AIRE VALLEY MORTGAGES 2005 - 1 PLC

Annual Report and Financial Statements

for the 12 months to 31 March 2015

Registered Number: 05343520

Aire Valley Mortgages 2005 - 1 plc

Annual Report and Financial Statements for the 12 months to 31 March 2015

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Aire Valley Mortgages 2005 - 1 plc

Strategic Report for the 12 months to 31 March 2015

The Directors present the Strategic Report of Aire Valley Mortgages 2005 - 1 plc ('the Company') for the 12 months to 31 March 2015. The Company is a public limited liability company incorporated and domiciled in the United Kingdom.

These financial results are for the 12 months to 31 March 2015. The previous financial results were for the 15 month period to 31 March 2014 ('15 months to March 2014') and therefore these are included as the comparative below. The Company's accounting reference date was changed from 31 December to 31 March to align to the year end of the Company's controlling party, HM Treasury.

Principal activities

The Company's principal activity 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 and ultimately UK Asset Resolution Limited ('UKAR') by means of intercompany loans. The debt securities are issued in US Dollars, Euro and Sterling and are secured on a beneficial interest in a portfolio of mortgage loans originated by Bradford & Bingley plc ('B&B') and held under a master trust arrangement by Aire Valley Trustee Limited (the 'Trustee'). These mortgage loans are secured on residential properties in the United Kingdom. Details are set out in the offering circular pertinent to this issue. The Company issued £998.5m floating rate notes to the market on 28 April 2005.

The following notes were redeemed during the year:

Month	Redemption amount
June 2014	£9m
September 2014	£9m
December 2014	£9m
March 2015	£8m

At the exchange rates at issue, as at 31 March 2015 £317m remained in issue (2014: £342m). Interest expense for the year was £3.1m (2014: £4.0m). Fair value gains of £0.5m (2014: £0.4m loss) arose due to the movements in interest rates and exchange rates over the course of the year.

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. Each month and pursuant to the terms of the securitisation transaction documents the Trustee allocates the cash between the beneficiaries Aire Valley Funding 1 Limited and B&B. Aire Valley Funding 1 Limited allocates the cash it receives each month between the Company and the other issuing companies in the Aire Valley Funding 1 Limited structure. The Company uses its cash receipts to pay noteholders.

The fair value gain in the year is a timing effect only, which will reverse, and does not have cash implications.

Controlling party

The Company's immediate parent undertaking is Aire Valley Holdings Limited, a private limited liability company incorporated and domiciled in the United Kingdom.

The Company's ultimate parent undertaking is SFM Corporate Services Limited, a private limited liability company incorporated and domiciled in the United Kingdom, which holds the shares of Aire Valley Holdings Limited on a discretionary trust basis for the benefit of certain charities.

Under IFRS, the Company's controlling party during the year and previous period was B&B a public limited company incorporated and domiciled in the United Kingdom. B&B heads the smallest group of companies into which the Financial Statements of the Company are consolidated.

The ultimate parent undertaking of B&B is UKAR, a private limited company incorporated and domiciled in the United Kingdom, which is wholly owned by the Treasury Solicitor as nominee for HM Treasury. The Company considers Her Majesty's Government to remain its ultimate controlling party.

Review of the business

During the 12 months to 31 March 2015, Aire Valley Funding 1 Limited made repayments totalling £33m (15 months to March 2014: £33m) to the Company in accordance with the terms of an Inter-Company Loan Confirmation Agreement. These repayments were used to redeem notes. The Company made all interest payments due in line with the securitisation transaction documents.

On 10 May 2012 a non-asset trigger event occurred within the structure of the Aire Valley Master Trust, due to the aggregate balance of loans within the trust property falling below the minimum trust size of £10.7billion. This affected the order of priority of payments as set out in 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 in respect of the trust property 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 by Aire Valley Funding 1 Limited to repay all intercompany term advances until they have been repaid in full, if sufficient funds are available. The issuing companies, including the Company, use this principal to pay down notes pro-rata and sequentially by class. The timing of future redemptions will be dependent on the availability of funds.

Results

The Company is entitled to a pre-determined retained profit under the securitisation transaction documents. Under the terms of the securitisation, the Company retains the right to 0.01% of the interest received under the inter-company loan (as defined within the securitisation transaction documents). This is reflected in the statement of comprehensive income on page 12. The Company is taxed in accordance with the permanent regime for securitisation companies.

Strategic Report for the 12 months to 31 March 2015 (continued)

Key Performance Indicators (KPIs)
The KPIs 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, available on the website of B&B at http://www.bbg.co.uk/corporate/financial-information/debt-investors/securitisation, including the following:

		At 31 March 2015	At 31 March 2014
Number of outstanding mortgage loans	**Number**	**75,825**	80,378
Outstanding mortgage loans	**£bn**	**9.1**	9.8
Number of mortgage loans 3 months or more in arrears	**Number**	**716**	795
Principal value of mortgage loans 3 months or more in arrears	**£m**	**97.0**	107.4
Arrears value of mortgage loans 3 months or more in arrears	**£m**	**2.3**	2.7
Mortgage loans in repossession	**Number**	**108**	118
Value of mortgage loans in repossession	**£m**	**15.1**	14.3
Weighted average indexed current LTV	**%**	**71.4**	78.6

Principal risks and uncertainties
In the ordinary course of business the Company is exposed to, and manages, a variety of risks, with credit risk, liquidity risk and market risk (foreign 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 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 13, and further discussion in the context of the B&B Group as a whole is provided on pages 8-10 of that Group's 2015 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 the Company's cash manager and provides bank account facilities.

The transaction 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.

