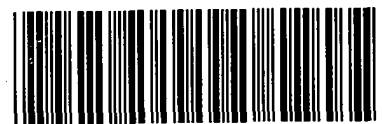


AIRE VALLEY WAREHOUSING 1 LIMITED

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

Registered Number: 05321836

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Aire Valley Warehousing 1 Limited

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

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Aire Valley Warehousing 1 Limited

Strategic Report for the 15 months to 31 March 2014

The Directors present their Annual Report and Financial Statements of Aire Valley Warehousing 1 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.

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

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 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 properties in the United Kingdom ('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.

Principal risks and uncertainties

The key risks and uncertainties faced by the Company are managed within the framework established for B&B.

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's 2014 Annual Report & Accounts which do not form part of this Report and Financial Statements.

Review of the business

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

By order of the Board.



Helena Whitaker

per pro SFM Corporate Services Limited

Company Secretary

29 August 2014

Aire Valley Warehousing 1 Limited

Directors' Report for the 15 months to 31 March 2014

Dividends

No dividend was paid during the period (2012: £nil). The Directors do not recommend the payment of a final dividend for the period (2012: £nil)

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 financial risk management objectives and policies of the Company, in relation to the use of financial instruments, is given in note 5. A description of the principal risks to which the Company is exposed is provided on page 3 which forms an integral part of the audited Financial Statements.

Directors and their interests

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 1 December 2013 a director of B&B and UKAR.

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

Directors' 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 Warehousing 1 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 period. 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 Warehousing 1 Limited

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

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have expressed 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 re-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 Warehousing 1 Limited

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

Independent Auditors' Report to the members of Aire Valley Warehousing 1 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 page 5, 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 Warehousing 1 Limited

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

During the current financial period and preceding financial year the Company received no income and incurred no expenditure. Consequently during this period and the previous year 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 as at 31 March 2014

	Note	At 31 March 2014 £000	At 31 December 2012 £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			
Issued capital and reserves:			
Share capital	6	-	-
Retained earnings		4	4
Total Equity		4	4
Total equity and liabilities		4	4

The notes on pages 13 to 19 form an integral part of these Financial Statements. The Financial Statements 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 Warehousing 1 Limited is registered in England and Wales under Company Number 05321836.

Aire Valley Warehousing 1 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 and at 31 March 2014	-	4	4
Total comprehensive income for the period	-	-	-

For the 12 months to 31 December 2012

	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2012 and at 31 December 2012	-	4	4
Total comprehensive income for the year	-	-	-

Aire Valley Warehousing 1 Limited

Cash Flow Statement for the 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	-	-
Net cash generated from operating activities	-	-
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of period/year	3	3
Cash and cash equivalents at end of period/year	3	3
Cash at bank	3	3

Aire Valley Warehousing 1 Limited

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

1. Principal accounting policies

Aire Valley Warehousing 1 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 Warehousing 1 Limited

Notes to the Financial Statements for the 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).

(c) 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.

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.

Aire Valley Warehousing 1 Limited

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

(continued)

1. Principal accounting policies (continued)

(c) Financial instruments (continued)

IFRS 13 'Fair Value Measurement' defines 'fair value' as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. Where an active market is considered to exist, fair values are based on quoted prices or lead manager prices. For instruments which do not have active markets, fair value is calculated using discounted cash flows, applying independently sourced market parameters including interest rates and currency rates. Any net movements in fair value are included in the Statement of Comprehensive Income as 'fair value movements'.

(d) 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.

(e) 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.

(f) Cash and cash equivalents

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

(g) 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 Warehousing 1 Limited

Notes to the Financial Statements for the 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 or 31 December 2012 there were no critical accounting judgements and estimates.

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 fee to Structured Finance Management Limited for the provision of corporate administration services including the provision of directors. Auditors' remuneration of £3,412 (12 months to 31 December 2012: £3,412) was borne by B&B. The Company had the following balances with related parties within the AV Holdings Limited Group:

	15 months to 31 Mar 2014 £000	12 months to 31 Dec 2012 £000
Current assets		
Amounts due from fellow subsidiary of Aire Valley Holdings Limited	1	1

4. 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. The accounting policy note 1(c) sets out the key principles used for estimating the fair values of financial instruments. The carrying amounts of the cash and cash equivalents and the amounts due from Group undertakings are considered to approximate to fair value.

At 31 March 2014 and 31 December 2012

	Loans and receivables £000	Total carrying value £000	Fair value £000
Financial assets			
Cash and cash equivalents	3	3	3
Amounts due from Group undertakings	1	1	1
Total financial assets	4	4	4

Aire Valley Warehousing 1 Limited

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

4. Financial instruments

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

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).

(b) Offsetting

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

5. 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 transaction documents.

(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 amounts due from the loans to Group undertaking, and deposits with third party banks.

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 Dec 2012 £000
Cash and cash equivalents	3	3
Amounts due from Group undertakings	1	1
Exposure to credit risk	4	4

No impairment has been recognised in respect of any financial asset, and no financial assets were past due. The Directors believe that there is no significant credit risk in respect of the cash and cash equivalents and the amounts due from Group undertakings.

(b) Market risk

Other market risks

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

Aire Valley Warehousing 1 Limited

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

5. Financial risk management (continued)

(c) Concentration risk

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

6. Share capital

	31 March 2014 Number	31 December 2012 Number	31 March 2014 £	31 December 2012 £
Authorised				
Ordinary shares of £1 each				
At beginning and end of	100	100	100	100
Issued				
Ordinary shares of £1 each fully				
At beginning and 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.

7. 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.

8. 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.

Aire Valley Warehousing 1 Limited

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

8. Ultimate controlling party (continued)

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. Copies of the financial statements of UKAR may be obtained from the Company Secretary at Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA.

The Company considers Her Majesty's Government to remain its ultimate controlling party.

9. 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.