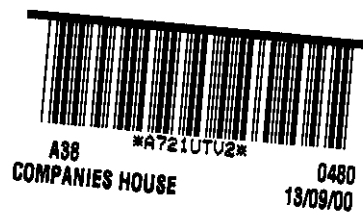


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**SEAHORSE LIMITED**  
**ANNUAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 1999**



**United Kingdom Overseas Company Number: FC019687**

**Cayman Islands Company Number: 67337**

# SEAHORSE LIMITED

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## SEAHORSE LIMITED

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by UK Company law to prepare consolidated financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group at the end of the financial year and of the profit or loss of the group 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 year ended 31 December 1999. The directors also confirm that applicable accounting standards have been followed, subject to any material departures disclosed and explained in the consolidated financial statements and that the consolidated 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 the group to enable them to ensure that the financial statements comply with the Companies Act 1985 applicable to Overseas Companies. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



Director  
On behalf of SPV Management Limited

Date: 2<sup>nd</sup> August 2000

# **REPORT OF THE AUDITORS**

## **TO THE MEMBERS OF SEAHORSE LIMITED**

We have audited the financial statements on pages 4 to 21.

### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the Annual Report. As described on page 2, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and 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 United Kingdom Companies Act. We also report to you, if, in our opinion, the company had 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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### **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 affairs of the company and group at 31 December 1999 and of the profit and cashflows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985 applicable to Overseas Companies.



**PricewaterhouseCoopers**  
**Chartered Accountants and Registered Auditors**  
**Croydon**  
21 August 2000

# SEAHORSE LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

### FOR THE YEAR ENDED 31 DECEMBER 1999

	Notes	£'000	1999 £'000	1998 £'000
<b>Continuing operations</b>				
Operating income			44,441	58,569
Income from mortgages subject to non-recourse funding:				
Income		4,082		10,504
Expenses		<u>(4,033)</u>		<u>(10,396)</u>
			49	108
<b>Turnover</b>	2		44,490	58,677
Cost of funding	3	(32,861)		(51,497)
Exceptional cost of funding	4	<u>-</u>		<u>(1,336)</u>
			<u>(32,861)</u>	<u>(52,833)</u>
<b>Gross Profit</b>			11,629	5,844
Administrative expenses	5		(5,705)	(4,644)
Exceptional administrative credit	5		<u>3,759</u>	<u>3,107</u>
<b>Operating profit</b>			9,683	4,307
Interest receivable and similar income			3,224	6,189
Interest payable	6		<u>(9,826)</u>	<u>(6,739)</u>
<b>Profit on ordinary activities before taxation</b>	7		3,081	3,757
Tax on profit on ordinary activities			<u>(2,799)</u>	<u>(2,124)</u>
<b>Retained profit for the year</b>	18		<u>282</u>	<u>1,633</u>

All recognised gains or losses of the group are included in the profit and loss account above and therefore no separate statement of total recognised gains and losses has been presented.

# SEAHORSE LIMITED


## BALANCE SHEETS

AS AT 31 DECEMBER 1999

		Group		Company	
		1999	1998	1999	1998
		£'000	£'000	£'000	£'000
Notes					
<b>ASSETS</b>					
<b>Fixed assets</b>					
Tangible assets	10	-	-	-	-
Investments	11	-	-	13	-
		-	-	13	-
<b>Mortgage advances</b>					
Mortgage advances	12	-	1,020	-	-
Mortgage advances securitised	13	748,486	496,600	-	-
<b>Mortgage advances subject to non-recourse funding</b>					
Mortgage advances	14	27,053	97,939	-	-
Less: non-recourse funding	14	(27,053)	(97,939)	-	-
		-	-	-	-
		748,486	497,620	13	-
<b>Current assets</b>					
<b>Debtors:</b>					
Amounts falling due after one year	15	138	208	-	-
Amounts falling due within one year	15	10,115	14,441	7	4
Cash at bank and in hand	16	63,077	62,064	10	8
		73,330	76,713	17	12
<b>Total assets</b>		<b>821,816</b>	<b>574,333</b>	<b>30</b>	<b>12</b>
<b>LIABILITIES AND CAPITAL</b>					
<b>Capital and reserves</b>					
Called up share capital	17	-	-	-	-
Profit and loss account	18	2,472	2,190	4	4
<b>Equity shareholders' funds</b>	19	<b>2,472</b>	<b>2,190</b>	<b>4</b>	<b>4</b>
<b>Provisions for liabilities and charges</b>	20	<b>2,904</b>	<b>4,595</b>	<b>-</b>	<b>-</b>
<b>Creditors: amounts falling due within one year</b>	21	<b>22,622</b>	<b>239,430</b>	<b>26</b>	<b>8</b>
<b>Creditors: amounts falling due after more than one year</b>	22	<b>793,818</b>	<b>328,118</b>	<b>-</b>	<b>-</b>
<b>Total liabilities and capital</b>		<b>821,816</b>	<b>574,333</b>	<b>30</b>	<b>12</b>

The group has taken advantage of the modifications and exemptions from disclosure that are set out in the Overseas Companies (Accounts) (Modifications and Exemptions) Order 1990.

