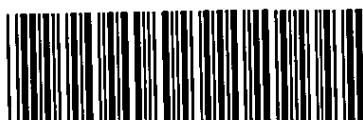


Mortgage Agency Services Number Five Limited
Directors' report and financial statements
for the year ended 31 December 2012

Registered Number: 04420522

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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 J R Hughes
Mr W E Newby
Mr P A Wilson

Secretary

Mrs S Moss

Independent auditor

KPMG Audit Plc
St James Square
Manchester
M2 6DS

Registered office

1 Angel Square
Manchester
M60 0AG
United Kingdom

Registered number

04420522

Mortgage Agency Services Number Five Limited

Directors' report for the year ended 31 December 2012

The directors present their report and the audited financial statements of Mortgage Agency Services Number Five Limited (Registered Company No 04420522) for the year ended 31 December 2012

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 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 decreased due to the reduced capital balances that the interest is based on. 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 £687K (2011 £753K). The only obligations in 2012 were further advances and ported mortgages

Closing loan balance

The loan book decreased during the year to £2,109,220K (2011 £2,263,472K). The decrease of 6.81% is due to redemptions and is consistent with expectations

Arrears greater than 30 days as a percentage of loan book balance

During 2012 arrears greater than 30 days have decreased to 20.84% (2011 21.33%). The comparative for 2011 has been revised to reflect the 2012 impairment definitions, any accounts which are greater than 30 days in arrears are now classed as impaired, previously this was 90 days

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 8 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 Co-operative Banking Group has undertaken a wide ranging review of its risk management framework delivering significant change in organisational design, committee structures, management information and reporting. The credit risk policies are approved by The Co-operative Banking Group's Board Risk Committee (delegated authority from The Co-operative Banking Group's Board). The principal risk policy for credit risk is approved annually by the Executive Risk Committee (ERC) and defines appropriate standards and principles for the effective and robust management of credit risk throughout The Co-operative Banking Group. The Group adopts a three lines of defence governance model to ensure appropriate responsibility is allocated to management, reporting and escalation of risks as follows
 - Business management act as the first line of defence. They are responsible for identifying where the business area is exposed to risks, including from the development of new products, processes or other business change. They also manage the risks that reside within their business areas on a day to day basis, implementing effective monitoring and control processes to ensure that the business' risk profile is understood and maintained within the Board defined risk appetite

Mortgage Agency Services Number Five Limited

Directors' report for the year ended 31 December 2012 (continued)

Principal risks and uncertainties (continued)

- The risk function act as the second line of defence. They oversee and challenge the implementation and monitoring of the risk framework and consider current and emerging risks across the Bank. They also provide review and challenge of the delegated authority framework and oversee appropriate escalation of breaches, mitigating actions and reporting to the ERC.
- Internal Audit acts as the third line of defence. They are responsible for independently verifying that the principal risk control framework has been implemented as intended across the business and independently challenge the overall management of the framework to provide assurance to the Audit Committee and senior management on the adequacy of both the first and second lines.
- 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 £28,336K (2011 £35,276K). The net assets of the Company at 31 December 2012 were £35,746K (2011 £45,410K). The directors have not proposed a dividend for the year ending 31 December 2012 (2011 £38,000K). Further information regarding the dividends proposed and paid is included in note 19.

Directors and their interests

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

Mr K Alderson
Mr P M Garlick
Mr J R Hughes (appointed 15 May 2012)
Mr W E Newby
Mr D Tweedy (resigned 15 May 2012)
Mr P A Wilson

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 2012 (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

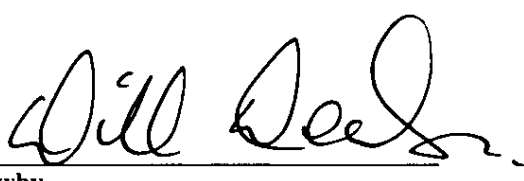
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all the steps that they ought to have taken as directors to make themselves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


Mr W E Newby
Director

Date 18 April 2013

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 2012 set out on pages 6 to 29. 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 Financial Reporting Council'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 FRC's website at www.frc.org.uk/auditscopeukprivate.

