

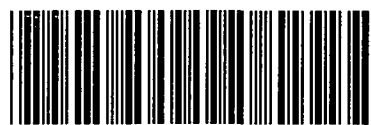
AIRE VALLEY FUNDING 2 LIMITED

Annual Report and Financial Statements

for the 15 months to 31 March 2014

Registered Number: 05165234

MONDAY



L3FYY34X

LD2

08/09/2014

#77

COMPANIES HOUSE

Aire Valley Funding 2 Limited

Annual Report and Financial Statements for the 15 months to 31 March 2014

Contents

Strategic Report for the 15 months to 31 March 2014.....	3
Directors' Report for the 15 months to 31 March 2014.....	5
Independent Auditors' Report to the members of Aire Valley Funding 2 Limited.....	8
Statement of Comprehensive Income for the 15 months to 31 March 2014.....	10
Balance Sheet as at 31 March 2014.....	11
Statement of Changes in Equity for the 15 months to 31 March 2014.....	12
Cash Flow Statement for the 15 months to 31 March 2014.....	13
Notes to the Financial Statements for the 15 months to 31 March 2014.....	14

Aire Valley Funding 2 Limited

Strategic Report for the 15 months to 31 March 2014

The Directors present their Annual Report and Financial Statements of Aire Valley Funding 2 Limited ('the Company') for the 15 months to 31 March 2014. The Company is a private limited liability company incorporated and domiciled in the United Kingdom.

The Company's accounting reference date has been changed from 31 December to 31 March to align to the year end of the Company's controlling party, HM Treasury.

Principal activities

The Company's principal activity was to acquire a beneficial interest in a portfolio of mortgage loans secured on residential properties located in the United Kingdom ('UK'), originated by Bradford & Bingley plc ('B&B', 'Originator') and held under a master trust arrangement by Aire Valley Trustee Limited (the 'Trust'). The Company receives a share of the Trust's income in proportion to the Company's investment in the 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.

Controlling party

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

The Company's ultimate parent undertaking is SFM Corporate Services Limited, a private limited liability company incorporated and domiciled in the United Kingdom, which holds the shares of Aire Valley Holdings Limited on a discretionary trust basis for the benefit of certain charities.

Under IFRS, the Company's controlling party during the period and previous year was B&B a public limited company incorporated and domiciled in the United Kingdom. B&B heads the smallest group of companies into which the Financial Statements of the Company are consolidated.

The ultimate parent undertaking of B&B is UKAR, 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.

Results

In respect of previous years, the Company is entitled to a pre-determined retained profit under the securitisation transaction documents. Under the terms of the securitisation, the Company retains the right to retain a maximum of 0.01% of available revenue receipts from the beneficial interest in the mortgage portfolio. Profits in excess of the retained amount accrue to B&B, the originator of the underlying mortgage loan. This is reflected in the Statement of Comprehensive Income on page 10.

Aire Valley Funding 2 Limited

Strategic Report for the 15 months to 31 March 2014 (continued)

Principal risks and uncertainties

In the ordinary course of business the Company is exposed to, and manages, a variety of risks, with credit risk being of particular significance. The Directors have responsibility for the overall system of internal control and for reviewing its effectiveness. The effectiveness of the risk management is then monitored on an ongoing basis. Details of the Company's risks and their management and control are provided in note 9, and further discussion in the context of the B&B Group as a whole is provided on pages 7-9 of that Group's 2014 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.

By order of the Board.



Helena Whitaker

per pro SFM Corporate Services Limited

Company Secretary

29 August 2014

Aire Valley Funding 2 Limited

Directors' Report for the 15 months to 31 March 2014

Dividends

During the period the Company made neither a profit nor a loss (2012: loss £6,000). No dividends were paid during the 15 months to 31 March 2014 (2012: £nil), and the Directors do not recommend the payment of a final dividend (2012: £nil). The Company's profits over the lifetime of the securitisation will be limited to the predetermined retained profit.

Future outlook

At the present time the Directors do not foresee any changes in the Company's activities.

Financial risk management objectives and policies

Information regarding the financial risk management objectives and policies of the Company, in relation to the use of financial instruments, is given in note 9. A description of the principal risks to which the Company is exposed is provided on page 4 which forms an integral part of the audited Financial Statements.

Directors

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

Phillip McLelland (resigned 1 December 2013)

Ian Hares (appointed 1 December 2013)

SFM Directors Limited

SFM Directors (No. 2) Limited

Mr McLelland was until 25 November 2013 a director of B&B and UKAR.

