

AIRE VALLEY FINANCE LIMITED

(Formerly Aire Valley Finance plc)

Directors' Report and Financial Statements

Registered number: 3416148

31 December 2011

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Directors' Report and Financial Statements

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Company Information

Directors

Paul Martin Hopkinson
Phillip Alexander McLelland

Company Secretary

John Gornall
PO Box 88
Croft Road
Crossflatts
Bingley
BD16 2UA

Registered Office

PO Box 88
Croft Road
Crossflatts
Bingley
BD16 2UA

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Benson House
33 Wellington Street
Leeds
LS1 4JP

Directors' Report for the year ended 31 December 2011**Registered number. 3416148**

The Directors present their Report and audited Financial Statements for the year ended 31 December 2011

Principal activities and business review

On 1 October 2010 UK Asset Resolution Limited ('UKAR') was established as the holding company for Northern Rock (Asset Management) plc ('NRAM') and Bradford & Bingley plc ('B&B'), bringing together the two brands under shared management and a common Board of Directors

Aire Valley Finance Limited ('the Company') (formerly Aire Valley Finance plc) is a limited liability company incorporated and domiciled in the United Kingdom. The company re-registered from being a public company on 9 December 2011

The Company's principal activity was to acquire and hold a portfolio of mortgage loans funded by a secured credit facility. The portfolio was repurchased in 2004 by the originator of the mortgage loans. The Directors do not expect the Company to trade in the future.

B&B holds both the fully paid shares. Mortgage Express Holdings, a subsidiary of Spicedeck Limited, held all the partly paid shares. In April 2012, the Company returned capital of £12,499.50 back to Mortgage Express Holdings.

The results for the year are shown in the Statement of Comprehensive Income on page 8. There was neither a profit nor a loss in 2011 (2010: nil).

Dividend

No dividends were paid in the year (2010: £nil), and the Directors do not recommend the payment of a final dividend for the year (2010: £nil).

Risk management and control

In the ordinary course of business the Company is exposed to, and manages, a variety of risks, with credit risk being of particular significance. The key risks and uncertainties faced by the Company are managed within the framework established for the B&B Group.

The Directors have responsibility for the overall system of internal control and for reviewing its effectiveness. The effectiveness of the risk management is then monitored on an ongoing basis. Further details of the Company's risks and their management and control are provided in note 7, and further discussion in the context of the B&B Group as a whole is provided in the B&B Group's 2011 Annual Report & Accounts which do not form part of this Report and Financial Statements.

The Company's operations are also subject to periodic review by the B&B internal audit department.

Payment policy

Standard terms provide for payment of all invoices within 30 days of invoice date, except where different arrangements have been agreed with suppliers. It is the policy of the Company to abide by the agreed payment terms.

Directors

The Directors who served during the year and up to the date of signing the Financial Statements were as follows:

Paul Martin Hopkinson (appointed 20 January 2012)

Phillip Alexander McLelland

Capita Trust Company Limited (resigned 20 January 2012)

Capita Trust Corporate Services Limited (resigned 20 January 2012)

Capita Trust Company Limited, Capita Trust Corporate Services Limited and Paul Hopkinson are or have been directors of Spicedeck Limited during the year and Phillip McLelland is a director of B&B. None of the Directors had any interest in the share or loan capital of Spicedeck Limited, or any of its subsidiaries, during the current or preceding year and none of the Directors had an interest in the share or loan capital of B&B or in any of its subsidiary undertakings.

Disclosure of information to auditors

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 auditors are unaware, and that each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Political and charitable contributions

During the year no political or charitable contributions were made (2010: £nil).

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

Third Party Indemnities

The Articles of Association provide the power to indemnify any Director against liabilities incurred as a result of their office

UKAR has also provided each Director with a Deed of Indemnity indemnifying them to the fullest extent permitted by law against all losses suffered or incurred in respect of acts and omissions arising as a result of holding office. The indemnities also extend to the reimbursement of each Director with the costs of defending all claims, actions and proceedings including regulatory investigation arising out of or connected with the exercise of, or failure to exercise, any of the Director's powers, duties or responsibilities as an officer, director, trustee, agent or employee of the UKAR Group and any of its subsidiaries. Reimbursement is subject to the Director's obligation to repay UKAR in accordance with the provisions of the Companies Act 2006. The payment obligations of the Company under each Deed of Indemnity are backed by a specific guarantee in favour of the Director entered into between each Director and HM Treasury.

UKAR has also arranged Directors' and Officers' Insurance on behalf of the Directors in accordance with the provisions of the Companies Act 2006.

Independent Auditors

During the year KPMG resigned as auditors to the Company, and the Directors have appointed PricewaterhouseCoopers LLP ('PwC'). In accordance with the Companies Act 2006 a resolution for the re-appointment of PwC as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board



Phillip Alexander McLelland
Director
6 June 2012

Statement of Directors' Responsibilities in respect of the Directors' Report and 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 the Directors have prepared the Financial Statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU').

