Leek Finance Number Eighteen plc

Directors' report and financial statements

for the year ended 31 December 2012

Registered Number: 05659996

Leek Finance Number Eighteen plc

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Leek Finance Number Eighteen plc

Directors and advisors

Directors
Capita Trust Corporate Limited
Capita Trust Corporate Services Limited
PCSL Services No 1 Limited
Mrs S E Lawrence

Secretary
TMF Corporate Administration Services Limited

Independent auditor
KPMG Audit Plc
St James Square
Manchester
M2 6DS

Solicitors
Allen & Overy LLP
One Bishop's Square
London
E1 6AD

Registered office
5th Floor
6 St Andrew Street
London
EC4A 3AE
United Kingdom

Registered number
05659996

Leek Finance Number Eighteen plc

Directors' report for the year ended 31 December 2012

The directors present their report and the audited financial statements of Leek Finance Number Eighteen plc (Registered Company No 05659996) for the year ended 31 December 2012

Principal activities

The Company was incorporated in England The principal activity of the Company is that of a securitisation vehicle with beneficial ownership of mortgage loans secured by first charges over residential properties within the United Kingdom

The beneficial ownership of the loans and advances to customers and gilts sold to the Company by the originator fail the derecognition criteria of IAS 39 and consequently, these loans remain on the balance sheet of the originator IAS 39, therefore, requires the seller to recognise a deemed loan financial liability on its balance sheet and the resulting deemed loan asset is held on the purchasing Company's balance sheet

Review of business and future developments

During the year the deemed loan assets decreased in line with the mortgage portfolios they reflect, the decrease being due to the mortgage repayments received during the year

Note holders interest increased during the year due to the restructure of the loan notes in June 2011 whereby additional variable funding notes were issued and in December 2011 the mortgage backed floating rate note margins increased

Due to repayments decreasing the capital value of the mortgages each year, both the balance sheet and interest income will decrease in future years The rate of decrease is dependent on future redemptions, further advances and interest rate movements

Key performance indicators (KPIs)

The directors monitor the progress of the Company by reference to two KPIs, firstly the net interest margin and secondly the notes outstanding balance

The net interest margin is 1 13% (2011 1 42%) calculated by dividing net interest income excluding adjustments to the carrying value of the deemed loan by the average deemed loan balance (after deducting interest payable to note holders)

Under the terms of the notes the Company can repurchase the outstanding notes of a securitisation issue at par once the outstanding principal amount of the notes falls below 10% of the amount originally issued The balance of the current notes outstanding as a percentage of the initial balance is 51 58% (2011 53 63%)

Principal risks and uncertainties

Instruments used for risk management purposes are set up at inception of the securitisation and include derivative financial instruments (derivatives), such as interest rate swaps and cross currency swaps This reflects the overall low risk appetite of the Company After inception no significant decisions regarding the risk management of the Company are required

The financial risks faced by the Company are credit risk, interest rate risk, liquidity risk and currency risk A summary of these risks is included below and more detail regarding the management of these risks is included in note 9 to the financial statements

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

Principal risks and uncertainties (continued)

- credit risk is the risk that a customer or counterparty will not be able to meet its obligations to the Company as they become due Credit risk arises on cash and cash equivalents, deemed loans, derivative financial instruments and other receivables The ability of the originators customers to repay their loans is impacted by economic factors in the UK 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 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
    - 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
    - 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 underlying mortgages that the Company's deemed loan asset relates to and debt securities in issue, 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 Liquidity risk arises on the Company's debt securities in issue, and
- currency risk arises as a result of the Company raising funds in foreign currencies The Company manages its exposure to currency risk using derivative financial instruments

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 tax, amounted to £329K (2011 £67K) The net assets of the Company at 31 December 2012 were £195K (2011 net liabilities £134K) The directors do not propose a dividend for the year (2011 £nil)

Post balance sheet events

On 9 May 2013, The Co-operative Bank plc was downgraded by Moody's to Ba3/Not prime status On 18 June 2013, the Bank was downgraded further by Moody's to Caa1 Further details of how this affects the company are given in note 20

Directors and their interests

The directors who held office during the year are given below

Capita Trust Corporate Limited
Capita Trust Corporate Services Limited
PCSL Services No 1 Limited
Mrs S E Lawrence

No director had any 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

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

Going concern

Due to the way in which the securitisation is structured, the Company is only required to repay its capital in line with the principal repayment of the underlying mortgage loans Consequently, the directors are satisfied that the Company will have sufficient liquid resources available to meet its obligations as they fall due

After preparing and reviewing forecasts and projections, stressed to take account of reasonable possible changes in assumptions, the directors are satisfied that the Company will have adequate resources to continue in business for the foreseeable future and that it is appropriate to adopt the going concern basis in preparing the financial statements

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 these 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

In accordance with Section 489 of the Companies Act 2006, resolutions for the appointment and remuneration of the auditor are proposed at the next Annual General Meeting

