4176542

FIRST FLEXIBLE NO. 4 PLC

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2002

Company number: 4176542

FIRST FLEXIBLE NO. 4 PLC

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FIRST FLEXIBLE NO. 4 PLC

COMPANY INFORMATION

Directors	J P J Fairrie P R Rogers SPV Management Limited
Secretary	G M Wellman
Company Number	4176542
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. 4 PLC

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2002

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 2002.

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 period are set out in detail on page 5. The directors do not recommend the payment of a dividend for the period.

The comparative period is from the date of incorporation on 9 March 2001 to 31 December 2001.

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 to J P J Fairrie.

The company is a wholly owned subsidiary of Arianty Holdings Limited, of which J P J Fairrie, P R Rogers, M McDermott and SPV Management Limited are directors.

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. The shares in Arianty Holdings Limited are held by SPV Management Limited under a Declaration of Trust for charitable purposes.

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 side letter dated 17 January 2002, SPV Management Limited received fees of £5k (2001: £5k).

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.

FIRST FLEXIBLE NO. 4 PLC

REPORT OF THE DIRECTORS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2002

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 company 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

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF FIRST FLEXIBLE NO. 4 PLC

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

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 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 2002 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
Registered Auditor
1 Canada Square
Canary Wharf
London
E14 5AG
22 April 2003

FIRST FLEXIBLE NO. 4 PLC

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	2002 £'000	9 March 2001 to 31 December 2001 £'000
Continuing operations			
Turnover	3	**27,144**	12,895
Cost of funding	4	(24,484)	(12,288)
Gross Profit		**2,660**	607
Administrative expenses		(3,286)	(1,495)
Operating loss		**(626)**	(888)
Interest receivable	5	794	908
Profit on ordinary activities before taxation	6	**168**	20
Tax on profit on ordinary activities	7	(135)	(6)
Retained profit for the period	11	33	14

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.

FIRST FLEXIBLE NO. 4 PLC

BALANCE SHEET

AS AT 31 DECEMBER 2002

	Notes	2002 £'000	2001 £'000
ASSETS			
Mortgage advances			
Mortgage advances	8	466,845	485,989
Current assets			
Debtors	9	593	1,703
Cash at bank and in hand		27,022	24,230
		27,615	25,933
Total assets		494,460	511,922
LIABILITIES			
Capital and reserves			
Called up share capital	10	12	12
Profit and loss account	11	47	14
Equity shareholders' funds	12	59	26
Creditors			
Amounts falling due within one year	13	2,032	2,425
Amounts falling due after more than one year	14	492,369	509,471
Total liabilities and capital		494,460	511,922

The financial statements on pages 5 to 14 were approved by the Board on 22 April 2003 and signed on its behalf by:

On behalf of SPV Management Limited
Director

FIRST FLEXIBLE NO. 4 PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

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, The Chase Manhattan Bank in its capacity as Trustee for the noteholders.

Under the terms of the servicing agreement, the company and the Trustee each appointed Britannic Money plc ("BM") 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 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.

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.

Cashflow statement
The company is a wholly owned subsidiary of Arianty Holdings Limited and the cashflows of the company are included in the consolidated group cashflow statement of Arianty Holdings 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 Arianty Holdings 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, Wales and Scotland. The mortgages 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 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

The company 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 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 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, 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, Wales and Scotland.

4. Cost of funding

	2002 £'000	9 March to 31 December 2001 £'000
Interest charged on floating rate notes	**21,255**	10,846
Issue costs	**520**	243
Other costs	**2,709**	1,199
	24,484	12,288

5. Interest receivable

Interest receivable comprises interest earned on short term deposits.

6. Profit on ordinary activities before taxation

	2002 £'000	9 March to 31 December 2001 £'000
Profit on ordinary activities before taxation is stated after charging:		
Servicing fees payable to BM	**504**	182
Corporate service fee – SPV Management Limited	**5**	5
Auditors' remuneration - audit	**6**	6
Auditors' remuneration - other services	**3**	2

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

	2002 £'000	9 March to 31 December 2001 £'000
The tax charge is based on the profit for the period and comprises:		
UK Corporation tax at 30% (2001: 30%)	**14**	6
Under provision from prior years	**121**	-
	135	6

7. Taxation on profit on ordinary activities (continued)

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

	2002 £'000	9 March to 31 December 2001 £'000
Profit on ordinary activities before tax:	168	20
Profit on ordinary activities multiplied by standard rate tax of 30% (2001: 30%)	50	6
Effects of:		
Other timing differences	(36)	-
Under provision from prior years	121	-
Total current tax charge	135	6

8. Mortgage advances

The movement during the period was as follows:	2002 £'000	2001 £'000
At start of period	485,989	409,614
Further Acquisitions during period	126,209	112,589
Net movements in loan provisions and redemptions during the period	(145,353)	(36,214)
Mortgage advances at 31 December	466,845	485,989

Mortgage advances are all due to be repaid at various times before 2036 and may be redeemed at any time at the option of the borrower.