Mr Hares is a director of B&B and UKAR.

Director's indemnities

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

Company Secretary

The Company Secretary during the period and subsequently was SFM Corporate Services Limited.

Aire Valley Funding 2 Limited

Directors' Report for the 15 months to 31 March 2014 (continued)

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, 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 European Union have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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(2) of the Companies Act 2006.

Aire Valley Funding 2 Limited

Directors' Report for the 15 months to 31 March 2014 (continued)

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. Pursuant to Section 487 of the Companies Act 2006, PricewaterhouseCoopers LLP, subject to any resolution to the contrary, are deemed to have been appointed as auditors of the Company.

By order of the Board.



Helena Whitaker

per pro SFM Corporate Services Limited

Company Secretary

29 August 2014

Registered Office:

35 Great St. Helen's

London

EC3A 6AP

Aire Valley Funding 2 Limited

Independent Auditors' Report to the members of Aire Valley Funding 2 Limited

Report on the Financial Statements

Our Opinion

In our opinion the Financial Statements, defined below:

- give a true and fair view of the state of the Company's affairs as at 31 March 2014 and of its result and cash flows for the period then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Financial Statements, which are prepared by Aire Valley Funding 2 Limited, comprise:

- the Balance Sheet as at 31 March 2014;
- the Statement of Comprehensive Income for the period then ended;
- the Cash Flow Statement for the period then ended;
- the Statement of Changes in Equity for the period then ended; and
- the notes to the Financial Statements, which include a summary of principal accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRS as adopted by the European Union.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of Financial Statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). 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 Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Aire Valley Funding 2 Limited

Independent Auditors' Report to the members of Aire Valley Funding 2 Limited (continued)

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility

Responsibilities for the Financial Statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on pages, 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 ISAs (UK & 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.



Gary Shaw (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
29 August 2014

Aire Valley Funding 2 Limited

Statement of Comprehensive Income for the 15 months to 31 March 2014

	Note	15 months to 31 Mar 2014 £000	12 months to 31 Dec 2012 £000
Taxation	6	-	(6)
Result/(loss) for the period		-	(6)
Other comprehensive income		-	-
Total comprehensive income for the period/year		-	(6)

The results above arise from continuing activities.

The notes on pages 14 to 24 form an integral part of these Financial Statements.

Aire Valley Funding 2 Limited

Balance Sheet as at 31 March 2014

	Note	At 31 March 2014 £000	At 31 December 2012 £000
Assets			
Cash and cash equivalents		7,670	7,645
Total current assets		7,670	7,645
Total assets		7,670	7,645
Liabilities			
Amounts due to Group undertakings	7	7,662	7,637
Total current liabilities		7,662	7,637
Total liabilities		7,662	7,637
Equity			
Issued capital and reserves:			
Share capital	12	-	-
Retained earnings		8	8
Total equity		8	8
Total equity and liabilities		7,670	7,645

The notes on pages 14 to 24 form an integral part of these Financial Statements. The Financial Statements on pages 10 to 24 were approved by the Board of Directors and authorised for issue on 29 August 2014 and signed on its behalf by:



Helena Whitaker
As Director per pro SFM Directors Limited
29 August 2014

Aire Valley Funding 2 Limited is registered in England and Wales under Company Number 05165234.

Aire Valley Funding 2 Limited

Statement of Changes in Equity for the 15 months to 31 March 2014

For the 15 months to 31 March 2014

	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2013	-	8	8
Total comprehensive income for the period	-	-	-
Balance at 31 March 2014	-	8	8

For the 12 months to 31 December 2012

	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2012	-	14	14
Total comprehensive expense for the year	-	(6)	(6)
Balance at 31 December 2012	-	8	8

Aire Valley Funding 2 Limited

Cash Flow Statement for 15 months to 31 March 2014

	15 months to 31 Mar 2014	12 months to 31 Dec 2012
	£000	£000
Cash flows from operating activities:		
Result before taxation for the financial period/year	-	-
Cash flows generated from operating activities before changes in operating assets generated		
Cash flows from operating activities:		
- Amounts due to Group undertakings	25	26
Net cash generated from operating activities	25	26
Net increase in cash and cash equivalents	25	26
Cash and cash equivalents at beginning of period/year	7,645	7,619
Cash and cash equivalents at end of period/year, comprising:		
Cash at bank	7,670	7,645

Aire Valley Funding 2 Limited

Notes to the Financial Statements for 15 months to 31 March 2014

1. Principal accounting policies

Aire Valley Funding 2 Limited ('the Company') is a private limited company incorporated and domiciled in the United Kingdom. The Company's accounting reference date has been changed from 31 December to 31 March to align to the year end of the Company's controlling party, HM Treasury.

