Company Number: 3946857

Ariานty No. 1 PLC

Report and Financial Statements

Year ended 30 September 2005

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 September 2005.

ACTIVITIES AND FUTURE PROSPECTS

The principal activities of the company are the provision of mortgage loans secured by charges over residential properties within the United Kingdom. The directors consider that the company has performed satisfactorily given the prevailing economic climate and will continue to do so.

RESULTS

The profit on ordinary activities before tax amounted to £7,000 (2004: £20,000). The detailed profit and loss account is set out on page 5. The directors do not propose the payment of a dividend (2004: £nil).

DIRECTORS

The directors throughout the year and subsequently were :-

R D Shelton
N Keen
J G Gemmell
A Mehmet
J P J Fairrie
Wilmington Trust SP Services (London) Limited (formerly SPV Management Limited)

M McDermott is an alternate director for J P J Fairrie.

SPV Management Limited changed its name to Wilmington Trust SP Services (London) Limited on 19 December 2005.

The company is a wholly owned subsidiary of Arianty Holdings Limited, of which J P J Fairrie, J G Gemmell, A Mehmet, N Keen, R D Shelton, and SPV Management Limited are directors.

According to the Register of Directors' Interests Wilmington Trust SP Services (London) Limited held 1 ordinary share in the company throughout the year. None of the other directors had, at any time during the year, any interests in the share capital of the company or group. The shares in Arianty Holdings Limited are held by Wilmington Trust SP Services (London) Limited under a Declaration of Trust for charitable purposes.

None of the directors received any remuneration for their services to the company apart from Wilmington Trust SP Services (London) Limited. Under the terms of a Corporate Services agreement dated 2 October 2000 and subsequently amended by side letters, Wilmington Trust SP Services (London) Limited are contracted to receive fees of £8,000 in the year (2004: £10,000). J P J Fairrie and M McDermott are both directors of Wilmington Trust SP Services (London) Limited.

J G Gemmell, A Mehmet, N Keen and R D Shelton are directors of MTL a related group of companies, with whom the company entered into a number of agreements. These are detailed in the financial statements of Arianty Holdings Limited. According to the Register of Directors' Interests these directors have interests in the share capital of The Paragon Group of Companies PLC ("PGC"), the ultimate parent company of MTL. These interests are disclosed in the consolidated financial statements of PGC in relation to N Keen and MTL in relation to J G Gemmell, A Mehmet and R D Shelton.

CREDITOR PAYMENT POLICY

The company agrees terms and conditions with its suppliers. Payment is then made on the terms agreed, subject to the appropriate terms and conditions being met by the supplier. The trade creditor days figure has not been stated as the measure is not appropriate to the business.

DIRECTORS' REPORT (continued)

AUDITORS

KPMG Audit PLC resigned as auditors of the company on 15 April 2005. The Directors appointed Deloitte & Touche LLP to fill the vacancy thus created. A resolution to re-appoint Deloitte & Touche LLP as the Auditors of the company will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

J G Gemmell
Director
29 March 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES
in relation to Financial Statements

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss for the financial year. As required, in the absence of any circumstances which would make it inappropriate, the financial statements have been prepared on a going concern basis.

The directors consider that in preparing the financial statements (on pages 5 to 14), the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors 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 ARIANTY NO. 1 PLC

We have audited the financial statements of Arianty No. 1 PLC for the year ended 30 September 2005 which comprise the profit and loss account, the balance sheet and the related notes 1 to 16. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors' are responsible for the preparation of financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our reports if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 30 September 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Birmingham
29 March 2006

PROFIT AND LOSS ACCOUNT

Year ended 30 September 2005

	Note		2005 £'000		2004 Restated (note 2)
		£'000		£'000	£'000
Interest receivable					
Mortgages			3,737		11,167
Other	3		67		241
			3,804		11,408
Income from administration of mortgage portfolios					
Income from funding vehicles		79,876		67,420	
Expenses from funding vehicles		(72,995)		(60,499)	
			6,881		6,921
Interest payable	4		(3,287)		(9,669)
Net interest income			7,398		8,660
Other operating income			19		27
Total operating income			7,417		8,687
Operating expenses			(6,966)		(8,810)
Provision for losses			(444)		143
Operating profit, being profit on ordinary activities before taxation	6		7		20
Taxation	7		(2)		(18)
Retained profit on ordinary activities after taxation	12		5		2

All material activities derive from continuing operations.

There are no recognised gains or losses, or other movements in shareholders' funds, other than the profits for the current and the preceding years.

BALANCE SHEET

30 September 2005

	Note	£'000	2005 £'000	£'000	2004 Restated (note 2) £'000
ASSETS EMPLOYED					
FIXED ASSETS					
Assets subject to non recourse funding		1,261,276		1,344,355	
Non-recourse finance	8	(1,243,720)		(1,329,950)	
		17,556		14,405	
Loans to customers	9	8,991		233,717	
			26,547		248,122
CURRENT ASSETS					
Debtors falling due within one year	10		130		229
Cash at banks and in hand			929		5,307
			27,606		253,658
FINANCED BY					
EQUITY SHAREHOLDERS' FUNDS					
Called up share capital	11		12		12
Profit and loss account	12		24		19
			36		31
CREDITORS					
Amounts falling due within one year	13		164		814
Amounts falling due after more than one year	14		27,406		252,813
			27,606		253,658

These financial statements were approved by the Board of Directors on 24 March 2006.

Signed on behalf of the Board of Directors.

Wilmington Trust SP Services (London) Limited
Director

NOTES TO THE ACCOUNTS

Year ended 30 September 2005

1. Restriction on operations

The ability of the company to engage in any activity other than those associated with the purchase, servicing and subsequent securitisation of mortgages is restricted by agreements entered into by the company with, among others, Mortgage Trust Limited ("MTL") as servicer and Citicorp Trustee Company Ltd as security agent.

Under the terms of the servicing agreement, MTL was appointed to service the mortgages. The business of MTL was transferred to Mortgage Trust Services PLC ("MTS") on 1 October 2003, under the novation agreement then dated, and consequently, since that date, MTS have been the servicer.

2. Principal accounting policies

These financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below:

Restatement
The accounts have been restated to include all those loan assets, sold to other group companies, in which the company still has an interest within assets subject to non-recourse finance rather than loans to customers. The directors consider that this more fairly represents the substance of these transactions.
The effect of the change in accounting policy on assets and liabilities at 30 September 2004 is as follows. Loans to customers decrease by £521,210,000. Assets subject to non-recourse finance increase by £532,163,000 and the non-recourse finance increase by £531,934,000. Creditors decrease by £520,981,000.There is no effect on the company's profit or net assets for either the current or the preceding years, however, the headings within the 2004 profit and loss account have changed as follows:

	2004	Restatement	2004 (restated)
	£'000	£'000	£'000
Turnover	28,655	(28,655)	-
Interest receivable			
Mortgage	-	11,167	11,167
Other	-	241	241
Cost of funding	(26,906)	26,906	-
Interest payable	-	(9,669)	(9,669)
Income from administration of mortgage portfolios:			
Income from funding vehicles	48,704	18,716	67,420
Expenses of funding vehicles	(42,012)	(18,487)	(60,499)
Other operating income	-	27	27
Operating expenses	-	(8,810)	(8,810)
Administrative expenses	(8,662)	8,662	-
Other interest receivable and similar income	241	(241)	-
Provision for losses	-	143	143
Tax on profit on ordinary activities	(18)	-	(18)
Retained profit for the financial year	2	-	2

NOTES TO THE ACCOUNTS

Year ended 30 September 2005

2. Principal accounting policies (continued)

The effect of the changes of the accounting policy in the profit and loss account under the following headings for the current year would be:

	2005 £'000	Restatement £'000	2005 (restated) £'000
Turnover	3,755	(3,755)	-
Interest receivable			
Mortgage	-	3,737	3,737
Other	-	67	67
Cost of funding	(3,288)	3,288	-
Interest payable	-	(3,287)	(3,287)
Income from administration of mortgage portfolios:			
Income from funding vehicles	79,876	-	79,876
Expenses of funding vehicles	(72,995)	-	(72,995)
Other operating income	-	19	19
Operating expenses	-	(6,966)	(6,966)
Administrative expenses	(7,408)	7,408	-
Other interest receivable and similar income	67	(67)	-
Provision for losses	-	(444)	(444)
Tax on profit on ordinary activities	(2)	-	(2)
Retained profit for the financial year	5	-	5

Basis of accounting
The financial statements are prepared in accordance with the historical cost convention.

Format of financial statements
The company has complied with Financial Reporting Standard Number 5, "Reporting the Substance of Transactions" and, having met the conditions laid down in the Standard, has adopted "linked presentation" in respect of mortgage advances managed on behalf of other financial institutions. The cost of funding heading within the profit and loss account has been adapted from that prescribed by Schedule 4 to the Companies Act 1985 in view of the nature of the business.

Servicing fees
Servicing fees are payable by the company to MTS under the terms of a servicing agreement. The servicing fee is calculated on the outstanding mortgage portfolio as defined in the servicing agreement. MTS is also entitled to a deferred consideration based on the excess earnings as defined in the mortgage sale agreement.

Taxation
The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all material timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by Financial Reporting Standard No. 19.

NOTES TO THE ACCOUNTS

Year ended 30 September 2005

2. *Principal accounting policies (continued)*

Cashflow statement
The company is a wholly owned subsidiary of Arianty Holdings Limited and the cashflows of the company are included in the consolidated group cashflow statement of Arianty Holdings Limited. Consequently the company is exempt under the terms of Financial Reporting Standard No. 1 ("FRS1") (Revised 1996) from publishing a cashflow statement.

Related party disclosures
Under the provisions of Financial Reporting Standard No. 8 ("FRS8"), the company has taken advantage of the exemption provided (for subsidiary undertakings whose voting rights are more than 90% controlled within the group) from disclosing group related party transactions. The consolidated financial statements of Arianty Holdings Limited, in which these results are included, are publicly available.

Loans to Customers
Mortgage loans are stated at the cost less provision for impairment after taking into account the existence of insurances, guarantees and indemnities.

Bank facility costs
Bank facility costs incurred in obtaining bank financing are capitalised and amortised over the period of the finance facility.

Deferred purchase consideration
Under the mortgage sale agreements profits of First Flexible No.4 plc ("FFL4"), First Flexible No.5 Plc ("FFL5"), First Flexible No. 6 Plc ("FFL6"), Paragon Mortgages (No. 7) Plc ("PM7") and Paragon Mortgages (No.8) Plc ("PM8") are paid to the company as originator of the loans by way of deferred purchase consideration. In turn, profits of the company are paid to MTS by way of deferred purchase consideration. Deferred purchase consideration is recognised in the period in which it is paid.

3. Other interest receivable and similar income

Interest receivable comprises interest earned on short term deposits.

4. Interest payable and similar charges

	2005 £'000	2004 Restated (note 2) £'000
Bank interest	3,114	9,183
Amortisation of bank facility costs	22	71
Commitment fees	40	253
Net expense on financial instruments	111	162
	3,287	9,669

NOTES TO THE ACCOUNTS

Year ended 30 September 2005

5. Directors and employees

The company has no employees and the directors received no remuneration during the year apart from that disclosed above. The company pays an administration charge to MTS, a related party, to provide daily services to the company.

6. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2005 £'000	2004 £'000
Servicing fees payable	61	199
Auditors' remuneration – audit	6	6
Corporate service fees - SPV Management Limited	8	10

7. Taxation on profit on ordinary activities

a) Tax charge for the period

The tax charge is based on the profit for the year and comprises:

	2005 £'000	2004 £'000
UK corporation tax at 30% (2004: 30%)	2	6
Under provision for prior years	-	12
	2	18

b) Factors affecting the current tax charge

	2005 £'000	2004 £'000
Profit on ordinary activities before tax:	7	20
Profit on ordinary activities multiplied by standard rate tax of 30% (2004: 30%)	2	6
Effects of:		
Non-taxable income	(1,761)	(2,008)
Group relief surrendered for no value	1,761	2,008
Under provision for prior years	-	12
Total current tax charge	2	18

The company has tax losses of £22,000 (2004: £22,000) for which no deferred tax asset has been recognised because the directors believe that there is insufficient evidence that such profits will arise to justify the recognition of a deferred tax asset.

NOTES TO THE ACCOUNTS

Year ended 30 September 2005

8. Assets subject to non-recourse funding

	2005	2004 Restated (note 2)
	£'000	£'000
Securitised mortgages	1,158,903	1,293,217
Other related assets	102,373	51,138
Non recourse funding	(1,243,720)	(1,329,950)
	17,556	14,405

The company provides mortgages for independent providers of finance, being FFL4, FFL5, FFL6, PM7 and PM8 on which the company receives net income from the mortgages after the claims of providers of finance have been satisfied in full. The company has the right, but not the obligation, to provide further mortgages on similar terms, subject always to FFL4, FFL5, FFL6, PM7 and PM8's ability to finance and insure such assets.

In accordance with Financial Reporting Standard No. 5 "Reporting the substance of transactions" these mortgages have been included in these accounts using linked presentation, whereby the non-recourse finance is shown deducted from the loans to customers.

The directors confirm that:

(a) The company is not obliged to support any losses of its independent providers of finance, nor does it intend to do so; and

(b) The providers of finance have agreed in writing that they will only seek repayment of the finance, as to both principal and interest, to the extent sufficient funds are generated by or attached to the mortgages they have financed and they will not seek recourse in any other form.

The company has no option or obligation to purchase the mortgages concerned.

NOTES TO THE ACCOUNTS

Year ended 30 September 2005

9. Loans to customers

These comprise mortgage loans secured on residential properties in the United Kingdom.

	2005	2004 Restated (note 2)
	£'000	£'000
Balance at 1 October	233,717	393,946
Additions	2,349	493,043
Securitisations and other sales	(219,990)	(634,560)
Other debits	2,790	13,125
Repayments and redemptions	(9,875)	(31,837)
Balance at 30 September	8,991	233,717

Other debits comprises mainly interest charged and movements in the provisions for bad debts.

Loans to customers are all due to be repaid at various times and may be redeemed at any time at the option of the borrower.

10. Debtors

	2005	2004 Restated (note 2)
	£'000	£'000
Amounts falling due within one year		
Amounts owed from group undertakings	69	69
Other debtors	54	115
Prepayments and accrued income	7	45
	130	229

11. Called up share capital

	2005	2004
	£'000	£'000
Authorised		
Equity: 100,000 Ordinary shares of £1 each	100	100
Allotted, 25p called up and paid		
Equity: 50,000 Ordinary shares of £1 each	12	12

12. Profit and loss account

	2005	2004 Restated (note 2)
	£'000	£'000
At start of year	19	17
Retained profit for the financial year	5	2
At end of year	24	19

NOTES TO THE ACCOUNTS

Year ended 30 September 2005

13. Creditors: amounts falling due within one year

	2005	2004 Restated (note 2)
	£'000	£'000
Corporation tax	8	24
Other creditors	134	730
Accruals and deferred income	22	60
	164	814

14. Creditors amounts falling due after one year

	2005	2004 Restated (note 2)
	£000	£000
Bank loan	6,000	220,000
Deferred purchase consideration	14,814	11,516
Deferred income reserves	6,592	21,297
	27,406	252,813

The company entered into a £450 million bank loan facility with The Royal Bank of Scotland / Barclays Bank PLC for the purchase of mortgages secured on residential properties in the United Kingdom. On 10 November 2003 the facility was increased to £550m until 29 January 2004 when it was reduced to £225m. On 10 November 2004 the facility was reduced to £60m and on 10 November 2005 it was again reduced to £55m. On 1 December 2005 the facility was reduced to £10m.

The bank loan is a 364 day revolving facility which will revert to a 2 year term loan should the facility not be renewed. During the loan period the drawings may only be made in respect of redraws on existing mortgages. The company may request an extension to the 364 day period by giving not more than 90 days notice. The loan facility has a number of covenants which the company must comply with. The interest on the facility is at commercial margins above LIBOR.

NOTES TO THE ACCOUNTS

Year ended 30 September 2005

15. Related Party Transactions

Transactions with the Mortgage Trust Group

Under an agreement entered into on 28 December 2000 with MTL, a company under common control as defined by FRS 8, the company buys mortgages intra day which are originated by MTL at net book value. MTL also provides credit and threshold margin support for these mortgages.

The business of MTL was transferred to MTS on 1 October 2003, under the novation agreement then dated, and consequently, since that date, MTS have been the servicer.

At the balance sheet date the company had bought £2,641m (2004: £2,639m) of mortgages from MTL and owed £6.6m (2004: £21.3m) in relation to credit and threshold margin support provided by MTS. The company also owed £14.814m (2004: £11.516m) to MTS at the balance sheet date in relation to deferred purchase consideration. During the year the company paid £6.87m (2004: £8.55m) in relation to deferred purchase consideration. As at the balance sheet date the company owed £8,000 (2004: £173,000) to MTS in relation to servicing fees and insurance. The company was owed £1,000 (2004: £7,000) by MTS relating to monies collected, that are yet to be passed onto the company.

See Note 8 for details of the mortgages subject to non-recourse funding.

16. Ultimate parent undertaking

The immediate parent undertaking is Arianty Holdings Limited. The smallest group into which the company is consolidated is that of Arianty Holdings Limited, registered in England and Wales and largest group into which the company is consolidated is that of The Paragon Group of Companies PLC, registered in England and Wales.

The shares in Arianty Holdings Limited are held by Wilmington Trust SP Services (London) Limited under a Declaration of Trust for charitable purposes. The directors regard The Paragon Group of Companies PLC as the ultimate controlling party.

Copies of the consolidated financial statements may be obtained from the Company Secretary, St Catherine's Court, Herbert Road, Solihull, West Midlands, B91 3QE.