The financial statements on pages 4 to 21 were approved by the Board of Directors on 20th May 2000 and were signed on its behalf by:

  
 Director  
 On behalf of SPV Management Limited

# SEAHORSE LIMITED

## CONSOLIDATED CASH FLOW STATEMENT

AS AT 31 DECEMBER 1999

		1998	1998
	£'000	£'000	£'000
Notes			
<b>Net cash inflow from operating activities</b>	24	<b>7,649</b>	<b>1,269</b>
<b>Return on investments and servicing of finance</b>			
Interest received	5,460	5,158	
Interest paid	(4,573)	(3,944)	
Premium paid on redemption of notes	(550)	(785)	
Costs on issue of notes	<u>(2,659)</u>	<u>(1,319)</u>	
		<b>(2,322)</b>	<b>(890)</b>
<b>Corporation tax paid</b>		<b>(2,826)</b>	<b>(8,048)</b>
<b>Capital expenditure</b>			
Payments to acquire tangible fixed assets	-	(1)	
Receipts from sale of tangible fixed assets	-	15	
Payments to acquire mortgage advances	(390,552)	-	
Redemption of mortgage advances	138,497	155,355	
Disposals of mortgage advances	<u>202</u>	<u>34,037</u>	
		<b>(251,853)</b>	<b>189,406</b>
<b>Management of liquid resources</b>			
Movement in investment deposits		<b>1,132</b>	<b>(4,118)</b>
<b>Financing</b>			
Redemption of notes	(274,381)	(551,308)	
Short term loans	(43,195)	43,195	
Repayment of loan	(10,000)	-	
Subordinated loan	10,445	-	
Repayment of debentures	(6,321)	-	
Issue of notes	<u>572,000</u>	<u>330,000</u>	
		<b>248,548</b>	<b>(178,113)</b>
<b>Increase / (decrease) in net cash</b>		<b>328</b>	<b>(494)</b>
<b>Reconciliation of net cash flow to movement in net debt</b>			
Increase / (decrease) in cash in the year		<b>328</b>	<b>(494)</b>
Cash used to increase liquid resources		<b>(1,132)</b>	<b>4,118</b>
Increase in bank loans		<b>43,195</b>	<b>(43,195)</b>
Grant of start up loan		<b>(10,445)</b>	-
Repayment of loans		<b>10,000</b>	-
Repayment of debentures		<b>6,321</b>	-
Redemption of floating rate notes		<b>274,381</b>	<b>551,308</b>
Issue of floating rate notes		<b>(572,000)</b>	<b>(330,000)</b>
Amortisation of capitalised issuer costs		<b>(723)</b>	<b>(1,612)</b>
Capitalisation of issue costs		<u><b>2,659</b></u>	<u><b>1,319</b></u>
<b>Change in net debt</b>		<b>(247,416)</b>	<b>181,444</b>
Net debt at 1 January		<b>(486,992)</b>	<b>(668,436)</b>
<b>Net debt at 31 December</b>	25	<b>(734,408)</b>	<b>(486,992)</b>

# SEAHORSE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 1999

#### 1. 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.

##### **Consolidation**

The consolidated financial statements incorporate the financial statements of the company and all of its subsidiaries for the year ended 31 December 1999.

##### **Format of financial statements**

The group has complied with Financial Reporting Standard Number 5, "Reporting the Substance of Transactions" and, having met the conditions laid down in the Standard, has adopted "linked presentation" in respect of certain mortgage assets managed on behalf of other financial institutions.

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. Mortgage advances have been presented separately on the face of the balance sheet rather than included 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 group's affairs since to present mortgage advances as part of current assets would not fairly reflect the liquidity of these assets.

##### **Turnover**

Turnover is recognised on a receivable basis and represents interest, servicing fees, commissions and miscellaneous income. Interest includes interest recoverable from the Inland Revenue under MIRAS (Mortgage Interest Relief At Source).

##### **Depreciation**

Depreciation of tangible fixed assets is provided on a straight-line basis less estimated residual values over their estimated useful lives as follows:

Fixtures Fittings and equipment	4 years
Computer equipment	4 years

##### **Operating leases**

Rentals are charged to the profit and loss account on a straight-line basis over the term of the leases. Where the group has vacated or has contracted to vacate space, a provision is established for the estimated net future liability of the space vacated.