On behalf of the Board

Signed **Paul Glendenning**

Director **Capita Trust Corporate Services Limited (Director)**

Date 21/06/2013

Independent auditor's report to the members of Leek Finance Number Eighteen plc

We have audited the financial statements of Leek Number Finance Number Eighteen plc for the year ended 31 December 2012 set out on pages 6 to 31 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU

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

Respective responsibilities of directors and auditor
As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's 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 Financial Reporting Council'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 IFRSs 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 ______________________ Date 21/06/2013

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

Leek Finance Number Eighteen plc

Statement of comprehensive income for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
Interest receivable and similar income	2	**20,512**	15,401
Interest expense and similar charges	3	**(18,471)**	(15,221)
Net interest income		**2,041**	180
Gains less losses from derivative financial instruments and foreign exchange movements	4	**(404)**	486
Other operating expenses	6	**(1,226)**	(582)
Profit before taxation		**411**	84
Taxation	7	**(82)**	(17)
Net profit attributable to equity holders	15	**329**	67

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 31 form part of these financial statements.

Leek Finance Number Eighteen plc

Balance sheet as at 31 December 2012

	Notes	2012 £000	2011 £000
Assets			
Cash and cash equivalents	8	**47,720**	49,895
Derivative financial instruments	9	**69,327**	91,374
Deemed loans due from group undertakings	10	**716,903**	740,801
Deferred tax asset	7	**-**	54
Other receivables	11	**20,465**	19,178
Total assets		**854,415**	901,302
Liabilities			
Derivative financial instruments	9	**199**	245
Debt securities in issue	12	**812,779**	860,006
Other payables	13	**41,214**	41,179
Current tax liability		**6**	6
Deferred tax liability	7	**22**	-
Total liabilities		**854,220**	901,436
Equity			
Called-up share capital	14	**13**	13
Retained earnings	15	**182**	(147)
Total equity and liabilities		**854,415**	901,302

The accounting policies and notes on pages 10 to 31 form part of these financial statements

Approved by the Board of directors on 21/06/2013 and signed on their behalf by

Signed **Paul Glendenning**

Director **Capita Trust Corporate Services Limited (Director)**

Leek Finance Number Eighteen plc

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

Year ended 31 December 2012	**Share capital £000**	**Retained earnings £000**	**Total £000**
Balance at the beginning of the year	**13**	**(147)**	**(134)**
Profit for the year	**-**	**329**	**329**
Balance at the end of the year	**13**	**182**	**195**

Year ended 31 December 2011	Share capital £000	Retained earnings £000	Total £000
Balance at the beginning of the year	13	(214)	(201)
Profit for the year	-	67	67
Balance at the end of the year	13	(147)	(134)

The accounting policies and notes on pages 10 to 31 form part of these financial statements

Leek Finance Number Eighteen plc

Statement of cash flows for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
Cash flows from operating activities	16	**(1,028)**	20,674
Cash flows from financing activities			
Repayment of initial expense loan		-	(487)
Interest paid on initial expense loan		-	(2)
Interest paid on subordinated debt		(1,147)	(1,124)
Net cash used in financing activities		**(1,147)**	(1,613)
Net movement in cash and cash equivalents		**(2,175)**	19,061
Cash and cash equivalents at the beginning of the year		**49,895**	30,834
Cash and cash equivalents at the end of the year	8	**47,720**	49,895

The accounting policies and notes on pages 10 to 31 form part of these financial statements

Leek Finance Number Eighteen plc

Statement of accounting policies for the year ended 31 December 2012

Basis of preparation
Leek Finance Number Eighteen plc is a company incorporated and domiciled in England

The Company's financial statements have been prepared under the historical cost convention as modified by the revaluation of all derivative contracts

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

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

Amendment to IFRS 7 Financial Instruments Disclosures - Transfer of Financial Assets

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

Transactions and balances
Foreign currency transactions are converted into sterling using the exchange rates prevailing at the dates of the transactions Foreign exchange gains and losses resulting from the conversion and settlement of currency transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies (for example, Euro and US dollar denominated debt securities) are recognised in the statement of comprehensive income

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,
- interest income and expense on derivatives, which are measured at fair value, 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

Leek Finance Number Eighteen plc

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 years

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 differences in tax rules for securitisation companies

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

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

Financial assets

The Company's financial assets are categorised as follows

a. Financial assets at fair value through income or expense

These are either

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

This category covers assets acquired principally for the purpose of selling in the short term or assets so designated at initial recognition by management It includes the Company's derivative financial instruments

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

b. Loans and receivables

Loans and receivables are assets with fixed or determinable payments They include loans and advances to banks, beneficial ownership of loans and advances to customers and gilts The loans and advance to banks and the beneficial ownership of loans and advances to customers are not quoted in an active market The gilts are quoted in an active market

