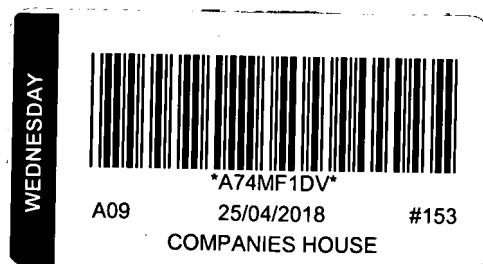


Mortgage Agency Services Number Five Limited
Directors' report and financial statements
for the year ended 31 December 2017

Registered Number: 04420522



Mortgage Agency Services Number Five Limited

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Mortgage Agency Services Number Five Limited

Directors and advisors

Directors

S Aitken (resigned 6 January 2017)

A J W Lillie

D Mundy (resigned 15 March 2017)

C Richardson (appointed 9 May 2017)

Secretary

D Whitehead

Independent auditor

Ernst & Young LLP

25 Churchill Place

Canary Wharf

London

E14 5EY

Registered office

Secretariat

1 Angel Square

Manchester

England

M60 0AG

Registered number

04420522

Mortgage Agency Services Number Five Limited

Strategic report for the year ended 31 December 2017

Principal activities and business review

Mortgage Agency Services Number Five Limited (the Company) was incorporated in England (registered number 04420522) 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.

The profit for the year after taxation amounted to £1,910k (2016: £6,405k). The net assets of the Company at 31 December 2017 were £49,343k (2016: £126,147k).

The activity of the Company remains as a mortgage lender albeit at a reduced level of transactions due to the transfer of mortgage portfolios to The Co-operative Bank plc (the Bank) during 2016. The company no longer undertakes any mortgage originations and has residual mortgage assets in its balance sheet relating to historic mortgages originated and purchased.

During 2017 the Company undertook a share capital reduction of £2,500k.

Strategy and future outlook

The Company will not be purchasing or selling any new mortgage portfolios in the immediate future and the existing portfolios are expected to continue to run off due to redemptions and remortgages.

The Company is dependent on the continued support from its parent undertaking, the Bank in relation to ongoing funding and liquidity.

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.

Principal risks and uncertainties

It is the responsibility of management to effectively manage the risk within the business, and the Company has a formal structure in place for monitoring risks that are reported to the Bank.

The financial risks faced by the Company are credit risk, interest rate risk, liquidity risk, conduct risk and regulatory risk. A summary of these risks is included below:

- 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 other receivables and loans and advances to customers;
- Interest rate risk arises from movements in interest rates on loans and advances to customers and on the Company's intercompany balances;
- 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 Company has payables to The Co-operative Bank plc. However, this risk is mitigated by the Company having receivables from the loans and advances to customers in excess of the payables, and the sole provider of funding being the parent of the Company; therefore the liquidity risk is considered to be minimal;
- Conduct risk is the risk that the Company's past behaviours, offerings or interactions may result in unfair outcomes for customers; and
- Regulatory risk is the risk of fines, public censure, limitation on business, or restitution costs arising from failure to understand, interpret, implement and comply with UK and EU regulatory requirements. Demonstrating compliance with all applicable regulatory requirements is essential for the Company to remain in business.

Mortgage Agency Services Number Five Limited

Strategic report for the year ended 31 December 2017 (continued)

Key performance indicators (KPIs)

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

Net interest income

The net interest income for the year ending 31 December 2017 was £2,300k (2016: £4,512k).

Closing loan balance

The loan book decreased during the year to £58,540k (2016: £68,863k).

Profit before tax

Profit before tax was £2,365k (2016: £7,875k).

Approved by the Board of Directors on 20 April 2018

Signed on behalf of the Board

Signed:  _____

C J Richardson
Director

Date: 20 April 2018

Mortgage Agency Services Number Five Limited

Directors' report for the year ended 31 December 2017

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 2017.

Future developments

The future developments of the Company are dealt with in the strategic report on page 2 of the financial statements.

General information

- The Company is a private company limited by shares, incorporated in England and Wales.
- The main objective of the Company remains as a mortgage lender albeit at a reduced level of activity due to the transfer of activity to The Co-operative Bank plc during 2016.
- The parent is The Co-operative Bank plc.
- The ultimate controlling party is The Co-operative Bank Holdings Limited (the Group).

