

---

**Leek Finance Number Eighteen plc**  
**Financial statements**  
**for the year ended 31 December 2015**

**Registered Number: 05659996**



# **Leek Finance Number Eighteen plc**

---

## **Contents**

---

Directors and advisors	1
Strategic report for the year ended 31 December 2015	2
Directors' report for the year ended 31 December 2015	4
Independent auditor's report to the members of Leek Finance Number Eighteen plc	6
Statement of comprehensive income for the year ended 31 December 2015	8
Statement of financial position as at 31 December 2015	9
Statement of changes in equity for the year ended 31 December 2015	10
Statement of cash flows for the year ended 31 December 2015	11
Statement of accounting policies for the year ended 31 December 2015	12
Notes to the financial statements for the year ended 31 December 2015	16

# **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 (Resigned 31 July 2015)

Mr C Baldry (Appointed 30 July 2015)

### **Secretary**

Capita Trust Corporate Limited

### **Independent auditor**

Ernst & Young LLP

25 Churchill Place

Canary Wharf

London

E14 5EY

### **Solicitors**

Allen & Overy LLP

One Bishop's Square

London

E1 6AD

### **Registered office**

4th Floor

40 Dukes Place

London

EC3A 7NH

United Kingdom

### **Registered number**

05659996

# Leek Finance Number Eighteen plc

## Strategic report for the year ended 31 December 2015

### Principal Activities

The Company was incorporated in England with the principal activity as that of a securitisation vehicle with beneficial ownership of mortgage loans secured by first charges over residential properties within the UK. The nature of the securitisation vehicle is that it is set up to be financially independent from the ultimate controlling entity, The Co-operative Bank plc (the Bank).

---

As the Originators have retained substantially all the significant risks and rewards of ownership of the mortgage portfolios, derecognition is considered to be inappropriate for the Originators' own financial statements, and therefore, the mortgage portfolios remain on the Statements of Financial Position of the Originators. The Company's financial statements are therefore prepared on the basis that those acquisitions of beneficial interests in mortgage portfolios are recognised as collateralised loans to the Originators.

The profit for the year, after taxation, amounted to £4,387k (2014: £3,713k). The net assets of the Company at 31 December 2015 were £532k (2014: £3,855k net liabilities).

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.

### Strategy

The Company could sell the beneficial ownership in the mortgages to The Co-operative Bank plc on 21 December 2017. Should this happen, the Company will settle all outstanding liabilities at that time.

### Future Outlook

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

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 making enquiries and considering the current forecasts, the directors have a reasonable expectation 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. In the event of any shortfall on net assets upon redemption of Notes the Company will issue 'J Notes' and use the proceeds to settle any outstanding liabilities. The Co-operative Bank plc are obliged to purchase these 'J Notes', and would be the sole purchaser of these Notes. The directors are therefore satisfied that it is appropriate to conclude that the Company remains as a going concern.

# Leek Finance Number Eighteen plc

## Strategic report for the period ended 31 December 2015 (continued)

### Principal Risks and Uncertainties

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

- market risk is the risk of loss as a result of the value of financial assets or liabilities (including off-balance sheet instruments) being adversely affected by movements in market rates or prices. The loss can be reflected in near term earnings by changing net interest income, or in the longer term because of changes in the economic value of future cash flows. The main source of market risk within the Company is the basis swaps which are held as an economic hedge against movements in interest rates affecting the mortgages underlying the deemed loan asset. Changes in market interest rates are the main factor affecting the value of the basis swaps;
- 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;
- 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 originator's customers to repay their loans is impacted by economic factors in the UK. Credit risk on the Company's deemed loan assets is however considered to be minimal because the directors do not expect the amount of incurred credit losses on the Originator's securitised loans and advances to customers to exceed the amount of the credit enhancement supplied by The Co-operative Bank plc. For further information regarding arrears of the underlying mortgage loans that the deemed loans relate to, please visit <http://www.co-operativebank.co.uk/investorrelations/debtinvestors/> and refer to the investor reports for the Company;
- 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 derivative financial instruments.

### Key performance indicators (KPIs)

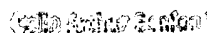
The directors monitor the progress of the Company by reference to two KPIs, firstly the net interest margin and secondly the notes outstanding balance.

The net interest margin is 0.55% (2014: 0.20%) 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 and subsequent issuances is 55.95% (2014: 59.29%), excluding Notes A1a and Notes A1b.

On behalf of the Board

Signed: 



For and on behalf of Capita Trust Corporate Services Limited

Date : 27 May 2016

# **Leek Finance Number Eighteen plc**

## **Directors' report for the year ended 31 December 2015**

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 2015.

### **Likely future developments**

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

### **Dividends**

The directors do not propose a dividend for the year ended 31 December 2015 (2014: £nil).

