

**ARIANTY HOLDINGS LIMITED**  
**GROUP ANNUAL REPORT**  
**FOR THE PERIOD FROM INCORPORATION ON**  
**30 AUGUST 2000 TO 31 DECEMBER 2001**



**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 PERIOD ENDED 31 DECEMBER 2001**

The directors present their report and the audited financial statements for the period from incorporation on 30 August 2000 to 31 December 2001.

#### **Principal activity and business review**

This is the first period of operation since the group was established in 2000.

The principal activities of the group during the period 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 its main trading subsidiaries are Arianty No.1 plc ("ARI1"), First Flexible No.4 plc ("FFL4") and Arianty Services Limited ("ARIS").

ARI1 was established as a mortgage warehouse. During 2000, ARI1 entered into a £500 million revolving loan facility with Nomura / Barclays for the purchase of mortgages secured on residential properties in the United Kingdom. During November 2001, The Royal Bank of Scotland ("RBS") took over the loan from Nomura and the facility is now with RBS/Barclays. 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.

On 23 July 2001, FFL4 issued an Offer Circular for £500 million of mortgage backed floating rate notes due in 2036. Following this Offer Circular, FFL4 acquired certain mortgages from ARI1 on 26th July 2001. FFL4 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 period are set out in detail on page 5. The directors do not recommend the payment of a dividend.

#### **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 (Appointed 17 October 2001)

M McDermott (Appointed 22 September 2000, resigned 17 October 2001)

A F Raikes (Appointed 22 September 2000, resigned 17 October 2001)

P R Rogers (Appointed 25 September 2000)

SPV Management Limited (Appointed 22 September 2000)

Loviting Limited (Appointed 30 August 2000, resigned 22 September 2000)

Serjeants' Inn Nominees Limited (Appointed 30 August 2000, resigned 22 September 2000)

M McDermott resigned as a director of the company on 17 October 2001. On the same date, he was appointed as 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 period, 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 is contracted to receive £12,500 per annum.

P R Rogers is a director of Britannic Money plc ("BM"), a related company, with whom the company entered into a number of agreements during the period. These are detailed in note 23 to the financial statements.

# **ARIANTY HOLDINGS LIMITED**

## **REPORT OF THE DIRECTORS (Continued)**

### **FOR THE PERIOD ENDED 31 DECEMBER 2001**

#### **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:

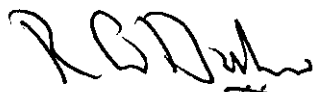
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare 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**

KPMG Audit Plc were appointed as auditors to the company. 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**

11 June 2002

# ARIANTY HOLDINGS LIMITED

## INDEPENDENT AUDITORS' REPORT

### TO THE MEMBERS OF ARIANTY HOLDINGS LIMITED

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

#### 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.

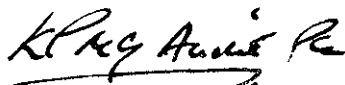
#### Basis of audit opinion

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 affairs of the company and the group as at 31 December 2001 and of the result of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc  
Chartered Accountants and Registered Auditor  
1 Canada Square  
Canary Wharf  
London  
E14 5AG  
11 June 2002

**ARIANTY HOLDINGS LIMITED****CONSOLIDATED PROFIT AND LOSS ACCOUNT****FOR THE PERIOD ENDED 31 DECEMBER 2001**

		Period ended 31 December 2001 £'000
	Notes	
Continuing operations		
Turnover	3	33,841
Cost of funding	4	<u>(33,808)</u>
Gross profit		33
Administrative expenses		<u>(1,766)</u>
Operating loss		(1,733)
Interest receivable	5	<u>1,750</u>
Profit on ordinary activities before taxation	6	17
Tax on profit on ordinary activities	7	<u>(17)</u>
Retained profit for the financial period	15	<u><u>-</u></u>

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 2001

		Group 2001 £'000	Company 2001 £'000
	Notes		
<b>ASSETS</b>			
<b>Fixed Assets</b>			
Investments	9	<u>-</u>	<u>50</u>
<b>Mortgage advances</b>			
Mortgage advances	10	456,362	-
Mortgage advances securitised	11	<u>485,989</u>	<u>-</u>
		<u>942,351</u>	<u>-</u>
<b>Current assets</b>			
Debtors amounts falling due within one year	12	7,613	5
Debtors amounts falling due after one year	12	7,868	-
Cash at bank and in hand	13	<u>32,407</u>	<u>29</u>
		<u>47,888</u>	<u>34</u>
<b>Total assets</b>		<u>990,239</u>	<u>84</u>
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	14	-	-
Profit and loss account	15	<u>-</u>	<u>(25)</u>
<b>Equity shareholders' funds / (deficit)</b>	16	-	(25)
<b>Creditors</b>			
Amounts falling due within one year	17	34,736	109
Amount falling due after one year	18	<u>955,503</u>	<u>-</u>
<b>Total liabilities and capital</b>		<u>990,239</u>	<u>84</u>