Dividends

Dividends of £78,714k have been declared and paid in the year (2016: £nil).

Directors' details

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

S Aitken (resigned 6 January 2017)

D Mundy (resigned 15 March 2017)

A J W Lillie

C Richardson (appointed 9 May 2017)

No director had a beneficial interest in the share capital of the Company, the Group, or any of its subsidiaries at any time during the year under review.

Risks associated with financial instruments

The risks associated with financial instruments are outlined in note 9.

Insurance and indemnities

During 2017, the Company maintained appropriate directors' liability insurance in respect of legal action against its directors. In addition, qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in operation during the 2017 financial year and are in force for the benefit of the directors in relation to certain losses and liabilities which they may incur in connection with their appointment. The cost has been borne by the Bank.

Statement of directors' responsibilities in respect of the directors' report, the strategic 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 in accordance with International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and

Mortgage Agency Services Number Five Limited

Directors' report for the year ended 31 December 2017

- 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.

Statement on employees

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

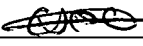
Statement on disclosure of information to the auditor

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

The auditors, Ernst & Young LLP are deemed to have been reappointed in accordance with section 487 of the Companies Act 2006.

On behalf of the Board

Signed:  _____

C J Richardson
Director

Date: 20 April 2018

Mortgage Agency Services Number Five Limited

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

Opinion

We have audited the financial statements of Mortgage Agency Services Number Five Limited for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 15, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- ▶ give a true and fair view of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- ▶ have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- ▶ have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Mortgage Agency Services Number Five Limited

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- ▶ the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- ▶ the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

- adequate accounting records have not been kept by the parent company, 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

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

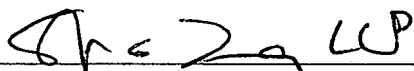
In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Signed:



Peter Wallace (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
25 Churchill Place
Canary Wharf
London
E14 5EY

Date: 20 April 2018

Mortgage Agency Services Number Five Limited

Statement of comprehensive income for the year ended 31 December 2017

	Notes	2017 £000	2016 £000
Interest receivable and similar income	2	2,490	4,512
Interest expense and similar charges	3	(190)	-
Net interest income		2,300	4,512
Fee and commission income	4	10	34
Other operating income		-	527
Other operating income		10	561
Total income		2,310	5,073
Provision for customer redress	6a	6	2,068
Other operating expenses	6b	(6)	(227)
Impairment write back on loans and advances	10	55	961
Profit before taxation		2,365	7,875
Taxation	7	(455)	(1,470)
Profit attributable to equity holders		1,910	6,405

All results are from continued operations. All operations are in the UK.

The accounting policies and notes on pages 12 to 29 form part of these financial statements.

Mortgage Agency Services Number Five Limited

Statement of financial position as at 31 December 2017

	Notes	2017 £000	2016 £000
Assets			
Cash and cash equivalents	8	102	98
Loans and advances to customers	10	58,540	68,863
Other receivables	11	5,600	72,448
Total assets		64,242	141,409
Liabilities			
Other payables	12	14,444	10
Group relief payable		455	15,252
Total liabilities		14,899	15,262
Equity			
Called-up share capital	13	-	2,500
Retained earnings		49,343	123,647
Total equity		49,343	126,147
Total equity and liabilities		64,242	141,409

The accounting policies and notes on pages 12 to 29 form part of these financial statements.

Approved by the Board of Directors on 20 April 2018 and signed on its behalf by:

Signed: _____

C J Richardson
Director

Date: 20 April 2018

Mortgage Agency Services Number Five Limited

Statement of changes in equity for the year ended 31 December 2017

	Share capital £	Retained earnings £000	Total £000
Year ended 31 December 2017			
Balance at the beginning of the year	2,500,000	123,647	126,147
Share capital reduction	(2,499,999)	2,500	-
Dividends paid	-	(78,714)	(78,714)
Profit for the year	-	1,910	1,910
Balance at the end of the year	1	49,343	49,343

	Share capital £	Retained earnings £000	Total £000
Year ended 31 December 2016			
Balance at the beginning of the year	2,500,000	117,242	119,742
Profit for the year	-	6,405	6,405
Balance at the end of the year	2,500,000	123,647	126,147

The accounting policies and notes on pages 12 to 29 form part of these financial statements.