### **Financial instruments**

Instruments used for risk management purposes are set up at the inception of the securitisation and include derivative financial instruments (derivatives), such as basis 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 Company is exposed to credit risk, interest rate risk, liquidity risk and currency risk. Financial instruments are used, as required, to manage these risks. Details are included in note 9 to the financial statements.

### **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 (resigned 31 July 2015)  
Mr C Baldry (appointed 30 July 2015)

No director had any beneficial interest in the share capital of the Company, The Co-operative Bank plc, or any of its subsidiaries at any time during the period under review.

### **Third party indemnities**

Qualifying third party indemnity provisions for the benefit of the directors were in force during the year under review and remain in force as at the date of approval of the directors' report and financial statements.

### **Secretary**

Capita Trust Corporate Limited acted as the company secretary during the year.

### **Corporate governance**

The directors have been charged with governance in accordance with the transaction documents describing the structure and operation of the transaction. The governance structure of the Company is such that the key policies have been predetermined at the time of issuance and the operational roles have been assigned to third parties with their roles strictly governed by the transaction documents.

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

Due to the nature of the securities which have been issued, the Company is largely exempt from the requirements of the Financial Conduct Authority disclosure and transparency rules (DTR) DTR 7.1 audit committees and 7.2 corporate governance statements (save for the rule DTR 7.2.5 requiring a description of the features of the internal control and risk management systems), which would otherwise require the Company respectively, to have an audit committee in place and to include a corporate governance statement in the report of the directors. The directors are therefore satisfied that there is no requirement for an audit committee or a supervisory body entrusted to carry out the functions of an audit committee or to publish a corporate governance statement.

# Leek Finance Number Eighteen plc

## Directors' report for the year ended 31 December 2015

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

The directors are responsible for preparing the strategic report, 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
- 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 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.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418(2) of the Companies Act 2006.

### Independent Auditors

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

  
Colin Arthur Sanford

Signed: \_\_\_\_\_

For and on behalf of Capita Trust Corporate Services Limited  
Director

Date: 27 May 2016

## **Leek Finance Number Eighteen plc**

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

We have audited the financial statements of Leek Finance Number Eighteen plc for the year ended 31 December 2015 set out on pages 8 to 34 comprising the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash flows and Accounting policies and related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

This report is made solely to the Company's member, 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 member 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 member, 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 5, 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**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the directors' report and the strategic report to identify material inconsistencies with the audited financial statements and to identify information that is apparently materially incorrect based on, or materially inconsistent with the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **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 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matters prescribed by the Companies Act 2006**

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



## Leek Finance Number Eighteen plc

### 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:

Peter Wallace

Date:

3<sup>rd</sup> June 2016

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

## Leek Finance Number Eighteen plc

### Statement of comprehensive income for the year ended 31 December 2015

			Re-presented
	Notes	2015 £000	2014 £000
Interest receivable and similar income	2	18,828	17,879
Interest expense and similar charges	3	(15,123)	(15,477)
<b>Net interest income</b>		<b>3,705</b>	<b>2,402</b>
Net gains from derivative financial instruments	4	2,210	3,205
Other operating expenses	6	(1,183)	(978)
Impairment on loans and advances		(340)	(958)
<b>Profit before taxation</b>		<b>4,392</b>	<b>3,671</b>
Taxation credit/(charge)	7	(5)	42
<b>Net profit attributable to equity holders</b>		<b>4,387</b>	<b>3,713</b>

All results are from continuing operations.

The accounting policies and notes on pages 12 to 34 form part of these financial statements.

The 2014 figures have been re-presented in order to split out impairment losses. This is consistent with the Bank financial statements.

# Leek Finance Number Eighteen plc

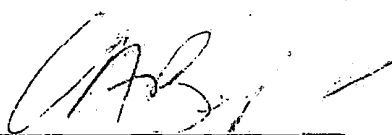
## Statement of Financial Position as at 31 December 2015

	Notes	2015 £000	2014 £000
<b>Assets</b>			
Cash and cash equivalents	8	49,585	51,182
Derivative financial instruments	9	64,542	64,584
Deemed loans due from group undertakings	10	615,198	644,638
Other receivables	11	23,013	20,383
<b>Total assets</b>		<b>752,338</b>	<b>780,787</b>
<b>Liabilities</b>			
Derivative financial instruments	9	35	88
Debt securities in issue	12	709,424	743,431
Other payables	13	42,342	41,117
Current tax liability		5	6
<b>Total liabilities</b>		<b>751,806</b>	<b>784,642</b>
<b>Equity</b>			
Share capital	14	13	13
Retained earnings	15	519	(3,868)
<b>Total equity and liabilities</b>		<b>752,338</b>	<b>780,787</b>

The accounting policies and notes on pages 12 to 34 form part of these financial statements.

