AIRE VALLEY MORTGAGES 2004 - 1 PLC

Directors' Report and Financial Statements

Registered number: 5154235

31 December 2011

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Directors' Report and Financial Statements

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Company Information

Directors

Phillip 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 2011

Registered number: 5154235

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

Ownership and control

Aire Valley Mortgages 2004 - 1 plc ('the Company') is a public limited liability company incorporated and domiciled in the United Kingdom The Company is a subsidiary of Aire Valley Holdings Limited, a private limited liability company incorporated and domiciled in the United Kingdom

Aire Valley Holdings Limited holds one £1 fully paid share and 49,998 quarter paid ordinary shares in the company One £1 ordinary full paid share is held by SFM Nominees Limited for the benefit of Aire Valley Holdings Limited

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

Principal activities

The Company's principal activity is to issue floating and/or fixed rate debt securities and to enter into financial arrangements to fund the activities of certain subsidiaries of Aire Valley Holdings Limited and ultimately UKAR by means of intercompany loans The debt securities are issued in Euros and Sterling and are secured on a beneficial interest in a portfolio of mortgage loans originated by the B&B Group and held under a master trust arrangement by Aire Valley Trustee Limited These mortgage loans are secured on residential property in the United Kingdom Details are set out in the offering circular pertinent to this issue The Company issued £2bn floating rate notes to the market on 5 October 2004 £225m of the notes were redeemed in September 2005, £500m in June 2007, £500m in December 2007, £96m in March 2008, £41m in June 2008, £22m in June 2011, £5m in September 2011 and £5m in December 2011 At the exchange rates at issue as at 31 December 2011 £606m remained in issue (2010 £638m) Interest expense for the year was £9 3m (2010 £7 5m) Fair value gains of £8,189,000 (2010 £1,037,000) arose due to the movements in interest rates and exchange rates over the course of the year

This fair value gain is a timing effect only, which will reverse, and does not have cash implications

Business review

The profits of the Company are pre-determined under the terms of the issue documentation The results for the year are shown in the Statement of Comprehensive Income on page 9 Primarily as a result of the fair value movements, the profit after taxation was £8,613,000 (2010 £840,000) The Company has met all its obligations under the terms of the issue documentation

As described in note 16, on 10 May 2012 a non-asset trigger event occurred This will affect the timing of future redemptions of the loan notes in issue

Key performance indicators

The key performance indicators used by management in assessing the performance of the Company are actual cash flows against planned cash flows and the credit ratings assigned to the loan notes The performance of the Company is addressed in the monthly trustee reports to investors Certain of the Company's debt securities in issue were downgraded during the year and subsequent to the year end

Some of the key performance indicators of the mortgage pool of the master trust are

		2011	2010
Number of outstanding mortgage loans	**No**	**87,771**	90,841
Outstanding mortgage loans	**£bn**	**10 9**	11 3
Number of mortgage loans 3 months or more in arrears	**No**	**1,578**	2,553
Principal value of mortgage loans 3 months or more in arrears	**£m**	**234 2**	385 9
Arrears value of mortgage loans 3 months or more in arrears	**£m**	**6 4**	12 0
Mortgage loans in repossession	**No**	**98**	136
Value of mortgage loans in repossession	**£m**	**15 5**	19 1
Weighted average indexed current LTV	**%**	**84 6**	83 8

Future developments

The Directors expect that during 2012 the Company will continue to meet the interest payments on the notes At the present time the Directors do not foresee any changes in the Company's activities

As described in note 16, on 10 May 2012 a non-asset trigger event occurred This will affect the timing of future redemptions of the loan notes in issue

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

Registered number 5154235

Dividend

No dividends were paid during the year or previous year and the Directors do not recommend the payment of a final dividend for the year (2010 £nil)

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
Phillip 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 None of the Directors had any interest in the share or loan capital of the Company 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 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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

Risk management and control

In the ordinary course of business the Company is exposed to, and manages, a variety of risks with credit risk, liquidity risk, currency risk and interest rate risk being of particular significance The Directors have responsibility for the overall system of internal control and for reviewing its effectiveness In general, when a transaction or group of transactions is entered into derivative instruments are taken out to manage the associated risks 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 11, and further discussion in the context of the B&B Group as a whole is provided in that Group's 2011 Annual Report & Accounts which do not form part of this Report and Financial Statements

The Company has entered into contracts with a number of third parties to provide operational support including corporate service providers, paying agents and swap providers B&B acts as a bank account and cash manager The Company's operations are subject to periodic review by the B&B internal audit department

The issue documentation also sets out a number of business risks through a number of asset and non asset trigger events The occurrence of trigger events could lead to early redemption of the floating rate notes