Mortgage Agency Services Number Five Limited

Statement of cash flows for the year ended 31 December 2017

	2017 £000	2016 £000
Profit before taxation	2,365	7,875
Decrease/(increase) in other receivables	66,848	(44,999)
Movement in impairment for losses on loans and advances	(192)	(1,405)
Cash flows used in operating activities before changes in operating assets and liabilities	69,021	(38,529)
Net decrease in loans and advances to customers	10,515	56,138
Net increase/(decrease) in other payables	14,434	(10,411)
Group relief paid	((15,252)	(7,964)
Net cash flows (used in)/generated from operating activities	78,718	(766)
Cash flows from financing activities:		
Dividends paid	(78,714)	-
Net cash flows generated from financing activities	(78,714)	-
Net movement in cash and cash equivalents	4	(766)
Cash and cash equivalents brought forward	98	864
Cash and cash equivalents at the end of the year	102	98

The accounting policies and notes on pages 12 to 29 form part of these financial statements.

Mortgage Agency Services Number Five Limited

Statement of accounting policies for the year ended 31 December 2017

Basis of preparation

Mortgage Agency Services Number Five Limited is a company incorporated, registered 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 adopted 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.

Going concern

The financial statements of the Company have been prepared on a going concern basis. At 31 December 2017, the Company had intercompany funding of £14,443k (2016: nil) and £5,600k receivable (2016: £72,448k) from its parent undertaking, The Co-operative Bank plc (the Bank).

The directors of the Company have concluded that on the basis that the Company has a significant surplus of assets over its liabilities, and that in its liabilities are not expected to be called before the maturity of these assets (as they are due to the Company's parent entity), the Company will be able to continue as a going concern for the foreseeable future.

Standards and interpretation in issue but not yet effective

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRSs that have been issued but are not yet effective.

- IFRS 9 (Financial Instruments (2014))

In July 2014, the IASB issued IFRS 9 (Financial Instruments), which is the comprehensive standard to replace IAS 39 (Financial Instruments: Recognition and Measurement) and is effective for periods beginning on or after 1 January 2018, and was endorsed by the EU on 22 November 2016. IFRS 9 includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting

Classification and measurement

i. Overview

From 1 January 2018 under IFRS 9, financial assets (excluding derivatives) are classified as:

- amortised cost;
- fair value through other comprehensive income (FVOCI); or
- fair value through profit or loss (FVTPL).

ii. C&M impact assessment on transition

The application of the IFRS 9 C&M rules is not expected to have a significant impact on the total equity of the Company. This impact assessment is based on accounting policies, assumptions, judgements and estimation techniques that remain subject to change until the finalisation of the 2018 Annual Report and Accounts.

Impairment

i. Overview

From 1 January 2018 under IFRS 9, the expected credit loss (ECL) is assessed on a forward-looking basis for debt instruments carried at amortised cost and FVOCI, for exposures related to loan commitments, and for financial guarantee contracts.

ii Impact assessment on transition to IFRS 9 impairment on 1 January 2018

Adoption of the impairment requirements of IFRS 9 on 1 January 2018 is not expected to have a significant impact on the total equity of the Company. The estimated impact is based on accounting policies, assumptions, judgements and estimation techniques that remain subject to change until the finalisation of the 2018 Annual Report and Accounts.

Hedge accounting

An election has been made to remain with IAS 39 for hedge accounting from 1 January 2018.

Mortgage Agency Services Number Five Limited

Statement of accounting policies for the year ended 31 December 2017 (continued)

Comparative information

Comparative information will not be restated on initial adoption of IFRS 9 on 1 January 2018.

Governance

Accounting policy and other key judgements made as part of IFRS 9 implementation are, and will continue to be, subject to appropriate governance within both Risk and Finance as appropriate.

