

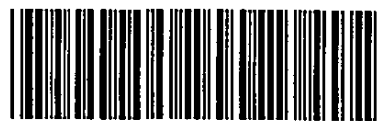
# **AIRE VALLEY WAREHOUSING 1 LIMITED**

Directors' Report and Financial Statements

Registered number: 5321836

31 December 2010

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**Directors' Report and Financial Statements**

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**Company Information**

**Directors**

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

**Company Secretary**

SFM Corporate Services Limited

**Registered Office**

35 Great St Helen's  
London  
EC3A 6AP

**Auditor**

KPMG Audit Plc  
1 The Embankment  
Neville Street  
Leeds  
LS1 4DW

**Directors' Report for the year ended 31 December 2010**

**Registered Number: 5321836**

The Directors present their Report and Financial Statements for the year ended 31 December 2010

**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 Ltd ('the Company') is a limited liability company which was incorporated in the United Kingdom under the Companies Act 1985 and is registered in England and Wales

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 Bradford & Bingley plc, 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.

Interest receivable and interest expense for the year were £nil (2009: £nil)

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 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. The Company's operations are subject to periodic review by the Bradford & Bingley plc internal audit department.

**Dividend**

No dividend was paid during the year (2009: £nil). The Directors do not recommend the payment of a final dividend for the year (2009: £nil).

**Payment policy**

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

**Directors**

The Directors who served during the year were as follows:

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

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 Bradford & Bingley plc or in any of its subsidiary undertakings.

**Directors' Report for the year ended 31 December 2010 (continued)**

**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 (2009 £nil)

**Third party indemnities**

Structured Finance Management Limited has made qualifying third party indemnity provisions for the benefit of SFM Director Limited and SFM Directors (No 2) Limited B&B has made qualifying third party indemnity provisions for the benefit of Mr McLelland

By order of the Board



Helena Whitaker  
Per pro SFM Corporate Services Limited  
Company Secretary

17 June 2011

**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 they have elected to prepare the Financial Statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and applicable law.

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 for that period.

In preparing the Financial Statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRS as adopted by the EU, 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 which enable them to ensure that the Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

**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 2010 set out on pages 8 to 15. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**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.

**Scope of the audit of the Financial Statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

**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 2010 and of its result for the year then ended,
- have been properly prepared in accordance with IFRS as adopted by the EU, 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.



J L Ellacott (Senior Statutory Auditor) for and on behalf of KPMG Audit Plc, Statutory Auditor  
Chartered Accountants  
1 The Embankment  
Neville Street  
Leeds  
LS1 4DW

17 June 2011

**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.



**AIRE VALLEY WAREHOUSING 1 LIMITED**

**Balance Sheet at 31 December**

**Registered Number: 5321836**

	<i>Note</i>	<b>2010 £000</b>	<b>2009 £000</b>
<b>Assets</b>			
Cash and cash equivalents		3	3
Amounts due from Group undertakings		1	2
<b>Total current assets</b>		<u>4</u>	<u>5</u>
<b>Total assets</b>		<u>4</u>	<u>5</u>
<b>Liabilities</b>			
Current tax liabilities		-	1
<b>Total liabilities</b>		<u>-</u>	<u>1</u>
<b>Equity</b>			
Capital and reserves attributable to equity holder			
Share capital	6	-	-
Retained earnings		4	4
<b>Total attributable equity</b>		<u>4</u>	<u>4</u>
<b>Total equity and liabilities</b>		<u>4</u>	<u>5</u>

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

The Financial Statements were approved by the Board of Directors and authorised for issue on  
17 June 2011 and signed on its behalf by



Helena Whitaker  
per pro SFM Directors Limited  
Director  
17<sup>th</sup> June 2011

**AIRE VALLEY WAREHOUSING 1 LIMITED**

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

	<b>Share capital £000</b>	<b>Retained earnings £000</b>	<b>Total equity £000</b>
<b>At 1 January 2010</b>	-	4	4
<b>Profit for the financial year</b>	-	-	-
<b>At 31 December 2010</b>	<u>-</u>	<u>4</u>	<u>4</u>
 At 1 January 2009	 -	 4	 4
 Profit for the financial year	 -	 -	 -
 At 31 December 2009	 <u>-</u>	 <u>4</u>	 <u>4</u>

**AIRE VALLEY WAREHOUSING 1 LIMITED**

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

	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
<b>Cash flows from operating activities:</b>		
<b>Profit for the financial year</b>	-	-
<i>Net decrease in operating assets</i>		
Amounts due from Group undertakings	1	-
<b>Cash generated from operations</b>	<u>1</u>	<u>-</u>
Taxation paid	(1)	3
<b>Net cash from operating activities</b>	<u>-</u>	<u>3</u>
<b>Net increase in cash and cash equivalents</b>	-	-
Cash and cash equivalents at beginning of year	3	-
<b>Cash and cash equivalents at end of year</b>	<u><u>3</u></u>	<u><u>3</u></u>