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

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

Derivative financial instruments

Derivatives are financial instruments used by the Company to manage risks

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value The estimated fair value of derivatives represents the discounted amount of estimated future cash flows expected to be received Expected cash flows are discounted at current market rates to determine fair value All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative

Derivatives are derecognised when the derivative contract matures or is cancelled prior to maturity

Derivatives that do not qualify for hedge accounting

No derivatives are designated as hedges under IAS 39 Changes in the fair value of all derivative instruments are, therefore recognised immediately in the statement of comprehensive income

Deemed loans due from group undertakings

The beneficial ownership of the loans and advances to customers and the gilts sold to the Company by the originator fail the derecognition criteria of IAS 39 and consequently, these remain on the balance sheet of the originator IAS 39, therefore requires the seller to recognise a deemed loan financial liability on its balance sheet and the resulting deemed loan asset is held on the purchasing company's balance sheet

This deemed loan initially represents the consideration paid by the Company in respect of the acquisition of the beneficial ownership of the securitised loans and advances to customers and gilts and is subsequently adjusted for repayments made by the originator to the Company

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 payable

Deferred purchase consideration depends on the extent to which the surplus income generated by the underlying mortgage books and gilts to which the Company has a beneficial interest, exceeds the administration costs of the mortgage books and gilts, and is deducted from interest income, since the Company does not recognise income to which it is not beneficially entitled 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

- deposits from banks,
- derivatives,
- debt securities in issue, and
- other borrowed funds and liabilities

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

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

Issue costs, including premiums and discounts, commissions and other costs incurred in the issuing of fixed and floating rate notes and subordinated liabilities, are amortised using the effective interest rate method

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

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

Segmental reporting
The Company operates in one business segment and all business is conducted in the UK, therefore no segmental information is presented

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

Fair Values
The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale Financial instruments entered into as trading transactions, such as interest rate swaps and basis swaps, are measured at fair value and the resultant profits and losses are included in the statement of comprehensive income For derivative financial instruments the fair values are based on valuation techniques including discounted cashflow analysis, with reference to relevant market rates, and other commonly used valuation techniques Assets and liabilities resulting from gains and losses on financial instruments held for trading are reported gross in assets and liabilities or derivative financial instruments

Leek Finance Number Eighteen plc

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 fee for the audit of the Company's financial statements	**2**	2

2 Interest receivable and similar income

	2012 £000	2011 £000
On financial assets not at fair value through income and expense		
Deemed loan interest receivable on mortgages	**16,177**	16,117
Deferred consideration payable (note 10)	**(277)**	(2,491)
Adjustments to the carrying value of deemed loans	**(622)**	(1,433)
Deemed loan interest receivable on gilts	**4,073**	2,506
Interest receivable from The Co-operative Bank plc	**947**	549
Bank interest receivable	**214**	153
	20,512	15,401

3 Interest expense and similar charges

	2012 £000	2011 £000
On financial liabilities not at fair value through income and expense		
Interest expense on debt securities in issue	**17,201**	13,247
Interest payable to The Co-operative Bank plc	**1,139**	1,126
Amortisation of issue costs	**-**	565
Other borrowed funds	**-**	2
	18,340	14,940
On financial liabilities at fair value through income and expense		
Net expense on derivative financial instruments	**131**	281
	18,471	15,221

Interest on debt securities in issue increased during the year due to the issue of loan notes as funding for the gilt purchase by The Co-operative Bank plc and premium on the 21 June 2012

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

4 Gains less losses from derivative financial instruments and foreign exchange movements

	2012 £000	2011 £000
Interest rate swaps	(153)	(190)
Basis swaps	199	245
Gross foreign currency (loss)/gain on US dollar debt	(13,014)	2,307
Gross foreign currency loss on Euro debt	(5,570)	(5,044)
Gross foreign currency gain/(loss) on US dollar cross currency swaps	13,014	(2,307)
Gross foreign currency gain on Euro cross currency swaps	5,570	5,044
Gross foreign currency gain on multi currency loan	(608)	481
Gross foreign currency gain / (loss) on bond premium	158	(50)
	(404)	486

At inception the Company implemented interest rate swaps to hedge the effect of movements in interest rates on the fixed rate mortgages it has purchased As the Company does not recognise these mortgages and instead recognises a deemed loan asset the Company recognises in full any gain or loss as a result of movements in the fair value of the interest rate swaps as shown above

At inception, the Company took out basis swaps to hedge the exposure arising from the timing difference between the dates of interest payment on the debt securities in issue and interest receipts on the deemed loans due from group undertakings

At inception the Company also implemented perfectly matched foreign currency swaps ensuring that the net value of gross foreign exchange gains and losses is nil The foreign exchange risk exposure of the Company is mitigated by the use of these highly effective foreign currency swaps and is described further in note 9

On the 21 June 2011, the Company advanced a multi currency loan to The Co-operative Bank plc Any foreign exchange movements are recognised in the income statement as they arise