As described in note 16 on 10 May 2012 a non-asset trigger event occurred This will affect the timing of future redemptions of the loan notes in issue

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

Registered number 5154235

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 auditor to the Company, and PricewaterhouseCoopers LLP ('PwC') were appointed

In accordance with the Companies Act 2006 a resolution for the re-appointment of PwC as 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

25 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,

- 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

Independent Auditor's Report to the members of Aire Valley Mortgages 2004 - 1 plc

We have audited the Financial Statements of Aire Valley Mortgages 2004-1 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) as adopted by the European Union

Respective responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, 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 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 profit 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

Mark Hannam (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

25th June 2012

Statement of Comprehensive Income for the year ended 31 December

	Note	2011 £000	2010 £000
Interest receivable and similar income	2	9,344	7,581
Interest expense and similar charges	3	(9,309)	(7,545)
Net interest income		35	36
Operating expenses	4	(34)	(36)
Fair value movements	11(e)	8,189	1,037
Profit before taxation		8,190	1,037
Taxation	5	423	(197)
Profit for the financial year		8,613	840
Other comprehensive income for the financial year		-	-
Total comprehensive income for the financial year		8,613	840

The Company's business and operations comprise one single activity in the United Kingdom, and the Company has only one operating segment for the purpose of IFRS 8 'Operating Segments' The results above arise from continuing activities and are attributable to the equity shareholder

The notes on pages 13 to 25 form an integral part of these Financial Statements

Balance Sheet at 31 December

Registered number 5154235

	Note	2011 £000	2010 £000
Assets			
Loans to Group undertakings	8	**606,439**	638,450
Derivative financial instruments	11(e)	**86,202**	97,305
Total non-current assets		**692,641**	735,755
Cash and cash equivalents		**112,559**	124,107
Current tax assets		**-**	4
Total current assets		**112,559**	124,111
Total assets		**805,200**	859,866
Liabilities			
Interest-bearing loans and borrowings	7	**682,146**	733,590
Deferred tax liabilities	5	**-**	426
Total non-current liabilities		**682,146**	734,016
Deposits by banks		**112,224**	123,766
Interest-bearing loans and borrowings	7	**458**	325
Total current liabilities		**112,682**	124,091
Total liabilities		**794,828**	858,107
Equity			
Capital and reserves attributable to equity holders			
Share capital	12	**13**	13
Retained earnings		**10,359**	1,746
Total attributable equity		**10,372**	1,759
Total equity and liabilities		**805,200**	859,866

The notes on pages 13 to 25 form an integral part of these Financial Statements

The Financial Statements were approved by the Board of Directors and authorised for issue on 25 June 2012 and signed on its behalf by

Helena Whitaker
per pro SFM Directors Limited
As Director
25 June 2012

Statement of Changes in Equity for the year ended 31 December

	Share capital £000	Retained earnings £000	Total equity £000
At 1 January 2011	**13**	**1,746**	**1,759**
Total comprehensive income for the financial year	**-**	**8,613**	**8,613**
At 31 December 2011	**13**	**10,359**	**10,372**
At 1 January 2010	13	906	919
Total comprehensive income for the financial year	-	840	840
At 31 December 2010	13	1,746	1,759

Cash Flow Statement for the year ended 31 December

	2011 £000	2010 £000
Cash flows from operating activities		
Profit before tax	**8,190**	1,037
Adjustments for		
Interest on loans to Group undertakings	**(9,102)**	(7,505)
Interest on call loans	**(241)**	(75)
Bank interest	**(1)**	(1)
Interest on floating rate notes	**10,466**	7,524
Interest on collateral	**248**	76
Amortisation of issue costs	**12**	17
Swap interest	**(1,417)**	(72)
Fair value movements	**(8,189)**	(1,037)
Cash flows used in operating activities before changes in operating assets	**(34)**	(36)
Net decrease/(increase) in operating assets		
Loans to Group undertakings	**32,011**	(275)
Prepayments and accrued income	**-**	8
Cash generated from/(used in) operations	**31,977**	(303)
Taxation received	**1**	7
Net cash generated from/(used in) operating activities	**31,978**	(296)
Cash flows from financing activities		
Repayment of deposits by banks	**(11,542)**	(17,385)
Interest received on loans to Group undertakings	**9,102**	7,505
Interest received on call loans	**241**	75
Bank interest received	**1**	1
Interest paid on floating rate notes	**(10,334)**	(7,409)
Interest paid on collateral	**(248)**	(76)
Swap interest received	**1,200**	208
Repayment of floating rate notes	**(31,946)**	-
Net cash used in financing activities	**(43,526)**	(17,081)
Net decrease in cash and cash equivalents	**(11,548)**	(17,377)
Cash and cash equivalents at beginning of year	**124,107**	141,484
Cash and cash equivalents at end of year	**112,559**	124,107
Cash collateral held	**112,224**	123,766
Cash at bank	**335**	341
	112,559	124,107

