

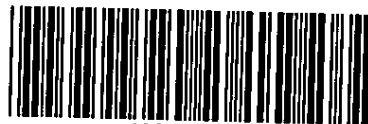
AIRE VALLEY WAREHOUSING 2 LIMITED

Directors' Report and Financial Statements

Registered number. 5321857

31 December 2006

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Directors' Report and Financial Statements

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

Company Information

Directors

SFM Directors Limited
SFM Directors (No 2) Limited
Christopher Patrick Willford (Appointed 9 January 2007)

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 2006

The Directors present their Report and Financial Statements for the year ended 31 December 2006

Principal activities and business review

Aire Valley Warehousing 2 Ltd ("the Company") was incorporated on 29 December 2004

The Company is a limited liability company incorporated in the United Kingdom under the Companies Act 1985 and registered in England and Wales

The Company's principal activity is 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 are issued in Sterling and are secured on a beneficial interest in a portfolio of mortgage loans held by Aire Valley Trustee Limited under a Master Trust agreement. These mortgage loans, which are originated by Bradford & Bingley plc, are 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.

Interest expense has reduced to £15.3m in the year (2005: £20.8m) due to the note repayments. Interest receivable has also reduced accordingly.

The profits of the company are pre-determined under the terms of the issue documentation. The results for the year are shown in the Income Statement on page 8. The profit after taxation was £1,566 (2005: £1,456).

The Company has met all its obligations under the terms of the issue documentation.

The key performance indicators used by management in assessing the performance of the Company are actual cash flows against planned cash flows and the credit ratings assigned to the loan notes. The performance of the Company is addressed in the monthly trustee reports to investors, and there have been no changes in the credit ratings of the notes in the period.

Risk management and control

In the ordinary course of business the Company is exposed to and manages a variety of risks, with credit risk, liquidity risk and interest rate risk being of particular significance. The Directors have responsibility for the overall system of internal control and for reviewing its effectiveness. In general, when a transaction or group of transactions is entered into, derivative instruments are taken out to manage the associated risks. 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 11, and further discussion in the context of the Bradford & Bingley Group as a whole is provided on pages 18-21 of that Group's 2006 Annual Report which does not form part of this Report and Financial Statements.

Dividend

The Directors do not recommend the payment of a final dividend for the year (2005: £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
Christopher Donald Gillespie

(Resigned 9 January 2007)

Directors' Report for the year ended 31 December 2006 (continued)

Directors (continued)

Christopher Gillespie SFM Directors Limited and SFM Directors (No. 2) Limited are or have been Directors of Aire Valley Holdings Limited during the year. No Director had any interests in the share capital of the Company at any time during the year.

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.

International Financial Reporting Standards

The Company adopted International Financial Reporting Standards (IFRS) with effect from 1 January 2005.

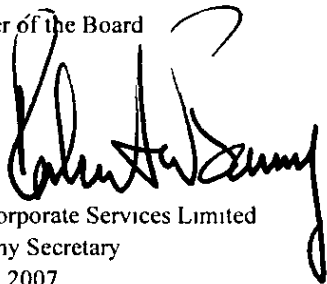
Political and charitable contributions

During the year no political or charitable contributions were made (2005: £nil).

Auditor

In accordance with Section 384 of the Companies Act 1985 a resolution for the re-appointment of KPMG Audit Plc as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



SFM Corporate Services Limited
Company Secretary
28 June 2007

Statement of Directors' Responsibilities in respect of the Directors' Report and Financial Statements

The Directors are responsible for preparing the Directors' Report and 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 they are required to prepare the Financial Statements in accordance with IFRS as adopted by the EU and applicable laws.

The Financial Statements are required by law to present fairly the financial position and the performance of the Company. The Companies Act 1985 provides in relation to such Financial Statements that references in the relevant part of that Act to Financial Statements giving a true and fair view are references to their achieving a fair presentation.

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 the Financial Statements 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 proper accounting records that 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 1985. 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 2 Limited

We have audited the Financial Statements of Aire Valley Warehousing 2 Limited for the year ended 31 December 2006 which comprise the Income Statement the Balance Sheet the Statement of Changes in Equity the Cash Flow Statement and the related notes. These Financial Statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The Directors' Responsibilities for preparing the Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 6.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Financial Statements give a true and fair view and whether the Financial Statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Financial Statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

Opinion

In our opinion:

- the Financial Statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the Financial Statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the Financial Statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
28 June 2007

