

# **AIRE VALLEY FUNDING 3 PLC**

Directors' Report and Financial Statements

Registered number 05154132

31 December 2012

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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**

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

**Directors' Report for the year ended 31 December 2012****Company Number** 05154132

The Directors present their Report and the audited Financial Statements for the year ended 31 December 2012

**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 (2011: £nil) and the Directors do not recommend the payment of a final dividend for the year (2011: £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 2012 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**

Payments are made in accordance with the priority of payments set out in the transaction documentation. Subject to this standard terms provide for payment of suppliers' 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:

Philip 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 and UKAR. 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.

**Events after the reporting period**

The rate of corporation tax will decrease to 23% from 1 April 2013. The proposed further reduction to 21% from 1 April 2014 is expected to be enacted separately.

**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 (2011: £nil).

**Third party indemnities**

Qualifying third party indemnity provision for the benefit of all 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**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the annual general meeting.

**Directors' Report for the year ended 31 December 2012 (continued)****Company Number 05154132****Statement of Directors' Responsibilities**

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,

- 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.

By order of the Board



Helen Whitaker  
per pro SFM Corporate Services Limited  
Company Secretary  
14 June 2013

**Independent Auditors' 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 2012 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 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.

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 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. In addition, we read all the financial and non-financial information in the Directors' Report and Financial Statements to identify material inconsistencies with 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 2012 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**

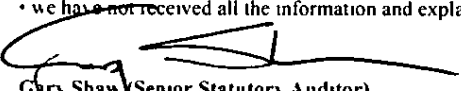
In our opinion the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

**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



**Gary Shaw (Senior Statutory Auditor)**  
for and on behalf of Pricewaterhouse Coopers LLP  
Chartered Accountants and Statutory Auditors  
Leeds

14 June 2013

**Statement of Comprehensive Income for the year ended 31 December 2012 and 2011**

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. 05154132

		2012	2011
Assets	Note	£	£
Cash and cash equivalents		12,502	12,502
<b>Total current assets</b>		<u>12,502</u>	<u>12,502</u>
<b>Total assets</b>		<u>12,502</u>	<u>12,502</u>
<b>Equity</b>			
Capital and reserves attributable to equity holders			
Share capital	3	12,502	12,502
Retained earnings		-	-
<b>Total attributable equity</b>		<u>12,502</u>	<u>12,502</u>
<b>Total equity and liabilities</b>		<u>12,502</u>	<u>12,502</u>

The notes on pages 11 to 13 form an integral part of these Financial Statements

The Financial Statements were approved by the Board of Directors and authorised for issue on 14 June 2013 and signed on its behalf by



Helena Whitaker  
per pro SFM Directors Limited  
Director  
14 June 2012



**Statement of Changes in Equity for the year ended 31 December**

	<b>Share capital £</b>	<b>Total equity £</b>
<b>At 1 January 2012 and 31 December 2012</b>	<b><u>12,502</u></b>	<b><u>12,502</u></b>
<b>At 1 January 2011 and 31 December 2011</b>	<b><u>12,502</u></b>	<b><u>12,502</u></b>

**AIRF VALLEY FUNDING 3 PLC**

**Cash Flow Statement for the year ended 31 December**

	<b>2012</b>	<b>2011</b>
	<b>£</b>	<b>£</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>12,502</b>	<b>12,502</b>
Cash flows from operating activities	-	-
<b>Cash and cash equivalents at end of year</b>	<b><u>12,502</u></b>	<b><u>12,502</u></b>

## Notes to the Financial Statements for the year ended 31 December 2012

### 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 2012 Financial Statements, including the 2011 comparative financial information where applicable, the Company has adopted for the first time the following statements

- The December 2010 amendments to IAS 12 'Income Taxes' relating to 'Deferred Tax: Recovery of Underlying Assets'. This amendment is mandatory for 2012 financial statements with 2011 comparative information. Adoption of this statement had no impact on the Financial Statements of the Company.

For these 2012 Financial Statements the Company has not adopted the following statements but is continuing to assess whether these statements will have any impact on the Financial 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'. This statement is expected to be mandatory for 2015 financial statements with 2014 comparative information but has not yet been adopted for use in the EU - the Company continues to monitor developments.
- IFRS 13 'Fair Value Measurement'. This statement is mandatory for 2013 financial statements, with 2012 comparative information.
- The June 2011 amendments to IAS 1 'Presentation of Financial Statements' relating to 'Presentation of Items of Other Comprehensive Income'. This statement is mandatory for 2013 financial statements with 2012 comparative information.
- The December 2011 amendments to IFRS 7 'Financial Instruments: Disclosures' and IAS 32 'Financial Instruments: Presentation' relating to the offsetting of financial assets and financial liabilities. These amendments are mandatory for 2013 financial statements with 2012 comparative information.
- The Annual Improvements to IFRSs 2009-2011 Cycle issued in May 2012. These changes are mandatory for 2013 financial statements with 2012 comparative information.

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 2012 (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. HM Treasury has confirmed that it is its intention to continue to fund B&B so as to maintain that company as a going concern and enable that company to meet its debts as and when they fall due until at least 31 October 2014. 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.

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. There were no critical estimates or assumptions during the year or previous year.

## (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 during the year (2011: £Nil).

## 3 Share capital

	2012 Number	2012 £	2011 Number	2011 £
<b>Alotted, issued and fully paid</b>				
Ordinary shares of £1 each 25p paid				
At 1 January and 31 December	49,998	12,500	49,998	12,500
<b>Alotted, issued and fully paid</b>				
Ordinary shares of £1 each fully paid				
At 1 January and 31 December	<u>2</u> 50,000	<u>2</u> 12,502	<u>2</u> 50,000	<u>2</u> 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 2012 (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 share capital requirements other than the minimum share capital required by the Companies Act with which it complies.

**5 Ultimate parent undertaking**

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

The Company's ultimate parent undertaking is SFM Corporate Services Limited, a private 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 the benefit of certain charities. 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 limited liability 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 ('SFM') 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 £8,741 (2011: £8,680), all costs being borne by B&B. B&B also bears the cost of the audit fee amounting to £975 (2011: £990).

**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, i.e. 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 rate of corporation tax will decrease to 23% from 1 April 2013. The proposed further reduction to 21% with effect from 1 April 2014 is expected to be enacted separately.