By order of the Board.

Helena Whitaker
per pro SFM Corporate Services Limited
Company Secretary
12 August 2015

Aire Valley Mortgages 2005 - 1 plc

Directors' Report for the 12 months to 31 March 2015

The Directors present their report together with the audited Financial Statements of the Company for the 12 months to 31 March 2015.

Dividends
The profit for the 12 months to 31 March 2015 of £0.5m (15 months to 2014: loss £0.4m) has been transferred to reserves. No dividends were paid during the 12 months to 31 March 2015 (2014: £nil), and the Directors do not recommend the payment of a final dividend for 2015 (2014: £nil). The Company's profits over the lifetime of the securitisation will be limited to the predetermined retained profit.

Future outlook
Although the legal and contractual maturity of the loan notes issued by the Company is in September 2066, the rate at which the loan to Aire Valley Funding 1 Limited and the loan notes will actually reduce will depend upon the Company's allocation of Aire Valley Funding 1 Limited's share of the Trustee's principal receipts. Any significant changes in the level of the Trustee's underlying mortgage redemptions or removals will have an impact upon the maturity profiles of the loan to Aire Valley Funding 1 Limited and the loan notes. A significant increase in arrears and/or repossession losses could ultimately lead to Aire Valley Funding 1 Limited failing to repay all amounts due to the Company in respect of the inter company loan. This in turn could result in the Company failing to make all payments due to note holders in respect of principal and/or interest. Such a situation would not render the Company insolvent because the Company is only obliged to make payments to note holders to the extent that the inter company loan repayments allow.

The Directors expect that during 2015 and 2016 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.

Financial risk management objectives and policies
Information regarding the financial risk management objectives and policies of the Company, in relation to the use of financial instruments, is given in note 13. A description of the principal risks to which the Company is exposed is provided on page 5 which forms an integral part of the audited Financial Statements.

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 the Directors 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 to include a corporate governance statement in the report of the Directors. The Directors are satisfied that there is no requirement for an audit committee or for a supervisory body entrusted to carry out the functions of an audit committee or to publish a corporate governance statement.

Aire Valley Mortgages 2005 - 1 plc

Directors' Report for the 12 months to 31 March 2015 (continued)

Directors and their interests
The Directors who served during the year and up to the date of signing the Financial Statements were as follows:
Ian Hares
SFM Directors Limited
SFM Directors (No. 2) Limited

Mr Hares is a director of B&B and UKAR. SFM Directors Limited and SFM Directors (No.2) Limited are also directors of Aire Valley Holdings Limited. None of the Directors have any beneficial interest in the ordinary share capital of the Company or Aire Valley Holdings Limited. None of the Directors had any interest during the year in any material contract or arrangement with the Company.

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

Company Secretary
The Company Secretary during the year and subsequently was SFM Corporate Services Limited.

Statement of Directors' responsibilities
The Directors are responsible for preparing the Strategic Report, Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Financial Statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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Directors' Report for the 12 months to 31 March 2015 (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 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.

Independent auditors
The independent auditors, PricewaterhouseCoopers LLP, have expressed their willingness to continue in office until the next annual general meeting. Pursuant to section 489 of the Companies Act 2006, a resolution for the re-appointment of PricewaterhouseCoopers LLP will be proposed at the forthcoming annual general meeting of the Company.

By order of the Board.

Helena Whitaker
per pro SFM Corporate Services Limited
Company Secretary
12 August 2015

Registered Office:
35 Great St. Helens
London EC3A 6AP

Aire Valley Mortgages 2005 - 1 plc

Independent Auditors' report to the Members of Aire Valley Mortgages 2005-1 plc

Report on the Financial Statements

Our opinion

In our opinion, Aire Valley Mortgages 2005 – 1 plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements comprise:

- the Balance Sheet as at 31 March 2015;
- the Statement of Comprehensive Income for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Corporate Governance Statement set out on page 6 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Independent Auditors' report to the Members of Aire Valley Mortgages 2005-1 plc (continued)

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the company. We have no exceptions to report arising from this responsibility.

Responsibilities for the Financial Statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Aire Valley Mortgages 2005 - 1 plc

Independent Auditors' report to the Members of Aire Valley Mortgages 2005-1 plc (continued)

What an audit of Financial Statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Gary Shaw (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
12 August 2015

Aire Valley Mortgages 2005 - 1 plc

Statement of Comprehensive Income for the 12 months to 31 March 2015

	Note	12 months to 31 Mar 2015 £000	15 months to 31 Mar 2014 £000
Interest receivable	3	**3,190**	3,984
Interest expense and similar charges	4	**(3,145)**	(3,934)
Net interest income		**45**	50
Fair value movements	5	**459**	(380)
Administrative expenses	6	**(45)**	(50)
Profit/(Loss) before taxation		**459**	(380)
Taxation	7	**-**	-
Profit/(Loss) for the year/period		**459**	(380)
Other comprehensive income		**-**	-
Total comprehensive income/(expense) for the financial year/period		**459**	(380)

The results above arise from continuing activities.

The notes on pages 16 to 37 form an integral part of these Financial Statements.