1 The Embankment
Neville Street
Leeds
LS1 4DW

Income Statement for the year ended 31 December

	<i>Note</i>	2006 £000	2005 £000
Interest receivable and similar income	2	15,296	20,832
Interest expense and similar charges	3	(15,283)	(20,801)
Net interest income		<u>13</u>	<u>31</u>
Operating expenses	4	(11)	(29)
Profit before taxation		<u>2</u>	<u>2</u>
Taxation	5	-	(1)
Profit for the financial year		<u><u>2</u></u>	<u><u>1</u></u>

The results above arise from the Company's single continuing activity and are attributable to the equity shareholder

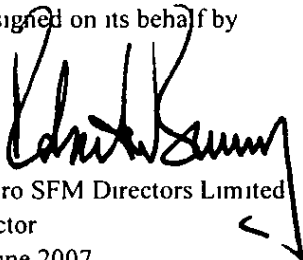
The notes on pages 12 to 21 form part of these Financial Statements

Balance Sheet as at 31 December

		2006	2005
	<i>Note</i>	£000	£000
Assets			
Loans to Group undertakings	8	-	500,648
Amounts due from Group undertakings		<u>3</u>	-
Total current assets		<u>3</u>	<u>500,648</u>
Total assets		<u>3</u>	<u>500,648</u>
Equity			
Capital and reserves attributable to equity holder			
Share capital	12	-	-
Retained earnings		<u>3</u>	<u>1</u>
Total attributable equity		<u>3</u>	<u>1</u>
Liabilities			
Interest-bearing loans and borrowings	7	-	500,646
Current tax liabilities		-	<u>1</u>
Total current liabilities		-	<u>500,647</u>
Total liabilities		-	<u>500,647</u>
Total equity and liabilities		<u>3</u>	<u>500,648</u>

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

The Financial Statements were approved by the Board of Directors and authorised for issue on 28 June 2007 and signed on its behalf by



per pro SFM Directors Limited
Director
28 June 2007

Statement of Changes in Equity for the year ended 31 December

	Share capital £000	Retained earnings £000	Total equity £000
As at 1 January 2006	-	1	1
Profit for the financial year	-	2	2
As at 31 December 2006	<u>-</u>	<u>3</u>	<u>3</u>
 As at 1 January 2005	 -	 -	 -
Issue of share capital	-	-	-
Profit for the financial year	-	1	1
As at 31 December 2005	<u>-</u>	<u>1</u>	<u>1</u>

Cash Flow Statement for the year ended 31 December

	2006	2005
	£000	£000
Cash flows from operating activities		
Profit for the financial year	2	1
<i>Adjustments for</i>		
Interest on floating rate notes	15,283	20,801
Income tax expense	<u>-</u>	<u>1</u>
Cash flows from operating activities before changes in operating assets and liabilities	15,285	20,803
<i>Net (increase)/decrease in operating assets</i>		
Amounts received from/(paid to) Group undertakings	<u>500,645</u>	<u>(500,648)</u>
Cash generated from operations	515,930	(479,845)
Taxation paid	<u>(1)</u>	<u>-</u>
Net cash from operating activities	<u>515,929</u>	<u>(479,845)</u>
<i>Cash flows from financing activities</i>		
Interest paid on floating rate notes	(15,929)	(20,078)
Issue of floating rate notes	-	499,923
Redemption of floating rate notes	<u>(500,000)</u>	<u>-</u>
Net cash from financing activities	<u>(515,929)</u>	<u>479,845</u>
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	<u>-</u>	<u>-</u>
Cash and cash equivalents at end of year	<u>-</u>	<u>-</u>

Notes to the Financial Statements for the year ended 31 December 2006**1. Significant accounting policies**

Aire Valley Warehousing 2 Limited ("the Company") is a company incorporated in the United Kingdom under the Companies Act 1985 and 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") The Company has not adopted the following two statements issued by the IASB in August 2005 and mandatory for 2007 financial statements

The Capital Disclosures amendment to IAS 1 "Presentation of Financial Statements", and

IFRS 7 "Financial Instruments Disclosures"

These two statements relate to disclosures only, and adoption of them would have no impact on the Company's Income Statement, Balance Sheet or Cash Flow Statement

The Financial Statements also comply with the relevant provisions of Part VII of the Companies Act 1985, as amended by the Companies Act 1985 (International Accounting Standards and other Accounting Amendments) Regulations 2004

(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

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

(c) Interest income and expense

Financial instruments are measured at amortised cost (including loans to Group undertakings and floating rate notes) Interest income and expense are recognised in the Income Statement on an Effective Interest Rate ("EIR") basis The EIR basis spreads the interest income or interest expense over the expected life of the instrument The EIR is the rate that at the inception of the instrument exactly discounts expected future cash payments and receipts through the expected life of the instrument back to the initial carrying amount When calculating the EIR future cash flows are estimated considering all contractual terms of the instrument (for example prepayment options) but potential future credit losses are not considered The calculation includes all directly attributable incremental fees and costs and all other premia and discounts as well as interest