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 2012 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

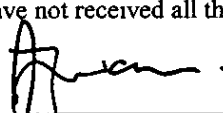
In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

18 April 2013

Mortgage Agency Services Number Five Limited

Statement of comprehensive income for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
Interest receivable and similar income	2	91,388	93,071
Interest expense and similar charges	3	(37,429)	(42,555)
Net interest income		53,959	50,516
Fee and commission income	4	4,630	3,545
Other operating income		4,630	3,545
Total income		58,589	54,061
Other operating expenses	6	(4,392)	(5,083)
Impairment losses on loans and advances	9	(16,227)	(552)
Profit before taxation		37,970	48,426
Taxation	7	(9,634)	(13,150)
Profit attributable to equity holders	15	28,336	35,276

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 29 form part of these financial statements

Mortgage Agency Services Number Five Limited

Balance Sheet as at 31 December 2012

	Notes	2012 £000	2011 £000
Assets			
Loans and advances to customers	9	2,059,910	2,217,404
Deferred tax asset	7	3,965	3,699
Other receivables	10	1,901	2,471
Total assets		2,065,776	2,223,574
Liabilities			
Deposits from banks	11	709	444
Deemed loans due to group undertakings	12	1,719,499	1,846,637
Other payables	13	299,922	319,537
Current tax liabilities		9,900	11,546
Total liabilities		2,030,030	2,178,164
Equity			
Called-up share capital	14	2,500	2,500
Retained earnings	15	33,246	42,910
Total equity and liabilities		2,065,776	2,223,574

The accounting policies and notes on pages 10 to 29 form part of these financial statements

Approved by the Board of Directors on 18 April 2013 and signed on its behalf by

Signed


Mr W E Newby
Director

Date 18 April 2013

Mortgage Agency Services Number Five Limited

Statement of changes in equity for the year ended 31 December 2012

	Share capital £000	Retained earnings £000	Total £000
Year ended 31 December 2012			
Balance at the beginning of the year	2,500	42,910	45,410
Profit for the year	-	28,336	28,336
Dividend paid	-	(38,000)	(38,000)
Balance at the end of the year	2,500	33,246	35,746

	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

The accounting policies and notes on pages 10 to 29 form part of these financial statements

Mortgage Agency Services Number Five Limited

Statement of cash flows for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
Net cash flows from operating activities	16	37,735	18,416
Cash from financing activities			
Dividends paid		(38,000)	(19,000)
Net decrease in cash and cash equivalents		(265)	(584)
Cash and cash equivalents at the beginning of the year		(444)	140
Cash and cash equivalents at the end of the year	11	(709)	(444)

The accounting policies and notes on pages 10 to 29 form part of these financial statements

Mortgage Agency Services Number Five Limited

Statement of accounting policies for the year ended 31 December 2012

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 IFRS Interpretations Committee (IFRIC) and with those parts of the Companies Act 2006 applicable to organisations reporting under IFRS

Standards and interpretation issued and effective

In preparing these financial statements, the Company has adopted the following pronouncement during the year that is new or revised

- Amended IFRS 7 (Disclosures Transfers of Financial Assets (2010))

This amendment's objective is to promote the transparency of off balance sheet activities, particularly in relation to the securitisation of financial assets. Specifically, the transference of these assets and their associated risks are reported in a way that ensures that the user of the accounts is able to understand the financial position of such risks being transferred

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 2012 (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 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.

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.

Mortgage Agency Services Number Five Limited

Statement of accounting policies for the year ended 31 December 2012 (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

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 of 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.

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 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 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.

Mortgage Agency Services Number Five Limited

Statement of accounting policies for the year ended 31 December 2012 (continued)

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 9. At 31 December 2012, the Company carried impairment provisions of £23,158K (2011 £20,668K) against loans and advances to customers. To the extent that the net present value of estimated future cash flows differ by 10%, the provision would change by an estimated £5,758K (2011 £4,564K)

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2012

1 Profit before taxation

Profit on ordinary activities before taxation is stated after charging

	2012 £000	2011 £000
Audit fees for the audit of the Company's financial statements	5	5

2 Interest receivable and similar income

	2012 £000	2011 £000
On financial assets not at fair value through income and expense		
Interest receivable on loans and advances	91,388	93,071
	91,388	93,071

Included within interest receivable is £17,703K of interest accrued on impaired financial assets (2011 £18,479K)
The 2011 comparative has been revised to reflect the 2012 impairment definitions

3 Interest expense and similar charges

	2012 £000	2011 £000
On financial assets not at fair value through income and expense		
Deemed loan interest payable	71,529	78,668
Adjustment to the carrying value of deemed loan	(8,834)	(9,608)
Deferred consideration receivable (note 12)	(27,805)	(29,369)
Interest and similar charges payable to group undertakings	2,539	2,864
	37,429	42,555

4 Fee and commission income

	2012 £000	2011 £000
On financial assets not at fair value through income and expense		
Administrative fees receivable	1,326	1,525
Other fees	3,304	2,020
	4,630	3,545

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

5 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 2012, five directors had benefits accruing under The Co-operative Group pension schemes (2011: five). 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.