The financial statements on pages 5 to 18 were approved by the Board on 11 June 2002 and signed on its behalf by:



On behalf of SPV Management Limited  
Director



**ARIANTY HOLDINGS LIMITED**

**CONSOLIDATED CASH FLOW STATEMENT**

**AS AT 31 DECEMBER 2001**

		£'000	2001 £'000
	Notes		
<b>Net cash outflow from operating activities</b>	20		(916,735)
<b>Return on investments and servicing of finance</b>			
Interest received		1,750	
Costs on issue of floating rate notes		<u>(1,833)</u>	(83)
<b>Management of liquid resources</b>			
Movement in investment deposits			(32,320)
<b>Financing</b>			
Issue of floating rate notes		500,000	
Grant of bank loan		441,000	
Subordinated loans granted net of repayments		11,063	
Redemption of floating rate notes		<u>(2,838)</u>	<u>949,225</u>
<b>Increase in net cash</b>			<u>87</u>
<b>Reconciliation of net</b>			
<b>Cash flow to movement in net debt</b>			
Increase in cash in the year			87
Cash used to increase liquid resources			32,320
Grant of bank loan			(441,000)
Subordinated loans granted net of repayment			(11,063)
Redemption of floating rate notes			2,838
Issue of floating rate notes			(500,000)
Amortisation of capitalised securitisation issuer costs			(243)
Capitalisation of securitisation issue costs			<u>1,833</u>
<b>Change in net debt</b>			(915,228)
Net debt at start of period			-
<b>Net debt at 31 December</b>	21		<u>(915,228)</u>

# **ARIANTY HOLDINGS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 DECEMBER 2001**

#### **1. Restriction on operations**

Arianty Holdings subsidiary First Flexible No.4 Plc ("FFL4") was established for the sole purpose of issuing floating rate notes secured by pools of residential mortgages.

The ability of FFL4 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 company with, among others, The Chase Manhattan Bank in its capacity as Trustee for the noteholders.

Under the terms of the servicing agreement, FFL4 and the Trustee each appointed Britannic Money plc ("BM") to service the mortgages under the floating rate notes.

The assets of FFL4 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 period from incorporation to 31 December 2001.

##### **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**

Corporation tax is provided on taxable profits at the current tax rate. Tax charges and benefits arising from group relief are recognised in the financial statements of the surrendering and recipient companies.

Provision is made for deferred taxation, using the liability method on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

##### **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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

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 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.

**Subordinated loan**

FFL4 has entered into a subordinated loan agreement 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 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.

**Servicing fees**

Servicing fees are payable by FFL4 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.

**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.

# ARIANTY HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### FOR THE YEAR ENDED 31 DECEMBER 2001

#### 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

	<b>Group 2001 £'000</b>
Interest charged on facility	20,224
Interest payable on FRN's	10,846
Other funding costs	<u>2,738</u>
	<u><b>33,808</b></u>

#### 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:

	<b>2001 £'000</b>
Administration and servicing fees payable to BM	478
Corporate services fee – SPV Management Limited	31
Auditors remuneration ( Company: £5k ) - audit	32
Auditors remuneration ( Company: £nil ) – other services	<u><u>2</u></u>

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

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

	<b>Group 2001 £'000</b>
UK Corporation tax at 30%	<u><u>17</u></u>

# ARIANTY HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### FOR THE YEAR ENDED 31 DECEMBER 2001

#### 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 £25k.

#### 9. Investments

	Company 2001 £'000
At start of period	-
Additions	<u>50</u>
As at 31 December	<u>50</u>

Listed below are the subsidiary companies of the group:

Company	Country of Incorporation	Description of shares held	Proportion of nominal value of issued shares held	Year end status
Arianty No.1 Plc	Great Britain	Ordinary £1 shares	100%	Trading
Arianty No.2 Plc	Great Britain	Ordinary £1 shares	100%	Non-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%	Non-Trading

Several of the subsidiary companies were incorporated prior to their acquisition by Arianty Holdings Limited. However, none of these companies traded in the period until they were acquired. All companies were acquired for the nominal value of their issued share capital and hence there was no goodwill upon acquisition.