Aire Valley Mortgages 2005 - 1 plc

Balance Sheet as at 31 March 2015

	Note	At 31 March 2015 £000	At 31 March 2014 £000
Assets			
Loans to Group undertakings	10	**282,767**	322,741
Derivative financial instruments	12 (c)	**13,279**	37,774
Total non-current assets		**296,046**	360,515
Loans to Group undertakings	10	**35,580**	28,630
Cash and cash equivalents		**27,172**	55,195
Current tax assets		**1**	1
Total current assets		**62,753**	83,826
Total assets		**358,799**	444,341
Liabilities			
Debt securities in issue	8	**330,279**	388,228
Total non-current liabilities		**330,279**	388,228
Amounts due to banks	9	**27,154**	55,177
Debt securities in issue	8	**81**	110
Total current liabilities		**27,235**	55,287
Total liabilities		**357,514**	443,515
Equity			
Issued capital and reserves:			
Share capital	15	**13**	13
Retained earnings		**1,272**	813
Total equity		**1,285**	826
Total equity and liabilities		**358,799**	444,341

The notes on pages 16 to 37 form an integral part of these Financial Statements. The Financial Statements on pages 12 to 37 were approved by the Board of Directors on 12 August 2015 and signed on its behalf by:

Helena Whitaker
per pro SFM Directors Limited as Director
12 August 2015

Aire Valley Mortgages 2005 - 1 plc is registered in England and Wales under Company Number 05343520.

Aire Valley Mortgages 2005 - 1 plc

Statement of Changes in Equity for the 12 months to 31 March 2015

For the 12 months to 31 March 2015

	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 April 2014	**13**	**813**	**826**
Total comprehensive income for the year	**-**	**459**	**459**
Balance at 31 March 2015	**13**	**1,272**	**1,285**

For the 15 months to 31 March 2014

	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2013	13	1,193	1,206
Total comprehensive expense for the period	-	(380)	(380)
Balance at 31 March 2014	13	813	826

Aire Valley Mortgages 2005 - 1 plc

Cash Flow Statement for the 12 months to 31 March 2015

	Note	12 months to 31 Mar 2015 £000	15 months to 31 Mar 2014 £000
Cash flows from operating activities:			
Profit/(Loss) before taxation for the financial year/period		**459**	(380)
Cash flows generated/(used in) from operating activities before changes in operating assets and liabilities		**459**	(380)
Net decrease/(increase) in operating assets:			
- Loans to Group undertakings		**33,024**	32,500
- derivative financial instruments		**24,495**	(45)
Net decrease in operating liabilities:			
- debt securities in issues		**(57,978)**	(32,075)
- amounts due to banks		**(28,022)**	(318)
Net cash used in operating activities		**(28,022)**	(318)
Net decrease in cash and cash equivalents		**(28,022)**	(318)
Cash and cash equivalents at beginning of year/period		**55,195**	55,513
Cash and cash equivalents at end of year/period		**27,172**	55,195
Cash collateral held	9	**27,154**	55,177
Cash at bank		**18**	18
		27,172	55,195

The notes on pages 16 to 37 form an integral part of these Financial Statements.

Aire Valley Mortgages 2005 - 1 plc

Notes to the Financial Statements for the 12 months to 31 March 2015

1. Principal accounting policies

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

(a) Statement of compliance

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

For these 2015 Financial Statements, including the 2014 comparative financial information where applicable, the Company has adopted the following amendment for the first time:

- The June 2013 amendments to IAS 39 relating to 'Novation of Derivatives and Continuation of Hedge Accounting', which restrict the circumstances in which a novation of a derivative contract may be treated as a continuation of an existing hedge relationship. This amendment had no material impact on the Company.

For these 2015 Financial Statements the Company has not adopted the following statements; the Company is assessing the impacts of these statements on its Financial Statements:

- IFRS 9 'Financial Instruments'; on 24 July 2014 the IASB published the final version (excluding macro-hedging), replacing most of the guidance in IAS 39. The IASB intends that IFRS 9 will be effective for annual periods beginning on or after 1 January 2018, but the timing of EU endorsement is yet to be determined. The Company continues to monitor developments. IFRS 9 is expected to have major implications for the Company, in relation to impairment of loans to customers, hedging and which assets are carried at cost and which at fair value.

- IFRS 15 'Revenue from Contracts with Customers', issued May 2014, effective for periods beginning on or after 1 January 2017, and yet to be endorsed by the EU. No material impacts are expected for the Company.

- Amendments to IAS 16 and IAS 38: 'Clarification of Acceptable Methods of Depreciation and Amortisation', issued May 2014. The amendments clarify that a revenue-based method is not considered to be an appropriate manifestation of consumption. These amendments are mandatory for the Company's Financial Statements for the year to 31 March 2017. No material impacts are expected for the Company.

- The Annual Improvements to IFRSs 2010-2012 Cycle, issued in December 2013. These changes are mandatory for the Company's Financial Statements for the year to 31 March 2016. No material impacts are expected for the Company.

- The Annual Improvements to IFRSs 2011-2013 Cycle, issued in December 2013. These changes are mandatory for the Company's Financial Statements for the year to 31 March 2016. No material impacts are expected for the Company.

- The Annual improvements to IFRS 2012-2014 Cycle, issued in September 2014. These changes are mandatory for the Company's Financial Statements for the year to 31 March 2017. No material impacts are expected for the Company.

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.

Notes to the Financial Statements for the 12 months to 31 March 2015 (continued)

1. Principal accounting policies (continued)

(b) Basis of preparation
The Financial Statements are prepared on the historical cost basis except for financial instruments classified as 'at fair value through profit or loss'.

The Financial Statements are presented in pounds sterling, which is the currency of the Company's primary operating environment, and on a going concern basis.

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

The Financial Statements have been prepared in accordance with EU adopted IFRS, IFRIC interpretations issued by the IFRS Interpretations Committee and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. A summary of accounting policies is set out below. The preparation of the Financial Statements in conformity with these accounting policies and generally accepted accounting principles requires the use of estimates and assumptions that affect the reported values of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amounts, event or actions, actual results ultimately may differ from those estimates (see note 2).