All of the cash collateral held is in respect of collateral received from derivative counterparties pursuant to the provisions of associated credit support agreements and is repayable on demand

All cash is deposited with a third party bank with a credit rating of A or above

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

1 Principal accounting policies

Aire Valley Mortgages 2004 - 1 plc ('the Company') is a public limited company incorporated and domiciled in the United

(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

(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 are prepared on the historical cost basis except for financial instruments classified as 'at fair value through profit or loss'

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 and estimates with a significant risk of material adjustment in the next year are discussed in note 10

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)

1 Principal accounting policies (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 (see note 10)

(c) Interest income and expense

For all financial instruments measured at amortised cost (including loans to Group undertakings and floating rate notes) interest income and expense are recognised in the Statement of Comprehensive Income on an Effective Interest Rate ('EIR') basis The EIR method calculates the amortised cost of a financial asset or financial liability and spreads the resulting interest income or interest expense on a level yield basis over the expected life of the instrument The EIR is the rate which at the inception of the instrument exactly discounts expected future cash flows over the expected life of the instrument to the initial carrying amount When calculating the EIR, future cash flows are estimated, considering all contractual terms of the instrument (for example prepayment options), but potential future credit losses are not considered The calculation includes all directly attributable incremental fees and costs, premia on acquisition of mortgage portfolios and all other premia and discounts as well as interest

When a financial asset or a group of similar financial assets is written down as a result of an impairment loss interest income continues to be recognised by applying the applicable EIR to the reduced balance

d) Taxation

(i) Current tax

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 Tax relating to items which are taken directly to reserves is also taken directly to reserves

(ii) Deferred tax

Deferred tax is calculated using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled The principal temporary differences arise from unrealised fair value movements

Deferred tax assets are recognised only when it is probable that future taxable profits will be available against which these temporary differences can be utilised

(e) 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

(f) Floating rate notes

On initial recognition, debt issued is measured at its fair value net of directly attributable transaction costs and discounts, in accordance with IAS 39 Subsequent measurement is at amortised cost using the EIR method to amortise incremental attributable issue and transaction costs premia and discounts over the life of the instrument, these costs are charged along with interest on the debt to 'interest expense and similar charges' Unamortised amounts are added to or deducted from the carrying value of the instrument

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

1 Principal accounting policies (continued)

(g) Classification of financial instruments

In accordance with IAS 39 each financial asset is classified at initial recognition into one of four categories

(i) Financial assets at fair value through profit or loss
(ii) Held to maturity investments,
(iii) Loans and receivables, or
(iv) Available-for-sale,

and each financial liability into one of two categories

(v) Financial liabilities at fair value through profit or loss or
(vi) Other liabilities

Measurement of financial instruments is either amortised cost (categories (ii), (iii) and (vi) above) or at fair value (categories (i), (iv) and (v) above), depending on the category of financial instrument The Company does not carry any financial instruments at fair value other than derivative financial instruments

Amortised cost is the amount measured at initial recognition adjusted for subsequent principal and other payments, less cumulative amortisation calculated using the EIR method the amortisation is taken to interest income or expense depending on whether the instrument is an asset or liability The amortised cost balance is reduced where appropriate by an allowance for amounts which are considered to be impaired or uncollectable

Fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction Where a market exists, fair values are based on quoted market prices For instruments which do not have active markets, fair value is calculated using expected future cash flows taking individual cash flows together with assumptions based on market conditions and credit spreads and are consistent with accepted economic methodologies for pricing financial instruments Any net movements in fair value are included in the Statement of Comprehensive Income as 'fair value movements'

(h) Derivative financial instruments

All derivatives are carried in the Balance Sheet at fair value, as assets when the fair value is positive and as liabilities when the fair value is negative Changes in the fair value of derivatives are reflected immediately in the Statement of Comprehensive Income as 'fair value movements'

(i) Foreign currencies

Foreign currency transactions, assets and liabilities are accounted for in accordance with IAS 21 'The Effects of Changes in Foreign Exchange Rates' The presentational and functional currency of the Company is pounds sterling Transactions which are not denominated in pounds sterling are translated into sterling at the spot rate of exchange on the date of the transaction Monetary assets and liabilities which are not denominated in pounds sterling are translated into sterling at the closing rate of exchange at the Balance Sheet date

Any foreign exchange gains or losses arising from settlement of transactions at rates different from those at the date of the transaction, and any unrealised foreign currency exchange gains and losses on unsettled foreign currency monetary assets and liabilities, are included in the Statement of Comprehensive Income in 'fair value movements'

