Company Registration No : 3696121

PARAGON MORTGAGES (No. 2) PLC

(formerly Finance for People (No. 6) PLC)

Report and Financial Statements

Year ended 30 September 2000

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 September 2000.

ACTIVITIES AND FUTURE PROSPECTS

The company was incorporated as Finance for People (No. 6) PLC on 15 January 1999. On 24 January 2000 the company changed its name to Paragon Mortgages (No. 2) PLC. During February 2000, the company issued floating rate notes and used the proceeds to purchase mortgage loans.

The principal activity of the company is the provision of mortgage loans secured by first charges over residential properties within the United Kingdom. The directors consider that the company has performed satisfactorily and will continue to do so given the prevailing economic climate.

RESULTS

The results for the year are shown in the profit and loss account on page 5.
The directors do not propose the payment of a dividend and the retained profit of £nil has been transferred to reserves.

DIRECTORS

The directors throughout the year, unless otherwise noted, were :-

R D Shelton
N Keen
J G Gemmell
A Mehmet (appointed 14 January 2000)
A F Raikes (appointed 14 January 2000)

N Keen is a director of the ultimate parent company, The Paragon Group of Companies PLC. Accordingly, his interests in shares of group companies are disclosed in that company's directors' report.

R D Shelton, J G Gemmell and A Mehmet are employees of The Paragon Group of Companies PLC, and had beneficial interests in the ordinary share capital of that company under share option schemes as follows:

Director	Options at 30 September 1999 or at date of appointment	Options granted in the year	Options exercised in the year	Options lapsed / cancelled in the year	Options at 30 September 2000
R D Shelton	220,444	63,030	-	8,211	275,263
J G Gemmell	297,482	63,030	-	5,892	354,620
A Mehmet	172,140	68,030	-	-	240,170

DIRECTORS' REPORT (continued)

DIRECTORS (continued)

At 30 September 2000 J G Gemmell beneficially held 937 ordinary shares (1999: 937) in that company.

No other director had any interest in the shares of the Company or of other group companies either during or after the end of the year. None of the directors had any interest either during or at the end of the year in any material contract or arrangement with the company. None of the directors had a service contract with the company.

CREDITOR PAYMENT POLICY

The company agrees terms and conditions with its suppliers. Payment is then made on the terms agreed, subject to the appropriate terms and conditions being met by the supplier. The trade creditor days figure has not been stated as the measure is not appropriate to the business.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors. A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

J G Gemmell
Secretary
23 January 2001

STATEMENT OF DIRECTORS' RESPONSIBILITIES
in relation to Financial Statements

The directors are required by the Companies Act 1985 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 period and of the profit or loss for the financial year. As required, in the absence of any circumstances which would make it inappropriate, the financial statements have been prepared on a going concern basis.

The directors consider that in preparing the financial statements (on pages 5 to 17), the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors 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' REPORT
TO THE MEMBERS OF PARAGON MORTGAGES (No. 2) PLC

We have audited the financial statements on pages 5 to 17 which have been prepared under the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with United Kingdom 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 circumstances of the Company, 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 30 September 2000, and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte . Touche

Deloitte & Touche
Chartered Accountants and
Registered Auditors
Colmore Gate
2 Colmore Row
Birmingham
B3 2BN
25 January 2001

PROFIT AND LOSS ACCOUNT

Year ended 30 September 2000

	Note	2000 £'000
Interest receivable		
Mortgages		6,685
Other	2	1,647
		8,332
Interest payable and similar charges	3	(7,840)
Net interest income		492
Other operating income		20
Total operating income		512
Operating expenses		(512)
Operating profit, being profit on ordinary activities before taxation	5	-
Taxation		-
Profit on ordinary activities after taxation		-

STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS	£'000
Issue of share capital	13
Profit attributable to shareholders	-
Net movement in shareholders' funds	13
Opening shareholders' funds	-
Closing shareholders' funds	13

The company commenced trading on 29 February 2000.

All material activities derive from continuing operations.

There are no recognised gains or losses other than the result for the year.

BALANCE SHEET

30 September 2000

	Note	£'000	2000 £'000
ASSETS EMPLOYED			
FIXED ASSETS			
Loans to customers	6	156,434	
Investments - group companies	7	23,571	
			180,005
CURRENT ASSETS			
Debtors falling due within one year	8	161	
Cash at bank and in hand		6,309	
			6,470
			186,475
FINANCED BY			
SHAREHOLDERS' FUNDS			
Called up share capital	9	13	
Profit and loss account	10	-	
		13	
Equity shareholders' funds			-
Non-equity shareholders' funds			13
CREDITORS			
Amounts falling due within one year	11		2,289
Amounts falling due after more than one year	11		184,173
			186,475

As at 30 September 1999 the balance sheet consisted of 2 ordinary shares of £1 each allotted and paid up and £2 owed by another group company.

