CH

AIRE VALLEY MORTGAGES 2005-1 PLC

Directors' Report and Financial Statements

Registered number: 05343520

31 December 2012

Directors' Report and Financial Statements

Contents

Company Information

Directors

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

Company Secretary

SFM Corporate Services Limited

Registered Office

35 Great St Helen's
London
EC3A 6AP

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
31 Great George Street
Bristol
BS1 5QD

Directors' Report for the year ended 31 December 2012

Registered number 05343520

The Directors present their Report and the audited Financial Statements for the year ended 31 December 2012

Ownership and control

Aire Valley Mortgages 2005-1 plc (the Company) is a public limited liability company incorporated and domiciled in the United Kingdom The Company is a subsidiary of Aire Valley Holdings Limited, a private limited liability company incorporated and domiciled in the United Kingdom

Aire Valley Holdings Limited holds one £1 fully paid share and 49,998 quarter paid up ordinary shares in the Company One £1 ordinary fully paid share is held by SFM Nominees for the benefit of Aire Valley Holdings Limited

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 B&B is the Company s controlling party

Principal activities

The Company's principal activity is to issue debt securities and to enter into financial arrangements to fund the activities of certain subsidiaries of Aire Valley Holdings Limited and ultimately UKAR by means of intercompany loans The debt securities were originally issued in US Dollars, Euros and Sterling and are secured on a beneficial interest in a portfolio of mortgage loans originated by the B&B Group held under an Aire Valley Master Trust arrangement by Aire Valley Trustee Limited These mortgage loans are secured on residential property in the United Kingdom Details are set out in the offering circular pertinent to the issue The Company issued £998 5m floating rate notes to the market on 28 April 2005, £216 2m of the notes were redeemed in December 2007 £267 1m in March 2008, £16 2m in June 2008 £5 3m of the loan notes in December 2010 £49m in March 2011 £16m in June 2011, £18m in September 2011 and £14m in December 2011 A further £5m of the loan notes were redeemed in March 2012 £6m in September 2012 and £5m in December 2012 At the exchange rates at issue as at 31 December 2012 £381m (2011 £397m) loan notes remained in issue

As described in note 11(a) on 10 May 2012 a non-asset trigger event occurred This has affected the timing of future redemptions of the loan notes in issue

Business review

The profits of the Company are pre-determined under the terms of the issue documentation The results for the year are shown in the Statement of Comprehensive Income on page 8 The loss after taxation was £3 6m (2011 £3 9m profit) Fair value losses of £3 6m (2011 £3 6 gain) arose due to the movements in interest rates and exchange rates over the course of the year This fair value loss is a timing effect only, which will reverse and does not have cash implications

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

Key performance indicators

The key performance indicators used by management in assessing the performance of the Company are the quality of the assets in the mortgage pool and the compliance of the Company with the terms of the securitisation documentation During the year the Company has complied with the terms of the securitisation documentation Information about the quality of the assets in the mortgage pool is provided in the monthly trustee reports to investors, including the following

		2012	2011
Number of mortgage loans	**Number**	**84,769**	87,771
Outstanding mortgage loans	**£bn**	**10 4**	10 8
Number of mortgage loans 3 months or more in arrears	**Number**	**1,098**	1 578
Principal value of mortgage loans 3 months or more in arrears	**£m**	**158 6**	234 2
Arrears value of mortgage loans 3 months or more in arrears	**£m**	**3 9**	6 4
Mortgage loans in repossession	**Number**	**207**	98
Mortgage loans in repossession	**£m**	**29 2**	15 5
Weighted average indexed current LTV	**%**	**84 4**	84 6

Future developments

The Directors expect that during 2013 the Company will continue to meet the interest payments on the notes At the present time the Directors do not foresee any changes in the Company's activities

Dividend

No dividends were paid during the year or previous year, and the Directors do not recommend the payment of a final dividend for the year (2011 £nil)

Directors' Report for the year ended 31 December 2012 (continued)

Registered number 05343520

Payment policy
Payments are made in accordance with the priority of payments set out in the transaction documentation Subject to this, standard terms provide for payment of suppliers 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 and up to the date of signing the Financial Statements were as follows

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

Mr McLelland SFM Directors Limited and SFM Directors (No 2) Limited are also Directors of Aire Valley Holdings Limited None of the Directors had any interest in the share capital of Aire Valley Holdings Limited during the current or preceding year and none of the Directors had an interest in the share or loan capital of B&B or in any of its subsidiary undertakings Mr McLelland is a director of B&B and UKAR

Events after the reporting period
The rate of corporation tax will decrease to 23% from 1 April 2013 as described in note 5 The proposed further reduction to 21% from 1 April 2014 is expected to be enacted separately

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

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, currency 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 risk 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 B&B Group as a whole is provided on pages 11-13 of that B&B Group's 2012 Annual Report & Accounts, which do not form part of this Report and Financial Statements

The Company has entered into contracts with a number of third parties to provide operational support including corporate service providers paying agents and swap providers B&B acts as bank account and cash manager The Company's operations are subject to periodic review by the B&B internal audit department

The issue documentation also sets out a number of business risks through a number of asset and non asset trigger events
The occurrence of trigger events could lead to early redemption of the floating rate notes

Corporate governance
The Directors have been charged with governance in accordance with the transaction documents describing the structure and operation of the transaction The governance structure of the Company is such that the key policies have been predetermined at the time of issuance and the operational roles have been assigned to third parties with their roles strictly governed by the transaction documents