- **IFRS 15 (Revenue from Contracts with Customers (2014))**

This standard was issued in May 2014 and is a converged standard from the IASB and FASB on revenue recognition. IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. This standard supersedes IAS 18 (Revenue) and a number of revenue interpretations.

The standard will be effective for annual reporting years beginning on or after 1 January 2018. The impact to the Company of the amendments is likely to be immaterial as income from IAS 39 financial instruments is outside the scope of IFRS 15. However, the Company has not yet finalised its estimation of the financial effects.

The Company intends on complying with the standards from the date they become effective.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods, inclusive of assets recognised where the Company is subject to the substantial risks and rewards of those assets.

Revenue recognition

a) Interest income and expense

Interest income and expense is recognised on an effective interest rate method (EIR) basis, inclusive of directly attributable origination and incremental transaction costs and fees including arrangement and broker fees, valuation and solicitor costs, discounts and premiums where appropriate.

The EIR basis spreads the interest income and expense over the expected life of each instrument. The EIR is the rate that, at the inception of the instrument, exactly discounts expected future cash payments and receipts through the expected life of the instrument back to the initial carrying amount. When calculating the EIR, the Company estimates cash flows considering all contractual terms of the instrument (for example, prepayment options) but does not consider assets' future credit losses except for assets acquired at a deep discount.

When an instrument is impaired, the Company reduces the carrying amount, based on the revised cash flows, discounted at the original EIR of the instrument, and continues unwinding the discount as interest income.

Early redemption charges are recognised on a cash basis as received, as it is not possible to reliably estimate the receipt of such fees.

b) Fees and commissions

Fee and commission income is predominantly made up of arrangement and other fees relating to loans and advances to customers that are included in the EIR calculation.

Commitment fees received are deferred and included in the EIR calculation upon completion or taken in full at the date the commitment period expires and completion does not occur.

All other fee and commission income, such as loan closure fees or arrears fees, not included in the EIR calculation, is recognised on an accruals basis as the service is provided.

Fees and commissions payable to introducers in respect of obtaining lending business, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the effective interest rate.

Mortgage Agency Services Number Five Limited

Statement of accounting policies for the year ended 31 December 2017 (continued)

Financial instruments

a) Recognition

Financial instruments are recognised in the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument. The Company initially recognises loans and advances when they are advanced to customers.

b) Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial assets expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) is accounted for as an extinguishment of the original financial liability and a recognition of a new financial liability.

When a financial asset is derecognised in its entirety, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) is recognised in the income statement.

A financial liability is derecognised when the obligation is discharged, cancelled or expires. Any difference between the carrying amount of a financial liability derecognised and the consideration paid is recognised through the income statement.

c) Financial assets

i) Overview

The Company classifies its financial assets (excluding derivatives) as:

- loans and receivables; or
- financial assets at fair value through profit or loss (FVTPL).

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Company does not intend to sell immediately or in the near term. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, these are measured at amortised cost using the EIR method. The amortised cost is the amount advanced less principal repayments, plus the cumulative amortisation using the EIR method of any difference between the amount advanced and the maturity amount less impairment provisions for incurred losses.

Loans and receivables mainly comprise loans and advances to customers.

d) Financial liabilities

i) Overview

Financial liabilities are contractual obligations to deliver cash or another financial asset. Financial liabilities are recognised initially at fair value, net of directly attributable transaction costs.

Financial liabilities are subsequently measured at amortised cost.

Impairment provisions

a) Assessment

i. Objective evidence

At the balance sheet date, the Company assesses whether there is objective evidence that a financial asset or group of financial assets, not held at FVTPL, is impaired. Impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition and before the balance sheet date (a 'loss event') which has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Mortgage Agency Services Number Five Limited

Statement of accounting policies for the year ended 31 December 2017 (continued)

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower, a breach of contract, such as default or delinquency in interest or principal payments, the granting by the Company to the borrower, for economic and legal reasons relating to the borrower's financial difficulty, a concession that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy or other financial reorganisation, or the disappearance of an active market for a security.

The Company considers evidence for impairment for loans and advances at both a specific asset and collective level.

ii. Forbearance

The Company operates a policy of forbearance which mitigates against borrower default. All such cases are included within its provisioning methodology.

