

AIRE VALLEY FINANCE PLC

Directors' Report and Financial Statements

Registered number: 3416148

31 December 2010

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Directors' Report and Financial Statements

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Company Information

Directors

Capita Trust Company Limited
Capita Trust Corporate Services Limited
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

Auditor

KPMG Audit Plc
1 The Embankment
Neville Street
Leeds
LS1 4DW

Directors' Report for the year ended 31 December 2010**Registered number 3416148**

The Directors present their Report and Financial Statements for the year ended 31 December 2010

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 plc ('the Company') is a public limited company incorporated in the United Kingdom under the Companies Act 1985 and registered in England and Wales

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.

Bradford & Bingley plc holds both the fully paid shares. Mortgage Express Holdings, a subsidiary of Spicedeck Limited, holds all the partly paid shares.

The results for the year are shown in the Statement of Comprehensive Income on page 7. There was neither a profit nor a loss in 2010 (2009 nil).

Dividend

No dividend was paid in the year (2009 £nil), and the Directors do not recommend the payment of a final dividend for the year (2009 £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 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. Details of the Company's risks and their management and control are provided in note 7. The Company's operations are subject to periodic review by the Bradford & Bingley plc 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 were as follows:

Capita Trust Company Limited
Capita Trust Corporate Services Limited
Phillip Alexander McLelland

Capita Trust Company Limited and Capita Trust Corporate Services Limited are or have been directors of Spicedeck Limited during the year. 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 Bradford & Bingley plc 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 (2009 £nil).

Auditor

A resolution regarding appointment of auditors will be proposed at the next Annual General Meeting.

By order of the Board


Capita Trust Corporate Services Limited
Director

16 June 2011

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 they have elected to prepare the Financial Statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and applicable law.

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRS as adopted by the EU, and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

We have audited the financial statements of Aire Valley Finance plc for the year ended 31 December 2010 set out on pages 7 to 13. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU.

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

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 2010 and of its result 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.

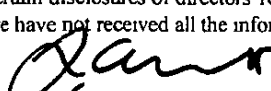
Opinion on other matter prescribed by the Companies Act 2006

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.


J L Blacott (Senior Statutory Auditor) for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW

17 June 2011

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>	2010	2009
		£000	£000
Assets			
Cash and cash equivalents		-	364
Amounts due from Group undertakings		<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 holders			
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 11 to 13 form part of these Financial Statements

The Financial Statements were approved by the Board of Directors and authorised for issue on 16 June 2011 and signed on its behalf by


 Capita Trust Corporate Services Limited
 Director

16 June 2011

Statement of Changes in Equity for the year ended 31 December

	Share capital	Retained earnings	Total
	£000	£000	£000
At 1 January 2010 and 31 December 2010	<u>12</u>	<u>352</u>	<u>364</u>
At 1 January 2009 and 31 December 2009	<u>12</u>	<u>352</u>	<u>364</u>

Cash Flow Statement for the year ended 31 December

	2010	2009
	£000	£000
Cash flows from operating activities:		
Profit for the financial year	-	-
Cash flows from operating activities before changes in operating assets and liabilities	-	-
<i>Net increase in operating assets</i>		
Amounts due from Group undertakings	(364)	-
Cash used in operations	<u>(364)</u>	<u>-</u>
Net decrease in cash and cash equivalents	(364)	-
Cash and cash equivalents at beginning of year	<u>364</u>	<u>364</u>
Cash and cash equivalents at end of year	<u>-</u>	<u>364</u>

Notes to the Financial Statements for the year ended 31 December 2010

1 Principal accounting policies

Aire Valley Finance plc ('the Company') is a public limited company which was incorporated in the United Kingdom under the Companies Act 1985 and is registered in England and Wales

(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 2010 Financial Statements, including the 2009 comparative financial information where applicable, the Company has adopted for the first time the following statements

- The January 2008 amendment to IFRS 3 'Business Combinations' This amendment does not change the treatment of business combinations which occurred in prior years and has had no impact on the Company's Income Statement, Balance Sheet or Cash Flow Statement
- The May 2008 amendment to IAS 27 'Consolidated and Separate Financial Statements' This amendment has had no impact on the Company's Income Statement, Balance Sheet or Cash Flow Statement
- The July 2008 amendment to IAS 39 'Financial Instruments Recognition and Measurement' relating to eligible hedged items This amendment has had no impact on the Company's Income Statement, Balance Sheet or Cash Flow Statement

For these 2010 Financial Statements the Company has not adopted the following statement

- IFRS 9 'Financial Instruments', issued in October 2010 as part of the International Accounting Standards Board's ('IASB's') project to replace IAS 39 'Financial Instruments Recognition and Measurement' This 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 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 Financial Statements are prepared on the historical cost basis, and on a going concern basis given the 'bankruptcy remote' nature of the entity as a special purpose vehicle The Financial Statements are presented in pounds sterling, which is the currency of the Company's primary operating environment

There were no judgements made by the Directors in the application of these accounting policies that have a significant effect on the Financial Statements The Directors consider that the accounting policies set out below are the most appropriate to the Company's circumstances

(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 2010 (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 is paid to Capita Trust Company Limited in connection with its supply of corporate management services including the provision of directors (see note 4).

3. Called up share capital

	2010 Shares	2010 £	2009 Shares	2009 £
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>

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 comprise three directors, Capita Trust Company Limited, Capita Trust Corporate Services Limited and an employee of Bradford & Bingley plc (the controlling party under IFRS). The Company is 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 (2009 £3,246) and was borne by Bradford & Bingley plc.

During the year and previous year the Company had no transactions or balances with Bradford & Bingley plc, Spicedeck Limited or any subsidiary of either of those companies.

The Company had no transactions with related parties during the current or preceding financial year. The audit fee for 2010 was £1,138 (2009 £1,138) and was borne by Bradford & Bingley plc.

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 2010 (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 which was incorporated in the United Kingdom under the Companies Act 1985 and is registered in England and Wales

The Company's ultimate parent undertaking during the year and previous year was Spicedeck Limited, a limited company which was incorporated in the United Kingdom under the Companies Act 1985 and is registered in England and Wales. 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 Bradford & Bingley plc, a public company which was incorporated in the United Kingdom under the Companies Act 1985 and is registered in England and Wales. Bradford & Bingley plc heads the largest and smallest group of companies into which the Financial Statements of the Company are consolidated. Copies of the financial statements of Bradford & Bingley may be obtained from the Company Secretary at P O Box 88, 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 in the United Kingdom under the Companies Act 2006 and registered in England and Wales, 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.

7. Financial instruments

In the opinion of the Directors, the fair value of the Company's cash and cash equivalents equates to their carrying value.

No financial assets were categorised as 'held for trading' or 'at fair value through profit or loss' in the year or preceding year.

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.