6 Other operating expenses

	2012 £000	2011 £000
Central recharges from Group	224	540
Professional and accountancy fees	5	17
General expenses	53	34
Mortgage administration and management charges	4,035	4,456
Subscriptions	58	17
Bank charges	17	19
	4,392	5,083

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.

7 Taxation

	2012 £000	2011 £000
UK tax at 24.50% (2011: 26.49%)		
Corporation tax		
Current year	9,900	11,546
Total corporation tax	9,900	11,546
Deferred tax		
Current year	(266)	1,604
	9,634	13,150

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

7 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 24.50% (2011: 26.49%). The differences are explained below

	2012 £000	2011 £000
Profit on ordinary activities before tax	37,970	48,426
Profit before tax multiplied by standard rate of tax	9,302	12,830
Effects of: Change in rate	332	320
	9,634	13,150

The recognised deferred tax includes the following amounts

	2012 £000	2011 £000
Short-term timing differences	3,965	3,699
	3,965	3,699

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

	2012 £000	2011 £000
Net deferred tax at the beginning of the year	3,699	5,303
Deferred tax charged to the statement of comprehensive income	266	(1,604)
Net deferred tax at the end of the year	3,965	3,699

Deferred tax assets expected to be recoverable after one year are £3,965K (2011: £3,699K). The deferred tax asset is considered to be recoverable as, after preparing forecasts and projections for Mortgage Agency Services Number Five Limited, the directors are satisfied that the Company will be profitable in the foreseeable future.

The 2013 Budget on 20 March 2013 announced that the UK corporation tax rate will reduce to 20% by 2015. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively.

This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 December 2012 has been calculated based on the rate of 23% substantively enacted at the balance sheet date.

It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the Company's current future 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 2012 (continued)

8 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 deposits from banks.

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 2012 £000	Fair value 2012 £000
Loans and advances to customers	2,059,910	2,038,830
Deemed loans due to group undertakings	(1,719,499)	(1,703,960)

	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)

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 expected 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 expected life of the loans.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

8 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 Board has established Board sub-committees and senior management committees whose responsibilities include

- overseeing the risk management process,
- identifying the key risks facing the business, and
- assessing the effectiveness of planned management actions

Specific Board authority has been delegated to Board sub-committees and the Chief Executive Officer (CEO) who may, in turn, delegate authority to appropriate executive directors and their senior line managers. This includes

- setting limits for individual types of risk, and
- approving (at least annually) and monitoring compliance with risk policies and delegated levels of authority

Interest rate risk

At 31 December 2012, there were no fixed rates mortgages held (2011: fixed rates on mortgages varied from 2.48% to 4.7%) and the average funding at a floating rate was 0.84% (2011: 0.85%) (1 month LIBOR plus 21 basis points)

The Company is exposed to movement in interest rates and The Co-operative Bank plc (the Bank) manages this exposure using derivatives. Interest rate risk arises on the mortgages of the Company which contain 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 Liability 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 Board Risk 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 not experienced significant financial losses in the reporting period 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 2012 (continued)

8 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 loans and advances to customers and other receivables.

The table below represents a worst-case scenario of credit risk exposure of the Company at 31 December 2012 and 2011, 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	2012 £000	2011 £000
Loans and receivables	Loans and advances to customers	2,059,910	2,217,404
Loans and receivables	Other receivables	1,901	2,471
		2,061,811	2,219,875

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 Credit Risk Management Committee, and
- The Co-operative Banking Group's Credit Risk Management 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 Company 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 2012 (continued)

8 Financial instruments (continued)

Credit risk (continued)

Forbearance (continued)

A number of options are available to assist borrowers in financial difficulty. The Company 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

	2012			
	Neither past due nor impaired	Impaired	Total loans subject to forbearance	Loss provision
	£000	£000	£000	£000
Arrangements	9,380	152,976	162,356	7,567
Concessions	295	2,022	2,317	34
Interest only switches	7,368	68,267	75,635	273
Term extensions	2,737	9,870	12,607	18
	2011			
	Neither past due nor impaired	Impaired	Total loans subject to forbearance	Loss provision
	£000	£000	£000	£000
Arrangements	13,537	161,537	175,074	7,501
Concessions	303	1,923	2,226	24
Interest only switches	7,526	64,796	72,322	257
Term extensions	1,436	4,242	5,678	18

The 2011 comparatives have been revised in line with the 2012 impairment definitions

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.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

8 Financial instruments (continued)

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 12.

