4062132

ARIANTY HOLDINGS LIMITED

GROUP ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2002

Company number: 4062132

ARIANTY HOLDINGS LIMITED

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ARIANTY HOLDINGS LIMITED

COMPANY INFORMATION

Directors	J P J Fairrie P R Rogers SPV Management Limited
Secretary	G M Wellman
Company Number	4062132
Registered Office	Sir William Atkins House Ashley Avenue Epsom Surrey KT18 5AS
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 31 DECEMBER 2002

The directors present their report and the audited financial statements for the year ended 31 December 2002.

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.

Arianty Holdings Limited is a holding company and it's main trading subsidiaries are Arianty No.1 plc ("ARI1"), 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 has entered into a £500 million revolving loan facility with The Royal Bank of Scotland / Barclays for the purchase of mortgages secured on residential properties in the United Kingdom. Under this agreement ARI1 cannot fund a mortgage acquired under the facility for more than 12 months from the date that the mortgage was completed. No mortgage may be disposed of unless securitised, substituted into a securitised vehicle or sold to rectify a breach of the lending criteria.

FFL4 has acquired further mortgages from ARI1 during the year under the terms of the securitisation agreements following the initial securitisation in July 2001.

On 6 June 2002, FFL5 issued an Offer Circular for £500 million of mortgage backed floating rate notes due in 2034. Following this Offer Circular, FFL5 acquired certain mortgages from ARI1 on 11 June 2002. FFL5 has also acquired further mortgages from ARI1 under the terms of the securitisation agreements

During the period under review ARIS entered into a number of lease agreements to develop a computer system.

The results for the year are set out in detail on page 5. The comparative period is from the date of incorporation on 30 August 2000 to 31 December 2001. The directors do not recommend the payment of a dividend (2001: £nil).

Directors and their interests

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

J P J Fairrie
P R Rogers
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.

None of the directors received any remuneration for their services to the company 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 received £26k for services to the group during the year.

P R Rogers is a director of Britannic Money plc ("BM"), 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.

ARIANTY HOLDINGS LIMITED

REPORT OF THE DIRECTORS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2002

Creditor payment policy

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

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 as at the end of the financial year and of the profit or loss for that period. 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 company and to prevent and detect fraud and other irregularities.

Auditors

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

By order of the Board

On behalf of SPV Management Limited
Director
22 April 2003

ARIANTY HOLDINGS LIMITED

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF ARIANTY HOLDINGS LIMITED

We have audited the financial statements on pages 5 to 18.

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 company 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 the company's and group's affairs at 31 December 2002 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 and Registered Auditor
1 Canada Square
Canary Wharf
London
E14 5AG

22 April 2003

ARIANTY HOLDINGS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	1 Jan 2002 - 31 Dec 2002 £'000	30 Aug 2000 - 31 Dec 2001 £'000
Continuing operations			
Turnover	3	56,071	33,841
Cost of funding	4	(54,205)	(33,808)
Gross profit		1,866	33
Administrative expenses		(3,295)	(1,766)
Operating loss		(1,429)	(1,733)
Interest receivable	5	1,641	1,750
Profit on ordinary activities before taxation	6	212	17
Tax on profit on ordinary activities	7	(151)	(17)
Retained profit for the financial period	15	61	-

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 31 DECEMBER 2002

	Notes	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
ASSETS					
Fixed Assets					
Investments	9	-	37	-	50
Mortgage advances					
Mortgage advances	10	188,634	-	456,362	-
Mortgage advances securitised	11	938,529	-	485,989	-
		1,127,163	-	942,351	-
Current assets					
Debtors amounts falling due within one year	12	3,344	11	7,613	5
Debtors amounts falling due after one year	12	7,003	-	7,868	-
Cash at bank and in hand	13	68,390	1	32,407	29
		78,737	12	47,888	34
Total assets		1,205,900	49	990,239	84
LIABILITIES					
Capital and reserves					
Called up share capital	14	-	-	-	-
Profit and loss account	15	61	(37)	-	(25)
Equity shareholders' funds / (deficit)	16	61	(37)	-	(25)
Creditors					
Amounts falling due within one year	17	8,613	86	34,736	109
Amount falling due after one year	18	1,197,226	-	955,503	-
Total liabilities and capital		1,205,900	49	990,239	84

