

AIRE VALLEY WAREHOUSING 1 LIMITED

Directors' Report and Financial Statements

Registered number 5321836

31 December 2011



Directors' Report and Financial Statements

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Company Information

Directors

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

Company Secretary

SFM Corporate Services Limited

Registered Office

35 Great St Helen's
London
EC3A 6AP

Independent Auditors

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

Directors' Report for the year ended 31 December 2011

Registered Number: 5321836

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 Warehousing 1 Limited ('the Company') is a limited liability company incorporated and domiciled in the United Kingdom

The Company's principal activity was 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 by means of intercompany loans. The debt securities were issued in Sterling and were secured on a beneficial interest in a portfolio of mortgage loans held by Aire Valley Trustee Limited, under a master trust arrangement. These mortgage loans, which were originated by B&B, were secured on residential property in the UK. The Company issued £0.5bn floating rate notes on 23 February 2005 and repaid them on 21 August 2006 in accordance with the terms of its contractual agreements. The Directors do not expect that the Company will issue any further loan notes. The Company has met all its obligations under the terms of the issue documentation.

During the current and preceding financial year the Company received no income and incurred no expenditure. Consequently during those years the Company made neither a profit nor a loss and no Statement of Comprehensive Income has been prepared.

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. Details of the Company's risks and their management and control are provided in note 5 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 subject to periodic review by the B&B internal audit department.

Dividend

No dividend was paid during the year (2010: £nil). 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' Report for the year ended 31 December 2011 (continued)

Directors

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

Independent auditors

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

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 the Financial Statements for each financial year. Under that law the Directors have prepared the Financial Statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable IFRS as adopted by the EU have been followed, subject to any material departures disclosed and explained in the Financial Statements, and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the members of Aire Valley Warehousing 1 Limited

We have audited the Financial Statements of Aire Valley Warehousing 1 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') 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 other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatements, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and overall presentation of the Financial Statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications of our report. In addition, we read all the financial and non-financial information in the Director's Report to identify material inconsistencies with audited Financial Statements.

Opinion on Financial Statements

In our opinion the Financial Statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its result and cash flows for the year then ended
- have been properly prepared in accordance with IFRS as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

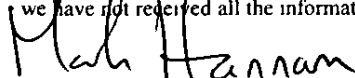
Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion,

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the Financial Statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Mark Hannam (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditor
Leeds
18 June 2012

Statement of Comprehensive Income for the year ended 31 December

During the current and preceding financial year the Company received no income and incurred no expenditure. Consequently during those years the Company made neither a profit nor a loss and no Statement of Comprehensive Income has been prepared.

Balance Sheet at 31 December**Registered Number: 5321836**

	<i>Note</i>	2011 £000	2010 £000
Assets			
Cash and cash equivalents		3	3
Amounts due from Group undertakings	3	1	1
Total current assets		4	4
Total assets		4	4
Equity			
Capital and reserves attributable to equity holders			
Share capital	6	-	-
Retained earnings		4	4
Total attributable equity		4	4
Total equity and liabilities		4	4

The notes on pages 12 to 15 form an integral part of these Financial Statements

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


Helena Whitaker
 per pro SFM Directors Limited
 Director

18 June 2012

Statement of Changes in Equity for the year ended 31 December

	Share capital £000	Retained earnings £000	Total equity £000
At 1 January 2011	-	4	4
Total Comprehensive Income for the financial year	-	-	-
At 31 December 2011	<u>-</u>	<u>4</u>	<u>4</u>
At 1 January 2010	-	4	4
Total Comprehensive Income for the financial year	-	-	-
At 31 December 2010	<u>-</u>	<u>4</u>	<u>4</u>

Cash Flow Statement for the year ended 31 December

	2011	2010
	£000	£000
Cash flows from operating activities		
Profit before taxation	-	-
<i>Net decrease in operating assets</i>		
Amounts due from Group undertakings	-	1
Cash generated from operations	-	1
Taxation paid	-	(1)
Net cash generated from operating activities	-	-
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	3	3
Cash and cash equivalents at end of year	3	3
Cash at bank	3	3

All cash held is unencumbered and 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 Warehousing 1 Limited ('the Company') is a limited liability company incorporated and domiciled in the United Kingdom

(a) Statement of compliance

The Company's Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRS')

For these 2011 Financial Statements, including the 2010 comparative financial information where applicable, the Company has adopted for the first time the following statements

- The November 2009 amendments to IAS 24 'Related Party Disclosures', which clarified the disclosure requirements for Government-related entities and was effective from 1 January 2011
- The October 2010 amendments to IFRS 7 'Financial Instruments Disclosures' regarding enhancement of disclosures of transfers of financial assets

For these 2011 Financial Statements the Company has not adopted the following statements