The Directors consider the business to comprise of one operating and geographical segment.

(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 interest income or interest expense on a level yield basis over the expected life of the instrument, or an appropriate shorter period. The calculation includes all directly attributable incremental fees and costs and all premia and discounts as well as interest. The EIR is the rate which at the inception of the instrument exactly discounts expected future cash flows over the appropriate period 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.

Interest on derivatives is included in interest income where the derivative is hedging interest income, and interest expense where the derivative is hedging interest expense.

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.

Notes to the Financial Statements for the 12 months to 31 March 2015 (continued)

1. Principal accounting policies (continued)

(d) Debt securities in issue

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.

(e) Financial instruments

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

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

and each financial liability into one of two categories:

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

Measurement of financial instruments is either amortised cost (categories (ii), (iii) and (vi) above) or at fair value (categories (i), (iv) and (v) above), depending on the category of financial instrument. The Company does not carry any financial instruments at fair value 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 a liability. For assets, the amortised cost balance is reduced where appropriate by an allowance for amounts which are considered to be impaired or uncollectible. The loans to Group undertakings will not become impaired unless the mortgages in the pool become impaired to the extent that all credit enhancement is used up.

IFRS 13 'Fair Value Measurement' defines 'fair value' as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. Where an active market is considered to exist, fair values are based on quoted prices or lead manager prices. For instruments which do not have active markets, fair value is calculated using 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. Interest income and interest expense on instruments carried at fair value are included in the Statement of Comprehensive Income in 'interest receivable and similar income' or 'interest expense and similar charges'. Movements in fair value are recognised in the 'unrealised fair value movements on financial instruments' line in the Statement of Comprehensive Income, except in the case of instruments categorised as 'available-for-sale', in which case the fair value movements are taken to the 'available-for-sale' reserve. On sale or de-recognition of an available-for-sale instrument the accumulated fair value movements are transferred from the 'available-for-sale' reserve to the 'net realised gains less losses on investment securities' line of the Statement of Comprehensive Income.

Notes to the Financial Statements for the 12 months to 31 March 2015 (continued)

1. Principal accounting policies (continued)

(f) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when and only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(g) Derivative financial instruments and hedge accounting

All of the Group's derivative contracts are used for commercial management of exposures to interest rate risks and foreign currency risks.

Each derivative is carried at fair value in the Balance Sheet; as an asset when the fair value is positive and as a liability when the fair value is negative. The fair value of a derivative includes any interest accrued on that derivative. Changes in the fair value of derivatives are charged to the Statement of Comprehensive Income.

(h) Impairment losses

The Company assesses its financial assets for objective evidence of impairment at each balance sheet date. An impairment loss is recognised if, and only if, there is a loss event (or events) that has occurred after initial recognition and before the balance sheet date and that has a reliably measurable impact on the estimated future cash flows of the financial assets.

The only asset held by the Company that is at risk of material impairment is the loan to Aire Valley Funding 1 Limited, the repayment of which is dependent upon the performance of the residential mortgage portfolio as represented by the loan to originator from Aire Valley Funding 1 Limited to B&B. The risk of impairment is mitigated to a degree by the existence of reserve funds as detailed in note 13. The performance of the mortgage portfolio is continually assessed by B&B and external credit rating agencies. It follows that the impairment policies of B&B are applied by the Company.

(i) Recognition and derecognition of financial instruments

Purchases and sales of assets are accounted for once the parties are legally committed to the contract and the risks and rewards of the loans have been transferred.

A financial asset is de-recognised (i.e., removed from the Balance Sheet) only when substantially all of the risks and rewards associated with that asset have been transferred to another party.

A financial liability is de-recognised only when the contractual obligation is discharged, cancelled or has expired.

In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', assets and liabilities are classified as 'held for sale' if they are available for immediate sale in their present condition and the sale is considered to be 'highly probable'.

1. Principal accounting policies (continued)

(j) Foreign currencies
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 pounds 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.

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

As the cash can only be used to meet certain specific liabilities and is not available to be used with discretion, it is viewed as restricted cash.

(l) Taxation
The Company is taxed in accordance with the permanent regime for securitisation companies. Under the permanent regime, as the tax charge is based purely on contractually retained profit, neither the current tax charge nor deferred tax will be affected by any fair value gains or losses arising on derivatives and other financial instruments.

(i) Current tax
The charge for taxation is based on the result for the period and takes into account taxation deferred or accelerated arising from temporary differences between the carrying amounts of certain items for taxation and for accounting purposes. Tax relating to items which are taken directly to reserves is also taken directly to reserves.

(ii) Deferred tax
Deferred tax is calculated using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Aire Valley Mortgages 2005 - 1 plc

Notes to the Financial Statements for the 12 months to 31 March 2015 (continued)

2. Critical accounting judgements and estimates

In preparing the Financial Statements, management are required to make a series of judgements and estimates. Judgements involve an interpretation of requirements to decide how to allocate, value or recognise an item. Estimates arise from using assumptions which result in a range of possible outcomes. The most important judgements and estimates used in preparing the Financial Statements are described below.

(a) 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.

(b) Fair value calculations

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

Fair value is defined as the value at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where quoted market prices are not available, fair value is calculated using discounted cash flows, applying independently sourced market parameters including interest rates and currency rates. Other factors are also considered, such as counterparty credit quality and liquidity. Management must use judgement to arrive at estimates where not all necessary data can be externally sourced or where factors specific to the Company's holdings need to be considered. The accuracy of the fair value calculations may therefore be affected by unexpected market movements, or variations in actual outcomes when compared to estimates and assumptions used for modelling purposes. For example, if management were to use a tightening in the credit spread of 10 basis points, the fair value of derivatives would decrease from the reported fair values by £0.01m (2014: £0.01m).