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 judgements and accounting estimates that are reasonable and prudent,
- state whether applicable IFRS as adopted by the EU have been followed, subject to any material departures disclosed and explained in the Financial Statements, 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.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the members of Aire Valley Finance Limited

We have audited the Financial Statements of Aire Valley Finance Limited for the year ended 31 December 2011 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes. 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.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, 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.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 Financial Statements to identify material inconsistencies with the audited Financial Statements. 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 2011 and of its result and cash flows for the year then ended,
- have been properly prepared in accordance with IFRS as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

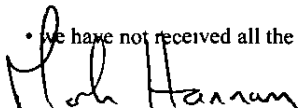
Opinion on other matter prescribed by the Companies Act 2006

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.



Mark Hannam (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
6 June 2012

Statement of Comprehensive Income for the year ended 31 December

During the current and preceding financial year the Company received no income and incurred no expenditure. Consequently during those years the Company made neither a profit nor a loss and no Statement of Comprehensive Income has been prepared.

Balance Sheet at 31 December**Registered number: 3416148**

	<i>Note</i>	2011 £000	2010 £000
Assets			
Amounts due from Group undertakings		<u>364</u>	<u>364</u>
Total current assets		<u>364</u>	<u>364</u>
Total assets		<u>364</u>	<u>364</u>
Equity			
Capital and reserves attributable to equity holder			
Share capital	3	12	12
Retained earnings		<u>352</u>	<u>352</u>
Total attributable equity		<u>364</u>	<u>364</u>
Total equity and liabilities		<u>364</u>	<u>364</u>

The notes on pages 12 to 15 form an integral part of these Financial Statements

The Financial Statements were approved by the Board of Directors and authorised for issue on 6 June 2012 and signed on its behalf by



Phillip Alexander McLelland
Director

6 June 2012

Statement of Changes in Equity for the year ended 31 December

	Share capital	Retained earnings	Total
	£000	£000	£000
At 1 January 2011 and 31 December 2011	<u>12</u>	<u>352</u>	<u>364</u>
At 1 January 2010 and 31 December 2010	<u>12</u>	<u>352</u>	<u>364</u>

Cash Flow Statement for the year ended 31 December

	2011	2010
	£000	£000
Cash flows from operating activities:		
Profit before taxation	-	-
Cash flows from operating activities before changes in operating assets	-	-
<i>Net increase in operating assets</i>		
Amounts due from Group undertakings	-	(364)
Cash used in operations	-	(364)
Net decrease in cash and cash equivalents	-	(364)
Cash and cash equivalents at beginning of year	-	364
Cash and cash equivalents at end of year	-	-

Notes to the Financial Statements for the year ended 31 December 2011**1 Principal accounting policies**

Aire Valley Finance Limited ('the Company') is a limited liability company incorporated and domiciled in the United Kingdom. The Company re-registered from being a public company on 9 December 2011.

(a) Statement of compliance

The Company's Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRS')

For these 2011 Financial Statements, including the 2010 comparative financial information where applicable, the Company has adopted for the first time the following statements

- The November 2009 amendments to IAS 24 'Related Party Disclosures', which clarified the disclosure requirements for Government related entities and was effective from 1 January 2011
- The October 2010 amendments to IFRS 7 'Financial Instruments Disclosures' regarding enhancement of disclosures of transfers of financial assets

For these 2011 Financial Statements the Company has not adopted the following statements

- IFRS 9 'Financial Instruments', sections of which have been issued as part of the International Accounting Standard Board's ('IASB's') project to replace IAS 39 'Financial Instruments Recognition and Measurement', and the associated amendments to IFRS 7. These Statements are expected to be mandatory for 2015 Financial Statements, with 2014 comparative information, but have not yet been adopted for use in the EU
- IFRS 13 'Fair Value Measurement'. This statement is expected to be mandatory for 2013 Financial Statements, with 2012 comparative information, but has not yet been adopted for use in the EU
- The December 2010 amendments to IAS 12 'Income Taxes' relating to 'Deferred Tax Recovery of Underlying Assets'. This amendment is expected to be mandatory for 2012 Financial Statements, with 2011 comparative information, but has not yet been adopted for use in the EU
- The June 2011 amendments to IAS 1 'Presentation of Financial Statements' relating to 'Presentation of Items of Other Comprehensive Income'. This statement is expected to be mandatory for 2013 Financial Statements, with 2012 comparative information, but has not yet been adopted for use in the EU
- The December 2011 amendments to IFRS 7 and IAS 32 'Financial Instruments Presentation' relating to the offsetting of financial assets and financial liabilities. This statement is expected to be mandatory for 2013 Financial Statements, with 2012 comparative information, but has not been adopted for use in the EU

The Financial Statements also comply with the relevant provisions of Part 15 of the Companies Act 2006 and regulations made thereunder

(b) Basis of preparation

The Company is regulated by the Financial Services Authority ('FSA') as a mortgage administration company and the Directors believe that it has appropriate and adequate levels of capital to support these activities subject to the continuing support of HM Treasury

The Directors consider the business to comprise one operating and geographical segment due to the similarity of risks faced within its UK based residential portfolios

Notes to the Financial Statements for the year ended 31 December 2011 (continued)**(b) Basis of preparation (continued)**

The Financial Statements have been prepared in accordance with EU adopted IFRS, IFRIC interpretations issued by the IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. A summary of accounting policies is set out below. The preparation of the Financial Statements in conformity with these accounting policies and generally accepted accounting principles requires the use of estimates and assumptions that affect the reported values of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amounts, event or actions, actual results ultimately may differ from those estimates.

