

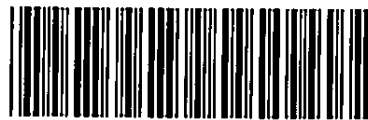
AIRE VALLEY WAREHOUSING 2 LIMITED

Directors' Report and Financial Statements

Registered number 5321857

31 December 2009

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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 2009

Registered Number 5321857

The Directors present their Report and Financial Statements for the year ended 31 December 2009

Principal activities and business review

Aire Valley Warehousing 2 Ltd ('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 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 agreement. 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 received was £nil (2008: £nil) and interest expense was £nil for the year (2008: £nil).

The results for the year are shown in the Statement of Comprehensive Income on page 8. The profit after taxation was £nil (2008: £nil).

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

Dividend

No dividend was paid in the year (2008: £nil), and the Directors do not recommend the payment of a final dividend for the year (2008: £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:

Christopher Patrick Willford	(Resigned 30 June 2009)
Phillip Alexander McLelland	(Appointed 30 June 2009)
SFM Directors Limited	
SFM Directors (No. 2) Limited	

Mr Willford, Mr McLelland, SFM Directors Limited and SFM Directors (No. 2) Limited are or have been Directors of Aire Valley Holdings Limited during the year. 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 2009 (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 (2008 £nil)

Auditor

Pursuant to Section 487(2) of the Companies Act 2006, KPMG Audit plc have been deemed to have been reappointed

By order of the Board


SFM Corporate Services Limited
Company Secretary

23 June 2010

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

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 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 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 Auditors' Report to the members of Aire Valley Warehousing 2 Limited

We have audited the Financial Statements of Aire Valley Warehousing 2 Ltd for the year ended 31 December 2009 set out on pages 8 to 16. The financial reporting framework that has been applied in their preparation is applicable law and 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 auditors' 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 auditors

As explained more fully in the Directors' Responsibilities Statement 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 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 web-site at www.frc.org.uk/apb/scope/UKNP.

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 2009 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

23 June 2010

1 The Embankment
Neville Street
Leeds
LS1 4DW

Statement of Comprehensive Income for the year ended 31 December

During the financial year and the 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: 5321857**

	<i>Note</i>	2009 £000	2008 £000
Assets			
Cash and cash equivalents		3	-
Amounts due from Group undertakings		1	2
Current tax asset		-	2
Total current assets		<u>4</u>	<u>4</u>
Total assets		<u>4</u>	<u>4</u>
Total liabilities		<u>-</u>	<u>-</u>
Equity			
Capital and reserves attributable to equity holder			
Share capital	7	-	-
Retained earnings		4	4
Total attributable equity		<u>4</u>	<u>4</u>
Total equity and liabilities		<u>4</u>	<u>4</u>

The notes on pages 12 to 16 form part of these Financial Statements

The Financial Statements were approved by the Board of Directors and authorised for issue on 23 June 2010 and signed on its behalf by



Helena Whitaker
per pro SFM Directors Limited
Director

23 June 2010

AIRE VALLEY WAREHOUSING 2 LIMITED

Statement of Changes in Equity for the year ended 31 December

	Share capital £000	Retained earnings £000	Total equity £000
At 1 January 2009	-	4	4
At 31 December 2009	<u>-</u>	<u>4</u>	<u>4</u>
At 1 January 2008	-	4	4
At 31 December 2008	<u>-</u>	<u>4</u>	<u>4</u>

Cash Flow Statement for the year ended 31 December

	2009	2008
	£000	£000
Cash flows from operating activities		
Profit for the financial year	-	-
<i>Adjustments for</i>		
Income tax credit	-	-
Cash flows from operating activities before changes in operating assets and liabilities	-	-
<i>Net decrease in operating assets</i>		
Amounts received from Group undertakings	1	-
Cash generated from operations	1	-
Taxation received	2	-
Net cash from operating activities	3	-
Net increase in cash and cash equivalents	3	-
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at end of year	3	-