##### **Taxation**

Corporation tax is provided on taxable profits at the current rate.

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. Unprovided deferred taxation is disclosed as a contingent liability.

##### **Investments**

Investments in subsidiary undertakings are recorded at cost less provisions for impairment in value.



# SEAHORSE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 1999

#### 1. Principal accounting policies (Continued)

##### **Pension scheme**

During the year the current members of the pension scheme opted to take out individual pension plans. The pension cost, which was charged to the profit and loss account, was £nil (1998: £117k).

##### **Mortgage advances**

Mortgage advances comprised loans that were secured by way of mortgages over freehold and leasehold residential properties located in England, Wales and Scotland.

Mortgage advances include properties in possession and were stated after deducting a provision for loan losses. The provision was maintained at a level that is considered adequate by management to absorb losses inherent in the loan portfolio of the group. A judgement as to the adequacy of the provision was made at the year end and included anticipated recoveries under mortgage indemnity guarantees and other insurance policies. Should the provision be judged inadequate either because of reductions due to write-offs or because of changes to the size and characteristics of the portfolio, the provision is increased and charged to administrative expenses in the current year.

##### **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 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.*

##### **Goodwill**

Goodwill arising prior to the introduction of Financial Reporting Standard No.10 ("FRS10") remains written off in the year of acquisition against reserves. Cumulative goodwill which remains written off against reserves amounts to £65k (1998: £65k)

##### **Subordinated loan**

The group has entered into a subordinated loan agreement with a related company, the proceeds of which has been used to pay the costs associated with the 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 by 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 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.

#### 2. Turnover

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

# SEAHORSE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 1999

#### 3. Cost of funding

	Group 1999 £'000	Group 1998 £'000
Interest payable on floating rate notes	29,029	49,807
Interest payable on bank loans and other loans	2,651	78
Other funding costs	458	-
Issue costs charged to the profit and loss account	723	1,612
	<u>32,861</u>	<u>51,497</u>

The interest payable on bank loans and other loans relates to short-term borrowings.

#### 4. Exceptional cost of funding

	Group 1999 £'000	Group 1998 £'000
Securitisation charges	-	1,336

#### 5. Administrative expenses

	Group 1999 £'000	Group 1998 £'000
Administrative expenses	5,705	4,644
<b>Exceptional administrative expenses/(credit):</b>		
Provision for vacated property	-	900
Provision against mortgage advances	(824)	(2,972)
Securitisation charges	-	984
Negligence recoveries	(2,935)	(2,019)
	<u>(3,759)</u>	<u>(3,107)</u>
Total administrative expenses	<u>1,946</u>	<u>1,537</u>

#### 6. Interest payable

	Group 1999 £'000	Group 1998 £'000
Interest payable on bank loan	472	775
Interest payable on other loan	289	388
Debenture interest	9,065	5,576
	<u>9,826</u>	<u>6,739</u>

# SEAHORSE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 1999

#### 7. Profit on ordinary activities before taxation

	<b>Group 1999 £'000</b>	<b>Group 1998 £'000</b>
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of owned assets	-	43
Land and buildings – operating leases	1,571	1,571
Auditors' remuneration – audit (company: £4,000; 1998: £2,000)	105	130
Auditors' remuneration – other services	46	66
Corporate service fee – SPV Management Limited	<u>47</u>	<u>47</u>

#### 8. Staff costs

	<b>Group 1999 £'000</b>	<b>Group 1998 £'000</b>
Seconded employee costs during the year amounted to:		
Wages and salaries	3,511	3,041
Social security costs	217	220
Other pension costs	-	117
	<u>3,728</u>	<u>3,378</u>

The company's staffing requirements were met through a secondment agreement with First Active Financial plc ("FAF") a related party (see note 27). On 30 November 1999, The Mortgage Corporation ("TMC"), a subsidiary of the group, entered into a Joint Employment Contract – Agency Agreement with FAF and the secondment agreement was simultaneously terminated. With effect from 1 January 2000, all employees were granted Joint Employment Contracts with TMC and FAF.

The average number of employees seconded under this arrangement during the year was 152 (1998: 143). The disclosures of these employees and their remuneration have been included above.

#### 9. Profit for the year

As permitted by section 230 of the Companies Act 1985, the company's profit and loss account has not been included in these financial statements. The company's profit for the financial year was £nil (1998: £2k).