The transaction documents provide for procedures that have been designed for safeguarding assets against unauthorised use or disposition for maintaining proper accounting records and for the reliability and usefulness of financial information used within the business or for publication Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives whilst enabling them to comply with the regulatory obligations

Due to the nature of the securities which have been issued the Company is exempt from the requirements of the Financial Conduct Authority ('FCA') Disclosure and Transparency Rules 7 1 Audit Committees and 7 2 Corporate Governance statements (save for the rule 7 2 5 requiring description of the features of the internal control and risk management systems), which would otherwise require the Company respectively to have an audit committee in place and include a corporate governance statement in the Directors Report The Directors are therefore satisfied that there is no requirement for an audit committee or a supervisory body entrusted to carry out the functions of an audit committee or to publish a corporate governance statement

Directors' Report for the year ended 31 December 2012 (continued)

Registered number 05343520

Political and charitable contributions
During the year no political or charitable contributions were made (2011 £nil)

Third party indemnities
Qualifying third party indemnity provision for the benefit of all Directors was in force during the year under review and remains in force as at the date of approval of the Directors' Report and Financial Statements

Independent auditors
The auditors, PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the annual general meeting

Statement of Directors' Responsibilities
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 Financial Statements for each financial year Under that law the Directors have prepared the Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union ('EU') 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 IFRSs as adopted by the EU have been followed subject to any material departures disclosed and explained in the Financial Statements

• 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

By order of the Board

Helena Whitaker
per pro SFM Corporate Services Limited
Company Secretary
14 June 2013

Independent Auditor's Report to the members of Aire Valley Mortgages 2005-1 plc

We have audited the Financial Statements of Aire Valley Mortgages 2005-1 plc for the year ended 31 December 2012 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of directors and auditors
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 Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the Financial Statements
An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material 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 Directors' Report and Financial Statements to identify material inconsistencies with the audited Financial Statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

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 2012 and of its loss and cash flows for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the Financial Statements are not in agreement with the accounting records and returns or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Craig Gentle (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
14 June 2013

Statement of Comprehensive Income for the year ended 31 December

	Note	2012 £000	2011 £000
Interest receivable and similar income	2	7,614	4,902
Interest expense and similar charges	3	(7,575)	(4,863)
Net interest income		39	39
Operating expenses	4	(38)	(38)
Other (loss)/gain	11(e)	(3,589)	3,646
(Loss)/profit before taxation		(3,588)	3,647
Taxation	5	(2)	224
(Loss)/profit for the year attributable to owners of the parent		(3,590)	3,871
Other comprehensive income for the financial year		-	-
Total comprehensive (expense)/income for the financial year		(3,590)	3,871

The Company's business and operations comprise one single activity in the United Kingdom, and the Company has only one operating segment for the purpose of IFRS 8 'Operating Segments' The results above arise from continuing activities and are attributable to the equity shareholder

The notes on pages 12 to 25 form an integral part of these Financial Statements

Balance Sheet at 31 December

Registered number 05343520

	Note	2012 £000	2011 £000
Assets			
Loans to Group undertakings	*8*	383,871	396,808
Derivative financial instruments	*11(e)*	37,729	50,731
Total non-current assets		421,600	447,539
Cash and cash equivalents		55,513	68,882
Current tax assets		1	3
Total current assets		55,514	68,885
Total assets		477,114	516,424
Liabilities			
Interest-bearing loans and borrowings	*7*	420,304	442,552
Total non-current liabilities		420,304	442,552
Deposits by banks	*11(c)*	55,495	68,864
Interest-bearing loans and borrowings	*7*	109	212
Total current liabilities		55,604	69,076
Total liabilities		475,908	511,628
Equity			
Capital and reserves attributable to equity holders			
Share capital	*12*	13	13
Retained earnings		1,193	4,783
Total equity attributable to owners of the parent		1,206	4,796
Total equity and liabilities		477,114	516,424

The notes on pages 12 to 25 form an integral part of these Financial Statements

The Financial Statements were approved by the Board of Directors and authorised for issue on 14 June 2013 and signed on its behalf by

Helena Whitaker
per pro SFM Directors Limited
As Director
14 June 2013

Statement of Changes in Equity for the year ended 31 December

	Share capital £000	Retained earnings £000	Total equity £000
At 1 January 2012	**13**	**4,783**	**4,796**
Total comprehensive income for the financial year	**-**	**(3,590)**	**(3,590)**
At 31 December 2012	**13**	**1,193**	**1,206**
At 1 January 2011	13	912	925
Total comprehensive income for the financial year	-	3,871	3,871
At 31 December 2011	13	4,783	4,796

