

AIRE VALLEY FUNDING 2 LIMITED

Directors' Report and Financial Statements

Registered number 5165234

31 December 2011



Directors' Report and Financial Statements

Contents	Page
Company Information	3
Directors' Report	4 - 5
Statement of Directors' Responsibilities	6
Independent Auditor's Report to the members of Aire Valley Funding 2 Limited	7
Statement of Comprehensive Income	8
Balance Sheet	9
Statement of Changes in Equity	10
Cash Flow Statement	11
Notes to the Financial Statements	12 - 21

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** 5165234

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

Principal activities and business review

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

Aire Valley Funding 2 Limited ('the Company') is a limited liability company incorporated and domiciled in the United Kingdom

The Company has two ordinary shares of £1 each in issue both held by Aire Valley Holdings Limited

The Company's principal activity was to acquire an interest in a portfolio of mortgage loans by means of a beneficial interest in the assets of Aire Valley Trustee Limited ('the Trust'). These assets comprised mortgage loans originated by B&B secured on residential property. The Company received a share of the Trust's income in proportion to the Company's share of the mortgage assets of the Trust. The Company's acquisition of the interest in mortgage loans was funded by loans from Aire Valley Warehousing 1 Limited, Aire Valley Warehousing 2 Limited and Aire Valley Warehousing 3 Limited which were in turn funded by issuing loan notes. As the loan notes have all been redeemed, the Company no longer has a share of the mortgage pool. The Directors do not intend to enter into further securitisations in the foreseeable future.

The profits of the Company are pre-determined under the terms of the securitisation transaction to which the Company is a party. In respect of previous years, the Company retains the right to retain a maximum of 0.01% of available revenue receipts. Profits in excess of the retained amount accrue to B&B. The results for the year are shown in the Statement of Comprehensive Income on page 8. The profit after tax for the year ended 31 December 2011 was nil (2010: loss £2,000).

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).

Future developments

There are no further mortgage portfolio transfers planned for the future.

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 risk 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. Further 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 the B&B Group's 2011 Annual Report & Accounts which do not form part of this Report and Financial Statements.

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

Payment policy

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

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

Company Number 5165234

Directors and their interests

The Directors who served during the year and up to the date of signing 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. 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. Mr McLelland is a director of B&B. None of the Directors had an interest in the share or loan capital of B&B or in any of its subsidiary undertakings.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that so far as they are each aware there is no relevant audit information of which the Company's auditors are unaware and that each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Political and charitable contributions

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

Third party indemnities

Qualifying third party indemnity provisions 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

KPMG Audit Plc resigned as auditors of the Company and PricewaterhouseCoopers ("PwC") were appointed.

Pursuant to section 487 of the Companies Act 2006, auditors duly appointed by the sole member of the Company shall, subject to any resolution to the contrary, be deemed to be reappointed for the next financial year. PricewaterhouseCoopers LLP, having expressed their willingness, will therefore continue in office.

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 for 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 2 Limited

We have audited the Financial Statements of Aire Valley Funding 2 Limited for the year ended 31 December 2011 which comprise the Statement of Comprehensive Income the Balance Sheet the Statement of Changes in Equity the Cash Flow Statement and the related notes. The Financial Reporting Framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRS') as adopted by the European Union.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 6 the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ('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 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. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. In addition we read all the financial and non-financial information in the Director's Report to identify material inconsistencies with the 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 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.

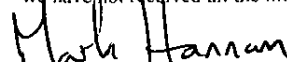
Opinion on other matter prescribed by the Companies Act 2006

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 (Senior Statutory Auditor)
for and on behalf of Pricewaterhouse Coopers LLP
Chartered Accountants and Statutory Auditor
Leeds
18 June 2012

Statement of Comprehensive Income for the year ended 31 December

	<i>Note</i>	2011 £000	2010 £000
Interest receivable and similar income	2	-	-
Net interest income		<u>-</u>	<u>-</u>
Operating expenses	3	-	-
Profit before taxation		<u>-</u>	<u>-</u>
Taxation	4	-	(2)
Loss for the financial year		<u><u>-</u></u>	<u><u>(2)</u></u>
Other comprehensive income for the year		-	-
Total comprehensive expense for the year		<u><u>-</u></u>	<u><u>(2)</u></u>

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 owners of the parent.

The notes on pages 12 to 21 form an integral part of these Financial Statements.