These financial statements were approved by the Board of Directors on 24 January 2001.

Signed on behalf of the Board of Directors.

R D Shelton
Director

NOTES TO THE ACCOUNTS

Year ended 30 September 2000

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting Convention
The financial statements are prepared under the historical cost convention.

Loans to Customers
Mortgage loans are stated at cost less provision for diminution in value after taking into account the existence of insurances, guarantees and indemnities. Cashbacks and discounts are amortised over the penalty interest periods of the related mortgages.

Deferred Taxation
Deferred taxation is provided at the anticipated tax rate on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the accounts to the extent that it is probable that a liability or asset will crystallise in the future.

Funding Costs
Initial costs incurred in arranging funding facilities are amortised over the period of the facility Unamortised initial costs are deducted from drawdowns on the bank loan facility. Costs amortised during the period are included with interest payable.

Financial Instruments
Derivative instruments utilised by the Company comprise interest rate swap and interest rate cap agreements. The Company does not enter into speculative derivative contracts. All such instruments are used for hedging purposes to alter the risk profile of the existing underlying exposure of the company in line with the Group's risk management policies. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to interest expense over the period of the contracts.

Transactions with other group companies
The company has taken advantage of the exemption granted by Financial Reporting Standard 8 - 'Related Party Disclosures' and does not therefore provide details of transactions with other group companies.

NOTES TO THE ACCOUNTS

Year ended 30 September 2000

2. OTHER INTEREST RECEIVABLE

Other interest receivable includes £1,027,471 in respect of interest received on loans to other group companies which are not subsidiaries of the Company.

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2000 **£'000**
Asset backed loan notes	7,127
Interest on fee letter	91
Interest rate swap	68
Subordinated loan interest	312
Amortised issue costs	242
	7,840

4. DIRECTORS AND EMPLOYEES

Directors' remuneration from the company during the year is stated in note 5.

There are no other employees.

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	£'000
Profit on ordinary activities before taxation is after charging :	
Directors' fees	2
Auditors' remuneration - audit services	5

NOTES TO THE ACCOUNTS

Year ended 30 September 2000

6. LOANS TO CUSTOMERS

These comprise mortgage loans secured on residential properties in the United Kingdom.

	2000
	£'000
Balance at 30 September 1999	-
Additions	163,090
Other debits	7,916
Repayments and redemptions	(14,572)
Balance at 30 September 2000	156,434

Other debits includes primarily interest receivable on loans outstanding.

7. GROUP COMPANIES

	£'000
Balance at 1 October 1999	-
Investments	24,444
Repayments	(873)
Balance at 30 September 2000	23,571

The investments are loans to group companies which are not subsidiaries of the company. The investments are stated at cost.

8. DEBTORS

	£'000
Amounts falling due within one year :	
Amounts owed by group companies	143
Prepayments and accrued income	18
	161

NOTES TO THE ACCOUNTS

Year ended 30 September 2000

9. CALLED UP SHARE CAPITAL

	£
Authorised :	
100 ordinary shares of £1 each	-
26 'A' ordinary shares of £1 each	26
74 'B' ordinary shares of £1 each	74
49,900 preference shares of £1 each	49,900
	50,000
Allotted and paid up :	
26 'A' ordinary shares of £1 each (25p paid)	7
72 'B' ordinary shares of £1 each (25p paid)	18
2 'B' ordinary shares of £1 each (fully paid)	2
49,900 preference shares of £1 each (25p paid)	12,475
	12,502

Two ordinary shares of £1 each were issued on 15 January 1999 to provide the initial working capital of the company. Another 49,900 preference shares of £1 each, 25p paid and 98 ordinary shares of £1 each, 25p paid were issued on 18 February 2000 to provide additional working capital at the commencement of trading.

The Preference Shares carry the right to receive a non-cumulative preferential dividend at the rate of 5% per annum on the capital for the time being paid up on them. On a winding-up the Preference Shares carry the right to the repayment of the capital paid up on them. The Preference Shares also carry the right to receive notice of, to attend and to vote at any general meeting of the Issuer.

The 'A' Ordinary Shares carry the right to receive, in priority to any dividend payable in respect of the 'B' Ordinary Shares but subject to the preferential dividend referred to above, a dividend set by reference to LIBOR on the capital for the time being paid up on them. On a winding up the 'A' Ordinary Shares carry the right to the repayment of the capital paid up on them. The 'A' Ordinary Shares carry no right to receive notice of or to attend or to vote at any general meeting of the Issuer except in the case of any resolution affecting the rights of the 'A' Ordinary Shares.