Cash Flow Statement for the year ended 31 December

	2012 £000	2011 £000
Cash flows from operating activities		
(Loss)/profit before tax	**(3,588)**	3,647
Adjustments for		
Interest on loans to Group undertakings	**(7,604)**	(4,751)
Interest on call loans	**(10)**	(151)
Interest on floating rate notes	**6,953**	5,547
Interest on call deposits	**10**	156
Amortisation of issue costs	**1**	2
Swap interest	**611**	(842)
Fair value movements	**3,589**	(3,646)
Cash generated from operations	**(38)**	(38)
Taxation received	**-**	1
Net cash used in operating activities	**(38)**	(37)
Cash flows from financing activities		
Movement in loans to Group undertakings	**12,937**	97,042
Repayment of deposits by banks	**(13,369)**	(18,750)
Interest received on loans to Group undertakings	**7,604**	4,751
Interest received on call loans	**10**	151
Interest paid on floating rate notes	**(4,851)**	(5,535)
Interest on call deposits	**(10)**	(156)
Swap interest (paid)/received	**(546)**	842
Repayment of floating rate notes	**(15,106)**	(97,062)
Net cash used in financing activities	**(13,331)**	(18,717)
Net decrease in cash and cash equivalents	**(13,369)**	(18,754)
Cash and cash equivalents at beginning of year	**68,882**	87,636
Cash and cash equivalents at end of year	**55,513**	68,882
Cash collateral held	**55,495**	68,864
Cash at bank	**18**	18
	55,513	68,882

All of the cash collateral held is in respect of collateral received from derivative counterparties pursuant to the provisions of associated credit support agreements and is repayable on demand The Company will only be free to utilise collateral in the event that there is a default by the derivative counterparty in relation to the associated cross currency swaps

Notes to the Financial Statements for the year ended 31 December 2012

1 Principal accounting policies

Aire Valley Mortgages 2005-1 plc ('the Company') is a public limited liability company incorporated and domiciled in the United Kingdom

(a) Statement of compliance

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

For these 2012 Financial Statements, including the 2011 comparative financial information where applicable, the Company has adopted for the first time the following statements

- The December 2010 amendments to IAS 12 'Income Taxes relating to 'Deferred Tax Recovery of Underlying Assets' This amendment is mandatory for 2012 financial statements, with 2011 comparative information Adoption of this statement had no impact on the Financial Statements of the Company

For these 2012 Financial Statements the Company has not adopted the following statements but is continuing to assess whether these statements will have any impact on the 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 is expected to be mandatory for 2015 financial statements, with 2014 comparative information, but has not yet been adopted for use in the EU The Company continues to monitor developments

- IFRS 13 'Fair Value Measurement' This statement is mandatory for 2013 Financial Statements, with 2012 comparative information

- The June 2011 amendments to IAS 1 'Presentation of Financial Statements' relating to 'Presentation of Items of Other Comprehensive Income' This statement is mandatory for 2013 financial statements, with 2012 comparative information,

- 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 are mandatory for 2013 Financial Statements, with 2012 comparative information

- The Annual Improvements to IFRSs 2009-2011 Cycle, issued in May 2012 These changes are mandatory for 2013 financial statements, with 2012 comparative information

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

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

(b) Basis of preparation

The Financial Statements are presented in pounds sterling, which is the currency of the Company's primary operating environment, and on a going concern basis HM Treasury has confirmed that it is its intention to continue to fund B&B so as to maintain that company as a going concern and enable that company to meet its debts as and when they fall due until at least 31 October 2014 The Financial Statements are prepared on the historical cost basis except for financial instruments classified as 'at fair value through profit or loss'

The Directors consider that the accounting policies set out in this note are the most appropriate to the Company's circumstances, have been consistently applied to the Company in dealing with items which are considered material, and are supported by reasonable and prudent estimates and judgements

Judgements made by the Directors in the application of these accounting policies that have a significant effect on the Financial Statements and estimates with a significant risk of material adjustment in the next year are discussed in note 10

Notes to the Financial Statements for the year ended 31 December 2012 (continued)

1 Principal accounting policies (continued)
The Directors consider the business to comprise one operating and geographical segment due to the similarity of risks faced within its UK based residential portfolios

The Financial Statements have been prepared in accordance with EU adopted IFRS, IFRIC interpretations issued by the IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS A summary of accounting policies is set out below The preparation of the Financial Statements in conformity with these accounting policies and generally accepted accounting principles requires the use of estimates and assumptions that affect the reported values of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period Although these estimates are based on management's best knowledge of the amounts, event or actions, actual results ultimately may differ from those estimates (see note 10)

(c) Interest income and expense
For all interest-bearing financial instruments except derivatives, interest income and expense are recognised in the Statement of Comprehensive Income on an Effective Interest Rate ('EIR') basis

The EIR method calculates the amortised cost of a financial asset or financial liability and spreads the resulting interest income or interest expense on a level yield basis over the expected life of the instrument The EIR is the rate which at the inception of the instrument exactly discounts expected future cash flows over the expected life of the instrument 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, premia on acquisition of mortgage portfolios and all other premia and discounts as well as interest

When a financial asset or a group of similar financial assets is written down as a result of an impairment loss, interest income continues to be recognised by applying the applicable EIR to the reduced balance

(d) Taxation
(i) Current tax
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 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 The principal temporary differences arise from unrealised fair value movements

(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
On initial recognition, debt issued is measured at its fair value net of directly attributable transaction costs and discounts, in accordance with IAS 39 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' The carrying value of the instrument includes the amount of these adjustments which still remains to be charged to the Statement of Comprehensive Income

Notes to the Financial Statements for the year ended 31 December 2012 (continued)

1 Principal accounting policies (continued)

(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) Financial liabilities at fair value through profit or loss or
(vi) Other liabilities

Measurement of financial instruments is either at 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' other than derivative financial instruments

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 For assets the amortised cost balance would be reduced where appropriate by an allowance for amounts considered to be impaired or uncollectable 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

Fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction Where a market exists, fair values are based on quoted market prices For instruments which do not have active markets fair value is calculated using present value models which take individual cash flows together with assumptions based on market conditions and credit spreads and are consistent with accepted economic methodologies for pricing financial instruments

(h) Derivative financial instruments
All derivatives are carried in the Balance Sheet at fair value as assets when the fair value is positive and as liabilities when the fair value is negative Changes in the fair value of derivatives are reflected immediately in the Statement of Comprehensive Income as 'other gain/loss' The derivatives were taken out as economic hedges against interest rate and exchange rate movements

(i) Foreign currencies
Foreign currency transactions, assets and liabilities are accounted for in accordance with IAS 21 'The Effects of Changes in Foreign Exchange Rates' The presentational and functional currency of the Company is pounds sterling Transactions which are not denominated in pounds sterling are translated into sterling at the spot rate of exchange on the date of the transaction Monetary assets and liabilities which are not denominated in pounds sterling are translated into sterling at the closing rate of exchange at the Balance Sheet date

Foreign exchange gains and losses resulting from the restatement and settlement of such transactions are recognised in the Statement of Comprehensive Income in 'other loss/gain'

(j) Hedge accounting
The Company applied fair value hedge accounting to its floating rate notes to hedge interest and exchange rate movements In 2011 the Company ceased to apply hedge accounting The carrying amount of floating rate notes still includes legacy fair value hedge adjustments which are being amortised to the statement of comprehensive income over the the instrument's remaining life by recalculating its effective interest rate

Notes to the Financial Statements for the year ended 31 December 2012 (continued)

2 Interest receivable and similar income

	2012 £000	2011 £000
Interest on loans to Group undertakings	7,604	4 751
Interest on call loans	10	151
	7,614	4 902

Interest income for the year on impaired assets was £nil (2011 £nil) as no financial asset is impaired

3 Interest expense and similar charges

	2012 £000	2011 £000
Interest on floating rate notes	6,953	5 547
Interest on cash collateral	10	156
Swap interest	611	(842)
Amortisation of issue costs	1	2
	7 575	4 863

The interest rates payable on the floating rate notes step up if the notes are not redeemed by certain dates

4 Operating expenses

	2012 £000	2011 £000
Legal and professional fees	38	38

Auditors remuneration of £2 438 (2011 £2 475) was borne by B&B

The Company had no employees during the year or previous year

5 Taxation

	2012 £000	2011 £000
Current taxation charge		
UK corporation tax on (loss)/profit for the year	-	-
Adjustments in respect of previous years	2	-
Origination and reversal of temporary differences	-	(224)
Total taxation charge/(credit) per the Statement of Comprehensive Income	2	(224)
(Loss)/profit before taxation	(3,588)	3 647
UK corporation tax at 24 5% (2011 26 5%)	(879)	966
Effects of		
Expenses not deductible for taxation	879	-
Income not taxable	-	(966)
Adjustments in respect of previous years	2	(224)
Total taxation charge/(credit) per the Statement of Comprehensive Income	2	(224)

The deferred tax liability is attributable to the following

	Recognised in income 2012 £000	As at 31 December 2012 £000	Recognised in income 2011 £000	As at 31 December 2011 £000
Fair value movements	-	-	224	

On 21 March 2012 the Government announced a reduction in the rate of corporation tax to 24% with effect from 1 April 2012 This reduction was enacted under the Provisional Collection of Taxes Act 1968 on 26 March 2012 In addition the Finance Act 2012 which passed into law on 31 July 2012 included legislation to reduce the main tax rate of corporation tax from 24% to 23% with effect from 1 April 2013

The carrying amount of deferred tax relating to fair value movements has been reassessed as being nil because it is not expected to result in an actual future tax payment or receipt

6 Employees and Directors' emoluments

There were no employees during the year (2011 none) 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 in connection with its supply of corporate management services including the provision of directors (see note 9)

Notes to the Financial Statements for the year ended 31 December 2012 (continued)

7 Interest-bearing loans and borrowings

Interest-bearing loans and borrowings comprise floating rate notes issued on 28 April 2005

Under the terms of the Notes, any shortfalls arising on the redemption of the Loan to Group undertaking, over which the Noteholders have a charge, may result in a reduction in the liability under the Notes, due to their limited recourse nature Such shortfall on the redemption of the Loan to Group undertaking may arise if the underlying mortgage pool against which the Loan to Group undertaking is secured does not generate sufficient cash to repay the Loan to Group undertaking and the credit enhancement in the structure is not sufficient to cover such shortfall

Class	Final maturity	In currency 31 December 2012	In currency 31 December 2011	31 December 2012 £000	31 December 2011 £000
Series 2 A1	Sep 2066	£168,471,605	£176,251,957	168,472	176,252
Series 2 A2	Sep 2066	€ 203,048,747	€ 212,425,939	164,957	177,567
Series 2 A3	Sep 2066	$36,784,193	US$38,482,960	22,660	24,777
Series 2 B1	Sep 2066	£10,000,000	£10,000,000	10,000	10,000
Series 2 B2	Sep 2066	€ 23,000,000	€ 23,000,000	18,685	19 226
Series 2 C2	Sep 2066	€ 41,800,000	€ 41,800,000	33,958	34,941
				418,732	442,763
Issue costs				-	(1)
Unamortised carrying value of de-designated fair value hedge				(633)	(210)
				418,099	442,552
Accrued interest - non-current				2,205	-
Accrued interest - current				109	212
				420,413	442,764