Balance Sheet at 31 December

Company Number 5165234

	Note	2011 £000	2010 £000
Assets			
Deferred tax assets	6	6	6
Total non-current assets		<u>6</u>	<u>6</u>
Cash and cash equivalents		7,619	7,592
Total current assets		<u>7,619</u>	<u>7,592</u>
Total assets		<u><u>7,625</u></u>	<u><u>7,598</u></u>
Equity			
Capital and reserves attributable to equity holder			
Share capital	7	-	-
Retained earnings		14	14
Total attributable equity		<u>14</u>	<u>14</u>
Interest-bearing loans and borrowings	8	7,611	7,584
Total current liabilities		<u>7,611</u>	<u>7,584</u>
Total liabilities		<u>7,611</u>	<u>7,584</u>
Total equity and liabilities		<u><u>7,625</u></u>	<u><u>7,598</u></u>

The notes on pages 12 to 21 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
As Director

18 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	-	14	14
Total Comprehensive income for the year	-	-	-
At 31 December 2011	<u>-</u>	<u>14</u>	<u>14</u>
At 1 January 2010	-	16	16
Total Comprehensive expense for the year	-	(2)	(2)
At 31 December 2010	<u>-</u>	<u>14</u>	<u>14</u>

Cash Flow Statement for the year ended 31 December

	2011 £000	2010 £000
Cash flows from operating activities		
Profit before taxation	-	-
Cash flows from operating activities before changes in operating assets generated	-	-
<i>Net decrease in operating assets</i>		
Prepayments and accrued income	-	3
Cash generated from operations	-	3
Taxation	-	(1)
Net cash generated from operating activities	-	2
<i>Cash flows from financing activities</i>		
Amounts due to Group undertakings	27	26
Net cash generated from financing activities	27	26
Net increase in cash and cash equivalents	27	28
Cash and cash equivalents at beginning of year	7,592	7,564
Cash and cash equivalents at end of year	7,619	7,592
 Cash at bank	 7,619	 7,592

Cash and cash equivalents are unencumbered and are available on demand
All cash is held in banks 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 Funding 2 Limited ('the Company') is a limited liability company which was 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

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 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.

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 financial instruments measured at amortised cost, interest income and expense are recognised in the Statement of Comprehensive Income on an Effective Interest Rate ('EIR') basis.

The EIR basis spreads the interest income or interest expense over the expected life of the instrument. The EIR is the rate that at the inception of the instrument exactly discounts expected future cash payments and receipts through the expected life of the instrument back 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, costs and discounts as well as interest.

(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. Deferred tax assets are only recognised when it is probable that future taxable profit 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.

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

1 Principal accounting policies (continued)

(f) Deferred consideration

Under the terms of the beneficial interest in the mortgage portfolio the Company retains the right to a maximum of 0.01% of available revenue receipts. Profits in excess accrue to B&B, the originator of the underlying mortgages. The payment of deferred consideration is strictly governed by the priority of payments which set out how the cash is utilised. Deferred consideration is deducted from interest receivable and similar income.

(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.

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 arms 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 which take 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 that occur are included in the Statement of Comprehensive Income.

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

2 Interest receivable and similar income

	2011 £000	2010 £000
Bank interest	-	26
Deferred consideration	-	(26)
	<u>-</u>	<u>-</u>

No assets were considered to be impaired during the year or previous year and consequently the interest income for the year on impaired assets was £nil (2010 £nil)

3 Operating expenses

Auditors' remuneration of £4 950 (2010 £5 533) was borne by B&B

4 Taxation

	2011 £000	2010 £000
Current taxation expense		
UK corporation tax on profit for the year	-	-
Adjustments in respect of previous years	-	1
Deferred taxation origination and reversal of temporary differences	-	1
Total taxation expense per the Statement of Comprehensive Income	<u>-</u>	<u>2</u>
Profit before taxation	<u>-</u>	<u>-</u>
UK corporation tax at 26.5% (2010 28%)	-	-
Adjustments in respect of previous years	-	2
Total taxation expense per the Statement of Comprehensive Income	<u>-</u>	<u>2</u>

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%.

5 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. 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).

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

6 Deferred tax

	Assets 2011 £000	Assets 2010 £000	Liabilities 2011 £000	Liabilities 2010 £000	Net 2011 £000	Net 2010 £000
Other assets	6	6	-	-	6	6
	<u>6</u>	<u>6</u>	<u>-</u>	<u>-</u>	<u>6</u>	<u>6</u>

The movements in the Company's temporary differences during the year were as follows

	As at 1 January 2011 £000	Recognised in income £000	As at 31 December 2011 £000
Other assets	6	-	6
	<u>6</u>	<u>-</u>	<u>6</u>

	As at 1 January 2010 £000	Recognised in income £000	As at 31 December 2010 £000
Other assets	7	(1)	6
	<u>7</u>	<u>(1)</u>	<u>6</u>

Deferred tax appropriately reflects the change to the standard rate of UK corporation tax to 25% with effect from 1 April 2012

7 Share capital

	2011 Number	2010 Number	2011 £	2010 £
Ordinary shares of £1 each				
Authorised				
At 1 January and 31 December	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Allotted, issued and fully paid				
At 1 January and 31 December	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

These shares rank equally in respect of rights attached to voting dividends and in the event of a winding up

8 Interest-bearing loans and borrowings

	2011 £000	2010 £000
Current liabilities		
Amounts owed to Group undertakings	<u>7,611</u>	<u>7,584</u>
	<u>7,611</u>	<u>7,584</u>

The amounts owed to Group undertakings is a loan with B&B and is repayable upon demand and is interest free
The Company has not provided any security in respect of this liability

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

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 is an employee 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 £8,987 (2010: £10,182) all costs being borne by B&B.