5 Directors' emoluments and employees

During the year, Capita Trust Company, on behalf of Capita Trust Corporate Limited and Capita Trust Corporate Services Limited received £10K in respect of directors and trustees fees (2011 £20K)

At 31 December 2012, no directors were accruing benefits under The Co-operative Group pension schemes (2011 £nil)

The company had no employees during the current or prior year

6 Other operating expenses

	2012 £000	2011 £000
Other operating expenses	1,226	582

During the year ended 31 December 2012 the basis of calculating the administration fees was brought into alignment with other group companies This resulted in an increase in administration fee expense compared to the previous year

Leek Finance Number Eighteen plc

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

7 Taxation

	2012 £000	2011 £000
UK tax at 20% (2011 20 25%)		
Corporation tax		
Current year	**6**	6
Total corporation tax	**6**	6
Deferred tax		
Current year	**76**	11
	82	17

Factors affecting tax charge for the year
The average effective rate of corporation tax assessed for the year is equal to the standard rate of corporation tax for small companies in the UK of 20% (2011 20 25%)

	2012 £000	2011 £000
Profit on ordinary activities before tax	**411**	84
Profit before tax multiplied by standard rate of tax	**82**	17
	82	17

The recognised deferred tax liability includes the following amount

	2012 £000	2011 £000
Short term timing differences	**(22)**	54

The reconciliation of the opening and closing deferred (liability)/tax asset is shown below

	2012 £000	2011 £000
Net deferred tax at the beginning of the year	**54**	65
Deferred tax charged to the statement of comprehensive income	**(76)**	(11)
Balance at the end of the year	**(22)**	54

The deferred tax liability arises due to short-term timing differences The deferred tax liability expected to be payable after one year is £22K (2011 deferred tax asset £54K) Deferred tax is calculated at 20% (2011 20 25%)

Leek Finance Number Eighteen plc

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

7 Taxation (continued)

Secondary tax legislation, enacted in November 2006 under powers conferred by the Finance Act 2005, ensures that for the companies who first meet the definition of a 'securitisation company' for an accounting period commencing on or after 1 January 2007, corporation tax will be calculated by reference to the retained profit of the securitisation Company required to be retained under the agreement that governs the company

The directors are satisfied that this Company meets the definition of a 'securitisation Company' as defined by both the Finance Act 2005 and the relevant subsequent secondary legislation and that no incremental unfunded tax liabilities will arise

8 Cash and cash equivalents

	2012 £000	2011 £000
Bank deposits	74	74
Loans and advances to banks	47,646	49,821
	47,720	49,895

9 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 deemed loans, amounts due from group undertakings, various tranches of loan notes and cash and cash equivalents

Fair values of derivative financial instruments
Numerical financial instruments disclosures for those measured at fair value are set out below

	Notional principal amount 2012 £000	Assets 2012 £000	Liabilities 2012 £000
Basis risk swaps	155,350	-	199
Cross-currency swaps	469,920	69,327	-
	625,270	69,327	199

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

9 Financial instruments (continued)

Fair values of derivative financial instruments (continued)

	Notional principal amount 2011 £000	Assets 2011 £000	Liabilities 2011 £000
Basis risk swaps	172,627	-	245
Cross-currency swaps	508,325	91,374	-
	680,952	91,374	245

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 carrying values and fair value

	Carrying value 2012 £000	**Fair value 2012 £000**
Deemed loans due from group undertakings	**716,903**	**712,792**
Other payables	**(41,214)**	**(38,370)**
Debt securities in issue		
Notes A2a	**(95,486)**	**(97,639)**
Notes A2b	**(163,087)**	**(165,549)**
Notes A2c	**(57,942)**	**(58,794)**
Notes A2d	**(120,169)**	**(121,984)**
Notes Ma	**(12,500)**	**(11,868)**
Notes Mc	**(67,889)**	**(64,386)**
Notes Ba	**(25,900)**	**(24,204)**
Notes Bc	**(21,089)**	**(19,646)**
Notes Ca	**(6,000)**	**(5,418)**
Notes Cc	**(39,744)**	**(35,817)**
Notes K	**(184,186)**	**(165,399)**
Notes L	**(9,526)**	**(8,506)**
Notes N	**(2,000)**	**(1,776)**
Premium	**(6,949)**	**(6,949)**
Floating rate notes interest payable	**(145)**	**(145)**
Variable notes interest payable	**(167)**	**(167)**
Total Debt securities in issue	**(812,779)**	**(788,247)**