(d) Taxation

The charge for taxation is based on the profit 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 Deferred taxation is provided for in full at the tax rate at the Balance Sheet date in accordance with IAS 12 "Income Taxes", 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 2006 (continued)**1. Significant accounting policies (continued)****(e) Cash and cash equivalents**

For the purposes of the Cash Flow Statement cash and cash equivalents comprise balances which had an original maturity of three months or less

(f) Floating rate notes

Debt issued is measured in accordance with IAS 39 "financial instruments Recognition and measurements" at its fair value net of directly attributable transaction costs and discounts. Subsequent measurement is at amortised cost using the EIR method to amortise incremental attributable issue and transaction costs, premia and discounts over the life of the instrument, these costs are charged along with interest on the debt to "interest expense and similar charges". Unamortised amounts are added to or deducted from the carrying value of the instrument.

(g) Classification of financial instruments

In accordance with IAS 39 each financial asset is classified at initial recognition into one of four categories

- (i) Financial assets at fair value through profit or loss,
- (ii) Held to maturity investments,
- (iii) Loans and receivables, or
- (iv) Available for sale,

and each financial liability into one of two categories

- (v) At amortised cost, or
- (vi) At fair value through profit or loss

Measurement of financial instruments is either amortised cost (categories (ii), (iii) and (v) above) or at fair value (categories (i), (iv) and (vi) 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 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 Income Statement in interest income or expense depending on whether the instrument is an asset or a liability.

2. Interest receivable and similar income

	2006	2005
	£000	£000
Interest on loans to Group undertakings	<u>15,296</u>	<u>20,832</u>
	<u>15,296</u>	<u>20,832</u>

The interest received on impaired assets was £nil (2005: £nil)

Notes to the Financial Statements for the year ended 31 December 2006 (continued)

3. Interest expense and similar charges

	2006	2005
	£000	£000
Interest on floating rate notes	<u>15,283</u>	20,801
	<u>15,283</u>	<u>20,801</u>

4. Operating expenses

	2006	2005
	£000	£000
Legal and professional fees	<u>11</u>	<u>29</u>

Auditors' remuneration of £4,000 (2005 £4,000) was borne by Bradford & Bingley plc

5. Taxation

	2006	2005
	£000	£000
Current tax expense		
UK corporation tax on profits for the year	1	1
Adjustments in respect of previous periods	<u>(1)</u>	<u>-</u>
Total taxation expense per the Income Statement	<u>-</u>	<u>1</u>
	2006	2005
	£000	£000
Profit before taxation	<u>2</u>	2
UK corporation tax at 30%	<u>1</u>	1
Effects of		
Adjustments in respect of previous periods	<u>(1)</u>	<u>-</u>
	<u>-</u>	<u>1</u>

There was no deferred tax provided or unprovided during the year (2005 £nil)

6. Employees and Directors' emoluments

There were no employees during the year or previous period 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 directors (see note 9)

Notes to the Financial Statements for the year ended 31 December 2006 (continued)

7. Interest-bearing loans and borrowings

	2006 £000	2005 £000
Floating rate notes	-	500,646

The floating rate notes (the "notes") were issued on 23 February 2005 and repaid on 21 August 2006

Under the terms of the notes any shortfalls arising on the redemption or repossession of the mortgage loan assets held in trust on behalf of Aire Valley Funding 2 Limited (a fellow subsidiary of Aire Valley Holdings Limited), over which the note holders have a floating charge, may result in a reduction in the liability under the notes. Shortfalls are allocated against the notes in reverse order to the seniority of the class of the note, resulting in any such reductions being first allocated against Class C notes

Class	Maturity	At 31 December 2005 £000	Redeemed £000	At 31 December 2006 £000
Series 1 A	Aug 2006	424,000	(424,000)	-
Series 1 B	Aug 2006	38,000	(38,000)	-
Series 1 M	Aug 2006	19,000	(19,000)	-
Series 1 C	Aug 2006	19,000	(19,000)	-
		<u>500,000</u>	<u>(500,000)</u>	-
Less issue costs		(77)		-
Accrued interest		723		-
		<u>500,646</u>		<u>-</u>

The floating rate notes are denominated in sterling

Accrued interest on the loan notes is included within the floating rate note balance. In 2005 this was presented separately as accruals and deferred income