Notes to the Financial Statements for the year ended 31 December 2009

1. Principal 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')

For these 2009 Financial Statements, including the 2008 comparative financial information where applicable, the Company has adopted for the first time the following statements

- The February 2008 amendment to IAS 1 'Presentation of Financial Statements' This relates to presentation only and adoption has had no material impact on the Company's Statement of Comprehensive Income, Balance Sheet or Cash Flow Statement
- The March 2009 amendment to IFRS 7 'Financial Instruments Disclosures' This relates to disclosures only, and adoption has had no impact on the Company's Statement of Comprehensive Income, Balance Sheet or Cash Flow Statement
- IFRS 8 'Operating Segments' This standard replaced IAS 14 'Segment Reporting' The Company's business and operations comprise one single activity, principally within the United Kingdom, and are managed on that basis and hence no segmental information has been provided

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 5

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, 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

Notes to the Financial Statements for the year ended 31 December 2009 (continued)

1. Principal accounting policies (continued)

(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 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. Taxation

	2009 £000	2008 £000
Profit before taxation	-	-
UK corporation tax at 28% (2008 28.5%)	-	-
Effects of		
Adjustments in respect of previous periods	-	-
Total taxation credit per the Statement of Comprehensive Income	-	-

There was no deferred tax provided or unprovided during the year (2008 £nil)

3. 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. Aire Valley Finance 2 Limited pays a corporate service fee on behalf of Aire Valley Warehousing 2 Limited to Structured Finance Management Limited in connection with its provision of corporate management services including provision of directors.

Notes to the Financial Statements for the year ended 31 December 2009 (continued)

4 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 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 Finance 2 Limited pays a corporate service fee on behalf of Aire Valley Warehousing 2 Limited to Structured Finance Management Limited in connection with its provision of corporate management services including provision of directors. The fee payable to Structured Finance Management Limited for providing such services amounted to £5,014 for the year (2008 £7,103).

The Company had the following balances with companies within the Aire Valley Holdings Limited Group and the Bradford & Bingley plc Group

	Aire Valley Holdings Ltd and subsidiaries 2009 £000	Aire Valley Holdings Ltd and subsidiaries 2008 £000
Current assets		
Amounts due from Group undertakings	1	2

Auditors' remuneration of £3,872 (2008 £4,000) was borne by Bradford & Bingley plc

5 Critical accounting judgements and estimates

In preparation of the Company's accounts judgements and estimates are made which 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 2009 or 31 December 2008 there were no critical accounting judgements and estimates.

6. Financial instruments

(a) Fair values of financial assets and financial liabilities

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	1	1	1	-
Total financial assets	4	4	4	-

At 31 December 2008	Loans and receivables	Total carrying value	Fair value	If fair values increased by 1%
Financial assets	£000	£000	£000	£000
Amounts due from Group undertakings	2	2	2	-
Total financial assets	2	2	2	-

Notes to the Financial Statements for the year ended 31 December 2009 (continued)

6 Financial instruments**(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 due from Group undertakings

The exposure to credit risk was

	2009	2008
	£000	£000
Cash and cash equivalents	3	-
Amounts due from Group undertakings	1	2
Exposure to credit risk	<u>4</u>	<u>2</u>

(ii) Other market risks

At the Balance Sheet date the Company had no other material exposure to market risks (2008: £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

7. Called up share capital

Ordinary shares of £1 each	2009	2008	2009	2008
	Shares	Shares	£	£
Authorised				
As at 1 January and 31 December	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Allotted, issued and fully paid				
As at 1 January and 31 December	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

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

8 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

Notes to the Financial Statements for the year ended 31 December 2009 (continued)

9 Ultimate parent undertaking

The Company's immediate parent undertaking is Aire Valley Holdings Limited, a limited liability company incorporated in the United Kingdom under the Companies Act 1985 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 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

As a result of The Bradford & Bingley plc Transfer of Securities and Property etc Order 2008, which transferred all shares in Bradford & Bingley plc to the Treasury Solicitor as nominee for HM Treasury on 29 September 2008, the Company considers Her Majesty's Government to be the ultimate controlling party from that date