Residential secured mortgages

Loans under forbearance are subject to a specific identified impairment assessment.

b) Scope

i. Individual accounts

All secured loans and advances are assessed for impairment using a range of criteria graded for levels of risk. Accounts at risk of impairment are monitored and impaired where they display clear indicators of underperformance.

Loans and advances that do not meet the criteria for individual impairment, or which do, but are not found to be impaired, are collectively assessed for impairment (incurred but not yet reported) by grouping together loans and advances with similar risk characteristics.

ii. Collective accounts

When assessing collective impairment for secured retail loans, the Company estimates a shortfall based on the difference between the current loan balance and the expected 'forced sale' price of collateral, discounted at the effective interest rate of the loan to reflect the anticipated time to sale, and taking into account anticipated fees and costs prior to sale. The shortfall is multiplied by the probability the loan will default and further multiplied by the probability that the loan will be taken into possession to determine the impairment required.

When assessing collective impairment for unsecured retail loans, the Company estimates losses on loans via a two stage approach, which determines probability of default (PD) and loss given default (LGD) to generate provision rates which are applied to the current balance sheet, including loans transferred to debt collection agencies. Once impaired, accounts are subjected to higher levels of impairment according to both their relevant stage of delinquency, i.e. the number of days in arrears, and their consequent likelihood of ultimately being charged off.

Default rates, loss rates and future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment stock determined by provision models is augmented where it is judged that the best estimate of losses are likely to differ from those suggested by historical trends.

c) Measurement

The amount of the loss is the difference between:

- the asset's carrying amount; and
- the present value of estimated future cash flows (discounted at the asset's original EIR for amortised cost assets).

Where the debt is secured, the assessment reflects the expected cash flows from the realisation of the security, net of cost to realise, whether or not foreclosure or realisation of the collateral is probable.

d) Impairment of financial assets carried at amortised cost

The amount of the impairment loss on assets carried at amortised cost is recognised immediately through the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of an allowance account.

Mortgage Agency Services Number Five Limited

Statement of accounting policies for the year ended 31 December 2017 (continued)

A write off is made when all or part of a claim is deemed uncollectable or forgiven after all the possible collection procedures have been completed and the amount of loss has been determined. Write offs are charged against previously established provisions for impairment or directly to the income statement.

Any additional recoveries from borrowers, counterparties or other third parties made in future periods are offset against the write off charge in the income statement once they are received.

Provisions are released at the point at which it is deemed that, following a subsequent event, the risk of loss has reduced to the extent that a provision is no longer required.

Cash and cash equivalents

Cash and cash equivalents comprises cash balances and balances with a maturity of three months or less from the acquisition date, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Income tax

a) Overview

Tax for the year comprises current and deferred tax, which is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in the statement of comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Provisions for liabilities and charges

A provision is recognised in the balance sheet if the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax rate, if the expected future cash flows can be reliably estimated.

Group relief

Group relief payable represents amounts due to the Bank and/or its subsidiaries as consideration for tax losses surrendered to the Company.

Critical accounting estimates and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the financial year. Estimates and judgements 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 policies the methodology 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 10. At the year end, the Company carried impairment provisions of £628k (2016: £820k) 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 £204k (2016: £255k).

b) Effective Interest Rate accounting

When calculating the EIR to apply to an asset or liability held at amortised cost, the Company estimates future cash flows considering all contractual terms of an instrument. In most cases, the future cash flows arising from an asset or liability will be dependent on a number of variables, such as the proportion of mortgage customers who do not switch product after a discount period ends, or future interest rates set by the market. Therefore, it follows that management is required to apply significant judgement in creating assumptions about the value of these variables in the future.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2017

1 Profit before taxation

Profit on ordinary activities before taxation is stated after charging:

	2017 £000	2016 £000
Fees for the audit of the Company's financial statements	10	10

Auditors' remuneration of £10k (2016: £10k) was borne by the Bank. Audit fees are stated excluding VAT.

2 Interest receivable and similar income

	2017 £000	2016 £000
Interest receivable on loans and advances to customers	2,490	4,442
Interest receivable on loans and advances to Group undertakings	-	70
Interest receivable and similar income	2,490	4,512

Included within interest receivable is £308k of interest accrued on impaired financial assets (2016: £651k).