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

9 Financial instruments (continued)

	Carrying value 2011 £000	Fair value 2011 £000
Deemed loans due from group undertakings	740,801	733,650
Other payables	(41,179)	(36,234)
Debt securities in issue		
Notes A2a	(100,807)	(94,760)
Notes A2b	(180,078)	(169,274)
Notes A2c	(62,995)	(59,215)
Notes A2d	(132,690)	(124,728)
Notes Ma	(12,500)	(10,625)
Notes Mc	(69,914)	(59,428)
Notes Ba	(25,900)	(21,756)
Notes Bc	(21,718)	(18,243)
Notes Ca	(6,000)	(4,920)
Notes Cc	(40,930)	(33,562)
Notes K	(187,418)	(152,746)
Notes L	(13,174)	(10,671)
Notes N	(2,000)	(1,610)
Premium	(3,438)	(3,438)
Floating rate notes interest payable	(270)	(270)
Variable notes interest payable	(174)	(174)
Total Debt securities in issue	(860,006)	(765,420)

Fair values have been determined as follows

Deemed loans

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

Debt securities in issue

The fair value of debt securities in issue are based on market prices at the balance sheet date The estimated fair value of subordinated loans are based on market prices of similar securities from independent valuations at the balance sheet date

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

9 Financial instruments (continued)

Risk management and control
The financial risks faced by the Company include the following

- interest rate risk,
- credit risk,
- currency 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

Derivatives
A derivative is a financial instrument that derives its value from an underlying rate or price, such as interest rates and other market prices Derivatives are an efficient means of managing market risk and limiting company exposure The Co-operative Bank plc uses derivatives for hedging purposes to manage the risk of movements in rates and prices that the Company is exposed to

The most frequently used derivative contracts are interest rate swaps, currency swaps and basis swaps Terms and conditions are determined using standard industry documentation Derivatives are subject to the same market and credit risk control procedures as are applied to other wholesale market instruments and are aggregated with other exposure to monitor total counterparty exposure across The Co-operative Bank plc, this is managed within approved limits for each counterparty

At the inception of the securitisation the material risks are considered in relation to the overall low risk appetite of the Company Instruments used for risk management purposes are set up at inception of the securitisation and include interest rate and cross-currency swaps These are not used in trading activity or for speculative purposes

Interest rate risk
The Company is exposed to movements in interest rates and The Co-operative Bank plc manages this exposure using derivatives More specifically, the Company is exposed to basis risk due to the timing differences in interest payment dates on the notes and the deemed loan This is hedged using a form of interest rate swap known as a basis swap, which is taken out on inception of the securitisation

The Company has never experienced significant financial losses as a result of movements in interest rates After taking into consideration the Company's derivative instruments, the administered interest rate nature of the Company's deemed loans, the regular re-pricing of the Company's mortgage backed floating rate notes, together with the nature of the Company's other assets and liabilities, the directors do not believe that the Company has any significant interest rate re-pricing exposure In order to avoid any adverse effects in the future, effective hedges will need to be maintained

Leek Finance Number Eighteen plc

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

9 Financial instruments (continued)

Interest rate risk (continued)

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

A 1% movement in variable interest rates would have an immaterial effect on both profit and equity, as, due to the structure of the entity, the increase/decrease in cash inflows would be substantially offset by the opposite decrease/increase in cash outflows

The amounts of deferred purchase consideration payable to Meerbrook Finance Number One Limited and Platform Funding Limited are non-interest bearing financial liabilities As described in note 10, the dates of repayment are dependent on the extent to which surplus income is generated by the securitised mortgage books Therefore, the weighted average period until maturity is unknown

The mortgage backed floating rate notes and the subordinated loan owed to The Co-operative Bank plc are classified as floating rate liabilities The benchmark rates used for determining interest rate payments are disclosed in note 12 and note 13

Credit risk

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

The Company is exposed to credit risk on cash and cash equivalents, deemed loans, derivative financial instruments and other receivables (excluding prepayments)

The table below represents a worst-case scenario of credit risk exposure to 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
Cash and cash equivalents	Bank deposits	47,720	49,895
Financial assets at FV through income and expenses	Derivative financial instruments	69,327	91,374
Loans and receivables	Deemed loans	716,903	740,801
Loans and receivables	Other receivables	20,465	19,178
		854,415	901,248

Deemed loans

The risk on the deemed loan is mitigated by the size and quality of the securitised loans and advances to customers The average loan to value percentage of the underlying mortgage assets, to which the deemed loans relate was 77 98% at the end of the reporting period (2011 78 54%) An arrears analysis of the underlying mortgage portfolio is shown below

	2012 £000	2011 £000
Not in arrears	452,810	463,077
In arrears	92,148	103,407
	544,958	566,484

The total deemed loan balance of £734,978K also includes gilts of £163,050K

9 Financial instruments (continued)

Derivatives
At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Company (i e assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values, used to express the volume of instruments outstanding

Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Company requires margin deposits from counterparties

In addition, the deemed loan now includes securitised gilts which were put in place during 2012

Other receivables
Other receivables relate primarily to amounts due from The Co-operative Bank plc Due to the way the ultimate parent manages the intercompany balances the credit risk on these loans is considered to be minimal