- IFRS 9 'Financial Instruments', sections of which have been issued as part of the International Accounting Standard Board's ('IASB's') project to replace IAS 39 'Financial Instruments Recognition and Measurement', and the associated amendments to IFRS 7. These statements are expected to be mandatory for 2015 Financial Statements, with 2014 comparative information, but have not yet been adopted for use in the EU
- IFRS 13 'Fair Value Measurement'. This statement is expected to be mandatory for 2013 Financial Statements, with 2012 comparative information, but has not yet been adopted for use in the EU
- The December 2010 amendments to IAS 12 'Income Taxes' relating to 'Deferred Tax Recovery of Underlying Assets'. This amendment is expected to be mandatory for 2012 Financial Statements, with 2011 comparative information, but has not yet been adopted for use in the EU
- The June 2011 amendments to IAS 1 'Presentation of Financial Statements' relating to 'Presentation of Items of Other Comprehensive income'. This statement is expected to be mandatory for 2013 Financial Statements, with 2012 comparative information, but has not yet been adopted for use in the EU
- The December 2011 amendments to IFRS 7 and IAS 32 'Financial Instruments Presentation' relating to the offsetting of financial assets and financial liabilities. This statement is expected to be mandatory for 2013 Financial Statements, with 2012 comparative information, but has not been adopted for use in the EU

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

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

(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 4.

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 4).

Notes to the Financial Statements for the year ended 31 December 2011 (continued)**1 Principal accounting policies (continued)****(c) Taxation**

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. Deferred taxation is provided for in full at the tax rate which is expected to apply to the period when the deferred taxation is expected to be realised, including on tax losses carried forward, and is not discounted to take account of the expected timing of realisation. Deferred taxation assets are recognised only to the extent that it is probable that future taxable profits will be available against which the taxable differences can be utilised.

(d) 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.

(e) 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'.

2 Employees and Directors' emoluments

There were no employees during the year or previous year and none of the Directors received emoluments in respect of their services to the Company. A corporate service fee is paid by Aire Valley Funding 2 Limited on behalf of the Company to Structured Finance Management Limited in connection with its supply of corporate management services including the provision of directors (see note 3).

3 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). Aire Valley Funding 2 Limited pays a corporate service fee to Structured Finance Management Limited in connection with its provision of corporate management services including the provision of directors. The fees payable to Structured Finance Management Limited for providing such services amounted to £8,661 (2010: £9,199), all costs being borne by B&B.

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

3 Related party disclosures (continued)

The Company had the following balances with companies within the Aire Valley Holdings Limited Group

	Aire Valley Holdings Limited and subsidiaries 2011 £000	Aire Valley Holdings Limited and subsidiaries 2010 £000
Current assets		
Amounts due from Group undertakings	1	1

Auditors' remuneration of £3,464 (2010: £3,872) was borne by B&B

4 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 there were no critical accounting judgements and estimates.

5 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	Fair value	If fair values increased by 1%
Financial assets	£000	£000	£000	£000
Cash and cash equivalents	3	3	3	-
Amounts due from Group undertakings	1	1	1	-
Total financial assets	4	4	4	-

At 31 December 2010	Loans and receivables	Total carrying value	Fair value	If fair values increased by 1%
Financial assets	£000	£000	£000	£000
Cash and cash equivalents	3	3	3	-
Amounts due from Group undertakings	1	1	1	-
Total financial assets	4	4	4	-

At 31 December 2011 the Company had no financial liabilities (2010: £nil)

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

(i) Credit risk

The main financial risk arising from the Company's activities is credit risk. Credit risk reflects the risk that a counterparty of the Company will be unable or unwilling to meet a contractual commitment to the Company. The Company is exposed to credit risk arising from amounts on deposit with third parties and amounts due from Group undertakings.

The Company's exposure to credit risk was

	2011 £000	2010 £000
Cash and cash equivalents	3	3
Amounts due from Group undertakings	1	1
Exposure to credit risk	4	4

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

5 Financial instruments (continued)**(b) Nature and extent of risks arising from financial instruments (continued)***(ii) Other market risks*

At the Balance Sheet date the Company had no other material exposure to market risks (2010 nil)

(c) Concentrations of risk

The amount due from Group undertakings is due from one entity, Aire Valley Funding 2 Limited

6 Called up share capital

	2011 Shares	2010 Shares	2011 £	2010 £
Authorised				
At 1 January and 31 December	100	100	100	100
Allotted, issued and fully paid				
At 1 January and 31 December	2	2	2	2

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

7 Capital structure

The Company's capital is represented by the capital and reserves attributable to equity holders. The Company is not subject to externally imposed capital requirements other than the minimum share capital required by the Companies Act, with which it complies. The Company manages its ordinary share capital in order that there is sufficient capital to meet the needs of the Company in its operations.

8 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.

9 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 date of this report that are likely to have a material effect on the Company's financial position as disclosed in the Financial Statements.