#### 10. Tangible fixed assets

<b>Group</b>	<b>Fixtures, Fittings &amp; Equipment £'000</b>	<b>Computer Equipment £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
At 1 January 1999 and 31 December 1999	<u>99</u>	<u>3,330</u>	<u>3,429</u>
<b>Depreciation</b>			
At 1 January 1999 and 31 December 1999	<u>99</u>	<u>3,330</u>	<u>3,429</u>
<b>Net book value</b>			
At 31 December 1998 and 31 December 1999	<u>-</u>	<u>-</u>	<u>-</u>

# SEAHORSE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 1999

#### 11. Fixed asset investments

	Company 1999 £
<b>Cost:</b>	
At 1 January 1999	100
Additions	<u>12,500</u>
<b>At 31 December 1999</b>	<b><u>12,600</u></b>
<b>Net book value</b>	
<b>At 31 December 1999</b>	<b><u>12,600</u></b>
At 31 December 1998	<u>100</u>

#### 12. Mortgage advances

During the year TMC purchased certain mortgage advances, which had been previously securitised, amounting to £nil (1998: £1,020k) from a fellow subsidiary company at net book value. These mortgage advances were securitised during the year within another group undertaking.

#### 13. Mortgage advances securitised

	Group 1999 £'000	Group 1998 £'000
<b>Mortgage advances securitised comprise:</b>		
Mortgage advances	751,552	498,679
Provisions for bad and doubtful debts	<u>(3,066)</u>	<u>(2,079)</u>
<b>As at 31 December</b>	<b><u>748,486</u></b>	<b><u>496,600</u></b>

#### 14. Mortgage advances subject to non-recourse funding

	Group 1999 £'000	Group 1998 £'000
Mortgage advances	26,135	95,425
Investments	<u>918</u>	<u>2,514</u>
	<b>27,053</b>	<b>97,939</b>
Less: Non-recourse funding	<u>(27,053)</u>	<u>(97,939)</u>
	<u>-</u>	<u>-</u>

# SEAHORSE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 1999

#### 14. Mortgage advances subject to non-recourse funding (continued)

On 7 August 1996 TMC sold the cash flows equating to the future cash flows less 0.1% on a mortgage portfolio of £146.7m to FAF (see note 27). Investments represent redemption proceeds on mortgage debtors.

In accordance with Financial Reporting Standard Number 5 "Reporting the substance of transactions" these mortgages have been included in these accounts using linked presentation, whereby the non-recourse finance is shown deducted from the mortgage debtors.

The group has no option or obligation to purchase the future cash flows of the mortgages concerned.

#### 15. Debtors

	<b>Group 1999 £'000</b>	<b>Group 1998 £'000</b>	<b>Company 1999 £'000</b>	<b>Company 1998 £'000</b>
<b>Amounts falling due in more than one year:</b>				
Other debtors	<u>138</u>	<u>208</u>	<u>-</u>	<u>-</u>
<b>Amounts falling due within one year:</b>				
Group relief	-	-	-	-
Dividends receivable	-	-	7	4
Other debtors	9,960	11,736	-	-
Prepayments and accrued income	<u>155</u>	<u>2,705</u>	<u>-</u>	<u>-</u>
	<u>10,115</u>	<u>14,441</u>	<u>7</u>	<u>4</u>

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

Cash at bank and in hand includes segregated funds of £nil (1998:£8,658k) which have been established to meet potential claims by subsidiary undertakings for losses on current repossessed properties. Cash at bank and in hand also includes investment deposits of £59,532k (1998: £60,664k).

#### 17. Called up share capital

	<b>Group 1999 £'000</b>	<b>Group 1998 £'000</b>
<b>Authorised</b>		
50,000 Ordinary shares of US\$1 each	<u>31</u>	<u>31</u>
<b>Allotted, called up and fully paid</b>		
2 Ordinary shares of US\$1 each	<u>-</u>	<u>-</u>
All shares carry the same rights and rank pari passu.		

#### 18. Profit and loss account

	<b>Group 1999 £'000</b>	<b>Group 1998 £'000</b>	<b>Company 1999 £'000</b>	<b>Company 1998 £'000</b>
At 1 January	2,190	557	4	2
Retained profit for the year	<u>282</u>	<u>1,633</u>	<u>-</u>	<u>2</u>
As at 31 December	<u>2,472</u>	<u>2,190</u>	<u>4</u>	<u>4</u>

# SEAHORSE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 1999

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

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Opening equity shareholders' funds	2,190	557	4	2
Retained profit for the year	<u>282</u>	<u>1,633</u>	<u>-</u>	<u>2</u>
Closing equity shareholders' funds	<u>2,472</u>	<u>2,190</u>	<u>4</u>	<u>4</u>

#### 20. Provisions for liabilities and charges

	Group 1999 £'000	Group 1998 £'000
Provisions for liabilities and charges comprise:		
<b>Provisions for mortgage related charges:</b>		
At 1 January	2,064	2,322
Charge for the year	168	115
Released during the year	<u>(2,064)</u>	<u>(373)</u>
<b>As at 31 December</b>	<b><u>168</u></b>	<b><u>2,064</u></b>
<b>Lease costs:</b>		
At 1 January	2,531	1,631
Charge for the year	495	900
Released during the year	<u>(290)</u>	<u>-</u>
<b>At 31 December</b>	<b><u>2,736</u></b>	<b><u>2,531</u></b>
<b>Deferred taxation:</b>		
At 1 January	-	435
Transfer to the profit and loss account	<u>-</u>	<u>(435)</u>
<b>At 31 December</b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>Total provisions at 31 December</b>	<b><u>2,904</u></b>	<b><u>4,595</u></b>

Provisions for mortgage related charges primarily consist of shortfalls on recoveries.