(a) Statement of compliance

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

- IFRS 13 'Fair Value Measurement' and the associated amendments to IFRS 7 'Financial Instruments: Disclosures'. IFRS 13 sets out principles for measurement of the fair value of financial assets and liabilities, but does not change which items are carried at fair value. In order to comply with IFRS 13, the Company has made minor changes to methods for calculating fair values; the impacts on the 2014 Financial Statements were not material. In accordance with IFRS 13, no restatement has been made of prior period fair values. IFRS 13 and the amended IFRS 7 also introduced additional disclosure requirements.
- The December 2011 amendments to IFRS 7 'Financial Instruments: Disclosures' and IAS 32 'Financial Instruments: Presentation' relating to the offsetting of financial assets and financial liabilities. These amendments had no material impact on the Company.
- The Annual Improvements to IFRSs 2009-2011 Cycle, issued in May 2012. These changes had no material impact on the Company.

For these Financial Statements the Company has not adopted the following statements; the Company is assessing the impacts of these statements on its Financial Statements:

- IFRS 9 'Financial Instruments', sections of which have been issued as part of the International Accounting Standard Board's ('IASB's') project to replace IAS 39 'Financial Instruments: Recognition and Measurement'; this statement has not yet been adopted for use in the EU. The Company continues to monitor developments.
- The Annual Improvements to IFRSs 2010-2012 Cycle, issued in December 2013. These changes are mandatory for the Company's Financial Statements for the year to 31 March 2016.
- The Annual Improvements to IFRSs 2011-2013 Cycle, issued in December 2013. These changes are mandatory for the Company's Financial Statements for the year to 31 March 2016.

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.

Aire Valley Funding 2 Limited

Notes to the Financial Statements for 15 months to 31 March 2014 (continued)

1. Principal accounting policies (continued)

(b) Basis of preparation

The Financial Statements are prepared on the historical cost basis.

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

The Financial Statements have been prepared in accordance with EU adopted IFRS, IFRIC interpretations issued by the IFRS Interpretations Committee 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 2).

The Directors consider the business to comprise one operating and geographical segment.

(c) Interest income and expense

For all interest-bearing financial instruments except derivatives, interest income and expense are recognised in the Income Statement on an Effective Interest Rate ('EIR') basis.

The EIR method calculates the amortised cost of a financial asset or financial liability and spreads interest income or interest expense on a level yield basis over the expected life of the instrument, or an appropriate shorter period. The calculation includes all directly attributable incremental fees and costs and all premia and discounts as well as interest. The EIR is the rate which at the inception of the instrument exactly discounts expected future cash flows over the appropriate period 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.

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) 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.

Aire Valley Funding 2 Limited

Notes to the Financial Statements for 15 months to 31 March 2014 (continued)

1. Principal accounting policies (continued)

(d) Financial instruments

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.

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 a liability. For assets, the amortised cost balance is reduced where appropriate by an allowance for amounts which are considered to be impaired or uncollectible. The loans to Group undertakings will not become impaired unless the mortgages in the pool become impaired to the extent that all credit enhancement is used up.

(e) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when and only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(f) Recognition and derecognition of financial instruments

A financial asset is derecognised (i.e. removed from the Balance Sheet) only when substantially all of the risks and rewards associated with that asset have been transferred to another party.

A financial liability is derecognised only when the contractual obligation is discharged, cancelled or has expired.

(g) Deferred consideration

Under the terms of the beneficial interest in the mortgage portfolio, the Company retains the right to a maximum of 0.1% of interest receivable. 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.

(h) Cash and cash equivalents

Cash and cash equivalents comprise balances which are highly liquid and have an original maturity of three months or less.

(i) Taxation

(i) Current tax

The charge for taxation is based on the result for the period 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.

Aire Valley Funding 2 Limited

Notes to the Financial Statements for 15 months to 31 March 2014 (continued)

2. Critical accounting judgements and estimates

In preparation of the 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 March 2014 and 31 December 2012 there were no critical accounting judgements and estimates.

3. Interest receivable and similar income

	15 months to 31 Mar 2014 £000	12 months to 31 Dec 2012 £000
Bank interest	26	25
Deferred consideration	(26)	(25)
	-	-

Interest income for the period on impaired assets was £nil (2012: £nil) as no financial asset is impaired.