The financial statements on pages 5 to 18 were approved by the Board on 22 April 2003 and signed on its behalf by:

On behalf of SPV Management Limited
Director

ARIANTY HOLDINGS LIMITED

CONSOLIDATED CASH FLOW STATEMENT

AS AT 31 DECEMBER 2002

	Notes	2002 £'000	2001 £'000
Net cash outflow from operating activities	20	**(190,607)**	(916,735)
Return on investments and servicing of finance			
Interest received		**1,641**	1,750
Corporation tax paid		**(137)**	-
Management of liquid resources			
Movement in investment deposits		**(36,051)**	(32,320)
Financing			
Issue of floating rate notes		**500,000**	500,000
Costs on issue of floating rate notes		**(1,606)**	(1,833)
(Repayment) / grant of bank loan		**(259,000)**	441,000
Subordinated loans granted net of repayments		**5,161**	11,063
Redemption of floating rate notes		**(19,469)**	(2,838)
		225,086	947,392
(Decrease) / increase in net cash		**(68)**	87
Reconciliation of net Cash flow to movement in net debt			
(Decrease) / increase in net cash		**(68)**	87
Movement in investment deposits		**36,051**	32,320
Repayment / (grant) of bank loan		**259,000**	(441,000)
Subordinated loans granted net of repayment		**(5,161)**	(11,063)
Redemption of floating rate notes		**19,469**	2,838
Issue of floating rate notes		**(500,000)**	(500,000)
Amortisation of capitalised securitisation issuer costs		**(813)**	(243)
Capitalisation of securitisation issue costs		**1,606**	1,833
Change in net debt		**(189,916)**	(915,228)
Net debt at start of period		**(915,228)**	-
Net debt at 31 December	21	**(1,105,144)**	(915,228)

ARIANTY HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

1. Restriction on operations

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.

The ability of 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 companys with, among others, The Chase Manhattan Bank in its capacity as Trustee for the noteholders. Under the terms of the servicing agreement, FFL4 and FFL5 and the Trustee each appointed BM to service the mortgages under the floating rate notes. The assets of FFL4 and FLL5 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 statement of the company and all of its subsidiaries for the year ended 31 December 2002.

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 FRS19.

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.

Mortgage 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 company'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 mortgages. 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 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 LIBOR until July 2008 when the interest is adjusted to a margin of 170 basis points over one month LIBOR. The Class B notes bear interest at a margin of 180 basis points over one month LIBOR until July 2008 when the interest is adjusted to a margin of 280 basis points over one month LIBOR. Interest is determined monthly on the first business day of each month in each year 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 LIBOR until July 2009 when the interest is adjusted to a margin of 160 basis points over one month LIBOR. The Class B notes bear interest at a margin of 170 basis points over one month LIBOR until July 2009 when the interest is adjusted to a margin of 270 basis points over one month LIBOR. Interest is determined monthly on the first business day of each month in each year for the next succeeding month.

Subordinated loans
FFL4 and FFL5 has entered into a subordinated loan agreements with BM, the funds from which were used to pay the costs and provide credit enhancement associated with its purchase of a pool of mortgages and issuance of floating rate notes.

The loan entered into by FFL4 may be repaid in whole or in part provided that FFL4 has sufficient assets to meet its obligations on the floating rate notes and other liabilities. The loan shall be repaid in full in July 2036, provided that all payments then due in respect of the floating rate notes have been paid or otherwise provided for in full. If, in July 2036, FFL4 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 FFL4 shall thereafter be released from any further obligation to make any further repayments.

The loan entered into by FFL5 may be repaid in whole or in part provided that FFL5 has sufficient assets to meet its obligations on the floating rate notes and other liabilities. The loan shall be repaid in full in June 2034, provided that all payments then due in respect of the floating rate notes have been paid or otherwise provided for in full. If, in June 2034, FFL5 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 FFL5 shall thereafter be released from any further obligation to make any further repayments.

Servicing fees
Servicing fees are payable by FFL4 and FFL5 to BM under the terms of a servicing agreement. The servicing fee is calculated on the outstanding mortgage portfolio as defined in the servicing agreement. BM is also entitled to a deferred consideration based on the excess earnings as defined in the mortgage sale agreement.