(j) Hedge accounting

The Company applies fair value hedge accounting to its floating rate notes Provided that the hedge arrangement meets the requirements of IAS 39 to be classed as 'highly effective' the hedged item is carried on the Balance Sheet at fair value in respect of the hedged risk, with any gain or loss in that fair value being included in the Statement of Comprehensive Income as 'fair value movements'

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

2 Interest receivable and similar income

	2011 £000	2010 £000
Interest on loans to Group undertakings	9,102	7,505
Interest on call loans	241	75
Bank interest	1	1
	9,344	7,581

Interest income for the year on impaired assets was £nil (2010 £nil) as no financial asset is impaired

3 Interest expense and similar charges

	2011 £000	2010 £000
Interest on floating rate notes	10,466	7,524
Interest on cash collateral	248	76
Amortisation of issue costs	12	17
Swap interest	(1,417)	(72)
	9,309	7,545

4 Operating expenses

	2011 £000	2010 £000
Legal and professional fees	34	36

Auditors' remuneration of £2 475 (2010 £2,767) was borne by B&B

5 Taxation

	2011 £000	2010 £000
Current taxation charge		
UK corporation tax on profit for the year	-	-
Deferred taxation origination and reversal of temporary differences	(426)	206
Adjustments in respect of previous years	3	(9)
Total taxation (credit)/charge per the Statement of Comprehensive Income	(423)	197
Profit before taxation	8,190	1 037
UK corporation tax at 26 5% (2010 28%)	2,170	290
Effects of		
Income not taxable	(2,170)	-
Other tax rates	-	(72)
Change in rate effective 1 April 2011 on deferred tax items	-	(12)
Adjustments in respect of previous years	(423)	(9)
Total taxation (credit)/charge per the Statement of Comprehensive Income	(423)	197

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

5 Taxation (continued)

Deferred taxation

	Recognised in income 2011 £000	As at 31 December 2011 £000	Recognised in income 2010 £000	As at 31 December 2010 £000
Fair value movements	426	-	(206)	(426)

The standard rate of Corporation Tax in the UK changed from 28% to 26% with effect from 1 April 2011 Accordingly, the Company's profits for this accounting period are taxed at an effective rate of 26 5%

The carrying amount of deferred tax relating to fair value movements has been reassessed as being nil because it is not expected to result in an actual future tax payment or receipt

6 Employees and Directors' emoluments

There were no employees during the year (2010 none) and none of the Directors received emoluments in respect of their services to the Company A corporate service fee is paid to Structured Finance Management Limited in connection with its supply of corporate management services including the provision of directors (see note 9)

7 Interest-bearing loans and borrowings

Interest-bearing loans and borrowings comprise floating rate notes issued on 5 October 2004

Under the terms of the Notes, any shortfalls arising on the redemption of the Loan to Group undertaking, over which the Noteholders have a charge, may result in a reduction in the liability under the Notes, due to their limited recourse nature Such shortfall on the redemption of the Loan to Group undertaking may arise if the underlying mortgage pool against which the Loan to Group undertaking is secured does not generate sufficient cash to repay the Loan to Group undertaking and the credit enhancement in the structure is not sufficient to cover such shortfall

Class	Final maturity	In currency 31 December 2011	In currency 31 December 2010	31 December 2011 £000	31 December 2010 £000
Series 3 A1	Sep 2066	£202,040,982	£215,000,000	202,041	215,000
Series 3 A2	Sep 2066	€ 432,273,728	€ 460,000,000	361,338	396,520
Series 3 B1	Sep 2066	£20,000,000	£20,000,000	20,000	20,000
Series 3 B2	Sep 2066	€ 25,000,000	€ 25,000,000	20,898	21,550
Series 3 C1	Sep 2066	£20,000,000	£20,000,000	20,000	20,000
Series 3 C2	Sep 2066	€ 31,000,000	€ 31,000,000	25,913	26,722
Series 3 D1	Sep 2066	£15,000,000	£15,000,000	15,000	15,000
Series 3 D2	Sep 2066	€ 22,000,000	€ 22,000,000	18,390	18,964
				683,580	733 756
Issue costs				-	(12)
Hedge adjustments				(1,434)	(154)
				682,146	733 590
Accrued interest - current				458	325
				682,604	733,915

Subject to their scheduled redemption dates, the Class A notes rank, irrespective of series, without preference or priority amongst themselves Subject to the relevant scheduled and/or, as applicable, permitted redemption dates or other payment conditions of the issuer notes, payments of principal and interest due and payable on the Class A notes will rank ahead of payments of principal and interest due and payable on the Class B, C and D notes, subject to the terms and conditions of the notes, the issuer cash management agreement, the issuer deed of charge and the other issuer transaction documents Similarly, payments of principal and interest due and payable on the Class B notes will rank ahead of payments of principal and interest due and payable on the Class C and D notes, and payments of principal and interest due and payable on the Class C notes will rank ahead of payments of principal and interest due and payable on the Class D notes

