AIRE VALLEY WAREHOUSING 3 LIMITED

Directors' Report and Fınancıal Statements

Registered number 6015052

31 December 2009

Directors' Report and Financial Statements

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Company Information

Directors

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

Company Secretary

SFM Corporate Services Limited

Registered Office

35 Great St Helen's
London
EC3A 6AP

Auditor

KPMG Audit Plc
1 The Embankment
Neville Street
Leeds
LS1 4DW

Directors' Report for the year ended 31 December 2009

Company Number 6015052

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

Principal activities and business review

Aire Valley Warehousing 3 Ltd ('the Company') was incorporated on 30 November 2006 The Company is a limited liability company incorporated in the United Kingdom under the Companies Act 1985 and registered in England and Wales One ordinary share was issued, and it is held by Aire Valley Holdings Limited, a limited liability company incorporated in the United Kingdom under the Companies Act 1985 and registered in England and Wales

The Company's principal activity is to issue floating and/or fixed rate debt securities and to enter into financial arrangements to fund the activities of certain subsidiaries of Aire Valley Holdings Limited by means of intercompany loans The debt securities are issued in Sterling and are secured on a beneficial interest in a portfolio of mortgage loans held by Aire Valley Trustee Limited under a master trust arrangement These mortgage loans, which are originated by Bradford & Bingley plc, are secured on residential property in the UK The Company issued £1bn floating rate notes in December 2006, and these were redeemed in July 2008 and the Directors do not intend to enter into a securitisation in the forseeable future Interest expense for the year was £nil (2008 £32,472 000)

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 profit after taxation was £1,236 (2008 £3 000) The Company has met all its obligations under the terms of the issue documentation

Risk management and control

In the ordinary course of business the Company is exposed to, and manages, a variety of risks, with credit risk, liquidity risk and interest rate risk being of particular significance The Directors have responsibility for the overall system of internal control and for reviewing its effectiveness 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 9 The Company has entered into contracts with a number of third parties to provide operational support including corporate service providers and paying agents Bradford & Bingley plc acts as a bank account and cash manager The Company's operations are subject to periodic review by the Bradford & Bingley plc internal audit department

Dividend

No dividends were paid during the year (2008 £nil) and the Directors do not recommend the payment of a final dividend for the year (2008 £nil)

Payment policy

Standard terms provide for payment of all invoices within 30 days of invoice date, except where different arrangements have been agreed with suppliers It is the policy of the Company to abide by the agreed payment terms

Directors

The Directors who served during the year were as follows

Christopher Patrick Willford	(resigned 30 June 2009)
Phillip Alexander McLelland	(appointed 30 June 2009)
SFM Directors Limited	
SFM Directors (No 2) Limited	

Mr Willford, Mr McLelland SFM Directors Limited and SFM Directors (No 2) Limited are or have been Directors of Aire Valley Holdings Limited during the year None of the Directors had any interest in the share capital of Aire Valley Holdings Limited during the year and none of the Directors had an interest in the share or loan capital of Bradford & Bingley plc or in any of its subsidiary undertakings

Directors' Report for the year ended 31 December 2009 (continued)

Company Number: 6015052

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and that each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Political and charitable contributions

During the year no political or charitable contributions were made (2008 £nil)

Auditor

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

By order of the Board

Helena Whitaker
Per pro SFM Corporate Services Limited
Company Secretary

23 June 2010

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

The Directors are responsible for preparing the Directors' Report and the Financial Statements in accordance with applicable law and regulations

Company law requires the Directors to prepare the Financial Statements for each financial year Under that law they have elected to prepare both the Financial Statements in accordance with IFRS as adopted by the EU and applicable law

Under Company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true & fair view of the state of affairs of the Company & 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 judgments and estimates that are reasonable and prudent,

- state whether they have been prepared in accordance with IFRS as adopted by the EU, and

- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company which enable them to ensure that the Financial Statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

Independent Auditors' Report to the members of Aire Valley Warehousing 3 Limited

We have audited the Financial Statements of Aire Valley Warehousing 3 Limited for the year ended 31 December 2009 set out on pages 8 to 18 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU

This report is made solely to the company's sole member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's member those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's member, as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 6 the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view Our responsibility is to audit the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the Financial Statements
A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/UKNP

Opinion on Financial Statements
In our opinion the Financial Statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended,

- have been properly prepared in accordance with IFRSs as adopted by the EU, and

- have been prepared in accordance with the requirements of the Companies Act 2006

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

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or

- the Financial Statements are not in agreement with the accounting records and returns, or

- certain disclosures of Directors' remuneration specified by law are not made, or

- we have not received all the information and explanations we require for our audit

J L Ellacott (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants

23 June 2010

1 The Embankment
Neville Street
Leeds
LS1 4DW

Statement of Comprehensive Income for the year ended 31 December

	Note	**2009 £000**	2008 £000
Interest receivable and similar income	*2*	**8**	32,486
Interest expense and similar charges	*3*	-	(32.472)
Net interest income		**8**	14
Operating expenses	*4*	**(8)**	(11)
Profit before taxation		-	3
Taxation	*5*	**1**	-
Profit for the year		**1**	3
Other Comprehensive Income for the year		-	-
Total Comprehensive Income for the year		**1**	3

The results above arise from the Company's single continuing activity and are attributable to the equity shareholder The Company operates in a single business segment and all of the Company's activities are in the United Kingdom

The notes on pages 12 to 18 form part of these Financial Statements

Balance Sheet at 31 December

Company Number. 6015052

	Note	2009 £000	2008 £000
Assets			
Cash and cash equivalents		**2**	-
Amounts due from Group undertakings		**5**	5
Current tax assets		**1**	2
Total current assets		**8**	7
Total assets		**8**	7
Total liabilities		**-**	-
Equity			
Capital and reserves attributable to equity holder			
Share capital	*10*	**-**	-
Retained earnings		**8**	7
Total attributable equity		**8**	7
Total equity and liabilities		**8**	7

The notes on pages 12 to 18 form part of these Financial Statements

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

Helena Whitaker
Pre pro SFM Directors Limited

23 June 2010

Statement of Changes in Equity for the year ended 31 December

	Share capital £000	Retained earnings £000	Total equity £000
At 1 January 2009	-	7	7
Profit for the financial year	-	1	1
At 31 December 2009	-	8	8
At 1 January 2008	-	4	4
Profit for the financial year	-	3	3
At 31 December 2008	-	7	7

Cash Flow Statement for the year ended 31 December

	2009	2008
	£000	£000
Cash flows from operating activities		
Profit for the financial year	**1**	3
Adjustments for		
Interest on loans to Group undertakings	**(8)**	(32,486)
Interest on floating rate notes	-	32,321
Amortisation of issue costs	-	151
Income tax credit	**(1)**	-
Cash flows from operating activities before changes in operating assets and liabilities	**(8)**	(11)
Net decrease in operating liabilities		
Other liabilities	-	(209)
Cash absorbed by operations	**(8)**	(220)
Taxation paid	**2**	(2)
Net cash used in operating activities	**(6)**	(222)
Cash flows from financing activities		
Interest received on loans to Group undertakings	**8**	44,935
Interest paid on floating rate notes	-	(44,713)
Repayment of floating rate notes	-	(1,000,000)
Loan to Group undertaking	-	1,000,000
Net cash from financing activities	**8**	222
Net increase in cash and cash equivalents	**2**	-
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at end of year	**2**	-

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

1 Principal accounting policies

Aire Valley Warehousing 3 Limited ('the Company') is a limited liability company incorporated in the United Kingdom under the Companies Act 1985 and registered in England and Wales

(a) Statement of compliance

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

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

- The February 2008 amendment to IAS 1 'Presentation of Financial Statements' This relates to presentation only, and adoption has had no material impact on the Company s Statement of Comprehensive Income, Balance Sheet or Cash Flow Statement

- The March 2009 amendment to IFRS 7 'Financial Instruments Disclosures' This relates to disclosures only and adoption has had no impact on the Company s Statement of Comprehensive Income, Balance Sheet or Cash Flow Statement

- IFRS 8 'Operating Segments' This standard replaced IAS 14 'Segment Reporting' The Company's business and operations comprise one single activity, principally within the United Kingdom, and are managed on that basis and hence no segmental information has been provided

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

(b) Basis of preparation

The Financial Statements are prepared on the historical cost basis, and on a going concern basis, given the 'bankruptcy remote' nature of the entity as a special purpose vehicle

The Financial Statements are presented in pounds sterling, which is the currency of the Company s primary operating environment

Judgements made by the Directors in the application of these accounting policies that have a significant effect on the Financial Statements and estimates with a significant risk of material adjustment in the next year are discussed in note 8

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

(c) Interest income and expense

Financial instruments are measured at amortised cost (including loans to Group undertakings and floating rate notes) Interest income and expense are recognised in the Statement of Comprehensive Income on an Effective Interest Rate ("EIR) basis

The EIR basis spreads the interest income or interest expense over the expected life of the instrument The EIR is the rate that at the inception of the instrument exactly discounts expected future cash payments and receipts through the expected life of the instrument back to the initial carrying amount When calculating the EIR future cash flows are estimated considering all contractual terms of the instrument (for example prepayment options) but potential future credit losses are not considered The calculation includes all directly attributable incremental fees and costs and all other premia and discounts as well as interest

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

1 Principal accounting policies (continued)

(d) Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred or accelerated arising from temporary differences between the carrying amounts of certain items for taxation and for accounting purposes Deferred taxation is provided for in full at the tax rate which is expected to apply to the period when the deferred taxation is expected to be realised, including on tax losses carried forward and is not discounted to take account of the expected timing of realisation Deferred taxation assets are recognised only to the extent that it is probable that future taxable profits will be available against which the taxable differences can be utilised

(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 Subsequent measurement is at amortised cost using the EIR method to amortise incremental attributable issue and transaction costs, premia and discounts over the life of the instrument, these costs are charged along with interest on the debt to 'interest expense and similar charges' Unamortised amounts are added to or deducted from the carrying value of the instrument

(g) Classification of financial instruments

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

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

and each financial liability into one of two categories

(v) At fair value through profit or loss, or
(vi) Other liabilities

Measurement of financial instruments is either amortised cost (categories (ii) (iii) and (vi) above) or at fair value (categories (i), (iv) and (v) above), depending on the category of financial instrument

The Company does not carry any financial instruments at 'fair value'

Amortised cost is the amount measured at initial recognition, adjusted for subsequent principal and other payments, less cumulative amortisation calculated using the EIR method, the amortisation is taken to interest income or expense depending on whether the instrument is an asset or liability The amortised cost balance is reduced where appropriate by an allowance for amounts which are considered to be impaired or uncollectible

Any profit or loss on sale of an instrument carried at amortised cost is recognised immediately in the Statement of Comprehensive Income in interest income or expense depending on whether the instrument is an asset or a liability

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

2 Interest receivable and similar income

	2009	2008
	£000	£000
Interest on loans to Group undertakings	8	32.486
	8	32,486

No assets were impaired and consequently the interest receivable on impaired assets was £nil (2008 £nil)

3. Interest expense and similar charges

	2009	2008
	£000	£000
Interest on floating rate notes	-	32 321
Amortisation of issue costs	-	151
	-	32,472

4 Operating expenses

	2009	2008
	£000	£000
Legal and professional fees	8	11

Auditors' remuneration of £5,295 (2008 £5.000) was borne by Bradford & Bingley plc

5 Taxation

	2009	2008
	£000	£000
Current tax credit		
Adjustments in respects of previous periods	1	-
Total taxation credit per the Statement of Comprehensive Income	1	-
Profit before taxation	-	3
UK corporation tax at 28% (2008 28 5%)	-	-
Adjustments in respects of previous periods	1	-
Total taxation credit per the Statement of Comprehensive Income	1	-

There was no deferred tax provided or unprovided during the period

6 Employees and Directors' emoluments

There were no employees during the year or previous year and none of the Directors received emoluments in respect of their services to the Company 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 7)

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

7. Related parties disclosures

The Company is a special purpose vehicle controlled by its Board of Directors, which comprise three directors Two of the Company's three directors are Corporate Directors provided by Structured Finance Management Limited and the third director is an employee of Bradford & Bingley plc (the controlling party under IFRS) 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 fees amounted to £7 646 (2008 £7,000) in the year

During the period the Company undertook the following transactions with companies within the Aire Valley Holdings Limited Group

	Aire Valley Holdings Ltd and subsidiaries 2009 £000	Aire Valley Holdings Ltd and subsidiaries 2008 £000
Interest receivable and similar income		
Interest on loans to Group undertakings	**8**	32 486
Current assets		
Cash and cash equivalents	**2**	-
Amounts due from Group undertakings	**5**	5

Auditors' remuneration of £5,295 (2008 £5,000) was borne by Bradford & Bingley plc

8 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 At 31 December 2009 or 31 December 2008 there were no critical accounting judgements or estimates

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

9. Financial instruments

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

At 31 December 2009

Financial assets	Loans and receivables	Total carrying value	Fair value	If fair values increased by 1%
	£000	£000	£000	£000
Cash and cash equivalents	2	2	2	-
Amounts due from Group undertakings	5	5	5	-
	7	7	7	-

At 31 December 2008

Financial assets	Loans and receivables	Total carrying value	Fair value	If fair values increased by 1%
	£000	£000	£000	£000
Amounts due from Group undertakings	5	5	5	-
	5	5	5	-

The Company had no financial liabilities at 31 December 2009 and 2008

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

	Income 2009	**Expense 2009**	Income 2008	Expense 2008
	£000	**£000**	£000	£000
Interest on loans to Group undertakings	**8**	-	32,486	-
Interest on floating rate notes	-	-	-	32,321
Amortisation of issue costs	-	-	-	151

Interest income on impaired assets is £nil (2008 £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 The main financial risks arising from the Company's activities are credit risk, liquidity risk and interest rate risk

Credit risk

Credit risk is the risk that a counterparty of the Company will be unable or unwilling to meet a commitment that it has entered into with the Company The Company is exposed to credit risk arising from amounts due from Group undertakings

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 The exposure to credit risk is represented by the carrying amount of each financial asset, as set out in the table in note 9c(i)

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

9 Financial instruments

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

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due 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 by smoothing mismatches between maturity assets and liabilities 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 the receipt of payments on the mortgage portfolio held in trust At 31 December 2009 the Company had no financial liabilities and hence no liquidity risk

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 profile of the loans due from Group undertakings and interest-bearing loans and borrowings are similar At 31 December 2009 the Company had no interest-bearing liabilities and hence no interest rate risk

Other market risks

At the Balance Sheet date the Company had no other material exposure to market risks The Company had no balances or transactions in foreign currencies and hence no exposure to movement in foreign

(i) Credit risk

Before taking account of any collateral, the exposure to credit risk at 31 December 2009 was

	2009	2008
	£000	£000
Cash and cash equivalents	**2**	-
Amounts due from Group undertakings	5	5
Total on-Balance Sheet and maximum exposure to credit risk	7	5

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

(ii) Liquidity risk

At 31 December 2009 and 2008, the Company had no financial liabilities

(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 2 Limited and represents an interest in a portfolio of mortgage loans secured on a beneficial interest in a portfolio of mortgage loans secured on residential properties in the United Kingdom In turn Aire Valley Funding 2 Limited's ability to meet its loan obligations to the Company is based upon its cash receipts from its interest in the portfolio

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

10 Called up share capital

Ordinary shares of £1 each	Shares	£
Authorised		
At 31 December 2009 and 31 December 2008	100	100
Allotted, issued and fully paid		
At 31 December 2008	1	1
At 31 December 2009	1	1

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

11 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

12. Ultimate parent undertaking

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

The Company's ultimate parent undertaking is SFM Corporate Services Limited, a limited liability company incorporated in the United Kingdom under the Companies Act 1985 and registered in England and Wales, which holds the shares of Aire Valley Holdings Limited on a discretionary trust basis for charitable purposes

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

Under IFRS, the Company's controlling party is Bradford & Bingley plc, a company incorporated in the United Kingdom under the Companies Act 1985 and registered in England and Wales Bradford & Bingley plc heads the largest and smallest group of companies into which the Financial Statements of the Company are consolidated Copies of the Financial Statements of Bradford & Bingley plc may be obtained from the Company Secretary, Bradford & Bingley plc, Croft Road Crossflatts, Bingley West Yorkshire BD16 2UA

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