Non-current accrued interest reflects the anticipated interest rate step-ups on certain notes

Subject to their scheduled redemption dates, the Class A notes rank, irrespective of series, without preference or priority amongst themselves Subject to the relevant scheduled and/or, as applicable, permitted redemption dates or other payment conditions of the issuer notes, payments of principal and interest due and payable on the Class A notes will rank ahead of payments of principal and interest due and payable on the Class B notes and the Class C notes subject to the terms and conditions of the notes, the issuer cash management agreement, the issuer deed of charge and the other issuer transaction documents Similarly, payments of principal and interest due and payable on the Class B notes will rank ahead of payments of principal and interest due and payable on the Class C notes

The notes are now in 'pass through', and will be partially redeemed on each quarterly interest payment date to the extent that funds are available, in accordance with the terms set out in the Offering Circular The timing of future redemptions will be dependent on the availability of funds, and cannot be reliably forecast and hence the notes have all been described as non current liabilities

As described in note 11(a), on 10 May 2012 a non-asset trigger event occurred This has affected the timing of future redemptions of the loan notes in issue

Interest is payable on the Series 2 Class A1 and Class B1 notes at a variable rate based on three month sterling LIBOR Interest is payable on the Series 2 Class A2, Class B2 and Class C2 notes at a variable rate based on three month EURIBOR Interest is payable on the Series 2 Class A3 notes at variable rates based upon three month US Dollar LIBOR The interest rates payable on certain notes stepped up on certain dates, and the rates payable on other notes will step up if the notes have not been redeemed by the step up date The step up has been accounted for on an EIR basis The increase in accrued interest at 31 December 2012 compared to 31 December 2011 reflects the anticipated future step ups

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 assets of the Company are loans made by it to Aire Valley Funding 1 Limited, a fellow subsidiary undertaking of Aire Valley Holdings Limited, whose obligations in respect of these loans 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 1 Limited, including the Company

Notes to the Financial Statements for the year ended 31 December 2012 (continued)

8 Loans to Group undertakings

Loans to Group undertakings comprise a single loan to Aire Valley Funding 1 Limited, denominated in Sterling and at a variable rate of interest This loan has ultimately been secured against a beneficial interest in a mortgage portfolio held in trust on behalf of the Aire Valley Holdings Limited Group The ability of Aire Valley Funding 1 Limited to pay amounts due on the intercompany loan will depend mainly upon it receiving sufficient revenue receipts and principal on the trust property from Aire Valley Trustee Limited, receiving the required funds from the swap provider and amounts available in the reserve funds The terms of the loans to Group undertakings are set such that the Company's income is sufficient to service its liabilities and to retain a profit prescribed by the terms of the securitisation structure The repayment of the intercompany loans will coincide with the repayment of the floating rate notes as they become due for payment, only to the extent these are available, and hence the loans have all been described as non-current assets

9 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 is a director of B&B (the controlling party under IFRS) The Company pays a corporate services fee to Structured Finance Management Limited in connection with its supply of corporate management services including the provision of Directors The fee amounted to £10,168 (2011 £10,093)

The Company undertook the following transactions with companies in the B&B Group and the Aire Valley Holdings Limited Group

	Aire Valley Holdings Limited and subsidiaries 2012 £000	Aire Valley Holdings Limited and subsidiaries 2011 £000
Interest receivable and similar income		
Interest on loans to Group undertakings	**7,604**	4,751
Non-current assets		
Loans to Group undertakings	**383,871**	396,808

Auditors' remuneration of £2 438 (2011 £2,475) was borne by B&B

At 31 December 2012 B&B held €13,100,000 (2011 €nil) of the Company's floating rate notes and earned €116,000 (2011 €nil) interest on them during the year

10 Critical accounting judgements and estimates

In preparation of the Company's Financial Statements 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

Effective interest rate

Certain financial instruments are accounted for at amortised cost 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

Fair values of financial instruments

Certain financial instruments are carried at fair value Where a market exists, fair values are based on quoted market prices For instruments which do not have an active market, fair value is calculated using expected future cash flows for which assumptions are made

Notes to the Financial Statements for the year ended 31 December 2012 (continued)

11 Financial instruments

(a) Categories of financial assets and financial liabilities carrying value compared to fair value
At 31 December 2012

Financial assets	**Assets at fair value through profit or loss on initial recognition £000**	**Loans and receivables £000**	**Total carrying value £000**	**Fair value £000**
Loans to Group undertakings	-	383 871	383 871	346 853
Derivative financial instruments	37 729	-	37 729	37,729
Cash and cash equivalents	-	55,513	55 513	55 513
Total financial assets	**37,729**	**439,384**	**477,113**	**440,095**

Financial liabilities	**Liabilities at fair value through profit or loss on initial recognition £000**	**Liabilities at amortised cost £000**	**Total carrying value £000**	**Fair value £000**
Interest-bearing loans and borrowings	-	420,413	420 413	383 395
Deposits by banks	-	55 495	55 495	55 495
Total financial liabilities	**-**	**475,908**	**475,908**	**438,890**

At 31 December 2011

Financial assets	Assets at fair value through profit or loss on initial recognition £000	Loans and receivables £000	Total carrying value £000	Fair value £000
Loans to Group undertakings	-	396 808	396 808	293,301
Derivative financial instruments	50 731	-	50 731	50 731
Cash and cash equivalents	-	68 882	68 882	68,882
Total financial assets	50 731	465 690	516 421	412,914