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.

9 Loans and advances to customers

	2012 £000	2011 £000
Loans to individuals		
Mortgages	2,083,068	2,238,072
Less: allowance for losses on loans and advances (below)	(23,158)	(20,668)
	2,059,910	2,217,404
Allowance for losses on loans and advances		
Balance at the beginning of the year	(20,668)	(28,846)
Charge for the year	(16,227)	(552)
Net recoveries and amounts utilised	13,737	8,730
Balance at the end of the year	(23,158)	(20,668)

There were lending commitments of £301K outstanding at 31 December 2012 (2011: £168K).

The above allowance for losses on loans and advances relates entirely to loans and advances to customers. During the year, the Company recovered £1,827K (2011: £2,033K) against amounts previously written off.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

9 Loans and advances to customers (continued)

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:

	2012 £000	2011 £000
Repayable on demand	10,891	9,856
Other loans and advances by residual maturity repayable		
in not more than three months	4,627	6,023
in more than three months but not more than one year	16,589	18,327
in more than one year but not more than five years	163,139	120,490
in more than five years	1,913,974	2,108,776
	2,109,220	2,263,472
Effective interest rate adjustment	(26,152)	(25,400)
Less: allowance for losses on loans and advances to customers	(23,158)	(20,668)
	2,059,910	2,217,404

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 2012 and 2011:

	2012		2011	
	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	87.15	51.00	86.76	51.58

The LTV percentages are calculated using Halifax house price index linked valuations as at 31 December 2012. The weighted average of the whole book has increased slightly in 2012 but is comparable to the previous year. The LTV percentage of new lending has decreased and relates to individual further advances.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

9 Loans and advances to customers (continued)

Analysis of credit risk exposure

The following table gives an analysis of the credit risk exposure on the loans and advances to customers for the Company

	2012 £000	2011 £000
Neither past due nor impaired	1,561,603	1,687,340
Impaired	521,465	550,732
	2,083,068	2,238,072
Credit commitments	301	168
Gross credit risk exposure	2,083,369	2,238,240
Less allowances for losses on loans and advances to customers, of which		
Individually impaired	(17,938)	(18,869)
Collectively impaired	(5,220)	(1,799)
Net credit risk exposure	2,060,211	2,217,572

Credit quality of loans and advances that are neither past due nor impaired

	2012 £000	2011 £000
Low to medium risk	1,081,582	973,007
Medium to high risk	480,021	714,333
Total	1,561,603	1,687,340

The fair value of property collateral held against impaired assets is shown below

	2012 £000	2011 £000
Fair value of collateral on individually impaired financial assets	473,238	522,450

The 2011 comparatives in the above tables have been revised in line with 2012 impairment definitions

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 2012 (continued)

9 Loans and advances to customers (continued)

Impaired assets

A loan is considered to be individually impaired when

- arrears outstanding are equivalent to 30 days or more, or
- the loan is more than 90 days past its due date for repayment but has not been repaid, or
- the account is in litigation or the property is in possession

Loans meeting any of these criteria are considered impaired even if a loss is not expected in the event of repossession

Loans are also assessed for impairment where any of the following criteria apply, although these factors alone are not deemed to be objective evidence of impairment and therefore a collective provision is held against potential losses

- the loan is in arrears by less than 30 days, or
- there has been a material deterioration in the borrower's external credit score in the last 12 months, or
- the loan is identified as being subject to forbearance (refer to forbearance section)

Any loans not meeting any of the preceding criteria are assessed for impairment based on the probability that they will move to 90 days in arrears within the next three months

Neither past due nor 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 to medium 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.

10 Other receivables

	2012 £000	2011 £000
Amounts owed by group undertakings	1,773	2,202
Prepayments and accrued income	128	269
	1,901	2,471

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 Two Limited, 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.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

11 Deposits from banks

	2012 £000	2011 £000
Bank deposits	709	444
	709	444

12 Deemed loans due to group undertakings

	2012 £000	2011 £000
Deemed loan repayable	1,734,736	1,863,122
Deferred consideration receivable	(15,237)	(16,485)
	1,719,499	1,846,637

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 2012 amounted to £27,805K (2011 £29,369K).