Notes to the Financial Statements for the 12 months to 31 March 2015 (continued)

3 Interest receivable

	12 months to 31 Mar 2015 £000	15 months to 31 Mar 2014 £000
Interest on loans to Group undertakings	**3,190**	3,984
	3,190	3,984

Interest income for the year on impaired assets was £nil (2014: £nil) as no financial asset is impaired.

4 Interest expense and similar charges

	12 months to 31 Mar 2015 £000	15 months to 31 Mar 2014 £000
Interest on floating rate notes	**2,344**	2,838
Swap interest	**801**	1,096
	3,145	3,934

5 Fair value movements

Fair value movements in the Statement of Comprehensive Income comprised the following:

	12 months to 31 Mar 2015 £000	15 months to 31 Mar 2014 £000
Net (losses)/gains on derivatives	**(24,495)**	45
Net gains/(losses) on debt securities in issue due to exchange rate movements	**24,571**	(215)
Net gains/(losses) on hedged items due to interest rate movements	**383**	(210)
	459	(380)

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 12 months to 31 March 2015 (continued)

6 Administrative expenses

	12 months to 31 Mar 2015 £000	15 months to 31 Mar 2014 £000
Corporate services fee - Structured Finance Management Limited	**14**	17
Audit fees	**2**	3
Other legal and professional fees	**29**	30
	45	50

There were no employees during the year (15 months to 2014: none) and none of the Directors received emoluments in respect of their services to the Company. A fee is paid to Structured Finance Management Limited for the provision of corporate administration services including the provision of directors (see note 11).

7 Taxation

The taxation charge relates to the profit/(loss) for the year/period as follows:

	12 months to 31 Mar 2015 £000	15 months to 31 Mar 2014 £000
Current taxation charge:		
- UK Corporation tax on profit for the year/period	**-**	-
Total taxation charge per the Statement of Comprehensive Income	**-**	-
Profit/(Loss) before taxation	**459**	(380)
UK Corporation tax at 21% (2014: 23.2%)	**96**	(88)
Effects of:		
- Expenses not deductible for taxation	**-**	88
- Income not taxable	**(96)**	-
Total taxation charge per the Statement of Comprehensive Income	**-**	-

Notes to the Financial Statements for the 12 months to 31 March 2015 (continued)

8 Debt securities in issue

Class	Interest Rate	In currency 31 March 2015	In currency 31 March 2014	31 March 2015 £000	31 March 2014 £000
Series 2 A1	3M LIBOR + 0.36	**£135,488,668**	£152,205,679	**135,489**	152,205
Series 2 A2	3M EURIBOR + 0.36	**€163,296,385**	€183,444,399	**118,087**	151,663
Series 2 A3	3M US LIBOR + 0.34	**$29,582,679**	$33,232,681	**19,907**	19,927
Series 2 B1	3M LIBOR + 0.46	**£10,000,000**	£10,000,000	**10,000**	10,000
Series 2 B2	3M EURIBOR + 0.46	**€23,000,000**	€23,000,000	**16,632**	19,015
Series 2 C2	3M EURIBOR + 0.309	**€41,800,000**	€41,800,000	**30,228**	34,558
				330,343	387,368
Unamortised carrying value of de-designated fair value hedge				**(783)**	(433)
				329,560	386,935
Accrued interest - non-current				**719**	1,293
Accrued interest - current				**81**	110
				330,360	388,338

Debt securities in issue comprise floating rate notes issued on 28 April 2005, with a final maturity of September 2066.

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 and 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.

Under the terms of the notes, any shortfalls arising on the redemption of the loans to Group undertakings, 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 undertakings may arise if the underlying mortgage pool against which the loan to Group undertakings is secured does not generate sufficient cash to repay the loan to Group undertakings and the credit enhancement in the structure is not sufficient to cover such shortfall.

Notes to the Financial Statements for the 12 months to 31 March 2015 (continued)

8 Debt securities in issue (continued)

On 10 May 2012 a non-asset trigger event occurred within the structure of the Aire Valley Master Trust, due to the aggregate balance of loans within the trust property falling below the minimum trust size of £10.7billion. This affected the order of priority of payments as set out in the Company's Offering Circular. As a result, the outstanding notes will not be redeemed on their scheduled redemption dates and may not be redeemed on their final maturity date. All principal receipts in respect of the trust property 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 by Aire Valley Funding 1 Limited to repay all intercompany term advances until they have been repaid in full, if sufficient funds are available. Therefore 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 could not be reliably forecast and hence the notes have all been described as non-current liabilities.

Interest is payable on the Series 2 Class A1 and Class B1 notes at a variable rate based upon three month sterling LIBOR. Interest is payable on Series 2 Class A2, Class B2 and Class C2 notes at variable rates based upon three month EURIBOR. Interest is payable on the Series 2 Class A3 notes at variable rates based upon the three month US Dollar LIBOR. All outstanding notes have passed their 'step-up' date and interest is being paid at the step-up rate. The step up has been accounted for on an EIR basis.

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 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.

9 Amounts due to banks

	At 31 Mar 2015 £000	At 31 Mar 2014 £000
Cash collateral which the Company has received	**27,154**	55,177
Total	**27,154**	55,177

All of the cash collateral held is in respect of collateral received from derivative counterparties pursuant to the provisions of associated credit support agreements.