Approved by the Board of directors on 27 May 2016 and signed on their behalf by:

Signed:



Arthur Sanford

For and on behalf of Capita Trust Corporate Services Limited  
Director

Date: 27 May 2016

Registered company number: 05659996

## Leek Finance Number Eighteen plc

### Statement of changes in equity for the year ended 31 December 2015

	Share capital £000	Retained earnings £000	Total £000
<b>Year ended 31 December 2015</b>			
Balance at the beginning of the year	13	(3,868)	(3,855)
Profit for the year	-	4,387	4,387
<b>Balance at the end of the year</b>	<b>13</b>	<b>519</b>	<b>532</b>

	Share capital £000	Retained earnings £000	Total £000
<b>Year ended 31 December 2014-</b>			
Balance at the beginning of the year	13	(7,581)	(7,568)
Profit for the year	-	3,713	3,713
<b>Balance at the end of the year</b>	<b>13</b>	<b>(3,868)</b>	<b>(3,855)</b>

The accounting policies and notes on pages 12 to 34 form part of these financial statements.

## Leek Finance Number Eighteen plc

### Statement of cash flows for the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Cash flows (used in)/from operating activities	16	(533)	2,472
Interest on subordinated debt		(1,059)	(1,054)
Net cash used in financing activities		(1,591)	(1,418)
Taxation paid		(6)	(6)
Net movement in cash and cash equivalents		(1,597)	1,412
Cash and cash equivalents at the beginning of the year		51,182	49,770
Cash and cash equivalents at the end of the year	8	49,585	51,182

The accounting policies and notes on pages 12 to 34 form part of these financial statements.

# **Leek Finance Number Eighteen plc**

## **Statement of accounting policies for the year ended 31 December 2015**

### **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, modified by the revaluation of all derivative contracts.

The Company has elected 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.

### **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 and, in some cases, not yet adopted by the EU.

- **IFRS 9 (Financial Instruments (2015))**

This new standard was issued in July 2014 and supersedes IAS 39 Financial Instruments: Recognition and Measurement. The standard includes requirements for recognition and measurement, impairment, de-recognition and general hedge accounting. The standard also supersedes IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013). Due to the short period of time which has elapsed since the issue of the standard, the Company has not yet estimated the financial effects, although it is expected that IFRS 9 may have a significant impact for the Company, in line with the wider industry. The standard is mandatory for years beginning on or after 1 January 2018 but is available for early adoption subject to EU endorsement.

- **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 subject to EU endorsement. 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.

- **Amendments to IAS 1 (Presentation of Financial Statements)**

The narrow-focus amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. In most cases the proposed amendments respond to overly prescriptive interpretations of the wording in IAS 1. The impact to the Company of the amendments is likely to be immaterial.

Other standards and interpretations have been issued but these are not considered to be relevant to the Company's operations.

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

### **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.

### **Foreign 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.

## Leek Finance Number Eighteen plc

### Statement of accounting policies for the year ended 31 December 2015 (continued)

#### **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. Early redemption charges are recognised on a cash basis as received.

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

#### **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 at the end of the reporting period.

#### **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.

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 and measured as follows:

#### **Loans and receivables**

Loans and receivables are assets with fixed or determinable payments. They include deemed loans due from group undertakings and other receivables. 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.

## Leek Finance Number Eighteen plc

### Statement of accounting policies for the year ended 31 December 2015 (continued)

#### **Derivative financial instruments**

Derivatives are financial instruments used by the Company to manage risks.

Derivative financial instruments are stated at fair value based on quoted market prices in active markets and, where these are not available, using valuation techniques such as discounted cash flow models. All derivatives are carried as assets when the fair value is positive and liabilities when the fair value is negative.

#### ***Derivatives that qualify for hedge accounting***

Where hedge accounting is applied, the Company formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objective and strategy in undertaking the hedge transaction together with the method used to assess effectiveness of the hedging relationship.

The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be 'highly effective' on offsetting the changes in fair value of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80% to 125%. If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for fair value hedge accounting, or the designation is revoked, then hedge accounting is prospectively discontinued.

Where a derivative is designated as the hedging instrument to hedge the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the value of the derivative are recognised immediately in the income statement together with changes in the fair value of the hedged item that are attributable to the hedged risk.

#### ***Derivatives that do not qualify for hedge accounting***

Changes in the fair value of all other derivative instruments are recognised immediately in the statement of comprehensive income.

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

#### **Deemed loans due from group undertakings**

As the Originators have retained substantially all the significant risks and rewards of ownership of the mortgage portfolios, derecognition is considered to be inappropriate for the Originators' own financial statements, and therefore, the mortgage portfolios remain on the Statements of Financial Position of the Originators. The Company's financial statements are therefore prepared on the basis that those acquisitions of beneficial interests in mortgage portfolios are recognised as collateralised loans to the Originators.