The Directors anticipate that there will not be sufficient funds available to redeem all of the notes on the next scheduled redemption date The timing of future redemptions will be dependent on the availability of funds, and cannot be reliably forecast

As described in note 16, on 10 May 2012 a non-asset trigger event occurred This will affect the timing of future redemptions of the loan notes in issue

Interest is payable on the Series 3 Class A2, Series 3 Class B2, Series 3 Class C2 and Series 3 Class D2 notes at variable rates based upon three month EURIBOR Interest is payable on Series 3 Class A1, Series 3 Class B1, Series 3 Class C1 and Series 3 Class D1 notes at variable rates based upon three month sterling LIBOR

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

7. Interest-bearing loans and borrowings (continued)

The Company's obligations to noteholders and to other secured creditors are secured under a deed of charge which grants security over all its assets in favour of the security trustee The principal assets of the Company are loans made by it to Aire Valley Funding 1 Limited, a fellow subsidiary of Aire Valley Holdings Limited, whose obligations in respect of these loans are secured pursuant to a deed of charge which grants security over all its assets, primarily consisting of its beneficial interest in a portfolio of residential mortgage loans, in favour of the security trustee The security trustee holds this security for the benefit of all secured creditors of Aire Valley Funding 1 Limited, including the Company

8. Loans to Group undertakings

Loans to Group undertakings comprise a single loan to Aire Valley Funding 1 Limited, denominated in Sterling and at a variable rate of interest The loan has ultimately been secured against a beneficial interest in a mortgage portfolio held in trust on behalf of the Aire Valley Holdings Limited Group

Aire Valley Funding 1 Limited's ability to pay amounts due on the intercompany loan will depend mainly upon it receiving sufficient revenue receipts and principal on the trust property from Aire Valley Trustee Limited, receiving the required funds from the swap provider and amounts available in the reserve funds

The repayment of the intercompany loan will coincide with the repayment of the floating rate notes as they become due for payment, only to the extent these are available

9 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 director is a director of B&B (the controlling party under IFRS) The Company pays a corporate services fee to Structured Finance Management Limited in connection with its supply of corporate management services including the provision of directors The fee amounted to £13,341 (2010 £14,694)

The Company undertook the following transactions with companies in the B&B Group and the Aire Valley Holdings Limited Group

	Aire Valley Holdings Limited and subsidiaries 2011 £000	Aire Valley Holdings Limited and subsidiaries 2010 £000
Interest receivable and similar income		
Interest on loans to Group undertakings	**9,102**	7,505
Non-current assets		
Loans to Group undertakings	**606,439**	638,450

Auditors' remuneration of £2,475 (2010 £2,767) was borne by B&B

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

10 Critical accounting judgements and estimates

In preparation of the Company's Financial Statements, judgements and estimates are made which affect the reported amounts of assets and liabilities, judgements and estimates are kept under continuous evaluation Judgements and estimates are based on historical experience, expectations of future events and other factors

Effective interest rate

Certain financial instruments are accounted for on an effective interest rate basis, under which the income or expense associated with the instrument is spread over the instrument's expected life On a quarterly basis, models are reviewed to re-assess expected life

Fair values of financial instruments

Certain financial instruments are carried at fair value Where a market exists, fair values are based on quoted market prices For instruments which do not have an active market, fair value is calculated using expected future cash flows for which assumptions are made

Qualifying hedge relationships

In designating a financial instrument as part of a qualifying hedge relationship, the Company has determined that the hedge is expected to be highly effective over the life of the hedging instrument

11 Financial instruments

(a) Categories of financial assets and financial liabilities: carrying value compared to fair value
At 31 December 2011

Financial assets	Assets at fair value through profit or loss - on initial recognition	Loans and receivables	Total carrying value	Fair value	If fair values increased by 1%
	£000	£000	£000	£000	£000
Loans to Group undertakings	-	606,439	606,439	428,359	4,284
Derivative financial instruments	86,202	-	86,202	86,202	862
Cash and cash equivalents	-	112,559	112,559	112,559	1,126
Total financial assets	**86,202**	**718,998**	**805,200**	**627,120**	**6,272**

Financial liabilities	Liabilities at fair value through profit or loss - on initial recognition	Liabilities at amortised cost	Total carrying value	Fair value	If fair values increased by 1%
	£000	£000	£000	£000	£000
Interest-bearing loans and borrowings	-	682,604	682,604	504,524	5,045
Deposits by banks	-	112,224	112,224	112,224	1,122
Total financial liabilities	**-**	**794,828**	**794,828**	**616,748**	**6,167**