9. Debtors

	2002 £'000	2001 £'000
Amounts falling due within one year		
Other debtors	476	205
Prepayments and accrued income	117	1,474
Amount owed from group undertakings	-	24
	593	1,703

10. Called up share capital

	2002 £'000	2001 £'000
Authorise		
100,000 Ordinary shares of £1 each	100	100
Allotted, 25p called up and paid		
50,000 Ordinary shares of £1 each	12	12

FIRST FLEXIBLE NO. 4 PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

11. Profit and loss account

	2002 £'000	2001 £'000
At start of the period	14	-
Retained profit for the period	33	14
At 31 December	47	14

12. Reconciliation of equity shareholders' funds

	2002 £'000	2001 £'000
Opening equity shareholders' funds	26	-
Issue of shares	-	12
Profit on ordinary activities after taxation	33	14
Closing equity shareholders' funds	59	26

13. Creditors: amounts falling due within one year

	2002 £'000	2001 £'000
Amounts owed to group undertakings	104	39
Corporation tax	17	6
Accruals and deferred income	73	25
Other creditors	1,838	2,355
	2,032	2,425

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

	2002 £'000	2001 £'000
Floating rate notes due 2036 (see note (a) below)	482,037	495,572
Subordinated loan	6,063	11,063
Deferred purchase consideration	4,050	1,294
Deferred income hedge Reserve	83	529
Deferred income discount Reserve	136	1,013
	492,369	509,471

(a) Floating rate notes comprise:

	2002	2001
Principal balance outstanding	483,118	497,162
Unamortised issue costs	(1,081)	(1,590)
	482,037	495,572

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

	2002 £'000	2001 £'000
The movement on floating rate notes during the period was:		
As at start of the period	**495,572**	-
Acquisitions during the period (net of issue costs)	-	498,167
Principal repaid during the period	**(14,055)**	(2,838)
Issue costs charged to the profit and loss account	**520**	243
As at 31 December	**482,037**	495,572

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 Group ("BM")

In July 2001 the company was granted a subordinated loan of £14.35million from BM, a group under common control as defined by FRS 8. As at 31 December 2002, BM was owed £6.3m (2001: £12.6m) in relation to the subordinated loan, plus £70k (2001: £20k) for mortgage fees and insurances, by the company.

16. Financial Instruments

Market Risk Management

Market risk 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 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.

FIRST FLEXIBLE NO. 4 PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

16. Financial Instruments (continued)

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.

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 2002	Less than 3 months	Between 3-6 months	Between 6-12 months	Over 1 year but not more than 5 years	Non Interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Mortgage advances	351,197	44,551	47,523	23,590	(16)	**466,845**
Other assets	27,022	-	-	-	593	**27,615**
	378,219	44,551	47,523	23,590	577	**494,460**
Liabilities						
Floating rate notes	(483,118)	-	-	-	1,081	**(482,037)**
Other liabilities	-	-	-	-	(12,364)	**(12,364)**
Shareholders' funds	-	-	-	-	(59)	**(59)**
	(483,118)	-	-	-	(11,342)	**(494,460)**
Off balance sheet items	(123,846)	45,486	61,572	16,788	-	-
Interest rate risk profile	18,947	(935)	(14,049)	6,802	(10,765)	-

As at 31 December 2001	Less than 3 months	Between 3-6 months	Between 6-12 months	Over 1 year but not more than 5 years	Non Interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Mortgage advances	322,596	11,285	14,825	137,283	-	485,989
Other assets	24,230	-	-	-	1,703	25,933
	346,826	11,285	14,825	137,283	1,703	511,922
Liabilities						
Floating rate notes	(497,162)	-	-	-	1,590	(495,572)
Other liabilities	-	-	-	-	(16,324)	(16,324)
Shareholders' funds	-	-	-	-	(26)	(26)
	(497,162)	-	-	-	(14,760)	(511,922)
Off balance sheet items	(142,060)	440	17,774	123,846	-	-
Interest rate risk profile	(8,276)	10,845	(2,949)	13,437	(13,057)	-

The other liabilities fall due within one year. See note 2 for the maturity profile of the floating rate notes.

16. 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	(482,037)	(482,037)	(495,572)	(495,572)
Off balance sheet instruments				
Derivatives	-	404	-	267

At 31 December 2002 the company had interest rate swaps in place with a notional value of £438million (2001: £409million) with a fair value of £404.2k (2001: £266.9k).

17. Ultimate parent undertaking

The immediate parent undertaking is Arianty Holdings Limited.

The smallest and largest group into which the company is consolidated is that of Arianty Holdings Limited, registered in England and Wales.

The shares in Arianty Holdings Limited are held by SPV Management Limited under a Declaration of Trust for charitable purposes. The directors regard Arianty Holdings Limited 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