3 Interest expense and similar charges

	2017 £000	2016 £000
Interest and similar charges payable to Group undertakings	190	-

4 Fee and commission income

	2017 £000	2016 £000
Sundry mortgage fee income	8	14
Other fees	2	20
	10	34

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

5 Directors' emoluments

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

At 31 December 2017, two directors had benefits accruing under The Co-operative Group pension schemes (2016: three). Particulars of the 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.

6a Provision for customer redress

Provision for customer redress relates to customer claims likely to be paid out as a result of past misconduct. The provision for customer redress showed a full release in 2017.

6b Other operating expenses

	2017 £000	2016 £000
Administration Expenses	6	227

Administration expenses are central recharges from The Co-operative Bank plc which consist of centralised costs from The Co-operative Bank plc. These include staff and cost recharges, which are apportioned between all companies in the consolidated Bank using an allocations based model.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

7 Taxation

	2017 £000	2016 £000
UK tax at 19.25% (2016: 20.00%)		
Corporation tax		
Current year	455	1,470
Prior year	-	-
	455	1,470

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 19.25% (2016: 20.00%). The differences are explained below:

	2017 £000	2016 £000
Profit on ordinary activities before tax	2,365	7,875
Profit before tax multiplied by standard rate of tax	455	1,575
Effects of:		
Income not taxable	-	(105)
	455	1,470

The UK corporation tax rate reduced from 20% to 19% from 1 April 2017 and will reduce further to 17% effective from 1 April 2020; the latter rate change was enacted on 15 September 2016.

Group relief payable of £455k (2016: £15,252k) represents amounts due to fellow subsidiaries from the Company as consideration for tax losses claimed by the Company.

8 Cash and cash equivalents

	2017 £000	2016 £000
Cash and cash equivalents	102	98

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

9a 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, and cash and cash equivalents. All financial instruments are initially recognised at fair value.

The Company does not have any assets or liabilities carried at fair value on the balance sheet.

The following tables analyse financial assets and financial liabilities classified as loans and receivables at amortised cost by the three level fair value hierarchy defined as follows:

- Level 1 – Quoted market prices in active markets
- Level 2 – Valuation techniques using observable inputs
- Level 3 – Valuation techniques using unobservable inputs

	Carrying value	Fair value Level 3
2017	£000	£000
Financial assets		
Loans and advances to customers	58,540	57,857
2016		
Financial assets		
Loans and advances to customers	68,863	67,307

The company holds only level 3 financial instruments, defined as:

Level 3 – Valuation techniques using inputs that are not observable

This is used for financial instruments valued using models where one or more significant inputs are not observable.

During the periods shown above, there were no transfers in or out of the level 3 classification.

Fair values have been determined as follows:

Loans and advances to customers

Fair values have been calculated using the future lifetime income approach. Under this approach, fair value is measured by determining discounted expected cash flows, derived using expected redemption profiles of the portfolio and discounting these cash flows at current market rates for products with similar characteristics and risk profiles. The current market rate used is assumed to encompass the time value of money, plus a risk premium to account for the inherent uncertainty in the timing and amount of future cash flows arising from a book of mortgage assets.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

9b Risk Management

The financial risks faced by the Company include the following:

- interest rate risk;
- credit risk;
- liquidity risk;
- conduct risk; and
- regulatory risk.

As a subsidiary of the Group, the Company applies the Group's formal structure for managing risk. The 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

As part of its activity of holding mortgage assets the Company is exposed to movement in interest rates and this exposure is managed as follows:

Interest rate risk arises on the mortgage portfolios held by the Company which contain both fixed and variable loans. The funding for these is variable based on LIBOR. The Group 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. The Group manages this exposure using derivatives. This is monitored using a risk management system and operates within limits set out by The Group's Board Risk Committee

The Group 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 Group 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 Bank has managed any significant interest rate repricing exposure to the Company.

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.