4. Administrative expenses

Auditors' remuneration of £4,875 for the period (2012: £4,875) was borne by B&B.

There were no employees the period (2012: 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 for the provision of corporate administration services including the provision of directors (see note 7).

Aire Valley Funding 2 Limited

Notes to the Financial Statements for 15 months to 31 March 2014 (continued)

5. Taxation

The taxation charge relates to the result/(loss) for the period/year as follows:

	15 months to 31 Mar 2014 £000	12 months to 31 Dec 2012 £000
Current taxation charge:		
- UK Corporation tax on profit for the period/year		
- Adjustments in respect of previous periods	-	6
Total taxation charge per the Statement of Comprehensive Income	-	6
Result before taxation	-	-
UK Corporation tax at 23.2% (2012: 24.5%)	-	-
Effects of:		
- Write-off of deferred tax assets	-	6
Total taxation charge per the Statement of Comprehensive Income	-	6

There was no unrecognised deferred tax at 31 March 2014 (2012: £nil).

6. Amounts due to Group undertakings

	15 months to 31 Mar 2014 £000	12 months to 31 Dec 2012 £000
Amounts due to Group undertakings	7,662	7,367

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

7. 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 considers the Directors to be the key management personnel. The Company made no payments to the Directors during the period (2012: £nil).

The Company pays a corporate services fee to Structured Finance Management Limited for the provision of corporate administration services including the provision of directors. The fee payable amounted to £10,715 (2012: £9,576), all costs being borne by B&B. The Company undertook the following transactions with related parties:

Aire Valley Funding 2 Limited

Notes to the Financial Statements for 15 months to 31 March 2014 (continued)

7. Related party disclosures (continued)

	15 months to 31 Mar 2014 £000	12 months to 31 Dec 2012 £000
Interest receivable and similar income		
Deferred consideration	26	25
Amounts due to Group undertakings		
Amounts outstanding at period/year end	7,662	7,637

8. Financial instruments

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

The following table summarises the carrying amounts and fair values of financial assets and liabilities. Assets are generally presented bid prices, whereas offer prices are used for liabilities. The accounting policy note 1(d) sets out the key principles used for estimating the fair values of financial instruments. This note provides some additional information in respect of the methodologies used.

At 31 March 2014

	Assets at fair value through profit or loss on initial recognition £000	Loans and receivables £000	Total carrying value £000	Fair value £000
Financial assets				
Cash and cash equivalents	-	7,670	7,670	7,670
Total financial assets	-	7,670	7,670	7,670

	Liabilities at fair value through profit or loss on initial recognition £000	Liabilities measured at amortised cost £000	Total carrying value £000	Fair value £000
Financial liabilities				
Amounts due to Group undertakings	-	7,662	7,662	7,662
Total financial liabilities	-	7,662	7,662	7,662

Aire Valley Funding 2 Limited

Notes to the Financial Statements for 15 months to 31 March 2014 (continued)

8. Financial instruments (continued)

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

At 31 December 2012	Assets at fair value through profit or loss on initial recognition £000	Loans and receivables £000	Total carrying value £000	Fair value £000
Financial assets				
Cash and cash equivalents	-	7,645	7,645	7,645
Total financial assets	-	7,645	7,645	7,645

	Liabilities at fair value through profit or loss on initial recognition £000	Liabilities measured at amortised cost £000	Total carrying value £000	Fair value £000
Financial liabilities				
Amounts due to Group undertakings	-	7,637	7,637	7,637
Total financial liabilities	-	7,637	7,637	7,637

Note: The fair values above as at 31 December 2012 have not been restated to comply with IFRS 13. However, any differences between the fair values above and IFRS 13-compliant fair values would not be material.

No financial assets or liabilities were reclassified during the period between amortised cost and fair value categories (2012: none).

Valuations methods for calculations of fair values in the table above are set out in note 8 (c).

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

	15 months to 31 Mar 2014 Income £000	15 months to 31 Mar 2014 Expense £000	12 months to 31 Dec 2012 Income £000	12 months to 31 Dec 2012 Expense £000
Bank interest	26	-	25	-
Deferred consideration	-	(26)	-	(25)

No assets were considered to be impaired during the year or previous year, and consequently the interest income for the period on impaired assets was £nil (2012: £nil).