NOTES TO THE ACCOUNTS

Year ended 30 September 2000

9. CALLED UP SHARE CAPITAL *(continued)*

Subject to satisfaction in full of any dividend payable in respect of the Preference Shares and the 'A' Ordinary Shares, the 'B' Ordinary Shares carry the right to receive a dividend. On a winding up the 'B' Ordinary Shares carry the right to the payment of the capital paid up on them and, subject to the payment in full of the capital paid up on all shares in the capital of the Issuer, to receive all surplus assets. The 'B' Ordinary Shares carry the right to receive notice of, to attend and to vote at any general meeting of the Issuer.

10. STATEMENT OF MOVEMENT ON RESERVES

	Profit and Loss Account £'000
Balance at 30 September 1999	-
Result for the period	-
Balance at 30 September 2000	-

11. CREDITORS

	2000 £'000
Amounts falling due within one year :	
Amounts owing to group companies	1,686
Accruals	603
	2,289
Amounts falling due after more than one year :	
Class A asset backed loan notes due 2030	160,258
Class B asset backed loan notes due 2041	18,500
Subordinated loan	5,415
	184,173

All amounts falling due after more than one year fall due after more than five years. Further details of the asset backed loan notes are given in note 12.

NOTES TO THE ACCOUNTS

Year ended 30 September 2000

12. FINANCIAL INSTRUMENTS

The Company's operations are financed principally by floating rate, asset backed loan notes and, to a lesser extent, by a mixture of share capital and loans from other group companies. The Company issues financial instruments to finance the acquisition of its portfolio of loans to customers and uses derivative financial instruments to hedge interest rate risk arising from fixed rate lending. In addition, various financial instruments, for example debtors, prepayments and accruals, arise directly from the Company's operations.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken

The principal risks arising from the Company's financial instruments are credit risk, liquidity risk and interest rate risk. The board of the Company's holding company reviews and agrees policies for all companies in the Group managing each of these risks and they are summarised below. These policies have remained unchanged throughout the year and since the year end.

Credit risk
The Company acquired mortgages from Paragon Mortgages Limited and Paragon Finance PLC, fellow group companies which place a strong emphasis on good credit management at the time of underwriting new loans.

The acquired mortgages are secured by first charges over residential properties in the United Kingdom. Despite this security, in assessing credit risk an applicant's ability to repay the loan remains the overriding factor in the decision to lend by the originating lender. Additionally, each mortgage has the benefit of one or more life assurance policies and certain mortgages have the benefit of a mortgage guarantee indemnity insurance policy.

Paragon Finance PLC continues to administer the mortgages on behalf of Paragon Mortgages (No. 2) PLC and the collections process is the same as that utilised for all companies in The Paragon Group of Companies Plc.

In order to control credit risk relating to counterparties to the Company's financial instruments, the board of the Company's holding company on a group basis, determines which counterparties the Group of Companies will deal with, establishes limits for each counterparty and monitors compliance with those limits.

NOTES TO THE ACCOUNTS

Year ended 30 September 2000

12. FINANCIAL INSTRUMENTS (continued)

Liquidity risk
The Company's assets are principally financed by the issue of asset backed loan notes. This substantially reduces the Company's liquidity risk by matching the maturity profile of the Company's funding to the profile of the assets being funded. This is possible as investors in the capital markets will accept maturities of anywhere between one month and forty years.

The Mortgage Backed Floating Rate Notes due 2030 and 2042 are secured over a portfolio of variable rate mortgage loans secured by first charges over residential properties in the United Kingdom.

Each mortgage has the benefit of one or more life assurance policies and certain mortgages have the benefit of a mortgage guarantee indemnity insurance policy. The mortgages were obtained by and purchased from Paragon Mortgages Limited and Paragon Finance PLC, fellow group companies. Paragon Finance PLC continues to administer the mortgages on behalf of Paragon Mortgages (No. 2) PLC.

The Notes are subject to mandatory redemption in part on each Interest Payment Date in an amount equal to the principal received or recovered in respect of the mortgages. If not otherwise redeemed or purchased and cancelled, the Class A Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in October 2030 and the Class B Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in October 2042.

The Class B Notes are secured by the same security as secures the Class A Notes but the Class A Notes will rank in priority to the Class B Notes in the event of the security being enforced.

Interest on the Notes is payable quarterly in arrears at the following rates above the London Interbank Offered Rate for three month sterling deposits :

Rates	-	Class A	0.30% per annum up to and including the interest period ending in March 2006 and thereafter 0.60% per annum.
	-	Class 'B'	0.875% per annum up to and including the interest period ending in March 2006 and thereafter 1.75% per annum.

NOTES TO THE ACCOUNTS

Year ended 30 September 2000

12. FINANCIAL INSTRUMENTS (continued)

There is a Subordinated Loan Facility under which an amount was drawn down by the company to establish the First Loss Fund, which is repayable to Paragon Finance PLC on the earlier of the last Interest Payment Date in October 2042 or the first day on which there are no Notes outstanding, except that on any Interest Payment Date sums borrowed will be repaid to the extent of any amount released from the First Loss Fund. Interest is payable at the rate of 4% above the London Interbank Offered Rate for three month sterling deposits.