(c) Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred or accelerated arising from temporary differences between the carrying amounts of certain items for taxation and for accounting purposes.

Deferred taxation is provided for in full at the tax rate which is expected to apply to the period when the deferred taxation is expected to be realised, and is not discounted to take account of the expected timing of realisation. Deferred taxation assets are recognised only to the extent that it is probable that future taxable profits will be available against which the taxable differences can be utilised.

(d) Cash and cash equivalents

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise balances which had an original maturity of three months or less.

Notes to the Financial Statements for the year ended 31 December 2011 (continued)

2 Employees and Directors' emoluments

There were no employees during the year or previous year and none of the Directors received emoluments in respect of their services to the Company during the year or previous year. A corporate service fee was payable during the year to Capita Trust Company Limited in connection with its supply of corporate management services including the provision of Directors (see note 4).

3 Share capital

	2011 Number	2011 £	2010 Number	2010 £
Allotted and issued				
As at 1 January and 31 December				
Ordinary shares of £1 each 25p paid	49,998	12,500	49,998	12,500
Ordinary shares of £1 each fully paid	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
	<u>50,000</u>	<u>12,502</u>	<u>50,000</u>	<u>12,502</u>

As described in note 8, in April 2012 the Company returned capital to Mortgage Express Holdings

These shares rank equally in respect of rights attached to voting, dividends and in the event of a winding up. In accordance with The Companies Act 2006, the Company no longer has 'authorised capital' other than its issued capital.

4. Related party disclosures

The Company is a special purpose vehicle controlled by its Board of Directors, which comprised three Directors during the year, Capita Trust Company Limited (resigned 20 January 2012), Capita Trust Corporate Services Limited (resigned 20 January 2012) and a director of B&B (the controlling party under IFRS). Paul Martin Hopkinson was appointed to the Board of Directors on 20 January 2012. The Company was charged a corporate services fee by Capita Trust Company Limited in connection with its provision of corporate management services, the fee payable to Capita Trust Company Limited for providing services amounted to £2,996 (2010: £2,996) and was borne by B&B.

The amounts due from Group undertakings are due from a subsidiary of Spicedeck Limited. This balance is interest free and repayable on demand.

The Company had no transactions with related parties during the current or preceding financial year. The audit fee for 2011 was £1,018 (2010: £1,138) and was borne by B&B.

5. Capital structure

The Company's capital is represented by the capital and reserves attributable to equity holders. The Company is not subject to externally imposed capital requirements 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 to meet the needs of the Company in its operations.

Notes to the Financial Statements for the year ended 31 December 2011 (continued)**6. Ultimate parent undertaking and controlling party**

The Company's immediate parent undertaking during the year and previous year was Mortgage Express Holdings, an unlimited company incorporated and domiciled in the United Kingdom

The Company's ultimate parent undertaking during the year and previous year was Spicedeck Limited, a limited company incorporated and domiciled in the United Kingdom. Copies of the Financial Statements of Spicedeck Limited may be obtained from the Company Secretary at P O Box 88, Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA

Under IFRS, the Company's controlling party during the year and previous year was B&B, a public company incorporated and domiciled in the United Kingdom. B&B heads the smallest group of companies into which the Financial Statements of the Company are consolidated. Copies of the Financial Statements of B&B may be obtained from the Company Secretary at Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA

As a result of The Bradford & Bingley plc Transfer of Securities and Property etc Order 2008, which transferred all shares in B&B to the Treasury Solicitor as nominee for HM Treasury on 29 September 2008, the Company considered Her Majesty's Government to be its ultimate controlling party from that date. On 1 October 2010 all shares in B&B were acquired via a share-for-share exchange by UK Asset Resolution Limited, a private limited company incorporated and domiciled in the United Kingdom, which is wholly owned by the Treasury Solicitor as nominee for HM Treasury. The Company considers Her Majesty's Government to remain its ultimate controlling party. UK Asset Resolution Limited heads the largest group of companies into which the Financial Statements of the Company are consolidated. Copies of the financial statements of UK Asset Resolution Limited may be obtained from the Company Secretary at P O Box 88, Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA

7. Financial instruments

In the opinion of the Directors, the fair value of the Company's amounts due from Group undertakings equates to their carrying value. These amounts are due on demand.

No financial assets were categorised as 'held for trading' or 'at fair value through profit or loss' in the year or preceding year. The amounts due from Group undertakings are categorised as loans and receivables.

The Company's maximum exposure to credit risk, ie the risk that a counterparty of the Company will be unable or unwilling to meet a commitment that it has entered into with the Company, is the carrying value of the Company's amounts due from Group undertakings.

The Company has no other material exposures to market risks.

8. Events after the reporting period

In April 2012 the Company returned capital of £12,499.50 to Mortgage Express Holdings.