Lease costs represent a provision for the estimated future payments on premises sublet by the group. The estimated future payments are net of income from sub-leasing the vacant space.

Deferred taxation arises from timing differences relating to issuer costs.

# SEAHORSE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 1999

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

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Overdrafts	1,903	86	-	-
Bank loans – (note a)	-	35,718	-	-
Other loan – (see note 27)	-	7,477	-	-
Floating rate notes – (see note 22 (d))	-	175,893	-	-
Debentures – (see note 22 (c))	1,764	1,764	-	-
Amounts owed to group undertakings	-	-	15	-
Corporation tax	2,490	2,516	-	-
Other taxes and social security	91	195	-	-
Other creditors and accruals	16,374	15,781	11	8
	<u>22,622</u>	<u>239,430</u>	<u>26</u>	<u>8</u>

(a) During 1998 the credit facilities and floating rate notes of two subsidiaries were repaid in full by raising interim financing (bank loans). The interim financing was repaid on 23 April 1999.

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

	Group	Group
	1999	1998
	£'000	£'000
Bank loans – (note a)	-	10,000
Other loan – (note b)	5,000	5,000
Debentures – (note c)	12,849	19,170
Floating rate notes – (note d)	765,524	293,948
Subordinated loan – (note e)	10,445	-
	<u>793,818</u>	<u>328,118</u>

(a) The bank loan was not repayable by instalments and did not have a fixed date for repayment. It was secured by fixed and floating charges over the assets of the group. The loan was repaid during the year.

(b) The other loan is not repayable by instalments and does not have a fixed date for repayment. It is secured by fixed and floating charges over the assets of the group.

(c) The debentures are not repayable by instalments and do not have a fixed date for repayment except where they are repayable on demand to the extent that the company has received a return of capital from its investments in subsidiary undertakings. They are secured by fixed and floating charges over the assets of the group.

(d) The total floating rate notes falling due within and after one year comprise:

	Group	Group
	1999	1998
	£'000	£'000
Principal outstanding	768,570	470,951
Unamortised issue costs	(3,046)	(1,110)
	<u>765,524</u>	<u>469,841</u>

The floating rate notes bear interest at varying rates above LIBOR. They are secured on mortgage advances. The floating rate notes represent the financing obligations of fellow subsidiaries, whose securitised mortgage advances have been separately presented on the balance sheet of the company. Certain of the loans were reclassified in 1998 as falling due within one year as the securitised mortgages were refinanced in 1999.

(e) 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 First Flexible No. 1 plc.

# SEAHORSE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 1999

#### 23. Financial commitments

##### Lease commitments

The group had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings 1999 £'000	Land and Buildings 1998 £'000
Operating leases which expire: After 5 years	<u>1,571</u>	<u>1,571</u>

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

	Group 1999 £'000	Group 1998 £'000
Operating profit	9,683	4,307
Release of premium	(712)	(886)
Depreciation of tangible fixed assets	-	43
Amortisation of issue costs	723	1,612
Loss on sale of tangible fixed assets	-	1
Net change in provision for mortgage related charges	(909)	(1,271)
Decrease / (increase) in debtors	2,161	(6,237)
(Decrease) / increase in creditors	(4,052)	2,015
Increase in lease cost provisions	205	900
Premium on redemption of notes	550	785
Net cash inflow from operating activities	<u>7,649</u>	<u>1,269</u>

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

Group	1 January 1999 £'000	Cash flows £'000	Non- Cash Changes £'000	31 December 1999 £'000
Cash in hand and at bank	1,400	2,145	-	3,545
Overdrafts	(86)	(1,817)	-	(1,903)
Net cash	1,314	328	-	1,642
Investment deposits	60,664	(1,132)	-	59,532
<b>Debt falling due in more than one year</b>				
Floating rate notes	(470,951)	(297,619)	-	(768,570)
Unamortised capitalised issue costs	1,110	2,659	(723)	3,046
Debentures	(19,170)	6,321	-	(12,849)
Bank and other loans	(15,000)	10,000	-	(5,000)
Subordinated loan	-	(10,445)	-	(10,445)
<b>Debt falling due within one year</b>				
Debentures	(1,764)	-	-	(1,764)
Bank loans	(43,195)	43,195	-	-
	<u>(486,992)</u>	<u>(246,693)</u>	<u>(723)</u>	<u>(734,408)</u>

Non-cash changes comprise of amortisation of issue costs relating to debt issues.