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

#### ***Deferred consideration payable***

Deferred consideration payable depends on the extent to which the surplus income generated by the underlying mortgage loans to which the Company has a beneficial interest exceeds the costs of the securitisation transaction. As the Company does not recognise income to which it is not beneficially entitled, contingent deferred consideration is recognised in the statement of comprehensive income as a deduction against interest income. Deferred purchase consideration payable is accounted for separately as a liability and held at amortised cost.

#### **Financial liabilities**

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

- derivatives;
- debt securities in issue; and
- other payables.



## **Leek Finance Number Eighteen plc**

### **Statement of accounting policies for the year ended 31 December 2015 (continued)**

Financial liabilities are recognised initially at fair value. Fair value includes the issue proceeds (the fair value of consideration received) net of issue costs incurred. Financial liabilities are held either at fair value through income and expense or at amortised cost.

Derivative financial liabilities are subsequently measured at fair value with any movement being recognised in the statement of comprehensive income.

Debt securities in issue and other payables 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 expected life of the instrument 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.

#### **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 recognition.

#### **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 judgements 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 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.

#### ***Fair Values***

The fair value of a financial instrument is the price that would be received to sell an asset, or to pay to transfer a liability, in an orderly transaction between market participants at the measurement date. Financial instruments entered into as trading transactions, such as 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 and deemed loans, the fair values are based on valuation techniques including discounted cash flow analysis, with reference to relevant market rates, and other commonly used valuation techniques. This inevitably involves an amount of judgment as to the most appropriate market rates and valuation techniques to use, along with the assumed profile of related cash flows.

The net carrying value of derivative financial instruments at the year end is £64,507k (2014: £64,496k). Assets and liabilities resulting from gains and losses on financial instruments held for trading are reported gross in derivative financial instruments.

## Leek Finance Number Eighteen plc

### Notes to the financial statements for the year ended 31 December 2015

#### 1 Auditor's Remuneration

	2015	2014
	£000	£000
Audit fee for the audit of the Company's financial statements	15	9

Auditor's remuneration of £15k (2014: £9k) was borne by the company. Audit fees are stated excluding VAT.

#### 2 Interest receivable and similar income

	2015	2014
	£000	£000
Deemed loan interest receivable on mortgages	12,795	12,009
Deemed loan interest receivable on gilts	4,791	4,573
Interest receivable from The Co-operative Bank plc	1,006	1,170
Bank interest receivable	236	127
	18,828	17,879

#### 3 Interest expense and similar charges

	2015	2014
	£000	£000
Interest expense on debt securities in issue	14,088	14,138
Interest payable to The Co-operative Bank plc	973	1,279
	15,061	15,417
Interest expense on derivative financial instruments	62	60
	15,123	15,477

## Leek Finance Number Eighteen plc

### Notes to the financial statements for the year ended 31 December 2015 (continued)

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

	2015 £000	2014 £000
Basis swaps – (loss)/gain	(78)	112
Gross foreign currency gain on multi currency loan	921	674
Net foreign currency gain on US dollar and Euro notes plus hedging derivatives	2,000	2,844
Gross foreign currency (loss) on bond premium	(633)	(425)
	<b>2,210</b>	<b>3,205</b>

In 2007, the Company purchased a pool of mortgages which is funded through an issuance of GBP, Euro and USD denominated Notes. The sale of the mortgages to the Company did not meet the derecognition criteria in IAS 39 and consequently, the Company did not recognise the mortgages on the balance sheet, instead it recognises a deemed loan asset. As a result there is a timing mismatch between the interest payments on the mortgages and on the Notes.

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

To mitigate the currency and interest rate exposures, the Company entered into derivatives that were either designated in qualifying hedging relationships or treated as economic hedges. In either case, the full fair value movement on the derivatives is recognised in the profit and loss.

- (i) *Qualifying fair value hedging relationships:* The Company uses cross currency swaps to hedge the fair value currency movements on its Notes issued. At the year end the hedges were highly effective.
- (ii) *Economic hedges:* The Company uses basis swaps to manage 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.

Note 9 provides further information on financial instruments.

#### 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 (2014: £8K). The Company had no employees during the current or prior year.

