TMC TATTENHAM NO. 2 PLC

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2000

Company number: 3701693

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TMC TATTENHAM NO. 2 PLC

COMPANY INFORMATION

Directors	R G Baker M McDermott C F Holmes SPV Management Limited
Secretary	G M Wellman
Company Number	3701693
Registered Office	Sir William Atkins House Ashley Avenue Epsom Surrey KT18 5AS
Registered auditors	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

TMC TATTENHAM NO. 2 PLC

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2000

The directors present their report on the affairs of the company, together with the audited financial statements of the company for the year ended 31 December 2000.

Principal activity and business review

The company was established for the sole purpose of issuing floating rate notes secured by pools of residential mortgages.

The principal activity during the period was the ownership of pools of residential mortgages.

The results for the year are set out in detail on page 5. The directors recommend a proposed dividend for the year of £3,824k (1999: £1,367k).

Directors and their interests

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

R G Baker
C F Holmes (Appointed 31 July 2000)
M McDermott (Appointed 26 July 2000)
P Minoprio (Resigned 26 July 2000)
M A Shanahan (Resigned 20 June 2000)
SPV Management Limited

A J Ward and P R Rogers are alternate directors to R G Baker. A J Ward and P R Rogers resigned as alternate directors to M A Shanahan on 20 June 2000.

The company is a wholly owned subsidiary of Zophonus Limited, of which R G Baker, C F Holmes, SPV Management Limited, M McDermott, A J Ward (as an alternate director for C F Holmes and R G Baker) and P R Rogers (as an alternate director for C F Holmes and R G Baker) are directors.

According to the Register of Directors' Interests none of the directors had, at any time during the year, any interests in the share capital of the company or group. Under the terms of a Corporate Services Agreement, SPV Management Limited is contracted to receive fees of £12,000 per annum. No other director had, at any time during the year, any interests in contracts with the company apart from those disclosed in the consolidated financial statements of Zophonus Limited.

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.

Due to the nature of the business, the main creditors are the noteholders. Principal and interest is repaid monthly on the due date in accordance with the agreements in place. Other creditors are paid by The Mortgage Corporation ("TMC"), which then recharges the company for the expense. The full balance due to TMC is repaid monthly after the payment to the noteholders.

Statement of directors' responsibilities

The directors are required by UK Company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that year.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements have been made in the preparation of the financial statements for the period ended 31 December 2000. The directors also confirm that applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements and that the financial statements have been prepared on a going concern basis.

The directors are responsible for maintaining adequate accounting records that 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

PricewaterhouseCoopers resigned as auditors on 22 November 2000 and KPMG Audit Plc were appointed as auditors.

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

By order of the Board

SPV Management Limited
18 April 2001

TMC TATTENHAM NO. 2 PLC

REPORT OF THE AUDITORS

TO THE MEMBERS OF TMC TATTENHAM No. 2 PLC

We have audited the financial statements on pages 5 to 15.

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. 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 company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2000 and of its profit 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 Auditors
1 Canada Square
Canary Wharf
London E14 5AG
18 April 2001

TMC TATTENHAM NO. 2 PLC

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2000

	Notes	2000 £'000	For the period from 21 January to 31 December 1999 £'000
Continuing operations			
Turnover	3	**17,422**	13,468
Cost of funding	4	**(13,777)**	(10,216)
Gross Profit		**3,645**	3,252
Administrative expenses		**516**	(364)
Operating profit		**4,161**	2,888
Interest receivable	5	**810**	330
Profit on ordinary activities before taxation	6	**4,971**	3,218
Tax on profit on ordinary activities	7	**(1,491)**	(974)
Profit on ordinary activities after taxation		**3,480**	2,244
Dividends	8	**(3,824)**	(1,367)
Accumulated (loss)/retained profit for the year/period	**12**	**(344)**	877

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.

TMC TATTENHAM NO. 2 PLC

BALANCE SHEET

AS AT 31 DECEMBER 2000

	Notes	2000 £'000	1999 £'000
ASSETS			
Mortgage advances			
Mortgage advances	9	180,739	228,624
Current assets			
Debtors	10	2,410	2,678
Cash at bank and in hand		12,456	9,852
		14,866	12,530
Total assets		195,605	241,154
LIABILITIES			
Capital and reserves			
Called up share capital	11	12	12
Profit and loss account	12	533	877
Equity shareholders' funds	13	545	889
Creditors			
Amounts falling due within one year	14	5,319	2,774
Amounts falling due after more than one year	15	189,741	237,491
Total liabilities and capital		195,605	241,154

The financial statements on pages 5 to 15 were approved by the Board on 18 April 2001 and signed on its behalf by:

SPV Management Limited
Director

1. Restriction on operations

The company was established for the sole purpose of issuing floating rate notes secured by pools of residential mortgages.

