

AIRE VALLEY FUNDING 3 PLC

Directors' Report and Financial Statements

Registered number 5154132

31 December 2011

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Directors' Report and Financial Statements

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Company Information

Directors

Phillip Alexander McLelland
SFM Directors Limited
SFM Directors (No 2) Limited

Company Secretary

SFM Corporate Services Limited

Registered Office

35 Great St Helen's
London
EC3A 6AP

Independent Auditors

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

Directors' Report for the year ended 31 December 2011

Company Number 5154132

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

Principal activity and business review

Aire Valley Funding 3 plc ('the Company') is a public limited company incorporated and domiciled in the United Kingdom

Aire Valley Holdings Limited holds one £1 ordinary fully paid share and 49,998 quarter paid ordinary shares in the Company. One £1 ordinary fully paid share is held by SFM Nominees Limited for the benefit of Aire Valley Holdings Limited. The Company has not traded since incorporation. The Directors do not expect the Company to trade in the foreseeable future.

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.

Dividend

No dividend was 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 Bradford & Bingley Group ('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. 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 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 and their interests

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

Phillip Alexander McLelland
SFM Directors Limited
SFM Directors (No. 2) Limited

Mr McLelland, SFM Directors Limited and SFM Directors (No. 2) Limited are also directors of Aire Valley Holdings Limited. Mr McLelland is a director of B&B. None of the Directors had any interest in the share capital of Aire Valley Holdings Limited at any time during the year or preceding year. None of the Directors had an interest in the share or loan capital of B&B or in any of its subsidiary undertakings.

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

Company Number 5154132

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

Corporate governance

The Directors have been charged with governance in accordance with the transaction documents describing the structure and operation of the transaction. The 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 exempt, from the requirements of Disclosure and Transparency Rules 7.1 audit committees and 7.2 Corporate governance statements which would otherwise require the Company respectively to have an audit committee in place and 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

Political and charitable contributions

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

Third party indemnities

Qualifying third party indemnity provision for the benefit of the Directors was in force during the year under review and remains in force as at the date of approval of the Directors' Report and Financial Statements

Independent Auditors

During the year KPMG Audit Plc resigned as auditors of the Company and PricewaterhouseCoopers ('PwC') were appointed

In accordance with the Companies Act 2006 a resolution to re-appoint PwC as the auditor of the Company will be proposed at the forthcoming Annual General Meeting

By order of the Board



Helena Whitaker
per pro SFM Corporate Services Limited
Company Secretary
18 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. 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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 Funding 3 plc

We have audited the Financial Statements of Aire Valley Funding 3 plc 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') by the European Union.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities 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 ('APB'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 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 misstatements 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 overall presentation of the Financial Statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications of our report. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with audited Financial Statements.

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

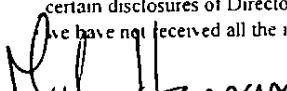
Opinion on other matter prescribed by the Companies Act 2006

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 Auditor
 Leeds
 18 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

Company Number 5154132

		2011	2010
Assets	<i>Note</i>	£	£
Cash and cash equivalents		12,502	12 502
Total current assets		<u>12,502</u>	<u>12 502</u>
Total assets		<u>12,502</u>	<u>12 502</u>
Equity			
Capital and reserves attributable to equity holders			
Share capital	3	12,502	12 502
Retained earnings		-	-
Total attributable equity		<u>12,502</u>	<u>12,502</u>
Total equity and liabilities		<u>12,502</u>	<u>12 502</u>

The notes on pages 12 to 14 form an integral part of these Financial Statements

The Financial Statements were approved by the Board of Directors and authorised for issue on 18 June 2012 and signed on its behalf by



Helena Whitaker

per pro SFM Directors Limited

Director

18 June 2012

Statement of Changes in Equity for the year ended 31 December

	Share capital £	Total equity £
At 1 January 2011 and 31 December 2011	<u>12,502</u>	<u>12,502</u>
At 1 January 2010 and 31 December 2010	<u>12,502</u>	<u>12,502</u>

Cash Flow Statement for the year ended 31 December

	2011 £	2010 £
Cash and cash equivalents at beginning of year	12,502	12,502
Cash flows from operating activities	-	-
Cash and cash equivalents at end of year	<u>12,502</u>	<u>12,502</u>

Notes to the Financial Statements for the year ended 31 December 2011

1 Principal accounting policies

Aire Valley Funding 3 plc ('the Company') is a public limited company incorporated and domiciled in the United Kingdom

(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

All other new standards, amendments to standards and interpretations are not considered relevant to and have no impact upon the Financial Statements of the Company

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

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

1 Principal accounting policies (continued)**(b) Basis of preparation**

The Financial Statements are presented in pounds sterling, which is the currency of the Company's primary operating environment and on a going concern basis. The Financial Statements have been prepared under the historical cost convention.

The Directors consider that the accounting policies set out in this note are the most appropriate to the Company's circumstances, have been consistently applied to the Company in dealing with items which are considered material and are supported by reasonable and prudent estimates and judgements.

Judgements made by the Directors in the application of these accounting policies that have a significant effect on the Financial Statements.

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) 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. All cash is held in bank with a credit rating of A or above.

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.

3 Share capital

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

The ordinary shares rank equally in respect of rights attached to voting, dividends and in the event of a winding up.

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

4 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.

5 Ultimate parent undertaking

The company regarded by the Directors as the Company's immediate parent undertaking is Aire Valley Holdings Limited, a limited liability company incorporated and domiciled in the United Kingdom.

The Company's ultimate parent undertaking is SFM Corporate Services Limited, a limited liability company incorporated and domiciled in the United Kingdom, and which holds the shares of Aire Valley Holdings Limited on a discretionary trust basis for charitable purposes. Copies of the financial statements of Aire Valley Holdings Limited and SFM Corporate Services Limited may be obtained from the Company Secretary at 35 Great St. Helen's, London EC3A 6AP.

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 Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA.

6 Related party disclosures

The Company is a special purpose vehicle controlled by its Board of Directors, which comprises three Directors. Two of the Company's three Directors are corporate Directors provided by Structured Finance Management Limited, and the third is a director of B&B (the controlling party under IFRS). The Company pays a corporate service fee to SFM in connection with its supply of corporate management services, including the provision of Directors. The fee payable amounted to £8,680 (2010: £5,277), all costs being borne by B&B. B&B also bears the cost of the audit fee amounting to £990 (2010: £1,107).

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 cash and cash equivalents are categorised as loans and receivables. The Company's 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 cash and cash equivalents. The Company has no other material exposures to market risks.

8 Events after the reporting year

The Directors are of the opinion that there have been no significant events which have occurred since 31 December 2011 to the date of this report that are likely to have a material effect on the Company's financial position as disclosed in the Financial Statements.