During the year and previous year the Company undertook the following transactions with companies within the Aire Valley Holdings Limited Group and the B&B Group

	Bradford & Bingley plc and subsidiaries	Aire Valley Holdings Limited and subsidiaries	Bradford & Bingley plc and subsidiaries	Aire Valley Holdings Limited and subsidiaries
	2011 £000	2011 £000	2010 £000	2010 £000
Interest receivable and similar income				
Deferred consideration	-	-	(26)	-
Interest expense and similar charges				
Interest on amounts owed to Group undertakings	-	-	-	-
Current liabilities				
Amounts owed to Group undertakings	(7,611)	-	(7,584)	-

Auditors remuneration of £4,950 (2010: £5,533) was borne by B&B.

10 Critical accounting judgements and estimates

In preparation of the Company's Financial Statements judgements and estimates may be made which may 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. At 31 December 2011 or 2010 there were no critical accounting judgements and estimates.

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

11 Financial instruments

(a) Categories of financial assets and financial liabilities - carrying value compared to fair value

At 31 December 2011	Loans and receivables	Total carrying value	If fair values Fair increased by value 1%	
Financial assets	£000	£000	£000	£000
Cash and cash equivalents	7 619	7 619	7 619	76
Total financial assets	7 619	7,619	7,619	76

Financial liabilities	Liabilities at amortised cost	Total carrying value	If fair values Fair increased by value 1%	
	£000	£000	£000	£000
Amounts owed to Group undertakings	7 611	7 611	7 611	76
Total financial liabilities	7,611	7,611	7,611	76

At 31 December 2010	Loans and receivables	Total carrying value	If fair values Fair increased by value 1%	
Financial assets	£000	£000	£000	£000
Cash and cash equivalents	7 592	7 592	7 592	76
Total financial assets	7 592	7 592	7 592	76

Financial liabilities	Liabilities at amortised cost	Total carrying value	If fair values Fair increased by value 1%	
	£000	£000	£000	£000
Amounts owed to Group undertakings	7 584	7 584	7 584	76
Total financial liabilities	7 584	7 584	7 584	76

No financial assets were reclassified during the year or previous year between amortised cost and fair value categories

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

11 Financial instruments (continued)

(b) Interest income and expense on financial instruments that are not at fair value through profit or loss

	2011 £000	2010 £000
Interest receivable		
Bank interest	-	26
Deferred consideration	-	(26)
	<u>-</u>	<u>-</u>

No assets were considered to be impaired during the year or previous year and consequently the interest income for the year on impaired assets was £nil (2010: £nil)

(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 are established on the commencement of the securitisation transactions with the Company's activities and the roles of other parties defined in the programme documentation

The Company does not enter into transactions involving financial assets or liabilities which are listed or publicly traded or for which a liquid market exists

The main financial risk arising from the Company's activities is credit risk

Credit risk

Credit risk reflects the risk that a counterparty of the Company will be unable or unwilling to meet a contractual commitment that it has entered into with the Company. The Company is exposed to credit risk arising from the deposits with third party banks

The exposure to credit risk is represented by the carrying amount of each financial asset as set out in the table in note 11 c(i)

Other market risks

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

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)

(i) Credit risk

The Company's exposure to credit risk at 31 December was

	2011 £000	2010 £000
Cash and cash equivalents	7,619	7,592
Total maximum exposure to credit risk	7,619	7,592

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

Liquidity risk

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

At 31 December 2011	On demand £000	In not more than 3 months £000	In more than 3 months but not more than 1 year £000	In more than 1 year but not more than 5 years £000	In more than 5 years £000	Total £000
Interest-bearing loans and borrowings	7,611	-	-	-	-	7,611
Total outflows	7,611	-	-	-	-	7,611

At 31 December 2010	On demand £000	In not more than 3 months £000	In more than 3 months but not more than 1 year £000	In more than 1 year but not more than 5 years £000	In more than 5 years £000	Total £000
Interest-bearing loans and borrowings	7,584	-	-	-	-	7,584
Total outflows	7,584	-	-	-	-	7,584

Notes to the Financial Statements for the year ended 31 December 2011 (continued)**12 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.

13 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. 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.

14 Events after the reporting period

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 these Financial Statements.