The ability of the company 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, TMC and Chase Manhatten Trustees Limited in its capacity as Trustee for the noteholders.

Under the terms of the servicing agreement, the company and the Trustee each appointed TMC to service the mortgages under the floating rate notes.

The assets of the company 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.

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 loans.

Servicing fees
Servicing fees are payable by the company to TMC under the terms of a servicing agreement. The servicing fee is calculated on the outstanding mortgage portfolio as defined in the servicing agreement.

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.

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

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

2. Principal accounting policies (continued)

Mortgage advances

Mortgage advances comprise loans that are secured by way of mortgages over freehold and leasehold residential properties located in England and Wales and assignment of the related life assurance policies. The mortgages over the properties and the related endowment life assurance policies are subject to a fixed charge in favour of the Trustee for the noteholders.

Losses arising from the possession and subsequent sale of properties are partly borne by third party insurers.

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.

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 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 November 2028 and comprised, at issue, of £96.75m Class A1 notes, £156.65m Class A2 notes and £18.6m Class M notes. The Class A1 notes bear interest at a margin of 13 basis points over one month sterling LIBOR until May 2002 when the interest is adjusted to that of the Class A2 notes. The Class A2 notes bear interest at a margin of 26 basis points over one month LIBOR until June 2005 when the interest is adjusted to a margin of 52 basis points over one month LIBOR. The Class M notes bear interest at a margin of 70 basis points over one month LIBOR until June 2005 when the interest is adjusted to a margin of 140 basis points over one month LIBOR. Interest is determined monthly on the last business day of each month in each year for the next succeeding month.

Subordinated loan

The company has entered into a subordinated loan agreement with TMC, the proceeds of which were used to pay the costs associated with its purchase of a pool of mortgages and issuance of floating rate notes. The loan bears interest at a rate that is agreed from time to time between the parties.

The loan 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 in June 2028, 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 2028, 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.

3. Turnover

Contributions to turnover and profit on ordinary activities before taxation were derived from the company's principal activity, which was carried out in the England and Wales.

4. Cost of funding

	2000 £'000	21 January to 31 December 1999 £'000
Interest charged on floating rate notes	13,404	9,926
Issue costs	344	276
Other funding costs	29	14
	13,777	10,216

5. Interest receivable

Interest receivable comprises interest earned on short term deposits.

6. Profit on ordinary activities before taxation

	2000 £'000	21 January to 31 December 1999 £'000
Profit on ordinary activities before taxation is stated after charging:		
Servicing fees payable to TMC	207	167
Corporate service fee – SPV Management Limited	18	5
Auditors' remuneration	13	1

The company has no employees and, other than the fee noted above, the directors received no remuneration during the period.

7. Taxation on profit on ordinary activities

	2000 £'000	21 January to 31 December 1999 £'000
The tax charge is based on the profit for the year/ period and comprises:		
UK Corporation tax at 30% (1999: 30.25%)	1,491	974

8. Dividends

	2000	21 January to 31 December 1999
	£'000	£'000
Final dividend – proposed	**3,824**	1,367

9. Mortgage advances

	2000	1999
	£'000	£'000
The movement during the period was as follows:		
Mortgage advances at 1 January	**228,624**	-
Acquisitions during the period	**-**	269,844
Net movements in loan provisions and redemptions during the period	**(48,429)**	(41,220)
Mortgage advances at 31 December	**180,739**	228,624

Mortgage advances are all due to be repaid at various times before 2028 and may be redeemed at any time at the option of the borrower.

10. Debtors

	2000	1999
	£'000	£'000
Amounts falling due within one year		
Other debtors	**2,404**	2,675
Prepayments and accrued income	**6**	3
	2,410	2,678

11. Called up share capital

	2000	1999
	£'000	£'000
Authorised		
100,000 Ordinary shares of £1 each	**100**	100
Allotted, 25p called up and paid		
50,000 Ordinary shares of £1 each	**12**	12

The company was incorporated with an authorised share capital of £100,000, comprising 100,000 Ordinary shares of £1 each. £50,000 Ordinary shares were allotted for cash and 25p paid, on incorporation.