Notes to the Financial Statements for the 12 months to 31 March 2015 (continued)

10 Loans to Group undertakings

The loans to Group undertakings comprise a single loan to Aire Valley Funding 1 Limited, denominated in sterling and at a variable rate of interest linked to 3 month LIBOR. The 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.

Amounts classified as 'current' represent expected repayments due within the next twelve months.

11 Related party disclosures

The Company is a special purpose vehicle controlled by its Board of Directors, which comprises three directors. Two of the Company's three directors are corporate directors provided by Structured Finance Management Limited and the third director is a director of B&B (the controlling party under IFRS). B&B acts as the Company's cash manager and provides bank account facilities. The Company pays a fee to Structured Finance Management Limited for the provision of corporate administration services including the provision of directors. The Company undertook the following transactions with related parties during the year:

	12 months to 31 Mar 2015 £000	15 months to 31 Mar 2014 £000
Corporate services fee payable to Structured Finance Management Limited		
Expense	**14**	17
Interest receivable and similar income		
Interest on loans to Group undertakings	**3,190**	3,984
Loans to Group undertakings		
Loan outstanding at year/period end	**318,347**	351,371

At 31 March 2015 B&B held €13,100,000 (31 March 2014: €13,100,000) of the Company's floating rate notes and earned interest in the amount of €208,000 (15 months to 31 March 2014: €185,000) during the 12 months to 31 March 2015.

The Company considers the UK government to be its ultimate controlling party. The Company has transactions with numerous government bodies on an arm's length basis in relation to the payment of corporation tax and regulatory fees and levies.

Notes to the Financial Statements for the 12 months to 31 March 2015 (continued)

12 Financial instruments

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

The following table summarises the carrying amounts and fair values of financial assets and liabilities. Assets are generally presented bid prices, whereas offer prices are used for liabilities. The accounting policy note 1(e) sets out the key principles used for estimating the fair values of financial instruments. This note provides some additional information in respect of the methodologies used.

At 31 March 2015

	Assets at fair value through profit or loss	Loans and receivables	Total carrying value	Fair value
	£000	£000	£000	£000
Financial assets				
Loans to Group undertakings	-	318,347	318,347	318,347
Derivative financial instruments	13,279	-	13,279	13,279
Cash and cash equivalents	-	27,172	27,172	27,172
Total financial assets	13,279	345,519	358,798	358,798

	Liabilities at fair value through profit or loss	Liabilities measured at amortised cost	Total carrying value	Fair value
	£000	£000	£000	£000
Financial liabilities				
Debt securities in issue	-	330,360	330,360	322,149
Amounts due to banks	-	27,154	27,154	27,154
Total financial liabilities	-	357,514	357,514	349,303

At 31 March 2014

	Assets at fair value through profit or loss on initial recognition	Loans and receivables	Total carrying value	Fair value
	£000	£000	£000	£000
Financial assets				
Loans to Group undertakings	-	351,371	351,371	351,371
Derivative financial instruments	37,774	-	37,774	37,774
Cash and cash equivalents	-	55,195	55,195	55,195
Total financial assets	37,774	406,566	444,340	444,340

Notes to the Financial Statements for the 12 months to 31 March 2015 (continued)

12 Financial instruments (continued)

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

	Liabilities at fair value through profit or loss	Liabilities measured at amortised cost	Total carrying value	Fair value
	£000	£000	£000	£000
Financial liabilities				
Debt securities in issue	-	388,338	388,338	369,610
Amounts due to banks	-	55,177	55,177	55,177
Total financial liabilities	-	443,515	443,515	424,787

No financial assets or liabilities were reclassified during the year between amortised cost and fair value categories (2014: none).

Valuations methods for calculations of fair values in the table above are set out in note 12 (d).

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

	12 months to 31 Mar 2015 Income	**12 months to 31 Mar 2015 Expense**	15 months to 31 Mar 2014 Income	15 months to 31 Mar 2014 Expense
	£000	**£000**	£000	£000
Interest on loans to Group undertakings	**3,190**	-	3,984	-
Interest on floating rate notes	-	**2,344**	-	2,838

These amounts represent interest income and expense before hedging arrangements.

(c) Derivative financial instruments

The Company has the following types of derivatives:

	Fair value	**Nominal amount**
	£000	**£000**
At 31 March 2015		
Cross-currency interest rate swaps	**13,279**	**184,854**
Total asset balances	**13,279**	**184,854**

Notes to the Financial Statements for the 12 months to 31 March 2015 (continued)

12 Financial instruments (continued)

(c) Derivative financial instruments (continued)

	Fair value £000	Nominal amount £000
At 31 March 2014		
Cross-currency interest rate swaps	37,774	225,163
Total asset balances	37,774	225,163

(d) Fair value measurement

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

At 31 March 2015	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets				
Derivative financial instruments	-	13,279	-	**13,279**

At 31 March 2014	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Derivative financial instruments	-	37,774	-	37,774

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, whether 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.

There were no transfers between Level 1 and Level 2 during the year (2014: none).

Derivative financial instruments which are categorised as Level 2 are those which either:

(a) Have future cash flows which are known dates and for which the cash flow amounts are known or calculable by reference to observable interest and foreign currency exchange rates; or

(b) Have future cash flows which are not pre-defined, but which the fair value of the instrument has very low sensitivity to unobservable inputs.

Aire Valley Mortgages 2005 - 1 plc

Notes to the Financial Statements for the 12 months to 31 March 2015 (continued)

12 Financial instruments (continued)

(d) Fair value measurement (continued)

In each case the fair value is calculated by discounting cash flows using observable market parameters including swap rates, interest rates and currency rates.

The fair value of loans to Group undertakings reflects the market yields implied by the floating rate valuations.