#### 10. Mortgage advances

	Group 2001 £'000	Company 2001 £'000
Mortgage advances	<u>456,362</u>	<u>-</u>

#### 11. Mortgage advances securitised

	Group 2001 £'000	Company 2001 £'000
Mortgage advances securitised	<u>485,989</u>	<u>-</u>

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.

# ARIANTY HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### FOR THE YEAR ENDED 31 DECEMBER 2001

#### 12. Debtors

	Group 2001 £'000	Company 2001 £'000
<b>Amounts falling due within one year</b>		
Amounts due from group undertakings	-	5
Net investment in finance leases (note a)	912	-
Other debtors	4,424	-
Prepayments and accrued income	<u>2,277</u>	<u>-</u>
	<u>7,613</u>	<u>5</u>
<b>Amounts falling due after one year</b>		
Net investment in finance leases (note a)	<u>7,868</u>	<u>-</u>
<b>Total debtors</b>	<u>15,481</u>	<u>5</u>
a) Net investment in finance leases comprises:		
Total amounts receivable	8,956	-
Less: Interest allocated to future periods	<u>(176)</u>	<u>-</u>
	<u>8,780</u>	<u>-</u>

#### 13. Cash at bank and in hand

Cash at bank and in hand includes investment deposits of £32,320k.

#### 14. Called up share capital

	Company 2001 £
<b>Authorised</b>	
100 Ordinary shares of £1 each	<u>100</u>
<b>Allotted, called up and paid</b>	
1 Ordinary share of £1	<u>1</u>

The company was incorporated with an authorised share capital of £100, comprising 100 Ordinary shares of £1 each. 1 Ordinary share was allotted for cash and £1 paid, on incorporation.

#### 15. Profit and loss account

	Group 2001 £'000	Company 2001 £'000
At start of period	-	-
Retained profit / (accumulated loss) for the period	<u>-</u>	<u>(25)</u>
<b>At 31 December</b>	<u>-</u>	<u>(25)</u>

# ARIANTY HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### FOR THE YEAR ENDED 31 DECEMBER 2001

#### 16. Reconciliation of equity shareholders' funds

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

#### 17. Creditors: amounts falling due within one year

	Group 2001 £'000	Company 2001 £'000
Amounts owed to group undertakings	-	97
Finance leases (note 19)	912	-
Other creditors	8,337	12
Corporation tax	17	-
Accruals and deferred income	202	-
Deferred income reserves	25,268	-
	<u>34,736</u>	<u>109</u>

#### 18. Creditors: amounts falling due after one year

	Group 2001 £'000	Company 2001 £'000
Floating rate notes due 2036 (note a)	495,572	-
Bank loan (note b)	441,000	-
Subordinated loan (note c)	11,063	-
Finance leases (note 19)	7,868	-
	<u>955,503</u>	<u>-</u>

a) Floating rate notes comprise:

Principal balance outstanding	497,162	-
Unamortised securitisation issue costs	(1,590)	-
	<u>495,572</u>	<u>-</u>

The movement on floating rate notes during the period was:

As at start of the period	-	-
Acquisitions during the period (net of securitisation issue costs)	498,167	-
Principal repaid during the period	(2,838)	-
Securitisation issue costs charged to the profit and loss account	243	-
As at 31 December	<u>495,572</u>	<u>-</u>

# ARIANTY HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### FOR THE YEAR ENDED 31 DECEMBER 2001

#### 18. Creditors: amounts falling due after one year (continued)

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 loan 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.

#### 19. Finance leases

	Group 2001 £'000
Future capital payments under finance leases are as follows:	
Within one year	912
In more than one year, but not more than five years	3,647
After five years	<u>4,221</u>
Total capital payments	<u>8,780</u>

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

	Group 2001 £'000
Operating loss	(1,733)
Amortisation of securitisation issue costs	243
Movement in mortgage advances	(942,351)
Increase in debtors	(6,701)
Increase in creditors	<u>33,807</u>
Net cash outflow from operating activities	<u>(916,735)</u>



# ARIANTY HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### FOR THE YEAR ENDED 31 DECEMBER 2001

#### 21. Analysis of changes in net debt

Group	20 August 2000 £'000	Cash flows £'000	Non-Cash Changes £'000	31 December 2001 £'000
Cash in hand and at bank	-	87	-	87
Investment deposits	-	32,320	-	32,320
	-	32,407	-	32,407
<b>Debt falling due after one year</b>				
Bank loan	-	(441,000)	-	(441,000)
Subordinated loan	-	(11,063)	-	(11,063)
Floating rate notes	-	(497,162)	1,590	(495,572)
	-	<u>(916,818)</u>	<u>1,590</u>	<u>(915,228)</u>

Non cash charges relate to accrued interest owed on the funding facility.