12. Profit and loss account

	2000 £'000	21 January to 31 December 1999 £'000
At 1 January	877	-
Accumulated (loss)/retained profit for the year/period	(344)	877
At 31 December	533	877

13. Reconciliation of equity shareholders' funds

	2000 £'000	21 January to 31 December 1999 £'000
Opening equity shareholders' funds	889	-
Issue of shares	-	12
Profit on ordinary activities after taxation	3,480	2,244
Dividend proposed	(3,824)	(1,367)
Closing equity shareholders' funds	545	889

14. Creditors: amounts falling due within one year

	2000 £'000	1999 £'000
Amounts owed to group undertakings	275	630
Corporation tax	1,115	666
Other creditors	95	111
Proposed dividend	3,824	1,367
Accruals and deferred income	10	-
	5,319	2,774

15. Creditors: amounts falling due after more than one year

	2000	1999
	£'000	£'000
Floating rate notes due 2028 (see note (a) below)	**186,344**	234,094
Subordinated loan	**3,397**	3,397
	189,741	237,491

(a) Floating rate notes comprise:

Principal balance outstanding	**186,877**	234,971
Unamortised issue costs	**(533)**	(877)
	186,344	234,094

The movement on floating rate notes during the period was:

As at 1 January	**234,094**	-
Acquisitions during the period (net of issue costs)	-	270,847
Principal repaid during the period	**(48,094)**	(37,029)
Issue costs charged to the profit and loss account	**344**	276
As at 31 December	**186,344**	234,094

16. 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 Britannic Money plc ("BM") (formerly First Active Financial plc)

On 23 April 1999 the company purchased mortgage advances with a book value of £90.6k from BM, a company under common control as defined by FRS 8, from the mortgage portfolios administered by TMC on its behalf.

17. Financial Instruments

Market Risk Management

The market risk management 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 with whom the company's servicer, TMC, has a Consultancy Agreement.

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.

17. Financial Instruments (continued)

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 which 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.

Management consider the year end position satisfactorily reflects the policies and objectives set out above.

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 2000	Not more than three months	Over three months but less than six months	Over six months but less than one year	Over one year but not more than five years	Non Interest Bearing	**Total**
	£'000	£'000	£'000	£'000	£'000	**£'000**
Assets						
Mortgage advances	177,401	3,076	131	131	-	**180,739**
Other assets	12,456	-	-	-	2,410	**14,866**
	189,857	3,076	131	131	2,410	**195,605**
Liabilities						
Securitised loans	(186,877)	-	-	-	533	**(186,344)**
Other liabilities	-	-	-	-	(8,716)	**(8,716)**
Shareholders funds	-	-	-	-	(545)	**(545)**
	(186,877)	-	-	-	(8,728)	**(195,605)**
Interest rate risk profile	2,980	3,076	131	131	(6,318)	-

17. Financial Instruments (continued)

As at 31 December 1999	Not more than three months	Over three months but less than six months	Over six months but less than one year	Over one year but not more than five years	Non Interest Bearing	**Total**
	£'000	£'000	£'000	£'000	£'000	**£'000**
Assets						
Mortgage advances	224,509	3,885	115	115	-	**228,624**
Other assets	9,515	-	-	-	3,015	**12,530**
	234,024	3,885	115	115	3,015	**241,154**
Liabilities						
Securitised loans	(237,491)	-	-	-	-	**(237,491)**
Other liabilities	-	-	-	-	(2,774)	**(2,774)**
Shareholders funds	-	-	-	-	(889)	**(889)**
	(237,491)	-	-	-	(3,663)	**(241,154)**
Interest rate risk profile	(3,467)	3,885	115	115	(648)	-

The other liabilities fall due within one year. See note 2 for details of 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, such as for mortgage advances, 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.

As at 31 December 2000	Carrying Amount £'000	Fair Value £'000
Assets		
Mortgage advances	180,739	180,741
Other assets (i)	14,866	14,866
	195,605	195,607
Liabilities		
Securitised loans	(186,344)	(186,344)
Other liabilities (i)	(8,716)	(8,716)
Shareholders funds (i)	(545)	(545)
	(195,605)	(195,605)

17. Financial Instruments (continued)

As at 31 December 1999	Carrying Amount £'000	Fair Value £'000
Assets		
Mortgage advances	228,624	228,610
Other assets (i)	12,530	12,530
	241,154	241,140
Liabilities		
Securitised loans	(237,491)	(237,491)
Other liabilities (i)	(2,774)	(2,774)
Shareholders funds (i)	(889)	(889)
	(241,154)	(241,154)

i) These items are not financial instruments but are included here for completeness. The fair value is assumed to equal the carrying value for these items.

18. Ultimate parent undertaking

The immediate parent undertaking is Zophonus Limited.

The smallest group into which the company is consolidated is that of Zophonus Limited, registered in the Cayman Islands. The largest group into which the company is consolidated is that of SeaHorse Limited, registered in the Cayman Islands.

The shares in SeaHorse Limited are held under a Declaration of Trust for charitable purposes, the charitable trust being registered in the Cayman Islands, and the directors regard the Cayman Trust as the ultimate parent undertaking.

Copies of the consolidated financial statements may be obtained from:

The Secretary
Sir William Atkins House
Ashley Avenue
Epsom
Surrey
KT18 5AS