2. Principal accounting policies (Continued)

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

Deferred expenses
Included in prepayments are deferred expenses incurred either on the purchase of or creation of mortgage portfolios or during the establishment of off-balance sheet mortgage portfolios for funding institutions, which are being amortised over a period not exceeding seven years. Deferred expenses also include certain external origination costs, which are capitalised and amortised over the shorter of the redemption period of the mortgage portfolio and five years.

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 2002 £'000	Group 2001 £'000
Interest charged on facility	**11,738**	20,224
Interest payable on FRN's	**33,144**	10,846
Other funding costs	**9,323**	2,738
	54,205	33,808

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:

	2002 £'000	2001 £'000
Administration and servicing fees payable to BM	**878**	478
Corporate services fee – SPV Management Limited	**26**	31
Auditors remuneration (company: £6k) – audit	**27**	32
Auditors remuneration (company: £nil) – other services	**5**	2

The group has no employees and the directors received no remuneration during the period apart from that disclosed above.

7. Tax on profit on ordinary activities

	Group 2002 £'000	Group 2001 £'000
Based on profit for the year:		
U K Corporation tax at 30% (2001: 30%)	64	5
Over provision with respect to prior years	87	12
	151	17

The current tax charge for the year is higher than (2001: higher than) the standard rate of corporation tax in the UK (30%, 2001: 30%).

	2002 £'000	2001 £'000
Profit on ordinary activities before tax:	212	17
Profit on ordinary activities multiplied by standard rate tax of 30% (2001: 30%)	64	5
Over provision with respect to prior years	87	12
Total current tax charge	151	17

The group has tax losses of £120k (2001: £120k) for which no deferred tax asset has been recognised.

8. Profit for the year

As permitted by section 230 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 £12k (2001: £25k loss).

9. Investments

	Company 2002 £'000	Company 2001 £'000
At start of period	50	-
Additions	-	50
Disposals	(13)	-
As at 31 December	37	50

Listed below are the subsidiary companies of the group:

Company	Country of Incorporation	Description of shares held	Proportion of nominal value of issued shared held	Year end status
Arianty No.1 Plc	Great Britain	Ordinary £1 shares	100%	Trading
Arianty Services Ltd	Great Britain	Ordinary £1 shares	100%	Trading
First Flexible No.4 Plc	Great Britain	Ordinary £1 shares	100%	Trading
First Flexible No.5 Plc	Great Britain	Ordinary £1 shares	100%	Trading

On 15 July 2002 the company disposed of a dormant company, Arianty No.2 plc. The net assets of the company, which had been dormant since incorporation, amounted to £13k at the date of disposal, being the share capital of the company.

10. Mortgage advances

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
Mortgage advances	188,634	-	456,362	-

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 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
Mortgage advances securitised	938,529	-	485,989	-

Mortgage advances securitised are all due to be repaid at various times before 2036 for FFL4 and 2034 for FFL5, and may be redeemed at any time at the option of the borrower.

12. Debtors

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
Amounts falling due within one year				
Amounts due from group undertakings	-	8	-	5
Net investment in finance leases (note a)	916	-	912	-
Other debtors	1,082	-	4,424	-
Prepayments and accrued income	1,346	3	2,277	-
	3,344	11	7,613	5
Amounts falling due after one year				
Net investment in finance leases (note a)	7,003	-	7,868	-
Total debtors	10,347	11	15,481	5

a) Net investment in finance leases comprises:

Total amounts receivable	8,077	-	8,956	-
Less: Interest allocated to future periods	(158)	-	(176)	-
	7,919	-	8,780	-

13. Cash at bank and in hand

Cash at bank and in hand includes investment deposits of £68.4m (2001: £32.3m).