There are no amounts of committed but undrawn facilites at 30 September 2000.

Interest rate risk

The Company's policy is to maintain floating rate liabilities and match these with floating rate assets by the use of interest rate swap or cap agreements.

The rates payable on the asset backed loan notes issued by the Company are reset quarterly on the basis of LIBOR (as described above). The interest rates charged on the Company's variable rate loan assets are determined by reference to, inter alia, the Company's funding costs and the rates being charged on similar products in the market. Generally this ensures the matching of changes in interest rates on the Company's loan assets and borrowings and any exposure arising on the interest rate resets is relatively short term.

In part, the Company's interest rate hedging objectives are achieved by the controlled mismatching of the dates on which instruments mature, redeem or have their interest rates reset. The table below summarises these repricing mismatches. For the purposes of the table, loan assets, borrowings and derivatives are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity dates. For those fixed rate loan assets where the customer has contracted to make regular repayments of both capital and interest, the assets have been allocated across the time bands in the table by reference to the contracted repayments. The analysis takes no account of early terminations which are likely to occur in practice. In determining the amount of hedging required, the Company makes assumptions about the level of regular capital repayments and early terminations of its loan assets. The actual interest rate sensitivity will therefore be determined by reference to subsequent customer and management decisions and is expected to be less sensitive than shown.

NOTES TO THE ACCOUNTS

Year ended 30 September 2000

12. FINANCIAL INSTRUMENTS (continued)

At 30 September 2000	3 months or less	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Non interest bearing	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Loans to customers	108,669	2,862	1,559	35,135	8,209	-	156,434
Investments	23,571	-	-	-	-	-	23,571
Debtors	-	-	-	-	-	155	155
Cash at bank and in hand	6,309	-	-	-	-	-	6,309
Total assets	138,549	2,862	1,559	35,135	8,209	155	186,469
Shareholders' funds	-	-	-	-	-	(13)	(13)
Asset backed loan notes	(178,758)	-	-	-	-	-	(178,758)
Subordinated loan	(5,415)	-	-	-	-	-	(5,415)
Other liabilities	-	-	-	-	-	(2,283)	(2,283)
Total liabilities	(184,173)	-	-	-	-	(2,296)	(186,469)
Off balance sheet items	55,300	-	(1,500)	(44,500)	(9,300)	-	-
Interest rate repricing gap	9,676	2,862	59	(9,365)	(1,091)	(2,141)	-
Cumulative gap	9,667	12,538	12,597	3,232	2,141	-	-

"Off balance sheet items" shows the notional principal amount of swap agreements. Included within "no more than 3 months" are £700,000 (1999: £nil) of capped rate loans hedged by interest rate cap agreements which reset quarterly.

NOTES TO THE ACCOUNTS

Year ended 30 September 2000

12. FINANCIAL INSTRUMENTS (continued)

The Company monitors the interest rate risk exposure on its loan assets and asset backed loan notes and ensures compliance with the requirements of the trustees in respect of the notes.

All derivative contracts are accounted for as hedges. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures. Set out below is an analysis of these unrecognised gains and losses.

	Gains £'000	Losses £'000	Total net gains/(losses) £'000
Gains and losses arising in the year that were not recognised in the year	54	(372)	(318)
Unrecognised gains and losses on hedges at 30 September 2000	54	(372)	(318)
Of which:			
Gains and losses expected to be recognised in the year to 30 September 2001	10	(112)	(102)
Gains and losses expected to be recognised in the year to 30 September 2002 or later	44	(260)	(216)

NOTES TO THE ACCOUNTS

Year ended 30 September 2000

12. FINANCIAL INSTRUMENTS (continued)

Fair values of financial assets and financial liabilities

Fair values have been determined for all derivatives, listed securities and any other financial assets and liabilities for which an active market exists. The fair values of cash at bank and in hand, and asset backed loan notes are not materially different from their book values because all the assets mature within 3 months of the year end and the interest rates charged on financial liabilities reset on a quarterly basis.

Set out below is a comparison by category of book values and fair values of the Company's derivative financial instruments as at 30 September 2000.

		2000
	Book value £'000	**Fair value £'000**
Derivative financial instruments held to manage the interest rate profile:		
Swaps	-	(315)
Caps	7	4

The fair values of the interest rate swaps have been determined by reference to prices available from the markets on which these instruments are traded.

Currency Risk

The company has no material exposure to foreign currency risk.

13. ULTIMATE PARENT COMPANY

The company's ultimate parent company is The Paragon Group of Companies PLC, a company registered in England and Wales. Copies of the Group's financial statements are available from that company's registered office at St Catherine's Court, Herbert Road, Solihull, West Midlands, B91 3QE.