Financial liabilities	Liabilities at fair value through profit or loss on initial recognition £000	Liabilities at amortised cost £000	Total carrying value £000	Fair value £000
Interest-bearing loans and borrowings	-	442 764	442 764	339 257
Deposits by banks	-	68 864	68 864	68 864
Total financial liabilities	-	511 628	511 628	408 121

Notes to the Financial Statements for the year ended 31 December 2012 (continued)

11 Financial instruments (continued)

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

No financial assets were reclassified during the year between amortised cost and fair value categories

The fair value of loans to group undertakings has been adjusted to reflect the market yields implied by the floating rate notes valuations

The fair value of interest-bearing loans and borrowings is based upon quoted market prices

The fair value of derivatives is their carrying amount

On 10 May 2012 a non-asset trigger event occurred within the structure of the Aire Valley Master Trust, due to the aggregate current balance of loans comprising the trust property falling below the minimum trust size of £10 7billion This affected the order of priority of payments as set out on pages 108 to 112 of the Company's Offering Circular As a result, scheduled redemptions of any outstanding notes will not be paid on their scheduled redemption dates and may not be paid on their final maturity date All principal receipts are allocated to Aire Valley Funding 1 Limited and will continue to be so allocated until the relevant share of the trust property is zero The principal receipts are utilised to repay all intercompany term advances until they have been repaid in full, if sufficient funds are available

(b) Interest income and expense on financial instruments that are not at fair value through profit or loss

	2012 Income £000	2012 Expense £000	2011 Income £000	2011 Expense £000
Interest on loans to Group undertakings	7,604	-	4 751	-
Interest on call loans	10	-	151	-
Interest on floating rate notes	-	6,953	-	5,547
Interest on cash collateral	-	10	-	156
Amortisation of issue costs	-	1	-	2

Interest income for the year on impaired assets was £nil (2011 £nil) as no financial asset is regarded as impaired

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

The Company's exposure to risk on financial instruments and the management of this risk is established at the commencement of the securitisation transactions, with the Company's activities and the roles of other parties defined in the programme documentation Financial instruments used by the Company for risk management purposes include derivative instruments Such instruments are used for commercial hedging purposes only, not for trading or speculative purposes, to hedge interest rate and currency risk arising as part of the securitisation transaction The principal derivative instruments used by the Company in managing its risk are cross currency swaps The maturity profile of derivative instrumentsreflects the nature of exposures arising from underlying business activities All the Company's derivatives activity is contracted with financial institutions

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 via amounts due from the loan to Group undertakings, derivative counterparties and deposits with third party banks

The Company's ability to meet payments under the floating rate notes relies on the receipt of funds on the loan to Group undertakings, which is in turn dependent on receipt of payments on the mortgage portfolio held in trust To minimise risk any mortgage included in the portfolio is required to meet a number of criteria as determined in the transaction document Credit risk also exists on the derivative contracts entered into The swap counterparties are required to have minimum credit ratings as outlined in the transaction documentation

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

Notes to the Financial Statements for the year ended 31 December 2012 (continued)

11 Financial instruments (continued)

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

Liquidity risk
During the year the Company had floating rate notes in issue denominated in Sterling US Dollars and Euros 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 The Company's ability to meet payments under the floating rate notes relies on the receipt of funds on the loan to Group undertakings, which is in turn dependent on receipt of payments on the mortgage portfolio held in trust (note 11c (ii))

Currency risk
During the year the Company had floating rate notes in issue denominated in US Dollars and Euros The Company's policy is to eliminate all exposures arising from movements in exchange rates by the use of cross currency swaps to hedge payments of interest and principal on the notes All other assets liabilities and transactions are denominated in Sterling The table in note 11c(iii) summarises the Company's assets and liabilities denominated in foreign currencies

Interest rate risk
Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times To minimise exposure to interest rate risk the Company ensures that the interest rate profiles of the loans to Group undertakings and of the interest-bearing loans and borrowings are similar Where this is not possible derivative financial instruments are also used to reduce any residual interest rate risk If LIBOR for three month-Sterling deposits was 1% higher or lower with all other variables held constant the effect on the Company's net interest income would be immaterial due to movements on interest on the loan to Group undertakings being offset by movements on interest on the loan notes This would also apply if LIBOR for three-month Euro and US $ deposits were 1% higher or lower with all other variables held constant as movements in interest on foreign currency loan notes would be offset by a corresponding movement in interest on the currency swaps and on loans to Group undertakings

A 1% increase in LIBOR for three month Sterling deposits would give rise to a fair value gain in the Statement of Comprehensive Income of 784 000 due to changes in the fair value of derivatives A 1% increase in LIBOR for three-month Euro deposits would give rise to a fair value loss in the Statement of Comprehensive Income of £797 000 due to changes in the fair value of derivatives A 1% increase in LIBOR for three-month US $ deposits would give rise to a fair value loss in the Statement of Comprehensive Income of £63,000 due to changes in the fair value of derivatives

Other market risks
At the year end the Company had no other material exposure to market risks (2011 £nil)

(i) Credit risk
Before taking account of any collateral the exposure to credit risk was

	2012	2011
	£000	£000
Loans to Group undertakings	383,871	396 808
Derivative financial instruments	37,729	50,731
Cash and cash equivalents	55,513	68 882
Total on-Balance Sheet and maximum exposure to credit risk	477,113	516 421