ARIANTY HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2002

14. Called up share capital

	Company 2002 £	Company 2001 £
Authorised		
100 Ordinary shares of £1 each	100	100
Allotted, called up and paid		
1 Ordinary share of £1	1	1

15. Profit and loss account

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
At start of period	-	(25)	-	-
Retained profit / (accumulated loss) for the period	61	(12)	-	(25)
At 31 December	61	(37)	-	(25)

16. Reconciliation of equity shareholders' funds / (deficit)

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
Opening equity shareholders' funds / (deficit)	-	(25)	-	-
Issue of shares	-	-	-	-
Profit / (loss) on ordinary activities after taxation	61	(12)	-	(25)
Closing equity shareholders' funds / (deficit)	61	(37)	-	(25)

17. Creditors: amounts falling due within one year

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
Amounts owed to group undertakings	-	74	-	97
Finance leases (note 19)	916	-	912	-
Other creditors	6,785	12	8,337	12
Corporation tax	45	-	17	-
Accruals and deferred income	867	-	202	-
Deferred income reserves	-	-	25,268	-
	8,613	86	34,736	109

18. Creditors: amounts falling due after one year

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
Floating rate notes (note a)	**975,310**	-	495,572	-
Bank loan (note b)	**182,000**	-	441,000	-
Subordinated loan (note c)	**16,224**	-	11,063	-
Finance leases (note 19)	**7,003**	-	7,868	-
Accruals & Deferred Income	**16,689**	-	-	-
	1,197,226	-	955,503	-

a) Floating rate notes comprise:

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
Principal balance outstanding	**977,693**	-	497,162	-
Unamortised securitisation issue costs	**(2,383)**	-	(1,590)	-
	975,310	-	495,572	-

The movement on floating rate notes during the period was:

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
As at start of the period	**495,572**	-	-	-
Acquisitions during the period (net of securitisation issue costs)	**498,394**	-	498,167	-
Principal repaid during the period	**(19,469)**	-	(2,838)	-
Securitisation issue costs charged to the profit and loss account	**813**	-	243	-
As at 31 December	**975,310**	-	495,572	-

b) The bank loan is a 2 year revolving facility with RBS. During the term 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 does not have a fixed date for repayment and is repayable as determined by the priority of payments set out in the securitised mortgage agreements for FFL4 and FFL5.

19. Finance leases

Future capital payments under finance leases are as follows:

	Group 2002 £'000	Group 2001 £'000
Within one year	**916**	912
In more than one year, but not more than five years	**3,666**	3,647
After five years	**3,337**	4,221
Total capital payments	**7,919**	8,780

20. Reconciliation of operating profit to net cash inflow from operating activities

	Group 2002 £'000	Group 2001 £'000
Operating loss	**(1,429)**	(1,733)
Amortisation of securitisation issue costs	**813**	243
Movement in mortgage advances	**(184,812)**	(942,351)
Decrease/(increase) in debtors	**4,273**	(6,701)
(Decrease)/increase in creditors	**(9,452)**	33,807
Net cash outflow from operating activities	**(190,607)**	(916,735)

21. Analysis of changes in net debt

Group	20 August 2000 £'000	Cash flows £'000	Non-Cash Changes £'000	31 December 2001 £'000	Cash flows £'000	Non-Cash Changes £'000	**31 December 2002 £'000**
Cash in hand and at bank	-	87	-	87	(68)	-	**19**
Investment deposits	-	32,320	-	32,320	36,051	-	**68,371**
	-	32,407	-	32,407	35,983	-	**68,390**
Debt falling due after one year							
Bank loan	-	(441,000)	-	(441,000)	259,000	-	**(182,000)**
Subordinated loan	-	(11,063)	-	(11,063)	(5,161)	-	**(16,224)**
Floating rate notes	-	(495,329)	(243)	(495,572)	(478,925)	(813)	**(975,310)**
	-	(914,985)	(243)	(915,228)	(189,103)	(813)	**(1,105,144)**

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 BM with whom the company's servicer, TMC, has a Consultancy Agreement. 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 BM.

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.

Credit Risk Management

Credit risk is monitored by the Credit Department of BM, and arises from the company's lending activities. BM is 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. BM operates 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.

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 31 December. 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 31 December. Financial instruments with short term maturities or near term repricing 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 31 December.

As at 31 December	**Carrying Amount 2002 £'000**	**Fair Value 2002 £'000**	Carrying Amount 2001 £'000	Fair Value 2001 £'000
On balance sheet instruments				
Floating rate notes	(975,310)	(975,310)	(495,572)	(495,572)
Off balance sheet instruments				
Derivatives	-	(3,059)	-	(3,753)

At 31 December 2002 the group had interest rate swaps in place with a notional value of £1,429.1million (2001:£674.7million) with a fair value cost of £3.1million (2001: £3.8million).