Notes to the Fınancıal Statements for the year ended 31 December 2011 (contınued)

11 Fınancıal ınstruments (contınued)

(a) Categorıes of financıal assets and financıal lıabılıtıes carryıng value compared to faır value (contınued)

At 31 December 2010

Fınancıal assets	Assets at faır value through profit or loss - on ınıtıal recognıtıon £000	Loans and receıvables £000	Total carryıng value £000	Faır value £000	If faır values ıncreased by 1% £000
Loans to Group undertakıngs	-	638,450	638,450	456,587	4,566
Derıvatıve financıal ınstruments	97,305	-	97,305	97,305	973
Cash and cash equıvalents	-	124,107	124,107	124,107	1,241
Total financıal assets	97,305	762,557	859,862	677,999	6,780

Fınancıal lıabılıtıes	Lıabılıtıes at faır value through profit or loss - on ınıtıal recognıtıon £000	Lıabılıtıes at amortısed cost £000	Total carryıng value £000	Faır value £000	If faır values ıncreased by 1% £000
Interest-bearıng loans and borrowıngs	-	733,915	733,915	552,052	5 521
Deposıts by banks	-	123,766	123,766	123,766	1,238
Total financıal lıabılıtıes	-	857,681	857,681	675,818	6,759

No financıal ınstruments were reclassıfied durıng the year or prevıous year between amortısed cost and faır value categorıes

The faır value of loans to Group undertakıngs has been adjusted to reflect the market yıelds ımplıed by the floatıng rate valuatıons

The faır value of ınterest-bearıng loans and borrowıngs ıs based upon quoted market prıces

The faır value of derıvatıves ıs theır carryıng amount

(b) Interest ıncome and expense on financıal ınstruments that are not at faır value through profit or loss

	2011 Income £000	**2011 Expense £000**	2010 Income £000	2010 Expense £000
Interest on loans to Group undertakıngs	**9,102**	-	7,505	-
Interest on call loans	**241**	-	75	-
Bank ınterest	**1**	-	1	-
Interest on floatıng rate notes	-	**10,466**	-	7,524
Interest on collateral	-	**248**	-	76
Amortısatıon of ıssue costs	-	**12**	-	17

Interest ıncome for the year on ımpaıred assets was £nıl (2010 £nıl) as no financıal asset ıs ımpaıred

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

11 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments

The Company's exposure to risk on financial instruments and the management of this risk is established at the commencement of the securitisation transactions, with the Company's activities and the roles of other parties defined in the programme documentation Financial instruments used by the Company for risk management purposes include derivative instruments Such instruments are used for commercial hedging purposes only, not for trading or speculative purposes, to hedge interest rate and currency risk arising as part of the securitisation transaction The principal derivative instruments used by the Company in managing its risk are cross currency swaps The duration of derivative instruments is generally short to medium term and their maturity profile reflects the nature of exposures arising from underlying business activities All of the Company's derivatives activity is contracted with financial institutions

Credit risk

Credit risk is 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 The Company is exposed to credit risk via amounts due from the loan to Group undertakings, derivative counterparties and deposits with third party banks

The Company's ability to meet payments under the floating rate notes relies on the receipt of funds on the loans to Group undertakings, which in turn is dependent on receipt of payments on the mortgage portfolio held in trust To minimise risk any mortgage included in the portfolio is required to meet a number of criteria as determined in the transaction documentation Credit risk also exists on the derivative contracts entered into The swap counterparties are required to have minimum credit ratings as outlined in the transaction documentation The maximum exposure to credit risk is represented by the carrying amount of each financial asset, as set out in the table in note 11c(i)

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due The Company's policy is to maintain sufficient funds in a liquid form at all times to ensure that the Company can meet its liabilities as they fall due The Company's ability to meet payments under the floating rate notes relies on the receipt of funds on the loan to Group undertakings, which is in turn dependent on the receipt of payments on the mortgage portfolio held in trust (note 11c(ii)

Currency risk

The Company has floating rate notes in issue denominated in Euros The Company's policy is to eliminate all exposures arising from movements in exchange rates by the use of cross currency swaps to hedge payments of interest and principal on the notes All other assets, liabilities and transactions are denominated in Sterling The table in note 11c(iii) summarises the Company's assets and liabilities denominated in foreign currencies