#### 6. Other operating expenses

	2015 £000	2014 £000
Professional and accountancy fees	27	26
Paying/rating agency fees	2	23
Management charge	1,080	873
Trustee/company secretary fees	16	8
Other operating expenses	58	48
	<b>1,183</b>	<b>978</b>

## Leek Finance Number Eighteen plc

### Notes to the financial statements for the year ended 31 December 2015 (continued)

#### 7 Taxation

	2015 £000	2014 £000
UK tax at 20% (2014: 20%)		
Corporation tax		
Current year	5	6
Total corporation tax	5	6
Deferred tax		
Current year	-	(48)
<b>Total taxation charge/(credit)</b>	<b>5</b>	<b>(42)</b>

#### Factors affecting tax charge/(credit) for the year

The tax on the Company's profit before taxation differs from the theoretical amount that would arise under the corporation tax rate in the UK as follows:

	2015 £000	2014 £000
Profit on ordinary activities before tax	4,392	3,671
Profit before tax multiplied by standard rate of tax at 20% (2014: 20%)	878	734
Effect of:		
Profit not taxed under the securitisation regime	(873)	(728)
Write off of deferred tax liability	-	(48)
	<b>5</b>	<b>(42)</b>

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

	2015 £000	2014 £000
Net deferred tax at the beginning of the year	-	(48)
Deferred tax released to the statement of comprehensive income	-	48
<b>Balance at the end of the year</b>	<b>-</b>	<b>-</b>

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.

## Leek Finance Number Eighteen plc

### Notes to the financial statements for the year ended 31 December 2015 (continued)

#### 8 Cash and cash equivalents

	2015 £000	2014 £000
Bank deposits	81	61
Loans and advances to banks*	49,504	51,121
	<b>49,585</b>	<b>51,182</b>

Loans and advances to banks include cash managed by The Co-operative Bank plc on behalf of the Company. These balances are included within cash and cash equivalents on the basis that they are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### 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, other payables, other receivables, derivatives, various tranches of loan notes and cash and cash equivalents.

##### a) Fair values of derivative financial instruments

Numerical financial instruments disclosures for those measured at fair value are set out below:

	Notional principal amount 2015 £000	Assets 2015 £000	Liabilities 2015 £000
Basis risk swaps	-	-	35
Cross-currency swaps	404,748	64,542	-
	<b>404,748</b>	<b>64,542</b>	<b>35</b>

##### Fair values of derivative financial instruments

	Notional principal amount 2014 £000	Assets 2014 £000	Liabilities 2014 £000
Basis risk swaps	132,304	-	88
Cross-currency swaps	430,974	64,584	-
	<b>563,278</b>	<b>64,584</b>	<b>88</b>

##### Fair values of other financial instruments

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

## Leek Finance Number Eighteen plc

### Notes to the financial statements for the year ended 31 December 2015 (continued)

#### 9 Financial instruments (continued)

	Carrying value 2015 £000	Fair value 2015 £000
Deemed loans due from group undertakings	615,198	613,176
Other payables	(42,342)	(41,287)
Debt securities in issue		
Notes A2a	72,983	78,562
Notes A2b	137,101	147,649
Notes A2c	40,601	42,061
Notes A2d	100,979	108,930
Notes Ma	12,500	12,160
Notes Mc	62,254	59,723
Notes Ba	25,900	25,271
Notes Bc	19,338	18,686
Notes Ca	6,000	5,861
Notes Cc	36,452	35,256
Notes K	173,925	170,749
Notes N	2,000	1,924
Premium	19,114	14,523
Floating rate notes interest payable	146	146
Variable notes interest payable	131	131
Total Debt securities in issue	709,424	721,632

## Leek Finance Number Eighteen plc

### Notes to the financial statements for the year ended 31 December 2015 (continued)

#### 9 Financial instruments (continued)

##### Fair values of other financial instruments

	Carrying value 2014 £000	Fair value 2014 £000
Deemed loans due from group undertakings	644,638	642,368
Other payables	(41,117)	(38,987)
Debt securities in issue		
Notes A2a	(89,317)	(91,969)
Notes A2b	(132,704)	(163,745)
Notes A2c	(44,755)	(53,399)
Notes A2d	(97,781)	(120,654)
Notes Ma	(13,758)	(13,240)
Notes Mc	(61,706)	(68,759)
Notes Ba	(28,507)	(27,120)
Notes Bc	(19,168)	(21,092)
Notes Ca	(6,604)	(6,241)
Notes Cc	(36,126)	(39,514)
Notes K	(195,310)	(183,594)
Notes N	(2,201)	(2,047)
Premium	(15,346)	(15,346)
Floating rate notes interest payable	(144)	(144)
Variable notes interest payable	(4)	(4)
Total Debt securities in issue	(743,431)	(806,868)

# Leek Finance Number Eighteen plc

## Notes to the financial statements for the year ended 31 December 2015 (continued)

### 9 Financial instruments (continued)

#### Valuation of financial assets and liabilities carried at fair value or where a fair value disclosure is presented

The following tables analyse financial assets and liabilities carried at fair value and amortised cost by the three level fair value hierarchy defines as follows:

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

For the year ended 31 December 2015	Fair value at the end of the reporting period using:			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Derivative financial instruments	-	64,542	-	64,542
Deemed loans due from group undertakings*	-	-	613,176	613,176
<b>Total assets carried at fair value</b>	<b>-</b>	<b>64,542</b>	<b>613,176</b>	<b>677,718</b>
Derivative financial instruments	-	35	-	35
Other payables*	-	41,287	-	41,287
Debt securities in issue*	-	721,632	-	721,632
<b>Total liabilities carried at fair value</b>	<b>-</b>	<b>762,954</b>	<b>-</b>	<b>762,954</b>

For the year ended 31 December 2014	Fair value at the end of the reporting period using:			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Derivative financial instruments	-	64,584	-	64,584
Deemed loans due from group undertakings*	-	-	642,368	642,368
	-	64,584	642,368	706,952
Derivative financial instruments	-	88	-	88
Other payables*	-	38,987	-	38,987
Debt securities in issue*	-	806,868	-	806,868
<b>Total liabilities carried at fair value</b>	<b>-</b>	<b>845,943</b>	<b>-</b>	<b>845,943</b>

\* These items are held at amortised cost with a fair value disclosure presented.

The carrying values of financial instruments measured at fair value are determined in compliance with the accounting policies on pages 12 to 15 and according to the following hierarchy:

#### Level 1 – Quoted market prices in active markets

Financial instruments with quoted prices for identical instruments in active markets. The best evidence of fair value is a quoted market price in an actively traded market.



## Leek Finance Number Eighteen plc

### Notes to the financial statements for the year ended 31 December 2015 (continued)

---

#### 9 Financial instruments (continued)

##### **Level 2 – Valuation techniques using observable inputs**

Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

##### ***Debt securities in issue***

The estimated fair value of the debt securities in issue are based on market prices of similar securities from independent valuations 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.

##### ***Derivative financial instruments***

Derivative financial instruments in the form of cross currency swaps have been entered into with external counterparties. The purpose of the swap is to manage foreign exchange risk. These are valued using valuation models which are based on observable market data, for which modelling techniques are standard across the industry.

Derivative financial instruments in the form of basis risk swaps have been entered into with external counterparties.

The purpose of the swap is 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. The swaps are valued based on an assumed amortisation profile of the pool of assets to the bond maturity date (assuming some annual prepayment), an assumed profile of customer receipts over this period, and LIBOR prediction using forward rates. Swap cash flows are discounted to present value using mid-yield curve zero coupon rates.

##### **Level 3 – Valuation techniques using unobservable inputs**

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

##### ***Deemed loans***

The estimated fair value of deemed loans represents the mortgage loans valued using future cash flows at expected interest rates and repayment dates discounted back.

#### **b) Risk management and control**

The financial risks faced by the Company include the following:

- interest rate risk;
- credit risk;
- currency risk; and
- liquidity risk.

The Company applies The Co-operative Bank plc's formal structure for managing risk. The Co-operative Bank plc'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.

# Leek Finance Number Eighteen plc

## Notes to the financial statements for the year ended 31 December 2015 (continued)

### 9 Financial instruments (continued)

#### 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 the Company's 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 basis swaps and currency 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 exposures 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 was 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.

Interest rate risk management measures are used at the Co-operative Bank plc 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 a £226K 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 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.

# Leek Finance Number Eighteen plc

## Notes to the financial statements for the year ended 31 December 2015 (continued)

### 9 Financial instruments (continued)

#### Credit risk

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

The table below represents a worst-case scenario of credit risk exposure to the Company at 31 December 2015 and 2014, 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	2015 £000	2014 £000
Cash and cash equivalents	Bank deposits	49,585	51,182
Financial assets at fair value through income and expenses	Derivative financial instruments	64,542	64,584
Loans and receivables	Deemed loans	615,198	644,638
Loans and receivables	Other receivables	23,013	20,383
		<b>752,338</b>	<b>780,787</b>

#### 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 58.62% at the end of the reporting period (2014: 64.45%).

An arrears analysis of the underlying mortgage portfolio is shown below:

	2015 £000	2014 £000
Not in arrears	403,080	418,637
In arrears	43,053	44,980
	<b>446,133</b>	<b>463,617</b>

The total deemed loan balance of £615,198k also includes gilts of £163,050k (2014: £163,050k).

#### 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.

#### Other receivables

Other receivables relate primarily to amounts due from the ultimate parent undertaking. The Co-operative Bank plc, which is repayable on demand.

## Leek Finance Number Eighteen plc

### Notes to the financial statements for the year ended 31 December 2015 (continued)

#### 9 Financial instruments (continued)

##### 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 economically matched are put in place at inception of the securitisation to manage and mitigate these exposures, this is achieved through a qualifying fair value hedging relationship. Therefore, a reasonable change in foreign exchange rates would not have a material impact on the Company's financial position.