Interest is payable on the Class A, B, M and C notes at variable rates based upon one month sterling LIBOR

The Company's obligations to noteholders and to other secured creditors are secured under a deed of charge which grants security over all its assets in favour of the security trustee. The principal asset of the Company is the loan made by it to Aire Valley Funding 2 Limited, a fellow subsidiary of Aire Valley Holdings Limited, whose obligations in respect of this loan are secured pursuant to a deed of charge which grants security over all its assets, primarily consisting of its beneficial interest in a portfolio of residential mortgage loans, in favour of the security trustee. The security trustee holds this security for the benefit of all secured creditors of Aire Valley Funding 2 Limited, including the Company

The estimated market values of the floating rate notes, based on the mid-market price on 31 December 2006 and 31 December 2005 were as follows

Class	Maturity	2006 £000	2005 £000
Series 1 A	Aug 2006	-	424,613
Series 1 B	Aug 2006	-	38,055
Series 1 M	Aug 2006	-	19,028
Series 1 C	Aug 2006	-	19,027
		<u>-</u>	<u>500,723</u>

Notes to the Financial Statements for the year ended 31 December 2006 (continued)**8. Loans to Group undertakings**

The intercompany loan to Aire Valley Funding 2 Limited is denominated in Sterling and is at a variable rate of interest. The loan has ultimately been secured against a beneficial interest in a mortgage loan portfolio held in trust on behalf of the Aire Valley Holdings Limited Group by Aire Valley Trustee Limited.

9. Related parties disclosures

The Company is a special purpose vehicle controlled by its Board of Directors which comprise three directors. Two of the Company's three directors are provided by Structured Finance Management Limited and the third director is an employee of Bradford & Bingley plc (the cash manager and parent undertaking of Mortgage Express, the mortgage loan administrator). The Company pays a corporate service fee to Structured Finance Management Limited in connection with its provision of corporate management services. The fees payable to Structured Finance Management Limited for providing such services amounted to £10,856 in the year (2005: £7,415).

During the year the Company undertook the following transactions with companies within the Aire Valley Holdings Limited Group and the Bradford & Bingley plc Group:

	Bradford & Bingley plc and subsidiaries 2006 £000	Aire Valley Holdings Ltd and subsidiaries 2006 £000	Bradford & Bingley plc and subsidiaries 2005 £000	Aire Valley Holdings Ltd and subsidiaries 2005 £000
Interest income				
Income from loans to Group undertakings	-	15,296	-	20,832
Current assets				
Loans to Group undertakings	-	-	-	500,648
Amounts due from Group undertakings	-	3	-	-

Auditors' remuneration of £4,000 (2005: £4,000) was borne by Bradford & Bingley plc.

10. Key sources of estimation uncertainty and judgements in application of accounting policies

In preparation of the Company's accounts estimates and assumptions are made which affect the reported amounts of assets and liabilities, estimates and assumptions are kept under continuous evaluation. Estimates and judgements are based on historical experience, expectations of future events and other factors.

Effective interest rate

Certain financial instruments are accounted for on an effective interest rate basis, under which the income or expense associated with the instrument is spread over the instrument's expected life. On a quarterly basis, models are reviewed to re-assess expected life.

Notes to the Financial Statements for the year ended 31 December 2006 (continued)

11. Financial instruments

(a) Fair values of financial assets and financial liabilities

	2006 Carrying value £000	2006 Fair value £000	2005 Carrying value £000	2005 Fair value £000
Financial assets				
Loans to Group undertakings	-	-	500,648	500,648
Amounts due from Group undertakings	3	3	-	-
Total financial assets	3	3	500,648	500,648
Financial liabilities				
Interest-bearing loans and borrowings	-	-	500,646	500,646
Total financial liabilities	-	-	500,646	500,646

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

The main financial risks arising from the Company's activities are credit risk, liquidity risk and interest rate risk

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 loans made to Group undertakings.

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

Liquidity risk

The Company's policy is to maintain sufficient funds in a liquid form at all times to ensure that the Company can meet its liabilities as they fall due and to minimise mismatches between maturing assets and liabilities. The table in note 11b(ii) summarises the contractual maturities of the Company's assets and liabilities as at 31 December 2006 and 31 December 2005.

Interest rate risk

The Company is exposed to movements in interest rates due to mismatches between the dates on which interest receivable on assets and interest payable on liabilities are next reset, or maturity if earlier. The table in note 11b(iii) summarises interest repricing mismatches as at 31 December 2006 and 31 December 2005.

Other market risks

At the Balance Sheet date the Company had no other material exposure to market risks (2005: £nil).