# **SEAHORSE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 DECEMBER 1999**

#### **26. Financial Instruments**

##### **Market Risk Management**

The market risk management of the group is managed by the Asset and Liability Committee ("ALCO") of FAF with whom the group's subsidiaries have various service agreements. 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 FAF.

Interest rate risk is the group'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 group does not use derivatives for creating risk that does not arise in the underlying business and the group does not trade in derivatives.

##### **Credit Risk Management**

Credit risk is monitored by the Credit Department of FAF, and arises from the company's lending activities. FAF 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. FAF 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 group'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 consider the year end position satisfactorily reflects the policies and objectives set out above.

# SEAHORSE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 1999

#### 26. Financial Instruments (continued)

##### Interest rate risk profile

The table below gives an indication of the interest rate risk profile of the group. 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 1999	Not more than three months £'000	More than three months but less than one year £'000	Over one year but not more than five years £'000	Non Interest Bearing £'000	Total £'000
<b>Assets</b>					
Mortgage advances	637,479	18,166	92,841	-	748,486
Other assets	<u>59,532</u>	<u>-</u>	<u>-</u>	<u>13,798</u>	<u>73,330</u>
	<u>697,011</u>	<u>18,166</u>	<u>92,841</u>	<u>13,798</u>	<u>821,816</u>
<b>Liabilities</b>					
Securitised loans	(765,524)	-	-	-	(765,524)
Debentures and other loans	(6,000)	(13,613)	-	(10,445)	(30,058)
Provisions for liabilities and charges	-	-	-	(2,904)	(2,904)
Other liabilities	-	-	-	(20,858)	(20,858)
Shareholders funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,472)</u>	<u>(2,472)</u>
	<u>(771,524)</u>	<u>(13,613)</u>	<u>-</u>	<u>(36,679)</u>	<u>(821,816)</u>
Interest rate risk profile	<u>(74,513)</u>	<u>4,553</u>	<u>92,841</u>	<u>(22,881)</u>	<u>-</u>

##### 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 1999. 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. The debentures have not been fair valued as they are not traded and their future income streams cannot be determined to allow discounted cash flow techniques or other valuation methods to be used to determine their value with any degree of accuracy. 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 1999	Carrying Amount £'000	Fair Value £'000
<b>Assets</b>		
Mortgage advances	748,486	748,731
Other assets (i)	<u>73,330</u>	<u>73,330</u>
	<u>821,816</u>	<u>822,061</u>
<b>Liabilities</b>		
Securitised loans	(765,524)	(765,524)
Debentures and other loans	(30,058)	(30,058)
Provisions for liabilities and charges	(2,904)	(2,904)
Other liabilities (i)	(20,858)	(20,858)
Shareholders funds (i)	<u>(2,472)</u>	<u>(2,472)</u>
	<u>(821,816)</u>	<u>(821,816)</u>

(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.

**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 1999****26. 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 1999 were as follows:

	£'000
In one year or less or on demand	(3,835)
In more than five years	<u>(796,554)</u>
	<u>(800,389)</u>

Included within the category of amounts maturing in more than five years are debentures and other loans amounting to £17,849k which have no fixed date for repayment. Included within the category of amounts falling due in more than five years is a subordinated loan amounting to £10,445k which has no fixed date for repayment as it is repayable as determined by a priority of payments. Details of these transactions are set out in note 22.

First Flexible No.1 plc, a subsidiary of the group, has entered into a sterling revolving credit facility as part of its securitisation to fund, where necessary, the purchase of mortgage redraws. The initial redraw facility limit is £45million although the limit may be varied in accordance with the securitisation agreement. At 31 December 1999 £nil had been drawn down under this facility.

**27. Related party transactions**

The group has taken advantage under Financial Reporting Standard No.8, "Related Party Transactions", not to disclose transactions or balances between group entities that have been eliminated on consolidation.

The group 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 Senior Management**

In October 1998 all members of staff were offered a loan to purchase shares in First Active plc, the parent company of FAF, a company under common control as defined by FRS8. At the balance sheet date, £25k represented balances outstanding on such loans to senior management (1998:£28k). Interest is charged at a rate of 4% per annum. The shares are held as collateral for the loans.