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 12).

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.

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

	Derivative financial instruments 2015 £000	Debt securities in issue 2015 £000	Other payables 2015 £000
Up to 3 months	8	4,540	320
3-12 months	26	22,594	970
1-5 years	-	738,014	24,620
	34	765,148	25,910

## Leek Finance Number Eighteen plc

### Notes to the financial statements for the year ended 31 December 2015 (continued)

#### 9 Financial instruments (continued)

##### Liquidity risk (continued)

	Derivative financial instruments 2014 £000	Debt securities in issue 2014 £000	Other payables 2014 £000
Up to 3 months	13	5,098	257
3-12 months	37	24,683	834
1-5 years	33	810,320	27,081
	83	840,101	28,172

The contractual maturities of the debt securities in issue are calculated based upon the first contractual point at which the Company can redeem the notes. Should the Company decide not to redeem, the applicable contractual maturity of the notes is disclosed within the table on page 29-30.

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.

## Leek Finance Number Eighteen plc

### Notes to the financial statements for the year ended 31 December 2015 (continued)

#### ~~10~~ Deemed loans due from group undertakings

	2015 £000	2014 £000
Deemed loans recoverable	623,693	661,152
Deferred consideration payable (see below)	(8,495)	(16,514)
	<b>615,198</b>	<b>644,638</b>

Included in deemed loans recoverable is the right to proceeds of £163,050 (2014: £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 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. 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 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 2015 amounted to £895k (2014: £820k).

On 20 December 2013 a deed of Amendment and Release was entered into whereby Meerbrook Finance Number One limited released its claim to deferred purchase consideration.

During the year ended 31 December 2015, a Deed of Novation, Assumption and Amendment was entered into by the Company whereby deferred contingent consideration payable by the company to Meerbrook Finance Number One Limited was amended and was novated to Platform Funding Limited.

The deferred consideration is payable as follows:

	2015 £000	2014 £000
Amounts owed to Platform Funding Limited	8,495	16,514
	<b>8,495</b>	<b>16,514</b>

The movements in deferred consideration are as follows:

	2015 £000	2014 £000
Balance at the beginning of the year	16,514	17,333
Additional consideration (receivable)	(986)	(820)
(Repayment)/credit during the year	(7,033)	1
Balance at the end of the year	<b>8,495</b>	<b>16,514</b>

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.

## Leek Finance Number Eighteen plc

### Notes to the financial statements for the year ended 31 December 2015 (continued)

#### 11 Other receivables

	2015 £000	2014 £000
Amounts recoverable from The Co-operative Bank plc	23,013	20,383
	<b>23,013</b>	<b>20,383</b>

Included in amounts recoverable from The Co-operative Bank plc is a multi currency loan of £21,994k (2014: £20,068k). The multi currency loan will be repaid on 21 December 2016. The interest rate on the multi currency loan is 6% per annum.

The remaining amounts recoverable from 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 interest rate is 3 month LIBOR less 50 basis points.

#### 12 Debt securities in issue

	2015 £000	2014 £000
£GBP floating rate notes	312,699	483,895
\$USD floating rate notes	238,079	161,753
€EURO floating rate notes	158,646	97,783
	<b>709,424</b>	<b>743,431</b>

	2015 £000	2014 £000
<b>Due within one year</b>		
Class A2a Mortgage Backed Floating Rates Notes due 2038	3,943	1,713
Class A2b Mortgage Backed Floating Rates Notes due 2038	5,858	3,049
Class A2c Mortgage Backed Floating Rates Notes due 2038	1,976	994
Class A2d Mortgage Backed Floating Rates Notes due 2038	4,317	2,246
Class K Variable Funding Notes due 2038	3,504	3,758
Variable rate notes interest payable	131	4
Floating rate notes interest payable	146	144
	<b>19,875</b>	<b>11,908</b>

## Leek Finance Number Eighteen plc

### Notes to the financial statements for the year ended 31 December 2015 (continued)

#### 12 Debt securities in issue

	2015 £000	2014 £000
<b>Due in more than one year</b>		
Class A2a Mortgage Backed Floating rate notes due 2038	69,040	87,605
Class A2b Mortgage Backed Floating rate notes due 2038	131,243	129,655
Class A2c Mortgage Backed Floating rate notes due 2038	38,625	43,761
Class A2d Mortgage Backed Floating rate notes due 2038	96,661	95,535
Class Ma Mortgage Backed Floating rate notes due 2038	12,500	13,758
Class Mc Mortgage Backed Floating rate notes due 2038	62,254	61,706
Class Ba Mortgage Backed Floating rate notes due 2038	25,900	28,507
Class Bc Mortgage Backed Floating rate notes due 2038	19,338	19,167
Class Ca Mortgage Backed Floating rate notes due 2038	6,000	6,604
Class Cc Mortgage Backed Floating rate notes due 2038	36,452	36,126
Class K Variable Funding Notes due 2038	170,422	191,551
Class L		
Class N Variable Funding Notes due 2038	2,000	2,201
Premium	19,114	15,346
	<b>689,549</b>	<b>731,523</b>
<b>Total debt securities in issue</b>	<b>709,424</b>	<b>743,431</b>