(i) Credit risk

Before taking account of any collateral, the exposure to credit risk was

	2006 £000	2005 £000
Loans to Group undertakings	-	500,648
Amounts due from Group undertakings	3	-
Exposure to credit risk	3	500,648

Notes to the Financial Statements for the year ended 31 December 2006 (continued)

11. Financial instruments (continued)

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

(ii) Liquidity risk

The contractual maturities of the Company's assets and liabilities as at 31 December were as follows

	On demand £000	In not more than three months £000	In more than three months but not more than one year £000	In more than one year but not more than five years £000	In more than five years £000	Total £000
2006						
Assets						
Amounts due from Group undertakings	-	-	3	-	-	3
Total assets	-	-	3	-	-	3
Liabilities						
Total liabilities	-	-	-	-	-	-
Net liquidity gap	-	-	3	-	-	3
2005						
Assets						
Loans to Group undertakings	-	-	500,648	-	-	500,648
Total assets	-	-	500,648	-	-	500,648
Liabilities						
Interest-bearing loans and borrowings	-	-	500,646	-	-	500,646
Current tax liabilities	1	-	-	-	-	1
Total liabilities	1	-	500,646	-	-	500,647
Net liquidity gap	(1)	-	2	-	-	1

Notes to the Financial Statements for the year ended 31 December 2006 (continued)

11. Financial instruments (continued)

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

(iii) Interest rate risk

As at 31 December effective interest rates on financial instruments fell into the following ranges

	2006	2005
	%	%
Financial assets		
Loans to Group undertakings	n/a	4.74 - 5.02
Financial liabilities		
Floating rate notes	n/a	4.74 - 5.02

A positive interest rate sensitivity gap exists when more assets than liabilities re-price during a given period. Although net interest income tends to benefit from a positive gap when interest rates are rising (and suffer a negative gap when rates are falling), the actual effect will depend upon a number of factors, including the extent to which repayments are made earlier or later than the next reset or maturity date. The following tables analyse the re-pricing periods of the Company's assets and liabilities at 31 December.

2006	After 3 months		After 6 months		After 1 year		After Non-interest		Total £000
	Within but within		but within		but within		bearing		
	3 months	6 months	1 year	5 years	5 years	5 years	5 years		
	£000	£000	£000	£000	£000	£000	£000		
Assets									
Amounts due from Group undertakings	3	-	-	-	-	-	-	-	3
Total assets	3	-	-	-	-	-	-	-	3
Liabilities									
Total liabilities	-	-	-	-	-	-	-	-	-
Interest rate sensitivity gap	3	-	-	-	-	-	-	-	3
Cumulative gap	3	3	3	3	3	3	3	3	3

Notes to the Financial Statements for the year ended 31 December 2006 (continued)

11. Financial instruments (continued)

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

(iii) Interest rate risk (continued)

2005	After 3 months		After 6 months		After 1 year		After Non-interest 5 years	bearing £000	Total £000
	Within 3 months £000	but within 6 months £000	but within 1 year £000	but within 5 years £000	but within 5 years £000	but within 5 years £000			
Assets									
Loans to Group undertakings	500,648	-	-	-	-	-	-	-	500,648
Total assets	500,648	-	-	-	-	-	-	-	500,648
Liabilities									
Current tax liabilities	-	-	-	-	-	-	1	1	
Interest-bearing loans and borrowings	500,646	-	-	-	-	-	-	-	500,646
Total liabilities	500,646	-	-	-	-	-	1	1	500,647
Interest rate sensitivity gap	2	-	-	-	-	-	(1)	1	
Cumulative gap	2	2	2	2	2	2	1	1	

(c) Concentrations of risk

The Company operates primarily in the UK and adverse changes to the UK economy could impact on all areas of the Company's business. The loans to Group undertakings are due from one entity, Aire Valley Funding 2 Limited, and are ultimately secured on a beneficial interest in a portfolio of mortgage loans secured on residential properties in England, Scotland and Wales.

12. Called up share capital

Ordinary shares of £1 each	2006 Shares	2005 Shares	2006 £	2005 £
Authorised				
As at start and end of year	100	100	100	100
Allotted, issued and fully paid				
As at start of year	2	1	2	1
Issued during the year	-	1	-	1
As at end of year	2	2	2	2

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

Notes to the Financial Statements for the year ended 31 December 2006 (continued)

13. Ultimate parent undertaking

The immediate parent undertaking of the Company is Aire Valley Holdings Limited, a company incorporated and 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 ultimate controlling party is Bradford & Bingley plc, a company incorporated and 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, Bradford & Bingley plc, Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA