ARIANTY HOLDINGS LIMITED

GROUP ANNUAL REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2004

Company number: 4062132

ARIANTY HOLDINGS LIMITED

CONTENTS

ARIANTY HOLDINGS LIMITED

COMPANY INFORMATION

Directors	J P J Fairrie J G Gemmell A Mehmet N Keen R Shelton SPV Management Limited
Secretary	J G Gemmell
Company Number	4062132
Registered Office	St Catherine's Court Herbert Road Solihull West Midlands B91 3QE
Registered auditor	KPMG Audit Plc 1 Canada Square Canary Wharf London E14 5AG
Bankers	Barclays Bank PLC Financial Services and Structured Finance Team PO Box 544 54 Lombard Street London EC3P 3AH

ARIANTY HOLDINGS LIMITED

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 30 SEPTEMBER 2004

The directors present their report and the audited financial statements for the year ended 30 September 2004. The previous period is for the nine months ended 30 September 2003.

Principal activity and business review

The principal activities of the group during the year under review included the purchase of mortgages secured on residential properties, securitisation of mortgages and management and leasing operations.

Under the terms of the servicing agreement, Mortgage Trust Limited ("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 has been the servicer.

Arianty Holdings Limited is a holding company and it's main trading subsidiaries are Arianty No.1 plc ("ARI1"), First Flexible No.1plc ("FFL1"), First Flexible No.2 plc ("FFL2"), First Flexible No.3 plc ("FFL3") First Flexible No.4 plc ("FFL4"), First Flexible No.5 plc ("FFL5") and Arianty Services Limited ("ARIS").

ARI1 was established as a mortgage warehouse. ARI1 entered into a £450 million revolving loan facility with The Royal Bank of Scotland / Barclays for the purchase of mortgages secured on residential properties in the United Kingdom. On 10 November 2003 the facility was increased to £550m until 27 January 2004 when it was reduced to £225m. On 10 November 2004 the facility was reduced still further to £60m.

FFL3, FFL4 and FFL5 have acquired further mortgages from ARI1 during the year under the terms of the securitisation agreements following their initial securitisation.

The results for the year are set out in detail on page 5. The directors do not recommend the payment of a dividend (2003: £nil).

Directors and their interests

The directors who served during the year and up to the date of this report were as follows:

J P J Fairrie
J G Gemmell
A Mehmet (appointed 23/8/04)
N Keen (appointed 23/8/04)
R Shelton (appointed 23/8/04)
SPV Management Limited

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

The ultimate parent company of the group is SPV Management Limited. According to the Register of Directors' Interests, SPV Management Limited held 1 ordinary share in the company. None of the other directors had, at any time during the year, any interests in the share capital of the company or group.

None of the directors received any remuneration for their services to the company or group apart from SPV Management Limited. Under the terms of a Corporate Services agreement dated 2 October 2000 and subsequently amended by side letters, SPV Management Limited are contracted to receive fees in the year of £69k (2003: £30k) for services to the group. J P J Fairrie is a director of SPV Management Limited.

J G Gemmell, A Mehmet, N Keen and R Shelton are directors of MTL a related group of companies, with whom the company entered into a number of agreements. These are detailed in note 23 to the financial statements. 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.

ARIANTY HOLDINGS LIMITED

REPORT OF THE DIRECTORS (Continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2004

Creditor payment policy

The company's policy concerning the payment of its creditors is to pay in accordance with its contractual and other legal obligations.

Auditors

A resolution to reappoint KPMG Audit Plc as auditors will be proposed at the annual general meeting of the company.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group as at the end of the financial year and of the profit or loss for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

By order of the Board

SPV Management Limited
Director
7 March 2005

ARIANTY HOLDINGS LIMITED

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF ARIANTY HOLDINGS LIMITED

We have audited the financial statements on pages 5 to 20.

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 auditor's 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

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 to you 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 group is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with 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 group'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 affairs of the company and group as at 30 September 2004 and profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
1 Canada Square
Canary Wharf
London
E14 5AG

1st March 2005

ARIANTY HOLDINGS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30 SEPTEMBER 2004

	Notes	Year to 30 Sep 2004 £'000	9 months to 30 Sep 2003 £'000
Continuing Operations			
Turnover	3	120,099	58,384
Cost of funding	4	(103,820)	(51,230)
Gross profit		16,279	7,154
Administrative expenses		(19,628)	(8,634)
Operating loss		(3,349)	(1,480)
Interest receivable	5	3,512	1,605
***Profit on ordinary activities* before taxation**	6	163	125
Tax on profit on ordinary activities	7	(60)	(53)
Retained profit for the financial year	15	103	72

The company has no recognised gains or losses other than those above and therefore no separate statement of total recognised gains and losses has been presented.

ARIANTY HOLDINGS LIMITED

GROUP AND COMPANY BALANCE SHEETS

AS AT 30 SEPTEMBER 2004

	Notes	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
ASSETS					
Fixed Assets					
Investments	9	-	88	-	100
Mortgage advances					
Mortgage advances	10	233,717	-	393,946	-
Mortgage advances securitised	11	1,939,774	-	1,783,110	-
		2,173,491	-	2,177,056	-
Current assets					
Debtors amounts falling due within one year	12	5,550	10	7,636	58
Debtors amounts falling due after one year	12	5,400	-	6,316	-
Cash at bank and in hand	13	96,774	1	113,139	2
		107,724	11	127,091	60
Total assets		2,281,215	99	2,304,147	160
LIABILITIES AND CAPITAL					
Capital and reserves					
Called up share capital	14	-	-	-	-
Profit and loss account	15	236	20	133	30
Equity shareholders' funds	16	236	20	133	30
Creditors					
Amounts falling due within one year	17	528,973	79	14,695	130
Amount falling due after one year	18	1,752,006	-	2,289,319	-
Total liabilities and capital		2,281,215	99	2,304,147	160

The financial statements on pages 5 to 20 were approved by the Board on 7 March 2005 and signed on its behalf by:

SPV Management Limited
Director

ARIANTY HOLDINGS LIMITED

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2004

	Notes	2004 £'000	2003 £'000
Net cash inflow / (outflow) from operating activities	20	**515,589**	(131,620)
Return on investments and servicing of finance			
Interest received		**3,512**	1,605
Corporation tax paid		**(40)**	(68)
Acquisitions			
Purchase of subsidiary undertakings		-	(38)
Cash and investment deposits acquired with subsidiary undertakings		-	57,540
		-	57,502
Management of liquid resources			
Movement in investment deposits		**16,385**	(44,699)
Financing			
(Repayment) / grant of bank loan		**(148,000)**	186,000
Subordinated loans repaid		**(6,682)**	(8,504)
Redemption of floating rate notes		**(380,744)**	(60,166)
		(535,426)	117,330
Increase in net cash		**20**	50
Reconciliation of net cash flow to movement in net debt			
Increase in net cash		**20**	50
Movement in investment deposits		**(16,385)**	44,699
Repayment / (grant) of bank loan		**148,000**	(186,000)
Subordinated loans repaid		**6,682**	8,504
Subordinated loans acquired with subsidiaries		-	(1,492)
Redemption of floating rate notes		**380,744**	60,166
Floating rate notes acquired with subsidiaries		-	(928,463)
Amortisation of capitalised securitisation issuer costs		**(1,160)**	(508)
Change in net debt		**517,901**	(1,003,044)
Net debt at start of year		**(2,108,188)**	(1,105,144)
Net debt at end of year	21	**(1,590,287)**	(2,108,188)

ARIANTY HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2004

1. Restriction on operations

FFL1, FFL2, FFL3, FFL4 and FFL5, subsidiaries of Arianty Holdings Limited, were established for the sole purpose of issuing floating rate notes secured by pools of residential mortgages.

Under the terms of the servicing agreement, MTL was appointed to service the 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 has been the servicer.

The ability of FFL1, FFL2, FFL3, FFL4 and FFL5 to engage in any activity other than those associated with the purchase and servicing of the pool of mortgages is restricted by agreements entered into by the companies with, among others, The Chase Manhattan Bank in its capacity as Trustee for the noteholders. Under the terms of the servicing agreement, FFL1, FFL2, FFL3, FFL4 and FFL5 and the Trustee each appointed MTL to service the mortgages under the floating rate notes. The assets of FFL1, FFL2, FFL3, FFL4 and FFL5 are subject to a fixed and floating charge in favour of the Trustee for the noteholders.

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:

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

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the company and all of its subsidiaries for the year then ended.

Format of financial statements
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.

Turnover
Turnover represents interest receivable on mortgage advances.

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.

Investments
Investments are included at cost less provision for impairment.

Mortgage advances
Mortgage advances comprise loans that are secured by way of mortgages over freehold and leasehold residential properties located in the United Kingdom and assignment of the related life assurance policies.

Mortgage advances are stated at the current balance outstanding less any provision for irrecoverable amounts.
Mortgages advances have been presented separately on the face of the balance sheet rather than as part of current assets. In the opinion of the directors, this departure from the format of Schedule 4 of the Companies Act 1985 is required to give a true and fair view of the state of the group's affairs, since to present mortgage advances as part of current assets would not fairly reflect the liquidity of these assets.

2. Principal accounting policies (Continued)

Floating rate notes
The floating rate notes' outstanding principal balance declines over time as the proceeds from redemptions on mortgage advances are used to repay noteholders, along with accrued interest, on each monthly interest payment date. Costs relating to the issue of the floating rate notes are deducted from the principal balance on the notes. These costs are charged to the profit and loss account in line with the expected redemptions of the underlying FRNs. Costs are fully amortised by the earliest date at which the option to redeem the floating rate notes may be exercised.

The floating rate notes for FFL1 fall due for repayment in full in November 2031 and comprised, at issue, of £276m Class A notes and £24m Class B notes. The Class A notes bear interest at a margin of 31 basis points over one month sterling LIBOR until November 2006 when the interest is adjusted to a margin of 62 basis points over one month sterling LIBOR. The Class B notes bear interest at a margin of 85 basis points over one month sterling LIBOR until November 2006 when the interest is adjusted to a margin of 170 basis points over one month sterling LIBOR. Interest is determined monthly on the last business day of each month in each period for the next succeeding month.

The floating rate notes for FFL2 fall due for repayment in full in June 2032 and comprised, at issue, of £276m Class A notes and £24m Class B notes. The Class A notes bear interest at a margin of 29 basis points over one month sterling LIBOR until June 2007 when the interest is adjusted to a margin of 58 basis points over one month sterling LIBOR. The Class B notes bear interest at a margin of 80 basis points over one month sterling LIBOR until June 2007 when the interest is adjusted to a margin of 160 basis points over one month sterling LIBOR. Interest is determined monthly on the first business day of each month in each period for the next succeeding month.

The floating rate notes for FFL3 fall due for repayment in full in June 2034 and comprised, at issue, of £460m Class A notes and £40m Class B notes. The Class A notes bear interest at a margin of 28 basis points over one month sterling LIBOR until October 2007 when the interest is adjusted to a margin of 56 basis points over one month sterling LIBOR. The Class B notes bear interest at a margin of 85 basis points over one month sterling LIBOR until October 2007 when the interest is adjusted to a margin of 170 basis points over one month sterling LIBOR. Interest is determined monthly on the first business day of each month in each period for the next succeeding month.

The floating rate notes for FFL4 fall due for repayment in full in July 2036 and comprised, at issue, of £460m Class A notes, £35m Class M notes and £5m Class B notes. The Class A notes bear interest at a margin of 27 basis points over one month sterling LIBOR until July 2008 when the interest is adjusted to a margin of 54 basis points over one month sterling LIBOR. The Class M notes bear interest at a margin of 85 basis points over one month sterling LIBOR until July 2008 when the interest is adjusted to a margin of 170 basis points over one month sterling LIBOR. The Class B notes bear interest at a margin of 180 basis points over one month sterling LIBOR until July 2008 when the interest is adjusted to a margin of 280 basis points over one month sterling LIBOR. Interest is determined monthly on the first business day of each month in each period for the next succeeding month.

The floating rate notes for FFL5 fall due for repayment in full in June 2034 and comprised, at issue, of £465m Class A notes, £22.5m Class M notes and £12.5m Class B notes. The Class A notes bear interest at a margin of 23 basis points over one month sterling LIBOR until July 2009 when the interest is adjusted to a margin of 46 basis points over one month sterling LIBOR. The Class M notes bear interest at a margin of 80 basis points over one month sterling LIBOR until July 2009 when the interest is adjusted to a margin of 160 basis points over one month sterling LIBOR. The Class B notes bear interest at a margin of 170 basis points over one month sterling LIBOR until July 2009 when the interest is adjusted to a margin of 270 basis points over one month sterling LIBOR. Interest is determined monthly on the first business day of each month in each period for the next succeeding month.

2. Principal accounting policies (Continued)

Subordinated loans

FFL2, FFL3, FFL4 and FFL5 have entered into subordinated loan agreements with MTL, the funds from which were used to pay the costs and provide credit enhancement associated with their purchases of pools of mortgages and issuance of floating rate notes.

The loans entered into may be repaid in whole or in part provided that the company has sufficient assets to meet its obligations on the floating rate notes and other liabilities. The loan shall be repaid in full by the repayment dates, provided that all payments then due in respect of the floating rate notes have been paid or otherwise provided for in full. If by the repayment date the company has insufficient funds after paying the floating rate notes in full, it shall only be obliged to repay the loan to the extent of funds available and the company shall thereafter be released from any further obligation to make any further repayments.

The repayment dates for the loans are as follows:

FFL2	June 2032
FFL3	June 2034
FFL4	June 2036
FFL5	June 2034

Servicing fees

Servicing fees are payable by FFL1, FFL2, FFL3, FFL4 and FFL5 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.

Bank facility costs

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

Leasing

The group has entered various lease agreements whereby equipment leased to it has been shown in the accounts under finance lease creditors. In turn, a computer system has been leased out by the group under similar arrangements and amounts owed under the lease agreements are shown in the accounts as finance lease debtors. The nature of the arrangements are that a margin is made on these transactions. This margin has been recognised on a straight line basis over the life of the lease.

3. Turnover

The turnover and operating profit for the year were derived from the company's principal activity, which was carried out in the United Kingdom.

4. Cost of funding

	Group Year to 30 Sep 2004 £'000	Group 9 months to 30 Sep 2003 £'000
Interest charged on facility	**9,184**	7,228
Interest payable on FRNs	**92,319**	38,084
Amortisation of issue costs	**1,251**	508
Other funding costs	**1,066**	5,410
	103,820	51,230

5. Interest receivable

Interest receivable comprises interest earned on short term deposits.

6. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	Group Year to 30 Sep 2004 £'000	Group 9 months to 30 Sep 2003 £'000
Administration and servicing fees	**1,846**	941
Corporate services fee – SPV Management Limited	**69**	30
Auditor's remuneration (company: £7k) – audit	**48**	37
Auditor's remuneration (company: £nil) – other services	**28**	6

The group 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.

7. Tax on profit on ordinary activities

	Group Year to 30 Sep 2004 £'000	Group 9 months to 30 Sep 2003 £'000
Based on profit for the year:		
UK Corporation tax at 30% (2003: 30%)	**49**	38
Under provision with respect to prior years	**11**	15
	60	53

The current tax charge for the year is higher than (2003: higher than) the standard rate of corporation tax in the UK (30%, 2003: 30%).

	Group Year to 30 Sep 2004 £'000	Group 9 months to 30 Sep 2003 £'000
Profit on ordinary activities before tax:	**163**	125
Profit on ordinary activities multiplied by standard rate tax of 30% (2003: 30%)	**49**	38
Under provision with respect to prior years	**11**	15
Total current tax charge	**60**	53

7. Tax on profit on ordinary activities (continued)

The group has tax losses of £29k (2003: £120k) for which no deferred tax asset has been recognised.

8. Profit for the year

As permitted by section 230(4) of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's loss for the financial year was £10k (2003: £67k profit).

9. Investments

	Company 2004 £'000	Company 2003 £'000
At start of year	**100**	37
Additions	**-**	63
Disposals	**(12)**	-
As at end of year	**88**	100

Listed below are the subsidiary companies of the group which are all incorporated in Great Britain:

Company	**Principal activity**	**Description of shares held**	**Proportion of nominal value of issued shares held**	**Year end status**
Arianty No.1 plc	Mortgage warehouse	Ordinary £1 shares	100%	Trading
Arianty Services Ltd	Leasing	Ordinary £1 shares	100%	Trading
First Flexible No.1 plc	Mortgage securitisations	Ordinary £1 shares	100%	Trading
First Flexible No.2 plc	Mortgage securitisations	Ordinary £1 shares	100%	Trading
First Flexible No.3 plc	Mortgage securitisations	Ordinary £1 shares	100%	Trading
First Flexible No.4 plc	Mortgage securitisations	Ordinary £1 shares	100%	Trading
First Flexible No.5 plc	Mortgage securitisations	Ordinary £1 shares	100%	Trading
First Flexible No.7 plc	Dormant	Ordinary £1 shares	100%	Non-trading

During the year First Flexible No.6 plc was sold to MTL (see note 23 Related Party Transactions).

10. Mortgage advances

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
Mortgage advances	233,717	-	393,946	-

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

11. Mortgage advances securitised

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
Mortgage advances securitised	1,939,774	-	1,783,110	-

Mortgage advances securitised are all due to be repaid at various times before 2036 and may be redeemed at any time at the option of the borrower. Mortgage advances securitised includes assets of subsidiary companies of the group (see note 9), and also include assets held on the balance sheets of other group undertakings and related parties including Paragon Mortgages (No.7) Plc and First Flexible No. 6 Plc.

12. Debtors

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
Amounts falling due within one year				
Amounts owed by group undertakings	-	5	-	54
Corporation tax	-	5	-	-
Net investment in finance leases (note a)	916	-	916	-
Other debtors	4,529	-	6,049	-
Prepayments and accrued income	105	-	671	4
	5,550	10	7,636	58
Amounts falling due after one year				
Net investment in finance leases (note a)	5,400	-	6,316	-
Total debtors	10,950	10	13,952	58

a) Net investment in finance leases comprises:

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
Total amounts receivable	6,442	-	7,377	-
Less: Interest allocated to future periods	(126)	-	(145)	-
	6,316	-	7,232	-

13. Cash at bank and in hand

Cash at bank and in hand includes investment deposits of £96.8m (2003: £113.1m).

14. Called up share capital

	Company 2004 £	Company 2003 £
Authorised		
100 Ordinary shares of £1 each	100	100
Allotted, called up and fully paid		
1 Ordinary share of £1	1	1

15. Profit and loss account

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
At start of year / period	133	30	61	(37)
Retained profit / (loss) for the year / period	103	(10)	72	67
At end of year / period	236	20	133	30

16. Reconciliation of movements in equity shareholders' funds

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
Opening equity shareholders' funds / (deficit)	133	30	61	(37)
Retained profit / (loss) for the year / period	103	(10)	72	67
Closing equity shareholders' funds	236	20	133	30

17. Creditors: amounts falling due within one year

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
Amounts owed to group undertakings	-	58	-	112
Finance leases (note 19)	916	-	916	-
Other creditors	527,821	13	13,374	12
Corporation tax	51	-	30	-
Accruals and deferred income	185	8	375	6
	528,973	79	14,695	130

Included within other creditors are amounts owed to floating rate note holders in First Flexible No.6 Plc (£472.4m) and Paragon Mortgages (No.7) Plc (£54.7m).

18. Creditors: amounts falling due after one year

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
Floating rate notes (note a)	**1,464,531**	-	1,844,115	-
Bank loan (note b)	**220,000**	-	368,000	-
Subordinated loan (note c)	**2,530**	-	9,212	-
Finance leases (note 19)	**5,400**	-	6,316	-
Deferred purchase consideration	**38,103**	-	27,967	-
Deferred income reserves	**21,442**	-	33,709	-
	1,752,006	-	2,289,319	-

a) Floating rate notes comprise:

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
Principal balance outstanding	**1,465,862**	-	1,846,606	-
Unamortised securitisation issue costs	**(1,331)**	-	(2,491)	-
	1,464,531	-	1,844,115	-

The movement on floating rate notes during the year was:

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
As at start of the year	**1,844,115**	-	975,310	-
Acquisitions during the year (net of securitisation issue costs)	-	-	928,463	-
Principal repaid during the year	**(380,744)**	-	(60,166)	-
Additional issue costs written off in the year	**(19)**	-	-	-
Securitisation issue costs charged to the profit and loss account	**1,179**	-	508	-
As at end of the year	**1,464,531**	-	1,844,115	-

b) The bank loan is a 364 days revolving facility with RBS/Barclays 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.

c) The subordinated loans are repayable as determined by the priority of payments set out in the securitised mortgage agreements for FFL5 with repayment in full to be made by the dates set out in note 2 above. Interest is charged on the outstanding balance of subordinated loans at a rate of LIBOR plus 1%.

19. Finance leases

	Group 2004 £'000	Group 2003 £'000
Future capital payments under finance leases are as follows:		
Within one year	**916**	916
In more than one year, but not more than five years	**3,666**	3,666
After five years	**1,734**	2,650
Total capital payments	**6,316**	7,232

20. Reconciliation of operating profit to net cash inflow / (outflow) from operating activities

	Group 2004 £'000	Group 2003 £'000
Operating loss	**(3,349)**	(1,480)
Amortisation of securitisation issue costs	**1,160**	508
Write off of negative goodwill	**-**	(5)
Movement in mortgage advances	**3,565**	(150,267)
Decrease / (increase) in debtors	**3,002**	(1,073)
Increase in creditors	**511,211**	20,697
Net cash inflow / (outflow) from operating activities	**515,589**	(131,620)

21. Analysis of changes in net debt

Group	31 December 2002 £'000	Cash flows £'000	Acquisition (excluding cash and investments) £'000	Non-Cash Changes £'000	**30 September 2003 £'000**	Cash flows £'000	Non-Cash Changes £'000	**30 September 2004 £'000**
Cash in hand and at bank	19	50	-	-	**69**	20	-	**89**
Investment deposits	68,371	44,699	-	-	**113,070**	(16,385)	-	**96,685**
	68,390	44,749	-	-	**113,139**	(16,365)	-	**96,774**
Debt falling due after one year								
Bank loan	(182,000)	(186,000)	-	-	**(368,000)**	148,000	-	**(220,000)**
Subordinated loan	(16,224)	8,504	(1,492)	-	**(9,212)**	6,682	-	**(2,530)**
Floating rate notes	(975,310)	60,166	(928,463)	(508)	**(1,844,115)**	380,744	(1,160)	**(1,464,531)**
	(1,105,144)	(72,581)	(929,955)	(508)	**(2,108,188)**	519,061	(1,160)	**(1,590,287)**

Non-cash changes relate to the amortised securitisation issue costs charged to the profit and loss account.

22. Financial Instruments

Market Risk Management

Market risk is managed by the Asset and Liability Committee ("ALCO") of MTL and PGC. The ALCO is composed of senior management and meets regularly to review performance, positions and market conditions and to make strategic decisions regarding interest rate risk, liquidity and capital management. The policy is implemented by the Treasury Department of MTL and PGC.

Interest rate risk is the company's most significant market risk and arises from mismatches between the repricing profiles of assets and liabilities. Interest rate risk is quantified, and limits set, based on the effect that a given movement in interest rates may have on the profitability of the company. Overall planning in relation to interest rate risk is performed using a risk management system, which allows gap analysis reports to be produced on a regular basis together with sensitivity of the net exposure to a shift in interest rates. The company uses interest rate derivatives to manage interest rate risk. The company does not use derivatives for creating risk that does not arise in the underlying business and the company does not trade in derivatives. Consequently all derivatives are classified as hedging contracts and accounted for using hedge accounting.

Liquidity Management

It is the company's policy to ensure that adequate resources are available at all times to provide for the day to day activities of the company and to meet regulatory requirements. Management consider the year end position satisfactorily reflects the policies and objectives set out above.

22. Financial Instruments (continued)

Credit Risk Management

Credit risk during the year was monitored by the Credit Department of MTL and PGC, and arises from the company's lending activities. MTL and PGC are committed to maintaining a consistent credit culture based on sound lending principles because this is the best safeguard against any decline in the property market in particular or the economy as a whole. The approval process for secured loans takes into account the ratio of the loan amount to the value of the mortgaged property. MTL and PGC operate comprehensive monitoring systems that assist management in identifying any deterioration in loan quality. The quality of the loan book is reviewed on a regular basis.

Interest rate risk profile

The table below gives an indication of the interest rate risk profile of the company. Items are included in various time bands based on the earlier of the repricing or maturity date taking account of any amortisation of principal.

As at 30 September 2004	**Less than 3 months**	**Between 3-6 months**	**Between 6-12 months**	**Over 1 year but not more than 5 years**	**More than 5 years**	**Non Interest bearing**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Assets							
Mortgage advances	1,716,332	109,398	247,191	100,571	-	(1)	**2,173,491**
Other assets	96,774	-	-	-	-	10,950	**107,724**
	1,813,106	109,398	247,191	100,571	-	10,949	**2,281,215**
Liabilities							
Floating rate notes	(1,465,862)	-	-	-	-	1,331	**(1,464,531)**
Bank loan	(220,000)	-	-	-	-	-	**(220,000)**
Other liabilities	(548,597)	-	-	-	-	(47,851)	**(596,448)**
Shareholders funds	-	-	-	-	-	(236)	**(236)**
	(2,234,459)	-	-	-	-	(46,756)	**(2,281,215)**
Off balance sheet items	378,400	(79,000)	(175,500)	(123,800)	(100)	-	-
Interest rate risk profile	(42,953)	30,398	71,691	(23,229)	(100)	(35,807)	-

As at 30 September 2003	Less than 3 months	Between 3-6 months	Between 6-12 months	Over 1 year but not more than 5 years	More than 5 years	Non Interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Mortgage advances	1,766,206	40,208	49,637	321,257	-	(252)	2,177,056
Other assets	113,070	-	-	-	-	14,021	127,091
	1,879,276	40,208	49,637	321,257	-	13,769	2,304,147
Liabilities							
Floating rate notes	(1,846,606)	-	-	-	-	2,491	(1,844,115)
Bank loan	(368,000)	-	-	-	-	-	(368,000)
Other liabilities	(6,980)	-	-	-	-	(84,919)	(91,899)
Shareholders funds	-	-	-	-	-	(133)	(133)
	(2,221,586)	-	-	-	-	(82,561)	(2,304,147)
Off balance sheet items	421,383	(28,493)	(58,201)	(334,542)	(147)	-	-
Interest rate risk profile	79,073	11,715	(8,564)	(13,285)	(147)	(68,792)	-

22. Financial Instruments (continued)

Fair value of financial instruments

The table below shows the estimated fair value and the carrying value for each major category of assets and liabilities in the balance sheet at the balance sheet date. The fair value of a financial instrument is the amount at which it could be exchanged in an arm's length transaction between informed and willing parties, other than in a forced or liquidation sale. Where external or quoted market prices were not available the fair values were estimated using discounted cash flow techniques based on interest rates prevailing at the balance sheet date. Financial instruments with short term maturities or near term re-pricing terms are assumed to have fair values equal to their carrying amounts.

The table excludes certain financial assets and liabilities which are not listed or publicly traded, or for which a liquid and active market does not exist. Thus it excludes mortgages and other balance sheet items whose book and fair values differ at the balance sheet date.

	Carrying Amount 2004 £'000	**Fair Value 2004 £'000**	Carrying Amount 2003 £'000	Fair Value 2003 £'000
On balance sheet instruments				
Floating rate notes	**(1,464,531)**	**(1,464,531)**	(1,844,115)	(1,844,115)
Off balance sheet instruments				
Derivatives	**-**	**2,567**	-	448

At the balance sheet date the group had interest rate swaps in place with a notional value of £1,188m (2003: £1,166m) with a fair value of £2,567k (2003: £448k).

Gains and losses on hedges

All derivative contracts are accounted for as hedges. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedge position matures. Set out below is an analysis of these unrecognised gains and losses.

	Gains £'000	(Losses) £'000	Total net gains/(losses) £'000
Unrecognised gains and losses at 1 October 2003	1,204	(756)	448
Gains and losses arising in previous periods that were recognised in the year	-	72	72
Gains and losses arising before 1 October 2003 that were not recognised in the year	1,204	(684)	520
Gains and losses arising in the year that were not recognised in the year	2,569	(522)	2,047
Unrecognised gains and losses on hedges at 30 September 2004	3,773	(1,206)	2,567
Of which:			
Gains and losses expected to be recognised in the year to 30 September 2005	3,676	(518)	3,158
Gains and losses expected to be recognised in the year to 30 September 2006	97	(688)	(591)

22. *Financial Instruments (continued)*

Maturity profile

The maturity of the group's financial liabilities, other than short term creditors such as trade creditors, accruals and taxation, were as follows:

	2004	2003
	£'000	£'000
In one year or less or on demand	528,038	916
Over 1 year but less than five years	223,666	371,666
In more than five years	1,468,795	1,855,977
	2,220,499	2,228,559

Included within the category of amounts falling due in more than five years are subordinated loans amounting to £2.5million (2003:£9.2million) that have no fixed date for repayment as they are repayable as determined by a priority of payments. Details of these transactions are set out in note 18.

FFL1, FFL2, FFL3, FFL4 and FFL5, subsidiaries of the group, have entered into sterling revolving credit facilities as part of its securitisation to fund, where necessary, the purchase of mortgage redraws. The initial redraw facility limits are £45million, £27million, £60million, £58million and £25million respectively although the limit may be varied in accordance with the securitisations agreements. At the balance sheet date £nil (2003: £nil) had been drawn down under these facilities.

23. Related Party Transactions

The company has identified the following transactions which are required to be disclosed under the terms of *Financial Reporting Standard* 8, "Related Party Disclosures" ("FRS8").

Transactions with the MTL Group

Under the terms of the servicing agreements, 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 has been the servicer.

i) Under an agreement entered into on 28 December 2000 with MTS and subsequently amended, a group under common control as defined by FRS 8, ARI1 buys mortgages intra day which are originated by MTS at net book value. MTS also provides credit and threshold margin support for these mortgages.

ii) At the balance sheet date ARI1 had bought £2,639 million (2003: £2,146 million) of mortgages from MTS and owed £21.3 million (2003: £33.2 million) in relation to credit and threshold margin support provided from MTS. ARI1 also owed £11.516million (2003: £5.86 million) to MTS at the balance sheet date. During the year the company earned £8.43 million (2003: £4.0 million) in relation to deferred purchase consideration.

iii) MTS has entered into a number of lease arrangements with ARIS to provide a customized computer system. At the balance sheet date ARIS owed £6,316k (2003: £7,232k) and was owed £6,316k (2003: £7,232k) in relation to these arrangements. During the year ARIS paid £900k (2003: £675k) to MTS and received £936k (2003: £702k) from MTS in relation to these lease arrangements. During the year, ARIS paid £12k (2003: £9k) to MTS in relation to the servicing fee.

iv) At the balance sheet date FFL1 owed £6.2million (2003: £6.1million) to MTS in relation to outstanding deferred purchase consideration. During the year MTS earned £1.8million (2003: £1.9million) in relation to deferred purchase consideration. MTS acted as servicer of the mortgages for FFL1 and earned £153k during the year (2003: £49k) in servicing fees. At the balance sheet date FFL1 owed £11k (2003: £nil) to MTS in relation to servicing fees plus £33k (2003: £39k) for mortgage fees and insurance. FFL1 was owed £523k (2003: £747k) by MTS relating to monies collected by MTS, that are yet to be passed on to FFL1.

23. Related Party Transactions (continued)

Transactions with the MTL Group (continued)

v) At the balance sheet date MTS was owed £7.9m (2003: £7.6m) by FFL2 in relation to outstanding deferred purchase consideration. During the year MTS earned £2.9m (2003: £2.7m) in relation to deferred purchase consideration. MTS acted as servicer of the mortgages for FFL2 and earned £243k during the year (2003: £69k) in servicing fees. At the balance sheet date FFL2 owed £20k (2003: £22k) to MTS in relation to servicing fees plus £24k (2003: £38k) for mortgage fees and insurance. FFL2 was owed £424k (2003: £303k) by MTS relating to monies collected by MTS, that are yet to be passed on to FFL2.

vi) On 20 October 2000 FFL3 was granted a subordinated loan of £13.8m and also received £3.3m to meet start up costs, from MTS. At the balance sheet date £12.5m (2003: £14.3m) of deferred purchase consideration and £nil (2003: £0.2m) of the subordinated loan is owed to MTS. During the year MTS earned £3.6m (2003: £3.5m) in relation to deferred purchase consideration. MTS acted as servicer of the mortgages for FFL3 and earned £369k during the year (2003: £105k) in servicing fees. At the balance sheet date FFL3 owed £26k (2003: £35k) to MTS in relation to servicing fees plus £64k (2003: £72k) for mortgage fees and insurance. FFL3 was owed £1,185k (2003: £1.216k) by MTS relating to monies collected by MTS, that are yet to be passed on to FFL3.

vii)In July 2001 MTS granted a subordinated loan of £14.35m to FFL4. At the balance sheet date MTS was owed £nil (2003: £2.0m) in relation to the subordinated loan, plus £58k (2003: £71k) for mortgage fees and insurance by FFL4. During the year MTS earned £416k (2003: £353k) in relation to servicing fees. At the balance sheet date FFL4 owed £34k (2003: £39k) to MTS in relation to servicing fees. FFL4 was owed £802k (2003: £1,279k) by MTS relating to monies collected by MTS, that are yet to be passed on to FFL4.

viii) In June 2002 MTS granted subordinated loans of £13.8m to FFL5. At the balance sheet date MTS was owed £2.5million (2003 £7.0million) in relation to the subordinated start up loans, plus £70k (2003: £63k) for mortgage fees and insurances by FFL5. During the year MTS earned £454k (2003: £356k) in relation to servicing fees. At the balance sheet date FFL5 owed £45k (2003: £39k) to MTS in relation to servicing fees. FFL5 was owed £1,194k (2003: £1,012k) by MTS relating to monies collected by MTS, that are yet to be passed on to FFL5.

ix) On 2 October 2000 a Corporate Services Agreement was entered into and subsequently amended by three side letters, to provide Corporate Services to the Arianty Group of Companies between MTS, a group under common control as defined by FRS 8, Arianty Holdings Limited and SPV Management Limited. MTS is remunerated for their services on an invoice basis.

x) On 24 October 2003 the shares in FFL6 were sold to MTS at par.

24. Ultimate parent undertaking

The ultimate parent undertaking is SPV Management Limited, as trustees under a declaration of trust.