#### 22. Financial Instruments

##### Market Risk Management

The market risk management is managed by the Asset and Liability Committee ("ALCO") of BM. 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 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.

##### 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 considers that the year-end position satisfactorily reflects the policies and objectives set out above.

# ARIANTY HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### FOR THE PERIOD ENDED 31 DECEMBER 2001

#### 22. Financial Instruments (continued)

##### 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 31 December 2001	Less than 3 months £'000	Between 3- 6 months £'000	Between 6-12 months £'000	Over 1 year but not more than 5 years £'000	Over 5 years £'000	Non Interest bearing £'000	Total £'000
<b>Assets</b>							
Mortgage advances	555,595	17,753	16,704	352,229	70	-	942,351
Other assets	<u>32,320</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,788</u>	<u>39,108</u>
	<u>587,915</u>	<u>17,753</u>	<u>16,704</u>	<u>352,229</u>	<u>70</u>	<u>6,788</u>	<u>981,459</u>
<b>Liabilities</b>							
Securitised loans	(497,162)	-	-	-	-	1,590	(495,572)
Bank loan	(441,000)	-	-	-	-	-	(441,000)
Other liabilities	-	-	-	-	-	(43,345)	(43,345)
Shareholders funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,542)</u>	<u>(1,542)</u>
	<u>(938,162)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(43,297)</u>	<u>(981,459)</u>
Off balance sheet items	<u>407,747</u>	<u>(440)</u>	<u>(17,774)</u>	<u>(389,533)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Interest rate risk profile	<u>57,500</u>	<u>17,313</u>	<u>(1,070)</u>	<u>(37,304)</u>	<u>70</u>	<u>(36,509)</u>	<u>-</u>

The other liabilities fall due within one year. See note 2 for the maturity profile of the securitised loans.

##### 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 2001 £'000	Fair Value 2001 £'000
On balance sheet instruments		
Floating rate notes	<u>(495,572)</u>	<u>(495,572)</u>
Off balance sheet instruments		
Derivatives	<u>-</u>	<u>(3,753)</u>

At 31 December 2001 the group had interest rate swaps in place with a notional value of £674.7 million with a fair value of £(3.75 million).

# **ARIANTY HOLDINGS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

### **FOR THE PERIOD ENDED 31 DECEMBER 2001**

#### **23. Related Party Transactions (continued)**

##### **Transactions with the Seahorse Group of Companies**

In the period ARI1 sold mortgages with a book value of £91.3 million to First Flexible No. 1 plc ("FFL1"), a company under common control as defined by FRS8.

In the period ARI1 sold mortgages with a book value of £61.7 million to First Flexible No. 2 plc ("FFL2"), a company under common control as defined by FRS8. As at 31 December 2001 FFL2 was owed £80K by the group.

In the period ARI1 sold mortgages with a book value of £151.9m to First Flexible No3 ("FFL3"), a company under common control as defined by FRS8. As at 31 December 2001 FFL3 owed £40k to the group.

#### **24. Ultimate parent undertaking**

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

# ARIANTY HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### FOR THE PERIOD ENDED 31 DECEMBER 2001

#### 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, at 31 December 2001 were as follows:

	£'000
In one year or less or on demand	912
Over 1 year but less than five years	446,189
In more than five years	<u>510,856</u>
	<u>957,957</u>

Included within the category of amounts falling due in more than five years are subordinated loans amounting to £11 million 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, a subsidiary of the group, has 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 £58 million although the limit may be varied in accordance with the securitisations agreements. At 31 December 2001 £nil (2000: £nil) had been drawn down under this facility.

#### 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 two side letters, to provide Corporate Services to the Arianty Group of Companies between BM, a related party, 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.

During the period BM sold £1,228.4 million of mortgages to ARI1 and BM was owed £23.7 million in relation to credit and threshold margin support provided to ARI1 at 31 December 2001. BM was also owed £1.54 million by ARI1 at 31 December 2001. During the period BM earned £479k in relation to deferred purchase consideration.

iii) BM entered into a number of lease arrangements with ARIS to provide a customised computer system. At 31 December 2001 BM was owed £3k in relation to these arrangements.

iv) On 26 July 2001 BM granted £14.35 million of subordinated loans to FFL4. BM acts as servicer of the mortgages for FFL4 and BM earned £182k during the period.

At 31 December 2001 BM was owed £12.4 million by FFL4 in relation to outstanding subordinated loans and deferred purchase consideration.