No impairment has been recognised in respect of any financial asset and no financial assets were past due

Credit enhancements
Credit enhancement is provided to the securitisation structure in a number of ways The mortgage pool assets are significantly greater than the Notes which have been issued by the members of the Aire Valley Holdings Limited group This over-collateralisation as well as the reserve fund are available to make good any reductions in the principal balance of the mortgage pool as result of defaults by customers

	2012	2011
	£000	£000
Mortgages	10,402,949	10 838,207
Notes in issue	(7,667,634)	(8 096 599)
Over collateralisation	2,735,315	2 741,608
Liability reserve fund	380,000	380 000
Total credit enhancements	3,115,315	3 121 608

At 31 December 2012 the cash and cash equivalents were deposited with a counterparty which had a credit rating of AA- (2011 AA-)

The Company is exposed to credit risk on the 'loans to Group undertakings' This comprises a loan to Aire Valley Funding 1 Limited which used the proceeds to purchase an interest in a portfolio of residential mortgages from B&B The credit risk associated with the mortgage portfolio is continually monitored by the B&B group and external rating agencies A significant increase in the arrears and/or repossession losses associated with this mortgage portfolio could result in Aire Valley Funding 1 Limited being unable to make all repayments of interest and principal due to the Company in respect of the loans This in turn could mean that the Company is unable to make all repayments of interest and principal due in respect of the loan notes It should be noted however, that the Company is only obliged to make repayments of interest and principal in respect of the loan notes to the extent that the repayments received from the loans to Aire Valley Funding 1 Limited allow

Notes to the Financial Statements for the year ended 31 December 2012 (continued)

11 Financial instruments (continued)

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

(ii) Liquidity risk

There is a liquidity reserve fund provided by Aire Valley Funding 1 Limited in the event that the Company is unable to meet its financial commitments, on a temporary basis, in certain circumstances and subject to certain criteria This fund was not drawn upon during the current or preceding year or in 2013 up to the date of authorisation of these Financial Statements

The contractual undiscounted cash flows associated with financial liabilities 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
At 31 December 2012						
Interest-bearing loans and	-	9,871	36,470	265,597	122,136	434,074
Deposits by banks	55,495	-	-	-	-	55,495
Total	**55,495**	**9,871**	**36,470**	**265,597**	**122,136**	**489,569**
At 31 December 2011						
Interest-bearing loans and	-	17,180	22,726	238,274	190,253	468,433
Deposits by banks	68,864	-	-	-	-	68,864
Total	68,864	17,180	22,726	238,274	190,253	537,297

The cash flows above assume that the loan notes are redeemed on the earliest possible date that the Company could be compelled to redeem them

As described in note 11(a), on 10 May 2012 a non-asset trigger event occurred This will affect the timing of future redemptions of the loan notes in issue

(iii) Currency risk

The Group's policy is to hedge all material foreign currency exposures, by the use of derivatives Consequently, at 31 December 2012 and 31 December 2011 the Company had no net material exposure to foreign exchange fluctuations or changes in foreign currency interest rates The impact on the Company's profit and equity of reasonably possible changes in exchange rates compared to actual rates would not have been material at 31 December 2012, the movement in value of the floating rate notes would be offset by movement in value of derivatives

The amounts of financial assets and liabilities denominated in foreign currencies were as follows

	Euro £000	US $ £000	Total £000
At 31 December 2012			
Financial assets			
Derivative financial instruments	217,652	22,665	240,317
Cash and cash equivalents	55,495	-	55,495
Total financial assets	**273,147**	**22,665**	**295,812**
Financial liabilities			
Deposits by banks	55,495	-	55,495
Interest-bearing loans and borrowings	217,652	22,665	240,317
Total financial liabilities	**273,147**	**22,665**	**295,812**
Net currency gap	-	-	-

Notes to the Financial Statements for the year ended 31 December 2012 (continued)

11 Financial instruments (continued)

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

(iii) Currency risk (continued)

	Euro £000	US $ £000	Total £000
At 31 December 2011			
Financial assets			
Derivative financial instruments	231,863	24,783	256,646
Cash and cash equivalents	68,864	-	68,864
Total financial assets	300,727	24,783	325,510
Financial liabilities			
Deposits by banks	68,864	-	68,864
Interest-bearing loans and borrowings	231,863	24,783	256,646
Total financial liabilities	300,727	24,783	325,510
Net currency gap	-	-	-

(d) Concentrations of risk

The Company operates primarily in the United Kingdom, and adverse changes to the United Kingdom economy could impact on all areas of the Company's business The loan to Group undertakings is due from one entity, Aire Valley Funding 1 Limited, and represents an interest in a portfolio of mortgage loans secured on residential properties in the United Kingdom In turn Aire Valley Funding 1 Limited's ability to meet its loan obligations to the Company is based upon its cash receipts from its interest in the portfolio

(e) Derivatives

The Company had the following types of derivatives

	Nominal amounts	**Fair value**	**Total derivatives**
At 31 December 2012	**£000**	**£000**	**£000**
Cross-currency interest rate swaps	**240,260**	**37,729**	**37,729**
Total asset balances	**240,260**	**37,729**	**37,729**
At 31 December 2011	£000	£000	£000
Cross-currency interest rate swaps	256,510	50,731	50,731
Total asset balances	256,510	50,731	50,731