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times To minimise exposure to interest rate risk the Company ensures that the interest rate profiles of the loans due from Group undertakings and of the interest-bearing loans and borrowings are similar Where this is not possible, derivative financial instruments are also used to reduce any residual interest rate risk If LIBOR for three month-Sterling deposits was 1% higher or lower, with all other variables held constant the effect on the Company's net interest income would be immaterial due to movements on interest on the loan to Group undertakings being offset by movements on interest on the loan notes This would also apply if LIBOR for three-month Euro deposits was 1% higher or lower, with all other variables held constant, as movements in interest on foreign currency loan notes would be offset by a corresponding movement in interest on the currency swaps and on loans to Group undertakings A change in interest rates would also affect the fair value movements in the Statement of Comprehensive Income A 1% increase in LIBOR for three-month Sterling deposits would give rise to a fair value loss in the Statement of Comprehensive Income of £1,848,774 due to changes in the fair value of derivatives, and similarly a 1% decrease would give rise to a fair value gain in the Statement of Comprehensive Income of £1 950,098 A 1% increase in LIBOR for three-month Euro deposits would give rise to a fair value gain in the Statement of Comprehensive Income of £1,742,122 due to changes in the fair valueof derivatives and similarly a 1% decrease would give rise to a fair value loss in the Statement of Comprehensive Income of £1,831,603

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

11 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments (continued)

Other market risks

At the year end the Company had no other material exposure to market risks (2010 nil)

(i) Credit risk

Before taking account of any collateral, the maximum exposure to credit risk as at 31 December was

	2011	2010
	£000	£000
Cash and cash equivalents	112,559	124,107
Derivative financial instruments	86,202	97,305
Loans to Group undertakings	606,439	638,450
Total on-Balance Sheet and maximum exposure to credit risk	**805,200**	859,862

No impairment has been recognised in respect of any financial asset, and no financial assets were past due

Further information regarding the number and credit quality of loans in the mortgage pool is provided in the Key Performance Indicators on page 4

(ii) Liquidity risk

There is a liquidity reserve fund provided by Aire Valley Funding No 1 Limited in the event that the Company is unable to meet its financial commitments, on a temporary basis, in certain circumstances and subject to certain criteria This fund was not drawn upon during the current or preceding year or in 2012 up to the date of authorisation of these Financial Statements

The contractual undiscounted cash flows associated with financial liabilities were as follows

2011	**On demand £000**	**In not more than three months £000**	**In more than three months but not more than one year £000**	**In more than one year but not more than five years £000**	**In more than five years £000**	**Total £000**
Interest-bearing loans and borrowings	-	7,219	31,349	400,049	327,455	766,072
Deposits by banks	112,224	-	-	-	-	112,224
Total	**112,224**	**7,219**	**31,349**	**400,049**	**327,455**	**878,296**

2010	On demand £000	In not more than three months £000	In more than three months but not more than one year £000	In more than one year but not more than five years £000	In more than five years £000	Total £000
Interest-bearing loans and borrowings	-	2,449	40,086	339,275	422,771	804,581
Deposits by banks	123 766	-	-	-	-	123,766
Total	123,766	2,449	40,086	339,275	422,771	928,347

The cash flows above assume that the loan notes are redeemed on the earliest possible date that the Company could be compelled to redeem them

As described in note 16, on 10 May 2012 a non asset trigger event occurred This will affect the timing of future redemptions of the loan notes in issue

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

11 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments (continued)

(iii) Currency risk

The Group's policy is to hedge all material foreign currency exposures, by the use of derivatives Consequently, at 31 December 2011 and 31 December 2010 the Company had no net material exposure to foreign exchange fluctuations or changes in foreign currency interest rates The impact on the Company's profit and equity of reasonably possible changes in exchange rates compared to actual rates would not have been material at 31 December 2011 the movement in value of the floating rate notes would be offset by movement in value of derivatives

Excluding the effects of derivatives, the amounts of financial assets and liabilities denominated in foreign currencies were as follows

	Euro £000
At 31 December 2011	
Financial assets	
Loans to Group undertakings	-
Cash and cash equivalents	112,224
Derivative financial instruments	426,839
Total financial assets	**539,063**
Financial liabilities	
Deposits by banks	112,224
Interest-bearing loans and borrowings	426,839
Total financial liabilities	**539,063**
Net currency gap	**-**

	Euro £000
At 31 December 2010	
Financial assets	
Loans to Group undertakings	-
Cash and cash equivalents	123,766
Derivative financial instruments	463,975
Total financial assets	587,741
Financial liabilities	
Deposits by banks	123,766
Interest-bearing loans and borrowings	463,975
Total financial liabilities	587,741
Net currency gap	-

(d) Concentrations of risk

The Company operates primarily in the United Kingdom and adverse changes to the United Kingdom economy could impact on all areas of the Company's business The loan to Group undertakings is due from one entity, Aire Valley Funding 1 Limited, and represents an interest in a portfolio of mortgage loans secured on residential properties in the United Kingdom In turn Aire Valley Funding 1 Limited's ability to meet its loan obligations to the Company is based upon its cash receipts from its interest in the portfolio

