FIRST FLEXIBLE NO. 2 PLC

ANNUAL REPORT

FOR THE PERIOD FROM INCORPORATION TO 31 DECEMBER 2000

Company number: 3952926

FIRST FLEXIBLE NO. 2 PLC

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COMPANY INFORMATION

Directors	M McDermott A F Raikes
Secretary	G M Wellman
Company Number	3952926
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

FIRST FLEXIBLE NO. 2 PLC

REPORT OF THE DIRECTORS

FOR THE PERIOD 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 period from incorporation on 16 March 2000 to 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.

On 25 May 2000, the company issued an Offer Circular for £300 million of mortgage backed floating rate notes due in 2032. Following this Offer Circular, the company acquired certain mortgages from Britannic Money plc ("BM") (formerly known as First Active Financial plc) on 30 May 2000.

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

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:

M McDermott (Appointed 20 March 2000)
A F Raikes (Appointed 20 March 2000)
M A Shanahan (Appointed 20 March 2000, Resigned 20 June 2000)
P R Rogers (Appointed 16 March 2000, Resigned 20 March 2000)
G M Wellman (Appointed 16 March 2000, Resigned 20 March 2000)

A J Ward was appointed as alternate director to M A Shanahan on 20 March 2000, and resigned as an alternate director on 20 June 2000.

The company is a wholly owned subsidiary of SeaHorse Limited, of which M McDermott is a director.

According to the Register of Directors' Interests none of the directors had, at any time during the period, 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 SeaHorse 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 period and of the profit or loss of the company for that period.

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 were appointed as the company's first auditors but resigned on 22 November 2000. KPMG Audit Plc were appointed as the company's auditors on 22 November 2000.

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

M McDermott
Director
2 May 2001

REPORT OF THE AUDITORS

TO THE MEMBERS OF FIRST FLEXIBLE NO. 2 PLC

Auditors' report to the members of First Flexible No.2 Plc

We have audited the financial statements on pages 5 to 14.

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 period 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
2 May 2001

FIRST FLEXIBLE NO. 2 PLC

PROFIT AND LOSS ACCOUNT

FOR THE PERIOD ENDED 31 DECEMBER 2000

	Notes	16 March 2000 – 31 December 2000 £'000
Continuing operations – acquisitions		
Turnover	3	13,415
Cost of funding	4	(12,441)
Gross Profit		974
Administrative expenses		(1,421)
Operating profit		(447)
Interest receivable	5	466
Profit on ordinary activities before taxation	6	19
Tax on profit on ordinary activities	7	(6)
Retained profit for the financial period	11	13

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.

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BALANCE SHEET

AS AT 31 DECEMBER 2000

	Notes	2000 £'000
ASSETS		
Mortgage advances		
Mortgage advances	8	291,616
Current assets		
Debtors	9	681
Cash at bank and in hand		17,317
		17,998
Total assets		309,614
LIABILITIES		
Capital and reserves		
Called up share capital	10	12
Profit and loss account	11	13
Equity shareholders' funds	12	25
Creditors		
Amounts falling due within one year	13	2,043
Amounts falling due after more than one year	14	307,546
Total liabilities and capital		309,614

The financial statements on pages 5 to 14 were approved by the Board on 2 May 2001 and signed on its behalf by:

M McDermott
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 Citicorp Trustee Company 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 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 June 2032 and comprised, at issue, of £276m Class A notes and £24m Class B notes. The Class A notes bear interest at a margin of 29 basis points over one month sterling LIBOR until June 2007 when the interest is adjusted to a margin of 58 basis points over one month sterling LIBOR. The Class B notes bear interest at a margin of 80 basis points over one month sterling LIBOR until June 2007 when the interest is adjusted to a margin of 160 basis points over one month sterling LIBOR. Interest is determined monthly on the 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 BM, 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 2032, 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 2032, 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 England and Wales.

4. Cost of funding

	16 March 2000 - 31 December 2000 £'000
Interest charged on floating rate notes	11,251
Issue costs	226
Other costs	964
	12,441

5. Interest receivable

Interest receivable comprises interest earned on short term deposits.