Other gain/(loss) on derivatives in the Statement of Comprehensive Income compromised the following

	2012	2011
	£000	£000
Net losses on derivatives	**(12,936)**	(15,053)
Net gains on interest-bearing loans and borrowings due to exchange rate movements	**8,925**	19,147
Amortisation of the carrying value of de-designated fair value hedge	**422**	(448)
	(3,589)	3,646

Cross-currency swaps are used to hedge the interest and exchange rate risk on the floating rate notes This represents an effective economic hedge, but for accounting purposes there is some hedge ineffectiveness which is a timing issue only

Notes to the Financial Statements for the year ended 31 December 2012 (continued)

11 Financial instruments (continued)

(f) Fair value measurement

Financial assets and liabilities carried at fair value are valued on the following bases

At 31 December 2012	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Derivative financial instruments	-	-	**37,729**	**37,729**

At 31 December 2011	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Derivative financial instruments	-	-	50,731	50,731

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 Inputs other than quoted prices that are observable for the asset or liability, either directly (i e as price) or indirectly (i e derived from the implications of prices)
Level 3 Inputs for the asset or liability that are not based on observable market data or have significant unobservable inputs

The movement in assets and liabilities measured using a valuation technique for which any significant input is not based on observable market data (Level 3) is as follows

	Financial assets Derivative financial instruments £'000	**Total £'000**
At 1 January 2012	**50,731**	**50,731**
Total losses in the Statement of Comprehensive Income	**(13,002)**	**(13,002)**
At 31 December 2012	**37,729**	**37,729**

	Financial assets Derivative financial instruments £'000	Total £'000
At 1 January 2011	65,784	65,784
Total losses in the Statement of Comprehensive Income	(15,053)	(15,053)
At 31 December 2011	50,731	50,731

Notes to the Financial Statements for the year ended 31 December 2012 (continued)

11 Financial instruments (continued)

Sensitivity analysis of reasonably possible alternative assumptions for level 3 instruments

The main unobservable input that affects the valuation of the derivative financial instruments is the forecast level of customer prepayments in respect of mortgage loans assigned to the Trust An increase in forecast prepayments will cause cross currency swaps associated with the notes in issue to pay down in an accelerated manner, so affecting their fair values The following table shows the impact on reported fair values of a hypothetical 10% increase in customer prepayments

2012	**Reported fair value £000**	**Revised fair value £000**	**Favourable changes to Income Statement £000**	**Unfavourable changes to Income Statement £000**
Financial assets				
Derivative financial instruments	37,729	37,619	-	(110)
Financial liabilities				
Derivative financial instruments	-	-	-	-

2011	Reported fair value £000	Revised fair value £000	Favourable changes to Income Statement £000	Unfavourable changes to Income Statement £000
Financial assets				
Derivative financial instruments	50,731	50,648	-	(83)
Financial liabilities				
Derivative financial instruments	-	-	-	-

12 Share capital

	2012 Number	2011 Number	**2012 £**	2011 £
Authorised				
Ordinary shares of £1 each				
At 1 January and 31 December	**100,000**	100,000	**100,000**	100,000
Issued				
At 1 January and 31 December				
Ordinary shares of £1 each fully paid	**2**	2	**2**	2
Ordinary shares of £1 each partly paid	**49,998**	49,998	**12,499**	12,499
	50,000	50,000	**12,501**	12,501

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

13 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 capital and reserves 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 2012 (continued)

14 Ultimate parent undertaking

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

Under IFRS, the Company's controlling party during the year and previous year was B&B, a public 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

As a result of The Bradford & Bingley plc Transfer of Securities and Property etc Order 2008, which transferred all shares in B&B to the Treasury Solicitor as nominee for HM Treasury on 29 September 2008, the Company considered Her Majesty's Government to be its ultimate controlling party from that date On 1 October 2010 all shares in B&B were acquired via a share-for-share exchange by UK Asset Resolution Limited, a private limited company incorporated and domiciled in the United Kingdom, which is wholly owned by the Treasury Solicitor as nominee for HM Treasury The Company considers Her Majesty's Government to remain its ultimate controlling party UK Asset Resolution Limited heads the largest group of companies into which the Financial Statements of the Company are consolidated Copies of the financial statements of UK Asset Resolution Limited may be obtained from the Company Secretary at Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA

15 Operations of the Company

B&B, the originator of the mortgage loans in the Aire Valley Master Trust pool, carries the pool mortgages on its balance sheet The cash receipts in respect of the mortgage loans in the pool are collected by B&B and paid to the Trustee On a monthly basis the Trustee allocates this cash between Aire Valley Funding 1 Limited, the other funding companies in the Master Trust structure and to B&B (which holds a share of the pool mortgages) according to the rules of the structure On a monthly basis Aire Valley Funding 1 Limited allocates this cash between the Company and the other issuing companies in the Aire Valley Funding 1 Limited structure The Company uses its cash receipts to service its loan notes in accordance with their terms

As described in note 11(a), on 10 May 2012 a non-asset trigger event occurred This has affected the timing of future redemptions of the loan notes in issue

In accordance with the terms of the securitisation transaction, the company retains a profit before tax of a maximum of 0 01% of eligible income

16 Events after the reporting period

The rate of corporation tax will decrease to 23% from 1 April 2013 as detailed in note 5 The proposed further reduction to 21% with effect from 1 April 2014 is expected to be enacted seperately