	2012 £000	2011 £000
Amounts owed by Leek Finance Number Twenty plc	11,463	6,243
Amounts owed to Leek Finance Number Twenty One plc	(5,601)	(1,685)
Amounts owed by Meerbrook Finance Number Six Limited	7,510	8,095
Amounts owed by Meerbrook Finance Number Two Limited	1,975	3,614
Amounts owed (to)/by Meerbrook Finance Number Four Limited	(110)	218
	15,237	16,485

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

12 Deemed loans due to group undertakings (continued)

The movement in deferred consideration is summarised as follows

	2012 £000	2011 £000
Balance at the beginning of the year	16,485	13,241
Additional consideration receivable	27,805	29,369
Consideration received in the year	(29,053)	(26,125)
Balance at the end of the year	15,237	16,485

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

13 Other payables

	2012 £000	2011 £000
Amounts owed to group undertakings	299,734	319,385
Accruals and deferred income	15	2
Other payables	173	150
	299,922	319,537

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.

14 Called-up share capital

	2012 £000	2011 £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.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

15 Retained Earnings

Movements in retained earnings were as follows

	2012 £000	2011 £000
Balance at the beginning of the year	42,910	26,634
Profit for the year	28,336	35,276
Dividend paid	(38,000)	(19,000)
Balance at the end of the year	33,246	42,910

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

	2012 £000	2011 £000
Profit before taxation	37,970	48,426
Decrease/(increase) in prepayments	141	(269)
Increase/(decrease) in accruals	13	(55)
Movement in allowance for losses on loans and advances to customers	2,490	(8,178)
Cash flows from operating activities before changes in operating assets and liabilities	40,614	39,924
Net decrease in loans and advances to customers	155,004	174,272
Net decrease/(increase) in amounts due from group undertakings	429	(770)
Net decrease in deemed loan liabilities	(127,138)	(143,688)
Net decrease in other payables	(19,628)	(46,522)
Taxation paid	(11,546)	(4,800)
Net cash flows from operating activities	37,735	18,416

17 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 1 Angel Square, Manchester, M60 0AG. 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 2012 (continued)

18 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.

The interest expense and other charges for the year ended 31 December 2011 have been restated to include the Group recharges from The Co-operative Bank plc.

	Interest receivable and other income £000	Interest expense and other charges £000	Balance due from the Company £000
Year ended 31 December 2012			
The Co-operative Bank plc	-	2,764	(299,730)
Western Mortgage Services Limited	-	4,035	-
Leek Finance Number Twenty plc	762	8,043	(356,828)
Leek Finance Number Twenty One plc	1,617	16,873	(760,930)
Meerbrook Finance Number Two Limited	-	6,471	(423,890)
Meerbrook Finance Number Four Limited	452	1,936	(106,285)
Meerbrook Finance Number Six Limited	70	1,568	(69,792)
Year ended 31 December 2011			
The Co-operative Bank plc	-	3,404	(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)

During the year, none (2011: 24) of the properties which the Company had previously repossessed were acquired by Illius Properties Limited, a fellow subsidiary of The Co-operative Group Limited.

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 J R Hughes
Mr W E Newby
Mr P A Wilson

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

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

19 Dividends

The directors have not proposed a dividend for 2012 (2011 £38,000K). 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.

20 New pronouncements issued in 2012

The following pronouncements have been issued and will be effective for and relevant to the period beginning 1 January 2013:

- Amendments to IFRS 7 (Disclosures Offsetting Financial Assets and Liabilities)
- IFRS 13 (Fair Value Measurement (2011))

These pronouncements are not mandatory for the year ended 31 December 2012, they will become effective for annual periods beginning on or after 1 January 2013.

The following pronouncement has been issued and will be effective for and relevant to the period beginning 1 January 2014:

- Amendments to IAS 32 (Offsetting Financial Assets and Financial Liabilities)

This pronouncement is not mandatory for the year ended 31 December 2012, it will become effective, and has been adopted for use within the EU, for annual periods beginning on or after 1 January 2014.

The following pronouncement has been issued and will be effective for and relevant to the period beginning 1 January 2015:

- IFRS 9 (Financial Instruments Classification and Measurement (2010))

This pronouncement is not mandatory for the year ended 31 December 2012, it will become effective for annual periods beginning on or after 1 January 2015, early adoption is permitted once endorsed by the EU.