Currency risk
Currency risk arises as a result of the Company raising funds in foreign currencies The Company manages its exposure to currency risk using derivative financial instruments

US Dollar notes are exposed to movements in the US Dollar exchange rate and US Dollar LIBOR rate (note 12) The Company is also exposed to movements in the EURO exchange rate and the EURIBOR rate relating to EURO Notes (note 12) Currency swaps that are perfectly matched are put in place at inception of the securitisation with JP Morgan Chase Bank to manage and mitigate these exposures As a result of these highly effective swaps there is no significant sensitivity to movements in exchange rates

On the 21 June 2011 the Company advanced a multi currency loan to The Co-operative Bank plc, any foreign currency movements on this loan are recognised in the income statement as they arise

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 debt securities in issue Funding has been obtained through the issue of mortgage-backed floating-rate notes The Company has in place a borrowing facility to ensure that sufficient liquidity is maintained to meet its obligations on the floating rate notes (note 13)

The notes issued by the Company are repayable in line with the collections of principal from the securitised mortgage loans Under the terms of the notes the Company can repurchase the outstanding notes of the securitisation issue at par once the outstanding principal amount of the notes falls below 10% of the amount originally issued, or in full on any interest payment date on or after 21 December 2011, the step up date

Leek Finance Number Eighteen plc

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

9 Financial instruments (continued)

Liquidity risk (continued)

The gross undiscounted contractual cash flows payable on financial liabilities are provided below

	Derivative financial instruments 2012 £000	Debt securities in issue 2012 £000	Other payables 2012 £000
Up to 3 months	19	6,085	259
3-12 months	87	27,444	835
1-5 years	312	685,523	26,729
Over 5 years	-	168,848	-
	418	719,052	27,823

	Derivative financial instruments 2011 £000	Debt securities in issue 2011 £000	Other payables 2011 £000
Up to 3 months	20	9,568	294
3-12 months	(88)	38,397	958
1-5 years	502	649,105	28,544
Over 5 years	-	176,992	-
	434	874,062	29,796

The overall liquidity risk is effectively mitigated as a result of the structure of the repayment of capital being required only in line with the principal repayment of the underlying mortgage loans

Liquidity risk also 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

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

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

10 Deemed loans due from group undertakings

	2012 £000	2011 £000
Deemed loans recoverable	**734,978**	758,598
Deferred consideration payable (see below)	**(18,075)**	(17,797)
	716,903	740,801

Included in deemed loans recoverable is the right to proceeds of £163,050K of UK gilts, these are treated as deemed loans as they fail the derecognition criteria of IAS 39 and, consequently, these gilts remain on the balance sheet of The Co-operative Bank plc IAS 39, therefore, requires the seller to recognised a deemed loan financial liability on its balance sheet and the resulting deemed loan asset is held on the purchasing Company's balance sheet These are for a 5 year term and are due to be repaid on the 21 December 2016

The remaining deemed loans recoverable are repaid as and when the cash is received by the originator from the customers as principal repayments of the loans and advances Consequently, a proportion of the deemed loans recoverable will be repaid within 12 months although the amount cannot be quantified

Deferred consideration payable

Deferred consideration is payable to Platform Funding Limited and Meerbrook Finance Number One Limited dependent on the extent to which the surplus income generated by the underlying mortgage books and gilts, purchased by Leek Finance Number Eighteen plc from those companies and The Co-operative Bank plc respectively, exceeds the administration costs of the mortgage books The surplus income generated during the year ended 31 December 2012 amounted to £277K (2011 £2,491K)

The deferred consideration is payable as follows

	2012 £000	2011 £000
Amounts owed to Meerbrook Finance Number One Limited	**4,523**	4,524
Amounts owed to Platform Funding Limited	**13,552**	13,273
	18,075	17,797

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

10 Deemed loans due from group undertakings

Deferred consideration payable (continued)

The movements in deferred consideration are as follows

	2012	2011
	£000	£000
Balance at the beginning of the year	**17,797**	16,448
Additional consideration payable	**277**	2,491
Repayment during the year	**1**	(1,142)
Balance at the end of the year	**18,075**	17,797

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

11 Other receivables

	2012	2011
	£000	£000
Amounts owed by The Co-operative Bank plc	**20,245**	18,863
Other debtors	**220**	315
	20,465	19,178

On the 21 June 2011, the Company advanced a multi currency loan to The Co-operative Bank plc of £18,240K The multi currency loan will be repaid on 21 December 2016 The effective interest rate on the multi currency loan is 6% per annum

The remaining amounts owed by group undertakings, which are due from The Co-operative Bank plc, are expected to be settled more than 12 months after the end of the reporting period There is no formal repayment schedule for these monies, which are repayable on demand The effective interest rate is 3 month LIBOR less 50 basis points

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

12 Debt securities in issue

	2012 £000	2011 £000
£GBP floating rate notes	**342,859**	351,681
$USD floating rate notes	**283,256**	312,768
€EURO floating rate notes	**186,664**	195,557
	812,779	860,006