Separately the Company is exposed to interest rate risk as it has an intercompany balance with its parent The Co-operative Bank plc, which is charged with reference to the interest rate margin earned on mortgage assets which are deemed to be funded by the intercompany loan in 2017. Those mortgages funded by the equity within the entity are not subject to the interest calculations. The Company does not separately manage the interest rate risk on this balance as the rate is set annually with due consideration to the expected return on the Company's external assets and there is no interest rate risk at a Group group level.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

9b Risk Management (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, other receivables and cash and cash equivalents.

The table below represents maximum exposure to credit risk of the Company at 31 December 2017 and 2016, without taking into account any collateral held or other credit enhancements attached. The exposures are based on carrying amounts as reported in the balance sheet.

Category (as defined by IAS 39)	Class	2017 £000	2016 £000
Loans and receivables	Loans and advances to customers	58,540	68,863
Loans and receivables	Other receivables	5,600	72,448
Cash and cash equivalents	Cash and cash equivalents	102	98
		64,242	141,409

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 Capita Limited; and
- The Group's Credit Risk Management Forum maintains limits and recommends policy.

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

Forbearance - Unaudited

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 2017 (continued)

9b Risk Management (continued)

Forbearance - Unaudited (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:

- postponement of principal payments;
- restructures of principal payments;
- an extension to the term of the mortgage; and
- partial or full capitalisation of interest payments.

The table below analyses mortgage forbearance by concession allowed - Unaudited:

2017				
	Not impaired £000	Impaired £000	Total loans subject to forbearance £000	Loss provision £000
Concession	-	71	71	-
Arrangements	-	5,393	5,393	226
Term Extensions	-	1,319	1,319	111

2016				
	Not impaired £000	Impaired £000	Total loans subject to forbearance £000	Loss provision £000
Concession	-	157	157	-
Arrangements	-	6,682	6,682	266
Term Expiry	-	348	348	31
Payment Holiday	-	52	52	-
Deceased Grace Period	-	146	146	-

Other receivables

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

Cash and cash equivalents

Cash and cash equivalents balances represent cash collected in deposit bank accounts from mortgage administration activity, prior to its consolidation in the Bank. Cash collected bears minimal credit risk.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

9b Risk Management (continued)

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 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 parent will withdraw the funding in the foreseeable future and the liquidity risk on these loans is considered to be minimal.

Conduct risk

Conduct risk is the risk that the Company's behaviours, offerings or interactions may result in unfair outcomes for customers. Its effective management helps build trust with customers and other stakeholders and promotes a fair outcome/focussed business through the implementation of an appropriate policy and suite of standards properly communicated to trained staff.

The Company manages conduct risk in a way that is consistent with its overall risk appetite and aligns with its strategy.

Regulatory risk

Regulatory risk is the risk of fines, public censure, limitation on business, or restitution costs arising from failure to understand, interpret, implement and comply with UK and EU regulatory requirements. Demonstrating compliance with all applicable regulatory requirements is essential for the Group to remain in business.

Management of regulatory risk entails on-going compliance with existing obligations and early identification and effective management of changes in legislative and regulatory requirements that may affect the Company.

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 entity is compliant with capital requirements on an FCA regulated basis. The solvency of the Company is managed on a stand-alone basis and the Company has exceeded its minimum regulatory solvency position.

Further information regarding the Group's risk governance structure and processes is included in the 2017 Annual report and accounts.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

10 Loans and advances to customers

	2017 £000	2016 £000
Loans to individuals:		
Mortgages	59,168	69,683
Less: impairment losses on loans and advances (below)	(628)	(820)
	58,540	68,863
Allowance for losses on loans and advances:		
Balance at the beginning of the year	(820)	(2,225)
Release for the year	55	961
Net recoveries and amounts utilised	137	444
	(628)	(820)

There were no lending commitments outstanding at 31 December 2017 (2016: £nil).

The above allowance for losses on loans and advances relates entirely to loans and advances to customers.