**Transactions with First Active Financial plc ("FAF")**

During 1996, TMC, a wholly owned subsidiary of the group, entered into a number of agreements with FAF. The following agreements remained effective during 1999:

i) An agreement with FAF under which FAF acquired cash flows equating to the cash flows less 0.1% on a mortgage portfolio of £146.7million for consideration of £150.8million. The book value of these loans at 31 December 1999 was £26.1 million (1998:£95.4million). TMC continues to administer these mortgage assets on behalf of FAF and was due fees in 1999 of £49k (1998:£108k). FAF has a floating charge over TMC's assets as security for these cashflows.

ii) A mortgage sale agreement with FAF under which FAF purchased a mortgage portfolio of £40.2million for consideration of £41.3million. The book value of these mortgages at 31 December 1999 was £7.8 million (1998:£27.8million). TMC continues to administer these mortgage assets on behalf of FAF and was due fees in 1999 of £40k (1998: £39k).

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**27. Related party transactions (continued)**

**Transactions with First Active Financial plc ("FAF") (continued)**

iii) TMC sold for consideration of £1 an option to buy the equitable title of the portfolio noted in (i) above. This option is exercisable within 21 years from 7 August 1996.

iv) A secondment agreement under which the employment of all TMC staff were transferred to FAF, with the relevant staff then being seconded back to TMC, along with additional staff as required from time to time. TMC pays the costs associated with these staff. In 1999, TMC has paid and recharged to FAF staff costs for the FAF employees of £4 million (1998:£3.7million). On 30 November 1999 TMC entered into a Joint Employment Contract - Agency Agreement with FAF (the "Agency Agreement") and the secondment agreement was simultaneously terminated. Under the terms of the Agency Agreement TMC jointly employs all employees with FAF and has given an agency to FAF to deal with all Human Resources matters. With effect from 1 January 2000, all employees have been granted Joint Employment Contracts with TMC and FAF.

v) A consultancy agreement, under which FAF can provide consultancy services to TMC at the latter's request. During the year TMC paid £nil (1998:£nil) for such services.

During 1997, TMC entered into a number of additional arrangements, the following of which remained effective in 1999:

i) During 1999 FAF recharged £1,352k (1998:£367k) of administrative expenses, incurred on behalf of TMC, relating to canteen facilities, systems maintenance and human resource expenditure. FAF also charged a management fee to TMC of £12k (1998:£12k).

ii) TMC continues to occupy the same premises as FAF. FAF pays the lease costs and service charge of the property but has not made a recharge to TMC for its occupancy during the year (1998:£nil).

During 1998, the group entered into a number of additional arrangements, the following of which remained effective in 1999:

i) A floating rate note issued by TMC P.I.M.B.S Fourth Financing Plc, a subsidiary of the group, was acquired by FAF with a nominal value at 31 December 1999 of £nil million (1998: £2.6 million). The book value of the loan at 31 December 1999 was £nil (1998: £2.1million) as the balance was fully repaid on 29 January 1999. Interest accruing to FAF on the loan totalled £nil for the year (1998:£381k). As at 31 December 1999, FAF was owed £nil (1998: £2.1million) principal and £nil (1998:£31k) accrued interest under this arrangement.

ii) A £5million loan to Zophonus Limited was assigned to FAF by First Active plc of whom the SeaHorse Group is a quasi subsidiary. The loans bear interest at a rate that is agreed from time to time between the parties. During the year FAF was entitled to receive interest of £289k (1998: £388k) under this agreement. As at 31 December 1999, FAF was owed £5million (1998:£5million) principal and £231k (1998: £388k) accrued interest under this agreement.

During 1998 and 1999, the group entered into a number of additional arrangements, the following of which remained effective in 1999:

i) On 29 April 1998 TMC Private Placements No.1 Limited, a subsidiary of the group, received a loan of £7,029k from FAF in order to repurchase its floating rate notes. As at 31 December 1999, the balance outstanding on the loan amounted to £nil (1998: £7,477k) which incorporates further advances made during the year of £nil (1998: £428k). Interest paid on the loan during the year amounted to £147k (1998: £367k) with an accrued balance at the year end of £nil (1998: £3k).

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

**27. Related party transactions (continued)**

**Transactions with First Active Financial plc ("FAF") (continued)**

ii) In November 1998 FAF, entered into an agreement with a third party to purchase the floating rate notes (FRNs) of certain Special Purpose Vehicles (SPVs), subsidiaries of the group, disclosed in note 21 of the financial statements as loans. As part of this agreement, FAF had been granted an option at a premium of £550k to purchase these FRNs, which could be exercised up to 30 June 1999. This option was subsequently assigned to TMC for £550k together with an administration fee, payable to FAF, of £5k.