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

For financial assets and liabilities which are not carried at fair value, the fair values disclosed in note 12(a) are calculated on the following bases:

At 31 March 2015	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets				
Loans to Group undertakings	-	-	**318,347**	**318,347**
Cash and cash equivalents	**27,172**	-	-	**27,172**
	27,172	-	**318,347**	**345,519**
Financial liabilities				
Debt securities in issue	-	**322,149**	-	**322,149**
Amounts due to banks	**27,154**	-	-	**27,154**
	27,154	**322,149**	-	**349,303**

At 31 March 2014	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Loans to Group undertakings	-	-	351,371	351,371
Cash and cash equivalents	55,195	-	-	55,195
	55,195	-	351,371	406,566
Financial liabilities				
Debt securities in issue	-	369,610	-	369,610
Amounts due to banks	55,177	-	-	55,177
	55,177	369,610	-	424,787

Notes to the Financial Statements for the 12 months to 31 March 2015 (continued)

12 Financial instruments (continued)

(d) Fair value measurement (continued)

Valuation methods for calculations of fair values in the table above are as follows:

Loans to Group undertakings
Loans to Group undertakings are held in sterling and are at variable rates of interest. Therefore the carrying value of these loans is considered to approximate to fair value.

Cash and cash equivalents
Fair value is estimated by using discounted cash flows applying either market rates where practicable or rates offered by other financial institutions for accounts with similar characteristics. The fair value of floating rate placements, fixed rate placements with less than six months to maturity and overnight deposits is estimated to be their carrying amount.

Debt securities in issue
Fair values are based on quoted prices or lead manager prices where available, or by using discounted cash flows, applying independently sourced market parameters including interest rates and currency rates.

Amounts due to banks
The fair value is considered to approximate the carrying value, as the balances are at variable interest rates and could be demanded to be repaid at short notice.

(e) Offsetting

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

(f) Collateral

The Company holds cash collateral in respect of certain derivatives (see note 9).

13 Financial risk management

The Company's exposure to risk on financial instruments and the management of this risk are established at the commencement of the securitisation transactions, with the Company's activities and the roles of other parties defined in the transaction documents. 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 instruments reflects the nature of exposures arising from underlying business activities. All of the Company's derivatives activity is contracted with financial institutions.

(a) Credit risk

Credit risk is the potential for financial loss caused by a party failing to meet an obligation as it becomes due. The Company is exposed to credit risk via amounts due from the loans to Group undertaking, derivative counterparties and deposits with third party banks.

Notes to the Financial Statements for the 12 months to 31 March 2015 (continued)

13 Financial risk management (continued)

(a) Credit risk (continued)

The Company's ability to meet payments under the floating rate notes relies on the receipt of funds on the loans to Group undertaking, which in turn is 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 documentation. 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 and where appropriate the Company holds collateral in respect of derivatives (see note 9).

The maximum credit risk exposure at the Balance Sheet date before taking account of any collateral netting and other enhancements was as follows :

	At 31 March 2015 £000	At 31 March 2014 £000
Cash and cash equivalents	**27,172**	55,195
Derivative financial instruments	**13,279**	37,774
Loans to Group undertakings	**318,347**	351,371
Total on-Balance Sheet and maximum exposure to credit risk	**358,798**	444,340

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 subsidiaries of Aire Valley Holdings Limited. 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 a result of defaults by customers.

At 31 March 2015 the cash and cash equivalents were deposited with a counterparty which had a credit rating of AA- (31 March 2014: AA-).

	At 31 March 2015 £000	At 31 March 2014 £000
Mortgages	**9,136,392**	9,772,466
Notes in issue	**(6,436,953)**	(7,056,459)
Over collateralisation	**2,699,439**	2,716,007
Reserve fund	**380,000**	380,000
Total credit enhancements	**3,079,439**	3,096,007

Aire Valley Mortgages 2005 - 1 plc

Notes to the Financial Statements for the 12 months to 31 March 2015 (continued)

13 Financial risk management (continued)

(a) Credit risk (continued)

Credit enhancements (continued)
The Company is exposed to credit risk on the 'loans to Group undertaking'. 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.

(b) Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. The ability of the Company to meet payments under the floating rate notes relies on the receipt of funds on the loans to Group undertaking, which is in turn dependent on the receipt of payments on the mortgage portfolio held in trust.

There is a liquidity reserve fund provided by Aire Valley Funding No.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 year or preceding period or in 2015 up to the date of authorisation of these Financial Statements.

The contractual undiscounted cash flows associated with financial liabilities were as follows:

31 March 2015	**On demand £000**	**Within three months £000**	**After three months but within one year £000**	**After one year but within five years £000**	**After five years £000**	**Total £000**
Debt securities in issue	**-**	**8,047**	**29,218**	**141,061**	**168,887**	**347,213**
Amounts due to banks	**27,154**	**-**	**-**	**-**	**-**	**27,154**
Total	**27,154**	**8,047**	**29,218**	**141,061**	**168,887**	**374,367**

31 March 2014	On demand £000	Within three months £000	After three months but within one year £000	After one year but within five years £000	After five years £000	Total £000
Debt securities in issue	-	8,161	26,475	181,389	192,512	408,537
Amounts due to banks	55,177	-	-	-	-	55,177
Total	55,177	8,161	26,475	181,389	192,512	463,714

Notes to the Financial Statements for the 12 months to 31 March 2015 (continued)

13 Financial risk management (continued)

(b) Liquidity risk (continued)

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 8, on 10 May 2012 a non-asset trigger event occurred. This has affected the timing of future redemptions of the loan notes.