6. Profit on ordinary activities before taxation

	16 March 2000 – 31 December 2000 £'000
Profit on ordinary activities before taxation is stated after charging:	
Servicing fees payable to TMC	173
Corporate service fee – SPV Management Limited	5
Auditors' remuneration	7

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

	16 March 2000 – 31 December 2000 £'000
The tax charge is based on the profit for the period and comprises:	
UK Corporation tax at 30%	6

8. Mortgage advances

	2000 £'000
The movement during the period was as follows:	
Acquisitions at launch	292,737
Further acquisition during period	35,543
Net movements in loan provisions, redemptions, prepayments and redraws during the period	(36,664)
Mortgage advances at 31 December	**291,616**

Mortgage advances are all due to be repaid at various times before June 2032 and may be redeemed at any time at the option of the borrower.

9. Debtors

	2000 £'000
Amounts falling due within one year	
Other debtors	19
Prepayments and accrued income	662
	681

10. Called up share capital

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

11. Profit and loss account

	16 March 2000 – 31 December 2000 £'000
At start of the period	-
Retained profit for the period	13
At 31 December	13

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2000

12. Reconciliation of equity shareholders' funds

	16 March 2000 – 31 December 2000 £'000
Opening equity shareholders' funds	-
Issue of shares	12
Profit on ordinary activities after taxation	13
Closing equity shareholders' funds	**25**

13. Creditors: amounts falling due within one year

	2000 £'000
Amounts owed to group undertakings	119
Corporation tax	6
Other creditors	1,899
Accruals and deferred income	19
	2,043

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

	2000 £'000
Floating rate notes due 2032 (see note (a) below)	297,645
Subordinated loan	6,871
Deferred purchase consideration	1,230
Deferred income hedge reserve	1,800
	307,546
(a) Floating rate notes comprise:	
Principal balance outstanding	298,503
Unamortised issue costs	(858)
	297,645

The movement on floating rate notes during the period was:

As at start of the period	-
Acquisitions during the period (net of issue costs)	298,916
Principal repaid during the period	(1,497)
Issue costs charged to the profit and loss account	226
As at 31 December	297,645

15. 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 known as First Active Financial plc)

On 30 May 2000,BM, a company under common control as defined by FRS8, sold £292.74 million of mortgage advances to the company at net book value. On the same date, BM granted a subordinated loan of £9.7 million as part of the securitisation process. Under the terms of the securitisation agreement the company is entitled to purchase further qualifying mortgage advances from BM which BM offers for sale within a defined substitution period. During the period the company has acquired £35.5 million of qualifying mortgage advances from BM under this agreement. As at 31 December 2000, BM was owed £8.2 million by the company including £1.23 million for deferred purchase consideration.

16. 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.

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 it feels 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.

16. 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 2000	Less than 3 months	Between 3-6 months	Between 6-12 months	Over 1 year but not more than five years	More than five years	Non Interest Bearing	**Total**
	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**
Assets							
Mortgage advances	277,063	14,331	74	74	74	-	**291,616**
Other assets	17,317	-	-	-	-	681	**17,998**
	294,380	14,331	74	74	74	681	**309,614**
Liabilities							
Securitised loans	(298,503)	-	-	-	-	858	**(297,645)**
Other liabilities	-	-	-	-	-	(11,944)	**(11,944)**
Shareholders' funds	-	-	-	-	-	(25)	**(25)**
	(298,503)	-	-	-	-	(11,111)	**(309,614)**
Off Balance sheet items	15,413	(15,169)	(97)	-	(147)	-	-
Interest rate risk profile	11,290	(838)	(23)	74	(73)	(10,430)	-

The other liabilities fall due within one year. See note 2 for the 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 2000. 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	291,616	290,996
Other assets (i)	17,998	17,998
	309,614	308,994
Liabilities		
Securitised loans	(297,645)	(297,645)
Other liabilities (i)	(11,944)	(11,944)
Shareholders' funds (i)	(25)	(25)
	(309,614)	(309,614)

(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.

16. Financial Instruments (continued)

At 31 December 2000 the company had interest rate swaps in place with a notional value of £100.4 million with a fair value of (£79k).

17. Ultimate parent undertaking

The immediate parent undertaking is SeaHorse Limited.

The smallest and 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