MOODY'S
INVESTORS SERVICE

Rating Action: Moody's confirms senior notes and upgrades the mezzanine and junior notes issued by First Flexible No. 5 plc ("FF5").

Global Credit Research - 15 Jul 2011

London, 15 July 2011 -- Moody's Investors Service has today confirmed the senior notes and upgraded the mezzanine and junior notes issued by First Flexible No. 5 plc ("FF5").

....GBP465M A Note, Confirmed at Aaa (sf); previously on Mar 2, 2011 Aaa (sf) Placed Under Review for Possible Downgrade

....GBP22.5M M Note, Upgraded to Aa2 (sf); previously on Nov 29, 2010 A1 (sf) Placed Under Review for Possible Upgrade

....GBP12.5M B Bond, Upgraded to A1 (sf); previously on Nov 29, 2010 Baa2 (sf) Placed Under Review for Possible Upgrade

RATING RATIONALE

Moody's confirmed the Aaa (sf) rating of the class A notes in FF5 following the Issuer advising Moody's that it is in the process of implementing changes in the servicing arrangements to mitigate the operational risk concerns concerning back-up servicing arrangements. Moody's also upgraded the Class M notes to Aa2 (sf) from A1 (sf) and the class B notes to A1 (sf) from Baa2 (sf) due to a combination of strong performance and increased credit enhancement. Today's rating actions conclude the rating review of this transaction.

Performance Disruption Risk Has Been Adressed by Amendments to Transaction Documents

The class A notes were placed on review following the implementation on 2 March 2011 of Moody's rating guidance entitled "Global Structured Finance Operational Risk Guidelines: Moody's Approach to Analyzing Performance Disruption Risk". However, the issuer has advised Moody's that it will shortly be implementing amendments to the administration and the substitute administration agreements in line with the other First Flexible and Paragon transactions. In Moody's view, the amendments constitute an improvement to the servicing arrangements as they ensure a more rapid transfer of the servicing tasks to the substitute administrator. This limits further the risks of potential delays in the payments obligations of the issuer. Moody's notes that the rating confirmation is conditional upon the execution of the amended documents in due course.

The amended administration agreement states that Paragon is obliged to send all the calculation data to the trustee and the substitute administrator within 3 business days from the determination date, which is seven calendar days before the interest payment date for FF5. Failure to provide this data within 3 business days or failure to make payments at the interest payment date will trigger an automatic termination of Paragon's appointment as administrator, in cases where any other servicer termination event is also occurring. According to the amended substitute administration agreement, HML will immediately assume the role of the transaction administrator upon notification by the trustee.

The automatic servicer termination trigger in combination with the faster transfer to the substitute administrator should allow sufficient time to resume the calculation and bond cash management function before the interest payment date, in accordance with the timeline forecasted by HML in its hand-over plans.

Strong Collateral Performance and Transaction Deleveraging

Moody's notes that this highly seasoned transaction (average of 8.6 years per loan) has delevered significantly resulting in a significant increase in the credit enhancement available to all of the note classes. Moody's notes that the current available credit enhancement (excluding excess spread) for the Class A notes is 44% compared to 9% at close. The level of credit enhancement available for the class M and class B notes has also increased to 22% and 9% respectively from 4% and 2% at close. Furthermore, the reserve fund is fully funded at 9% and is non-amortising. Moody's has assessed updated loan-by-loan information of the outstanding portfolios and as a consequence has revised its MILAN Aaa CE to 12% from 10% at close, however, this increase has a neutral impact on the ratings of the notes due to the high levels of subordination in the transaction. The main driver for the increase was the high proportion of interest only loans in the portfolio (80%).

The performance of the transaction is very good with cumulative losses to date of 0.07% of original note balance compared to an original expected loss assumption of 0.56% of original balance. The transaction closed in June 2002 so the loans are highly seasoned (average of 8.6 years) and the current pool factor is 19%. Furthermore, Moody's notes that the 90+ days in arrears as a percentage of current balance are 0.91% which is below the index for buy-to-let transactions in the UK market.

The loss expectation and the MILAN Aaa CE are the two key parameters used by Moody's to calibrate the loss distribution curve, which is one of the inputs into our RMBS cash-flow model. Moody's has also factored into its analysis the negative sector outlook for UK non-conforming RMBS. The sector outlook reflects the following expectations of key macro-economic indicators: GDP to grow 1.6% in 2011, and 2.1% in 2012; unemployment will remain broadly stable, ranging between 7.8% and 8.0% during 2011 and 2012 (7.8% in 2010); and house prices are expected to remain broadly flat for the next 18 months and the number of house-purchase transactions is likely to remain significantly below the long-term average. For more detailed information please refer to Moody's Economy.com.

FF5 is a UK buy-to-let mortgage securitisation of mortgages originated by First Active plc and Brittanic Money plc that closed in June 2002. Mortgage Trust Services PLC, part of the Paragon Group, is performing the servicing and cash management functions in FF5. Homeloan Management Limited ("HML") is the back-up servicer and back-up cash bond administrator that will be appointed as administrator if a servicer termination event were to occur

RATING METHODOLOGIES

The principal methodology used in this rating was Moody's Approach to Rating RMBS in Europe, Middle East, and Africa, published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology .

Moody's ratings address the expected loss posed to investors by the legal final maturity of the notes. The rating agency's ratings address only the credit risks associated with the transaction. Moody's has not addressed non-credit risks, which may have a significant effect on yield to investors.

Moody's Investors Service did take into account a third party due diligence report on the underlying assets and financial instruments related to the monitoring of this transaction in the past six months.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

Information sources used to prepare the credit rating are the following: parties involved in the ratings, parties not involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

Moody's received and took into account a third-party assessment on the due diligence performed regarding the underlying assets or financial instruments in this transaction and the assessment had a neutral impact on the rating.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

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Please see Moody's Rating Symbols and Definitions on the Rating Process page on www.moodys.com for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history.

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