These differ from Balance Sheet values due to the effects of discounting on certain Balance Sheet items and due to the inclusion of contractual future interest flows.

Prepayment risk
'Prepayment risk' arises when it is possible that the assets may be realised earlier than it is possible to redeem the liabilities. Following the advent of the pass-through arrangements on 10 May 2012, this risk is fully mitigated because all available principal receipts are utilised to make repayments on the loan notes. There is no restriction on the amount which can be repaid on any given payment date as was the case when scheduled amortisation was applicable.

(c) Market risk

Foreign currency risk
The Company has floating rate notes in issue denominated in Euros and US Dollars. The Company's policy is to eliminate all exposures arising from movements in exchange rates by the use of cross currency swaps to economically hedge payments of interest and principal on the notes. All other assets, liabilities and transactions are denominated in Sterling. Consequently, at 31 March 2015 and 31 March 2014 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 March 2015; the movement in value of the floating rate notes would be offset by movement in value of derivatives.

The table below summarises the Company's exposure to foreign currency exchange rate risk at the Balance Sheet date:

At 31 March 2015	Euro £000	US $ £000	Total £000
Financial assets			
Cash and cash equivalents	27,154	-	27,154
Derivative financial instruments	164,980	19,911	184,891
Total financial assets	192,134	19,911	212,045
Financial liabilities			
Debt securities in issue	164,980	19,911	184,891
Amounts due to banks	27,154	-	27,154
Total financial liabilities	192,134	19,911	212,045
Net currency gap	-	-	-

Notes to the Financial Statements for the 12 months to 31 March 2015 (continued)

13 Financial risk management (continued)

(c) Market risk (continued)

Foreign currency risk (continued)

At 31 March 2014	Euro £000	US $ £000	Total £000
Financial assets			
Cash and cash equivalents	55,177	-	55,177
Derivative financial instruments	205,295	19,930	225,225
Total financial assets	260,472	19,930	280,402
Financial liabilities			
Debt securities in issue	205,295	19,930	225,225
Amounts due to banks	55,177	-	55,177
Total financial liabilities	260,472	19,930	280,402
Net currency gap	-	-	-

The amounts disclosed above are the Sterling equivalents of the notional amounts due on maturity, including interest accrued at the Balance Sheet date.

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 undertaking and of the debt securities in issue 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 debt securities in issue.

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 the loans to Group undertaking. A change in interest rates would also affect the fair value movements in the Statement of Comprehensive Income. A 1% increase in LIBOR for three-month currency deposits would give rise to the following fair value gains/(losses) in the Statement of Comprehensive Income due to change in the fair value of derivatives:

	12 months to 31 March 2015 £000	15 months to 31 March 2014 £000
Sterling deposits	**690**	723
Euro deposits	**(690)**	(757)
US $ deposits	**(53)**	(520)

Notes to the Financial Statements for the 12 months to 31 March 2015 (continued)

13 Financial risk management (continued)

(c) Market risk (continued)

Other market risks
At 31 March 2015 the Company had no other material exposure to market risks (2014: nil).

(d) Concentration 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 loans to Group undertaking 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 the ability of Aire Valley Funding 1 Limited to meet its loan obligations to the Company is based upon its cash receipts from its interest in the portfolio.

14 Capital structure

The Company's capital is represented by the capital and reserves. The Company is not subject to externally imposed capital requirements other than the minimum share capital required by the Companies Act, with which it complies.

15 Share capital

	31 March 2015 Number	31 March 2014 Number	**31 March 2015 £**	31 March 2014 £
Authorised				
Ordinary shares of £1 each				
At beginning and end of year/period	**100,000**	100,000	**100,000**	100,000
Issued				
Ordinary shares of £1 each fully paid	**2**	2	**2**	2
Ordinary shares of £1 each of which 25p paid	**49,998**	49,998	**12,499**	12,499
At beginning and end of year/period	**50,000**	50,000	**12,501**	12,501

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

Notes to the Financial Statements for the 12 months to 31 March 2015 (continued)

16 Ultimate controlling party

The Company's immediate parent undertaking is Aire Valley Holdings Limited, a private limited liability company incorporated and domiciled in the United Kingdom.

The Company's ultimate parent undertaking is SFM Corporate Services Limited, a private limited liability company incorporated and domiciled in the United Kingdom, which holds the shares of Aire Valley Holdings Limited on a discretionary trust basis for the benefit of certain charities.

Copies of the financial statements of Aire Valley Holdings Limited and SFM Corporate Services Limited may be obtained from the Company Secretary at 35 Great St. Helen's, London, EC3A 6AP.

Under IFRS, the Company's controlling party during the year and previous period was B&B a public limited company incorporated and domiciled in the United Kingdom. B&B heads the smallest group of companies into which the Financial Statements of the Company are consolidated. Copies of the financial statements of B&B may be obtained from the Company Secretary at Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA.

The ultimate parent undertaking of B&B is UKAR, a private limited company incorporated and domiciled in the United Kingdom, which is wholly owned by the Treasury Solicitor as nominee for HM Treasury. UKAR heads the largest group of companies into which the Financial Statements of the Company are consolidated. Copies of the financial statements of UKAR may be obtained from the Company Secretary at Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA. The Company considers Her Majesty's Government to remain its ultimate controlling party. The results of the UKAR Group are consolidated into those of HM Treasury as presented in HM Treasury's Annual Reports and Accounts.

17 Events after the reporting period

The Directors are of the opinion that there have been no significant events which have occurred since 1 April 2015 to the date of this report that are likely to have a material effect on the Company's financial position as disclosed in these Financial Statements.