	2012 £000	2011 £000
Due within one year		
Class A2a Mortgage Backed Floating Rates Notes due 2038	**1,106**	1,592
Class A2b Mortgage Backed Floating Rates Notes due 2038	**1,890**	2,845
Class A2c Mortgage Backed Floating Rates Notes due 2038	**671**	996
Class A2d Mortgage Backed Floating Rates Notes due 2038	**1,392**	2,097
Class K Variable Funing Notes due 2038	**3,325**	3,090
Variable rate notes interest payable	**167**	174
Floating rate notes interest payable	**145**	270
	8,696	11,064

	2012 £000	2011 £000
Due in more than one year		
Class A2a Mortgage Backed Floating rate notes due 2038	**94,380**	99,215
Class A2b Mortgage Backed Floating rate notes due 2038	**161,197**	177,233
Class A2c Mortgage Backed Floating rate notes due 2038	**57,271**	61,999
Class A2d Mortgage Backed Floating rate notes due 2038	**118,777**	130,593
Class Ma Mortgage Backed Floating rate notes due 2038	**12,500**	12,500
Class Mc Mortgage Backed Floating rate notes due 2038	**67,889**	69,914
Class Ba Mortgage Backed Floating rate notes due 2038	**25,900**	25,900
Class Bc Mortgage Backed Floating rate notes due 2038	**21,089**	21,718
Class Ca Mortgage Backed Floating rate notes due 2038	**6,000**	6,000
Class Cc Mortgage Backed Floating rate notes due 2038	**39,744**	40,930
Class K Variable Funding Notes due 2038	**180,861**	184,328
Class L Variable Funding Notes due 2038	**9,526**	13,174
Class N Variable Funding Notes due 2038	**2,000**	2,000
Premium	**6,949**	3,438
	804,083	848,942
Total debt securities in issue	**812,779**	860,006

The mortgage backed floating rate notes due 2038 are secured over a portfolio of mortgage loans secured by first charges over residential properties in the UK and the VFN's

Prior to redemption of the notes on the final interest payment date falling in September 2038, the notes will be subject to mandatory and/or optional redemption in certain circumstances, on each interest payment date

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

12 Debt securities in issue (continued)

Classes of mortgage backed floating rate notes are subject to interest as detailed below The three month LIBORs are revised quarterly and the following margins, which are not subject to revision, apply to the classes of notes as follows

	Until 21 December 2011	From 21 December 2011 until 21 September 2038
Class A1a notes at 3 month Sterling LIBOR plus	0.04%	0.08%
Class A1b notes at 3 month Dollar LIBOR plus	0.04%	0.08%
Class A2a notes at 3 month Sterling LIBOR plus	0.13%	0 26%
Class A2b notes at 3 month Dollar LIBOR plus	0.13%	0 26%
Class A2c notes at 3 month EURIBOR plus	0.13%	0.26%
Class A2d notes at 3 month Dollar LIBOR plus	0.13%	0.26%
Class Ma notes at 3 month Sterling LIBOR plus	0.22%	0.44%
Class Mc notes at 3 month EURIBOR plus	0.22%	0.44%
Class Ba notes at 3 month Sterling LIBOR plus	0.42%	0.84%
Class Bc notes at 3 month EURIBOR plus	0.40%	0.80%
Class Ca notes at 3 month Sterling LIBOR plus	0.78%	0.99%
Class Cc notes at 3 month EURIBOR plus	0.78%	0.99%

Classes of Variable Funding notes are subject to interest as detailed below

	From 21 June 2011 until 21 September 2038
Class K notes at rate per annum	2.64%
Class L notes at rate per annum	6.00%
Class N notes at 3 month Sterling LIBOR less	0.50%

The Company has not had any defaults on principal, interest or any other breaches with respect to their liabilities during the year

The mortgage loans were not repurchased by The Co-operative Bank plc at the step up date and therefore to provide assurance to the noteholders that the company's cash flows sufficiently cover their exposure and to cover any shortfall The Co-operative Bank plc sold to the Leek Company gilts which the Company funded by issuing K notes

Additionally a premium will be payable to the Class A (A noteholders) on the final repayment date for the Class A notes The Co-operative Bank plc loaned the Company L loan note equivalent to the Sterling equivalent of 5% of Class A notional of each Leek Class A Note

On the 21 December 2011 the company issued £2m of N notes to fund additional cash collateralisation

Leek Finance Number Eighteen plc

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

13 Other payables

	2012 £000	2011 £000
Amounts owed to Platform Funding Limited	119	70
Subordinated debt owed to The Co-operative Bank plc	23,302	23,310
Accruals and deferred income	52	46
Liquidity facility owed to The Co-operative Bank plc	17,671	17,674
Other	70	79
	41,214	41,179