**Notes to the Financial Statements for the year ended 31 December 2010**

**1 Principal accounting policies**

Aire Valley Warehousing 1 Limited ('the Company') is a limited liability company which was incorporated in the United Kingdom under the Companies Act 1985 and is registered in England and Wales

**(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 2010 Financial Statements, including the 2009 comparative financial information where applicable, the Company has adopted for the first time the following statements

- The January 2008 amendment to IFRS 3 'Business Combinations' This amendment does not change the treatment of business combinations which occurred in prior years and has had no impact on the Company's Income Statement, Balance Sheet or Cash Flow Statement
- The May 2008 amendment to IAS 27 'Consolidated and Separate Financial Statements' This amendment has had no impact on the Company's Income Statement, Balance Sheet or Cash Flow Statement
- The July 2008 amendment to IAS 39 'Financial Instruments Recognition and Measurement' relating to eligible hedged items This amendment has had no impact on the Company's Income Statement, Balance Sheet or Cash Flow Statement

For these 2010 Financial Statements the Company has not adopted the following statement

- IFRS 9 'Financial Instruments', issued in October 2010 as part of the International Accounting Standards Board's ('IASB's') project to replace IAS 39 'Financial Instruments Recognition and Measurement' This 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 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 prepared on the historical cost basis and on a going concern basis, given the 'bankruptcy remote' nature of the entity as a special purpose vehicle

The Financial Statements are presented in pounds sterling, which is the currency of the Company's primary operating environment

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 that the accounting policies set out below are the most appropriate to the Company's circumstances

**(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.

**Notes to the Financial Statements for the year ended 31 December 2010 (continued)****1 Principal accounting policies (continued)****(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) 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'

**Amortised cost** is the amount measured at initial recognition, adjusted for subsequent principal and other payments, less cumulative amortisation calculated using the Effective Interest Rate ('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. Any profit or loss on sale of an instrument carried at amortised cost is recognised immediately in the Statement of Comprehensive Income in interest income or expense depending on whether the instrument is an asset or a liability

**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 Aire Valley Warehousing 1 Limited 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 an employee of Bradford & Bingley plc (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 £9,199 (2009: £8,260), and were borne by Bradford & Bingley plc.

## Notes to the Financial Statements for the year ended 31 December 2010 (continued)

## 3 Related party disclosures (continued)

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

	Aire Valley Holdings Ltd and subsidiaries 2010 £000	Aire Valley Holdings Ltd and subsidiaries 2009 £000
<b>Current assets</b>		
Amounts due from Group undertakings	1	2

Auditors' remuneration of £3,872 (2009 £3,872) was borne by Bradford & Bingley plc

## 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 2010 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 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	-
<b>Total financial assets</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>-</b>

At 31 December 2009	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	2	2	2	-
<b>Total financial assets</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>-</b>

At 31 December 2010 the Company had no financial liabilities (2009 £nil)

## (b) Nature and extent of issues 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

	2010 £000	2009 £000
Cash and cash equivalents	3	3
Amounts due from Group undertakings	1	2
<b>Exposure to credit risk</b>	<b>4</b>	<b>5</b>

## Notes to the Financial Statements for the year ended 31 December 2010 (continued)

## 5 Financial instruments (continued)

## (b) Nature and extent of issues arising from financial instruments (continued)

## (ii) Other market risks

At the Balance Sheet date the Company had no other material exposure to market risks (2009 nil)

## (c) Concentrations of risk

The Company operates primarily in the United Kingdom, and adverse changes to the UK economy could impact on all areas of the Company's business. The amount due from Group undertakings is due from one entity, Aire Valley Funding 2 Limited.

## 6 Called up share capital

	2010 Shares	2009 Shares	2010 £	2009 £
<b>Allotted, issued and fully paid</b>				
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. In accordance with The Companies Act 2006, the Company no longer has 'authorised capital' other than its issued capital.

## 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 which was incorporated in the United Kingdom under the Companies Act 1985 and is registered in England and Wales. The ultimate parent undertaking of the Company is SFM Corporate Services Limited, a company incorporated and registered in England and Wales, 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.

Under IFRS, the Company's controlling party during the year and previous year was Bradford & Bingley plc, a public company which was incorporated in the United Kingdom under the Companies Act 1985 and is registered in England and Wales. Bradford & Bingley plc heads the largest and smallest group of companies into which the Financial Statements of the Company are consolidated. Copies of the financial statements of Bradford & Bingley plc may be obtained from the Company Secretary at P O Box 88, Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA.

As a result of The Bradford & Bingley plc Transfer of Securities and Property etc Order 2008, which transferred all shares in B&B to the Treasury Solicitor as nominee for HM Treasury on 29 September 2008, the Company considered Her Majesty's Government to be its ultimate controlling party from that date. On 1 October 2010 all shares in B&B were acquired via a share-for-share exchange by UK Asset Resolution Limited, a private limited company incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales, 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.