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:

	2017 £000	2016 £000
Repayable on demand	1,651	1,119
Other loans and advances by residual maturity repayable		
in not more than three months	471	650
in more than three months but not more than one year	1,012	1,695
in more than one year but not more than five years	8,178	7,203
in more than five years	49,037	60,361
	60,349	71,028
Effective interest rate adjustment	(1,181)	(1,345)
Less: impairment losses on loans and advances	(628)	(820)
	58,540	68,863

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

10 Loans and advances to customers (continued)

Credit quality of loans and advances - Unaudited

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 2017 and 2016:

	2017	2016
	Weighted average of whole book %	Weighted average of whole book %
Residential loans	58.60	62.42

Risk in the portfolio is calculated monthly, using internally developed behavioural models. A regional house price index is used to reflect any changes in the value of collateral updated on a quarterly basis.

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:

	2017 £000	2016 £000
Not impaired	49,282	56,418
Impaired	9,886	13,265
	59,168	69,683
Less: impairment losses on loans and advances to customers	(628)	(820)
Net credit risk exposure	58,540	68,863

Credit quality of loans and advances that are not impaired – Unaudited

	2017 £000	2016 £000
Low to medium risk	35,278	42,226
Medium to high risk	14,004	14,192
	49,282	56,418

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

10 Loans and advances to customers (continued)

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

	2017	2016
	£000	£000
Fair value of collateral on individually impaired financial assets	9,886	13,514

The collateral held as security comprises mortgages over residential properties.

Impaired assets

Where objective evidence of impairment has been observed as a result of one or more loss events, the impairment held at the balance sheet date is defined as identified impairment.

Loans under forbearance are subject to a specific identified impairment assessment. Loans where no objective evidence has been observed are collectively assessed for unidentified impairment (i.e. where a loss event has occurred, but objective evidence of impairment has not yet been identified).

For each loan assessed for impairment, whether identified or unidentified, a shortfall is calculated based on the difference between the current loan balance and the expected 'forced sale' price of the collateral, discounted at the current interest rate to reflect the anticipated time to sale, and taking into account anticipated fees and costs prior to sale. This shortfall is then reduced on a collective basis to reflect the probability of the loan being taken into possession.

Not impaired assets

The credit quality of the portfolio of loans and advances that were not impaired can be assessed by reference to the probability of default (PD).

Low to medium risk is defined as exposures with a probability of default (PD) in the next year of 1% or below using the internal ratings based (IRB) approach under Basel II. Medium to high risk is defined as exposures with a PD in the next year of greater than 1%.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

11 Other receivables

	2017 £000	2016 £000
Amounts owed by group undertakings	5,600	72,448

12 Other payables

	2017 £000	2016 £000
Amounts owed to the Co-operative Bank plc	14,443	-
Other payables	1	4
Other provisions	-	6
	14,444	10

13 Called-up share capital

	2017 £000	2016 £000
Authorised, issued and fully paid		
1(2016:2,500,000) ordinary shares of £1 each	-	2,500

On 30 January 2017 the Company reduced its share capital by £2,499,999. This was done by way of solvency statement and special resolution. The resulting ordinary share capital of the Company is £1.

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 Group, which is subject to the capital requirements imposed by its regulator the Prudential Regulation Authority (PRA).

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

14 Ultimate parent undertaking and controlling entity

The Company's immediate parent undertaking and controlling entity at 31 December 2017 was The Co-operative Bank plc, a company registered in England.

As at 31 December 2017, the directors regard The Co-operative Bank Holdings Limited as the ultimate parent company. The largest group in which the results of the Company are consolidated is The Co-operative Bank Holdings Limited, which is incorporated in England. The financial statements of this group are available from <http://www.co-operativebank.co.uk/investorrelations/financialresults> and from its registered office at P.O. Box 101, 1 Balloon Street, Manchester, M60 4EP.

15 Related party transactions

The directors of the Company consider The Co-operative Bank plc and its subsidiaries to be related parties of the Company. Transactions with The Co-operative Bank plc and its subsidiaries are disclosed below:

	Interest receivable and other income £000	Interest expense and other charges £000	Net balance due from/(to) the Company £000
Year ended 31 December 2017			
The Co-operative Bank plc	-	(190)	(8,843)
Year ended 31 December 2016			
The Co-operative Bank plc	70		57,196

The balance represents other receivable of £5,600k less payable of £14,443k.

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

S Aitken (resigned)
A J W Lillie
C Richardson
D Mundy (resigned)

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