Aire Valley Funding 2 Limited

Notes to the Financial Statements for 15 months to 31 March 2014 (continued)

8. Financial instruments (continued)

(c) Fair value measurement

For financial assets and liabilities which are not carried at fair value, the fair values disclosed in note 8(a) are calculated on the following bases:

At 31 March 2014	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Cash and cash equivalents	7,670	-	-	7,670
Financial liabilities				
Amounts due to Group undertakings	-	7,662	-	7,662

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, whether directly (i.e. as price) or indirectly (i.e. derived from the implications of prices).

Level 3: Inputs for the asset or liability that are not based on observable market data or have significant unobservable inputs.

There were no transfers between Level 1 and Level 2 during the period (2012: none).

The fair value of loans to Group undertakings reflects the market yields implied by the floating rate valuations.

The fair value of interest-bearing loans and borrowings is based upon quoted market prices.

Valuation methods for calculations of fair values in the table above are as follows:

Cash and cash equivalents

Fair value is estimated by using discounted cash flows applying either market rates where practicable or rates offered by other financial institutions for accounts with similar characteristics. The fair value of floating rate placements, fixed rate placements with less than six months to maturity and overnight deposits is estimated to be their carrying amount.

Amounts due to Group undertakings

The carrying value of the variable rate loans is assumed to be their fair value. Amounts owed to Group undertakings are held in sterling and are at variable rates of interest, therefore these loans are considered to be a close approximation to fair value.

Aire Valley Funding 2 Limited

Notes to the Financial Statements for 15 months to 31 March 2014 (continued)

8. Financial instruments (continued)

(d) Offsetting

No financial assets have been offset against financial liabilities, and none are subject to enforceable master netting arrangements or similar agreements.

9. Financial risk management

The Company's exposure to risk on financial instruments and the management of this risk are established at 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.

(a) Credit risk

Credit risk is the potential for financial loss caused by a party failing to meet an obligation as it becomes due. The Company is exposed to credit risk via 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 below.

The maximum credit risk exposure at the Balance Sheet date before taking account of any collateral netting and other enhancements was as follows:

	At 31 March 2014 £000	At 31 December 2012 £000
Cash and cash equivalents	7,670	7,645

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

Aire Valley Funding 2 Limited

Notes to the Financial Statements for 15 months to 31 March 2014 (continued)

9. Financial risk management (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due.

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

31 March 2014	On demand £000	Within three months £000	After three months but within one year £000	After one year but within five years £000	After five years £000	Total £000
Amounts due to Group undertakings	7,662	-	-	-	-	7,662
Total	7,662	-	-	-	-	7,662

31 December 2012	On demand £000	Within three months £000	After three months but within one year £000	After one year but within five years £000	After five years £000	Total £000
Amounts due to Group undertakings	7,637	-	-	-	-	7,637
Total	7,637	-	-	-	-	7,637

(c) Market risk

At 31 March 2014 the Company had no other material exposure to market risks (2012: nil).

10. Capital structure

The Company's capital is represented by the capital and reserves. 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.

Aire Valley Funding 2 Limited

Notes to the Financial Statements for 15 months to 31 March 2014 (continued)

11. Share capital

	2014 Number	2012 Number	2014 £	2012 £
Authorised				
Ordinary shares of £1 each				
At beginning and end of period/year	100	100	100	100
Issued and fully paid				
At beginning of period/year	2	2	2	2
At end of period/year	2	2	2	2

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

12. Ultimate controlling party

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

The Company's ultimate parent undertaking is SFM Corporate Services Limited, a private limited liability company incorporated and domiciled in the United Kingdom, which holds the shares of Aire Valley Holdings Limited on a discretionary trust basis for the benefit of certain charities.

Copies of the financial statements of Aire Valley Holdings Limited and SFM Corporate Services Limited may be obtained from the Company Secretary at 35 Great St. Helen's, London, EC3A 6AP.

Under IFRS, the Company's controlling party during the period and previous year was B&B a public limited company incorporated and domiciled in the United Kingdom. B&B heads the smallest group of companies into which the Financial Statements of the Company are consolidated. Copies of the financial statements of B&B may be obtained from the Company Secretary at Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA.

The ultimate parent undertaking of B&B is UKAR, a private limited company incorporated and domiciled in the United Kingdom, which is wholly owned by the Treasury Solicitor as nominee for HM Treasury. 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, Bingley, Crossflatts BD16 2UA. The Company considers Her Majesty's Government to remain its ultimate controlling party.

13. Events after the reporting period

The Directors are of the opinion that there have been no significant events which have occurred since 1 April 2014 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.