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

11 Financial instruments (continued)

(e) Derivatives and hedging

The Company had the following types of derivatives and hedges

	Nominal amounts	Fair value hedges	Total derivatives
At 31 December 2011	**£000**	**£000**	**£000**
Cross-currency interest rate swaps	**426,538**	**86,202**	**86,202**
Total asset balances	**426,538**	**86,202**	**86,202**
At 31 December 2010	£000	£000	£000
Cross-currency interest rate swaps	463,756	97 305	97,305
Total asset balances	463,756	97,305	97,305

Fair value movements in the Statement of Comprehensive Income comprised the following

	2011	2010
	£000	£000
Net losses on hedging swaps	(11,110)	(12,565)
Net gains on hedged items due to exchange rate movements	18,021	14,149
Net gains/(losses) on hedged items due to interest rate movements	1,278	(547)
	8,189	1,037

Cross-currency swaps are used to hedge the interest and exchange rate risk on the floating rate notes This represents an effective economic hedge, but for accounting purposes there is some hedge ineffectiveness which is a timing issue only

(f) Fair value measurement

Financial assets and liabilities carried at fair value are valued on the following bases

At 31 December 2011	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets				
Derivative financial instruments	-	-	**86,202**	**86,202**

At 31 December 2010	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Derivative financial instruments	-	-	97,305	97,305

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i e as price) or indirectly (i e derived from prices)
Level 3	Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

These definitions have been taken from the March 2009 amendment to IFRS 7 'Improving Disclosures about Financial Instruments'

The movement in assets and liabilities measured using a valuation technique for which any significant input is not based on observable market data (Level 3) is as follows

	Financial assets Derivative £'000	**Financial liabilities Derivative financial £'000**	**Total £'000**
At 1 January 2011	**97,305**	-	**97,305**
Total losses in the Statement of Comprehensive Income	**(11,103)**	-	**(11,103)**
Transfers from assets to liabilities	-	-	-
At 31 December 2011	**86,202**	-	**86,202**

	Financial assets Derivative financial £'000	Financial liabilities Derivative financial £'000	Total £'000
At 1 January 2010	110,006	-	110,006
Total losses in the Statement of Comprehensive Income	(12,701)	-	(12,701)
Transfers from assets to liabilities	-	-	-
At 31 December 2010	97,305	-	97,305

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

12 Share capital

	2011	2010	2011	2010
Authorised	**Number**	Number	**£**	£
Ordinary shares of £1 each				
At 1 January and 31 December	**100,000**	100,000	**100,000**	100,000

Issued

Ordinary shares of £1 each fully paid	**2**	2	**2**	2
Ordinary shares of £1 each partly paid	**49,998**	49,998	**12,499**	12 499
At 1 January and 31 December	**50,000**	50,000	**12,501**	12,501

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

13 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 capital and reserves in order that there is sufficient capital to meet the needs of the Company in its operations

14 Ultimate parent undertaking

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, 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

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 UKAR heads the largest group of companies into which the Financial Statements of the Company are consolidated Copies of the financial statements of UKAR may be obtained from the Company Secretary at Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA

15 Operations of the Company

B&B, the originator of the mortgage loans in the Master Trust pool, carries the pool mortgages on its balance sheet The cash receipts in respect of the mortgage loans in the pool are collected by B&B and paid to the Trustee On a monthly basis the Trustee allocates this cash between Aire Valley Funding 1 Limited, the other funding companies in the Master Trust structure and to B&B (which holds a share of the pool mortgages) according to the rules of the structure On a monthly basis Aire Valley Funding 1 Limited allocates this cash between the Company and the other issuing companies in the Aire Valley Funding 1 Limited structure The Company uses its cash receipts to service its loan notes in accordance with their terms

As described in note 16, on 10 May 2012 a non-asset trigger event occurred This will affect the timing of future redemptions of the loan notes in issue

16 Events after the reporting period

On 10 May 2012 a Non-Asset Trigger Event occurred within the structure of the Master Trust, due to the aggregate Current Balance of Loans comprising the Trust Property falling below the minimum trust size of £10 7 billion The impact of this event is to change the order of priority of the Funding 1 Available Principal Receipts as set out on pages 108 to 112 of the Company's Offering Circular As a result of the Non-Asset Trigger Event, all principal is allocated to Funding 1 and will continue to be so allocated until all holders of Aire Valley residential mortgage-backed securities have been repaid in full if sufficient funds are available The principal is then passed to the Issuers based on their respective notes outstanding Each Issuer then utilises this principal to pay down pro rata and sequentially by Class of Note The timing of future redemptions will be dependent on the availability of funds, and cannot be reliably forecast