The subordinated debt is secured by a second charge on the mortgage assets to which the Company's deemed loans relate The subordinated debt is not repayable until all obligations to the noteholders have been met Interest is calculated at the prevailing three month LIBOR plus 400 basis points

The liquidity facility due to The Co-operative Bank plc incurs interest on any drawing at Libor plus a margin of 0 4% (2011 0 4%)

The other amounts owed to group undertakings are expected to be settled within 12 months of the end of the reporting period

14 Called-up share capital

	2012 £	2011 £
Issued and fully paid		
2 ordinary shares of £1 each	2	2
Issued and partly paid		
49,998 ordinary shares of £1 each of which 25p paid	12,500	12,500

The Company's funding consists of share capital, debt securities and intercompany funding provided by The Co-operative Bank plc Capital is managed on the whole by The Co-operative Bank plc, who are subject to the capital requirements imposed by its regulator the Financial Conduct Authority ("FCA") During the period, The Co-operative Bank plc complied with the capital requirements set by the FCA

15 Retained earnings

Movement in retained earnings were as follows

	2012 £000	2011 £000
Balance at the beginning of the year	(147)	(214)
Profit for the year	329	67
Balance at the end of the year	182	(147)

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

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

	2012 £000	2011 £000
Profit before taxation	**411**	84
Interest payable on subordinated debt	**1,139**	1,126
Interest payable on initial expense loan	**-**	2
Cash flows from operating profit before changes in operating assets and liabilities	**1,550**	1,212
Decrease/(increase) in deemed loans due from group undertakings	**23,898**	(153,215)
Net movement in derivative financial instruments	**22,001**	7,749
Net increase in other receivables	**(1,287)**	(18,866)
Net (decrease)/increase in debt securities	**(47,227)**	166,113
Net increase in other payables	**43**	17,687
Taxation paid	**(6)**	(6)
Net cash flows from operating activities	**(1,028)**	20,674

17 Ultimate parent undertaking and controlling entity

The Company's immediate parent undertaking and controlling entity is Leek Finance Holdings Number Eighteen Limited, a Company registered in England

Capita Trust Nominees No 1 Limited holds 100% of the issued share capital of Leek Finance Holdings Number Eighteen Limited, subject to terms of a declaration of trust for general charitable purposes

The Company meets the definition of a special purpose entity under IFRS In accordance with the requirements of SIC 12 "Consolidation - Special Purpose Entities", the Company's accounts are consolidated within the group accounts of The Co-operative Bank plc for the year ended 31 December 2012

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 Great Britain and registered in England and Wales under the Industrial and Provident Society Acts 1965 to 2002 The Co-operative Group Limited is the Company's ultimate parent company and ultimate controlling party The financial statements of the ultimate parent company are available from New Century House, Manchester, M60 4ES The smallest Group in which they are consolidated is that headed by The Co-operative Bank plc, which is incorporated in Great Britain The financial statements of this group are available from 1 Balloon Street, Manchester, M60 4EP

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 in the financial statements as follows

Year ended 31 December 2012	**Interest receivable and other income £000**	**Interest expense and other charges £000**	**Balance due to/(from) the Company £000**
The Co-operative Bank plc	**5,020**	**7,107**	**(33,438)**
Meerbrook Finance Number One Limited	**5,150**	**-**	**214,124**
Platform Funding Limited	**10,129**	**1,132**	**319,487**
Year ended 31 December 2011			
The Co-operative Bank plc	3,054	4,565	(55,870)
Meerbrook Finance Number One Limited	5,185	-	220,303
Platform Funding Limited	7,009	478	333,175

In addition to the above The Co-operative Bank plc holds floating rate notes in Leek Finance Number Eighteen plc of £24 9m (2011 £23 3m) included within debt securities in issue

During the year £10K (2011 £20K) was paid to corporate directors in respect of the provision of management services The amount outstanding at 31 December 2012 was £3K (2011 £nil) All related party transactions were made on terms equivalent to those that prevail in arm's length transactions

19 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

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

19 New pronouncements issued in 2012 (continued)

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

20 Events after the balance sheet date

The Co-operative Bank acts as the Guarantor of the Administration and Cash Management roles in connection with the Notes As a result of the Co-operative Bank's downgrade by Moody's on the 9 May 2013 to Ba3/Not prime, on 21 May 2013 Moody's placed on review for downgrade the ratings of all the notes in the Leek Finance series rated above A3(sf) as, in line with the rating criteria in effect at the inception of the transactions, the transaction documents relating to the Leek Finance series (other than Leek Finance Number Twenty Two PLC) do not contain back-up servicer or back-up cash manager triggers, nor an independent back-up servicer or back-up cash manager facilitator

Moody's downgraded the Bank further on 18 June 2013 to Caa1 However, this is not deemed to have any further impact over and above the initial downgrade due to the transaction documentation not containing rating triggers The issuers under the Leek Finance series are currently considering their options in light of this further Moody's publication