Maturity profile

The maturity of the group's financial liabilities, other than short term creditors such as trade creditors, accruals and taxation, at 31 December 2002 were as follows:

	2002 £'000	2001 £'000
In one year or less or on demand	**916**	912
Over 1 year but less than five years	**185,666**	444,647
In more than five years	**994,871**	510,856
	1,181,453	956,415

Included within the category of amounts falling due in more than five years are subordinated loans amounting to £16.2million (2001:£11.1million) 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.

FFL4 and FFL5, subsidiaries of the group, have entered into sterling revolving credit facility as part of its securitisation to fund, where necessary, the purchase of mortgage redraws. The initial redraw facility limit is £58million for FFL4 and £25million for FFL5 although the limit may be varied in accordance with the securitisations agreements. At 31 December 2002 and 31 December 2001 £nil (2001: £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 Transactions" ("FRS8")

Transactions with the Britannic Money group of companies ("BM")

i) 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 BM, a related party as defined by FRS 8, Arianty Holdings Limited and SPV Management Limited. BM is remunerated for their services on an invoice basis.

ii) Under an agreement entered into on 28 December 2000, BM originates mortgages which are sold intra-day to ARI1 at net book value. BM also provides credit and threshold margin support for these mortgages.

At 31 December 2002 BM had sold £1,642million (2001: £961.2million) of mortgages to ARI1 and BM was owed £15.6million (2001: £23.7million) in relation to credit and threshold margin support provided to ARI1. BM was also owed £1.85million by ARI1 at 31 December 2002 (2001: £1.54million). During the year BM earnt £1.4million (2001: £479k)` in relation to deferred purchase consideration.

iii) BM has entered into a number of lease arrangements with ARIS to provide a customized computer system. At 31 December 2002 BM owed £nil (2001: £3k) in relation to these arrangements.

iv) On 26 July 2001 BM granted £14.35million of subordinated loans to FFL4. BM acts as servicer of the mortgages for FFL4 and BM earnt £504k (2001: £182k) during the year. At 31 December 2002 BM was owed £6.3million (2001: £12.4m) by FFL4 in relation to outstanding subordinated loans.

v) On 11 June 2002 BM granted £13.8million of subordinated loans to FFL5. BM acts as servicer of the mortgages for FFL5 and earnt £265k during the year. At 31 December 2002 BM was owed £11.0million by FFL5 in relation to outstanding subordinated loans.

Transactions with the Seahorse Group of Companies

i) Under the terms of the securisation agreements First Flexible No.1 plc ("FFL1"), a company under common control as defined by FRS8, is entitled to purchase further qualifying mortgage advances from ARI1 which ARI1 offers for sale within a defined substitution period. During the year FFL1 has acquired £57.7million (2001: £86.2 million) of qualifying mortgage advances from ARI1 under this arrangement. At 31 December 2002 FFL1 owed £13k (2001: £132k) to ARI1.

ii) Under the terms of the securitisation agreement First Flexible No.2 plc ("FFL2"), a company under common control as defined by FRS8, is entitled to purchase further qualifying mortgage advances from ARI1 which ARI1offers for sale within a defined substitution period. During the year FFL2 has acquired £58.5million (2001: £61.7 million) of qualifying mortgage advances from ARI1 under this agreement. As at 31 December 2002 FFL2 was owed £154k (2001: £80k) by ARI1 and FFL2 owed £nil (2001: £45k) to ARI1.

iii) Under the terms of the securitisation agreement First Flexible No.3 plc ("FFL3"), a company under common control as defined by FRS8, is entitled to purchase further qualifying mortgage advances from ARI1 which ARI1offers for sale within a defined substitution period. During the year FFL3 has acquired £118million (2001: £151.9million) of qualifying mortgage advances from BM under this agreement. At 31 December 2002 FFL3 was owed £109k (2001: £nil) by ARI1 and FFL3 owed £nil (2001: £40k) to ARI1.

24. Ultimate parent undertaking

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