On 23 April 1999, the mortgage advances of TMC and seven SPVs (subsidiaries of the group), together with certain mortgage advances subject to non-recourse funding, were refinanced into TMC Tattenham No.2 plc, a subsidiary of the group, through the issue of £272 million of Floating Rate Notes. As part of this process, FAF purchased all non-performing mortgage advances, together with advances in litigation and possession. These advances were purchased at a net book value of £18,332k from the SPVs and £202k from TMC. At the same time, FAF transferred mortgage advances with a net book value of £90,569k to TMC Tattenham No.2 Plc from the mortgage portfolios administered on behalf of FAF by TMC.

As at 31 December 1999, TMC was owed £119k (1998:£4.1million) by FAF and FAF was owed £4.1million (1998:£883k) by TMC.

iii) On 12 November 1999, FAF sold £294.2million of mortgage advances to First Flexible No.1 Plc ("FFL1"), a subsidiary of the group, at net book value. On the same date, FAF granted a subordinated loan of £10.4million, which remained outstanding as at 31 December 1999. On 29 November 1999, FAF sold a further £5.8million of mortgage advances to FFL1 at net book value.

As at 31 December 1999, FAF was owed £1.1million by FFL1 in addition to the loan stated above.

**Transactions with MTL Funding (Mayfair) Limited ("Mayfair")**

At 31 December 1999 the amounts due to Mayfair, a company under common control as defined by FRS8 (related party transactions), from Cavendish Home Investments No. 2 Limited and Cavendish Home Investments No. 3 Limited, subsidiaries of TMC, amounted to £14k (1998:£14k) and £7k (1998:£7k) respectively.

**Transactions with First Active plc**

During 1996, the group entered into a number of agreements with First Active plc of which SeaHorse Limited is a quasi subsidiary. The following agreements remained effective during 1999:

i) A debenture to First Active plc from Zophonius Limited for a principal amount of £19.9million under which First Active plc is entitled to interest at 1% above LIBOR. As at 31 December 1999 the balance outstanding on this debenture was £13.6million (1998: £19.9million). The interest accrued in the year under this agreement was £1.3million (1998: £1.6million) and the amount outstanding at 31 December 1999 was £32k (1998: £1.6million).

ii) A £10million (1998: £10million) loan to Zophonius Limited from First Active plc on which interest is paid at base rate. The loan was repaid in full during 1999. The interest accrued under this agreement in the year was £472k (1998: £775k) and the interest outstanding at 31 December 1999 was £474k (1998: £866k).

At 31 December 1999 the amounts due to First Active plc from the group amounted to £nil (1998: £1.4million).

# **SEAHORSE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 DECEMBER 1999**

#### **27. Related party transactions (continued)**

##### **Transactions with First Active Holdings UK Limited**

During 1996, the group entered into a number of agreements with First Active Holdings UK Limited of which SeaHorse Limited is under common control, as defined by FRS8. The following agreements remained effective during 1999:

i) A debenture to First Active plc, which was subsequently assigned to First Active Holdings UK Limited, from Zophonius Limited, for a principal amount of £1million under which First Active Holdings UK Limited is entitled to interest at 1% above LIBOR and any surplus distributable income or capital received within Zophonius Limited. As at 31 December 1999 the balance outstanding on this debenture was £1 million (1998: £1 million). The interest accrued in the year under this agreement was £7.8million (1998: £3.9million) and the amount outstanding at 31 December 1999 was £7.8million (1998: £5.1million).

ii) A debenture to First Active plc, which was subsequently assigned to First Active Holdings UK Limited, from SeaHorse Limited, for a principal amount of £100 under which First Active Holdings UK Limited is entitled to interest equating to surplus distributable income or capital received within SeaHorse Limited. No amounts were owed under this debenture (1998: £nil).

#### **28. Post balance sheet events**

Under the terms of the securitisation agreement for FFL1, FFL1 is entitled to purchase further qualifying mortgage advances from FAF which FAF offers for sale within a defined substitution period. Since 31 December 1999, FFL1 has acquired £26.2 million of qualifying mortgage advances from FAF under this arrangement.

On 30 May 2000 First Flexible No.2 plc ("FFL2"), a subsidiary of the group, issued £300million of Floating Rate Notes due for repayment by 2032. On the same day, FFL2 purchased mortgage advances amounting to £292.74 million from FAF at net book value. FAF also granted a subordinated loan facility to FFL2 amounting to £11.96 million as part of the securitisation process. £9.9million has been drawn down under this arrangement. FFL2 also entered into a sterling revolving credit facility with a third party amounting to £27million. No amounts have been drawn down under this facility. Under the terms of the securitisation agreement for FFL2, FFL2 is entitled to purchase further qualifying mortgage advances from FAF which FAF offers for sale within a defined substitution period. Since 30 May 2000, FFL2 has acquired £2.5million of qualifying mortgage advances from FAF under this arrangement.