The maturity table above reflects the estimated timing of principal repayments on the notes, based on the contractual payment terms on the underlying mortgages and the earliest contractual repayment date of the debt securities.

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 variable funding notes.

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.

Debt securities in issue are held by both external noteholders and The Co-operative Bank plc.



## Leek Finance Number Eighteen plc

### Notes to the financial statements for the year ended 31 December 2015 (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:

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

Classes of Fixed and 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 in December 2011 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 gilts to the Company 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.

An additional coupon payment will become due to the Class A Noteholders on the interest payment date on which any A Notes are redeemed in full. The additional coupon will be funded from the proceeds of the repayment of the multi currency loan to The Co-operative Bank plc.

## Leek Finance Number Eighteen plc

### Notes to the financial statements for the year ended 31 December 2015 (continued)

#### 13 Other payables

	2015 £000	2014 £000
Amounts owed to Platform Funding Limited	-	84
Amounts owed to The Co-operative Bank plc	-	1
Subordinated debt owed to The Co-operative Bank plc	23,295	23,296
Accruals and deferred income	1,360	23
Liquidity facility owed to The Co-operative Bank plc	17,671	17,671
Other	16	42
	<b>42,342</b>	<b>41,117</b>

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% (2014: 0.4%).

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

Amounts owed to The Co-operative Bank Plc include a collateral balance held by the Company under the terms of a Liquidity Facility Agreement between the Company and The Co-operative Bank Plc. At the year end the amount drawn on the facility was £nil (2014: £nil).

#### 14 Share capital

	2015 £	2014 £
<b>Issued and fully paid</b>		
2 ordinary shares of £1 each	2	2
<b>Issued and partly paid</b>		
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, which is subject to the capital requirements imposed by its regulator the Prudential Regulation Authority (PRA).

## Leek Finance Number Eighteen plc

### 15 Retained earnings

Movement in retained earnings were as follows:

	2015 £000	2014 £000
Balance at the beginning of the year	(3,868)	(7,581)
Profit for the year	4,387	3,713
Balance at the end of the year	519	(3,868)

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

	2015 £000	2014 £000
Profit before taxation	4,392	3,671
Interest payable on subordinated debt	1,059	1,054
Cash flows used in operating profit before changes in operating assets and liabilities:	5,451	4,725
Decrease in deemed loans due from group undertakings	29,440	39,194
Net movement in derivative financial instruments	(11)	1,575
Net increase in other receivables	(2,630)	(628)
Net decrease in debt securities	(34,008)	(42,465)
Net increase in other payables	1,225	71
Net cash flows (used in)/from operating activities	(533)	2,472

# Leek Finance Number Eighteen plc

## Notes to the financial statements for the year ended 31 December 2015 (continued)

### 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 IFRS 10 "Consolidated Financial Statements", the subsidiary's accounts are consolidated within the group accounts of The Co-operative Bank plc, for the year ended 31 December 2015.

As at 31 December 2015, the directors regard The Co-operative Bank plc as the ultimate controlling entity. The largest group in which the results of the Company are consolidated is The Co-operative Bank plc, which is incorporated in England. The financial statements of this group are available from <http://www.co-operativebank.co.uk/investorrelations/financial> results and from its registered office at 1 Balloon Street, Manchester, M60 4EP.

### 18 Related party transactions

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 (2014: £8K).

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 in the financial statements as follows:

	Interest receivable and other income £000	Interest expense and other charges £000	Balance due to/(from) the Company £000
<b>Year ended 31 December 2015</b>			
The Co-operative Bank plc	5,797	973	(17,953)
Platform Funding Limited	10,660	-	442,795
<hr/>			
<b>Year ended 31 December 2014</b>			
The Co-operative Bank plc	5,744	6,086	(25,093)
Platform Funding Limited	11,699	873	468,789

In addition to the above The Co-operative Bank plc holds floating rate notes in Leek Finance Number Eighteen plc of £19.1m (2014:£18.5m) included within debt securities in issue.

During the year £10k (2014:£8k) was paid to corporate directors in respect of the provision of management services. The amount outstanding at 31 December 2015 was £nil (2014: £nil). All related party transactions were made on terms equivalent to those that prevail in arm's length transactions.