

Company Registration No: 3696179

PARAGON MORTGAGES (No. 1) PLC

Report and Financial Statements

Year ended 30 September 2005



PARAGON MORTGAGES (No. 1) PLC

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 September 2005.

ACTIVITIES AND FUTURE PROSPECTS

The principal activity of the company was 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.

RESULTS

The results for the year are shown in the profit and loss account on page 5.

No interim dividend was paid during the year (2004: £nil per share). The directors do not propose a final dividend (2004: £nil). The retained profit of £271,000 (2004: loss of £137,000) has been transferred to / from reserves.

DIRECTORS

The directors throughout the year and subsequently were:

R D Shelton
N Keen
J G Gemmell
A Mehmet
A F Raikes
J P J Fairrie (resigned 12 November 2004)

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 2004	Options granted in the year	Options exercised in the year	Options at 30 September 2005
R D Shelton	332,597	14,352	81,307	265,642
J G Gemmell	265,381	14,352	16,000	263,733
A Mehmet	149,470	20,811	90,000	80,281

At 30 September 2005 J G Gemmell beneficially held 8,967 (2004: 8,967) ordinary shares and R D Shelton held 55,651 (2004: 18,725) ordinary shares in that company.

Interest of directors in shares of the holding company under the Paragon Performance Share Plan:

Director	Share plan at 30 September 2004	Share plan awarded in the year	Share plan exercised in the year	Share plan at 30 September 2005
R D Shelton	30,143	13,324	-	43,467
J G Gemmell	31,844	13,324	-	45,168
A Mehmet	48,814	19,320	-	68,134

PARAGON MORTGAGES (No. 1) PLC

DIRECTORS' REPORT (Continued)

Interest of the directors in shares of the holding company under the Paragon Deferred Bonus Scheme:

Director	As at 30 September 2004	Granted during the year	Exercised during the year	As at 30 September 2005
R D Shelton	3,592	3,812	-	7,404
J G Gemmell	3,592	4,252	-	7,844

Under the Deferred Bonus Scheme the shares awarded will be transferred to J G Gemmell and R D Shelton as soon as is reasonably practical after 1 October 2006.

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

A resolution to re-appoint Deloitte & Touche LLP as the company's auditors will be proposed at the Annual General Meeting.

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



J G Gemmell
Secretary
25 April 2006

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 year 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 10), 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PARAGON MORTGAGES (No. 1) PLC

We have audited the financial statements of Paragon Mortgages (No. 1) PLC for the year ended 30 September 2005 which comprise the profit and loss account, the balance sheet, the statement of movement in shareholders' funds / (deficit) and the related notes 1 to 13. These financial statements have been prepared under the accounting policies set out therein.

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 auditors' 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

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 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.

We read the directors' report for the above year and consider the implications for our reports if we become aware of any apparent misstatements.

Basis of audit 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 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 30 September 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Debbie & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Birmingham

27 April 2006

PARAGON MORTGAGES (No. 1) PLC**PROFIT AND LOSS ACCOUNT****Year ended 30 September 2005**

	Note	2005 £'000	2004 £'000
Interest receivable			
Mortgages		1	2,873
Other	2	-	623
		<u>1</u>	<u>3,496</u>
Interest payable and similar charges	3	-	(2,791)
Net interest income		<u>1</u>	<u>705</u>
Other operating income		159	45
Total operating income		<u>160</u>	<u>750</u>
Operating expenses		(1)	(718)
Operating profit, being profit on ordinary activities before taxation	5	<u>159</u>	<u>32</u>
Taxation	6	112	(169)
Retained profit / (loss) on ordinary activities after taxation	11	<u>271</u>	<u>(137)</u>

STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS / (DEFICIT)

	£'000	£'000
Profit / (loss) attributable to shareholders	271	(137)
Net movement in shareholders' funds / (deficit)	<u>271</u>	<u>(137)</u>
Opening shareholders' (deficit) / funds	(111)	26
Closing shareholders' funds / (deficit)	<u>160</u>	<u>(111)</u>

All activities derive from discontinued operations.

There are no recognised gains or losses other than the profit for the current year and loss for the preceding year.

PARAGON MORTGAGES (No. 1) PLC

BALANCE SHEET

30 September 2005

	Note	£'000	2005 £'000	£'000	2004 £'000
ASSETS EMPLOYED					
FIXED ASSETS					
Loans to customers	7	-	-	-	-
Investments - group companies	8	-	-	-	-
CURRENT ASSETS					
Debtors falling due within one year	9	402		212	
Cash at bank and in hand		7		56	
			409		268
			409		268
FINANCED BY					
SHAREHOLDERS' FUNDS / (DEFICIT)					
Called up share capital	10	13		13	
Profit and loss account	11	147		(124)	
		160		(111)	
Non-equity shareholders' funds			12		12
Equity shareholders' funds			148		(123)
			160		(111)
CREDITORS					
Amounts falling due within one year	12		249		379
			409		268

These financial statements were approved by the Board of Directors on 25 April 2006.

Signed on behalf of the Board of Directors.


R D Shelton
Director

NOTES TO THE ACCOUNTS

Year ended 30 September 2005

1. ACCOUNTING POLICIES

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

Accounting Convention

The financial statements are prepared under the historical cost convention.

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.

Corporation Tax

Current tax, including UK corporation, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred Taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Cashflow Statement

The Company has taken advantage of the exemption granted by Financial Reporting Standard 1 - 'Cashflow Statements' and does not therefore provide a cashflow statement.

2. OTHER INTEREST RECEIVABLE

Other interest receivable includes £nil (2004: £439,869) in respect of interest received on loans to other group companies which are not subsidiaries of the company.

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2005 £'000	2004 £'000
Asset backed loan notes	-	2,383
Interest rate swap	-	206
Subordinated loan interest	-	202
	<hr/>	<hr/>
	-	2,791
	<hr/>	<hr/>

4. DIRECTORS AND EMPLOYEES

None of the directors received any remuneration from the company during the year (2004: £2,000).

Three directors exercised share options in the parent company during the year (2004: one director).

There were no other employees during either the current or preceding year.

PARAGON MORTGAGES (No. 1) PLC

NOTES TO THE ACCOUNTS

Year ended 30 September 2005

5. OPERATING PROFIT, BEING PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2005 £'000	2004 £'000
Operating profit is after charging:		
Auditors' remuneration - audit services	1	4

6. TAXATION

a) Tax (credit) / charge for the year

	£'000	£'000
UK corporation tax at 30% (2004: 30%) based on the profit for the year		
Corporation tax	47	169
Prior year credit	(159)	-
	<u>(112)</u>	<u>169</u>

b) Factors affecting the current tax (credit) / charge

	£'000	£'000
Profit before tax	159	32
Tax at 30%	47	10
Expenses not deductible for tax purposes	-	159
Prior year credit	(159)	-
	<u>(112)</u>	<u>169</u>

7. LOANS TO CUSTOMERS

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

	£'000	£'000
Balance at 1 October	-	92,621
Securitisations and other sales	-	(80,643)
Other debits	-	2,882
Repayments and redemptions	-	(14,860)
Balance at 30 September	<u>-</u>	<u>-</u>

Other debits include primarily interest receivable on loans outstanding and movements on provisions against these loans.

PARAGON MORTGAGES (No. 1) PLC

NOTES TO THE ACCOUNTS

Year ended 30 September 2005

8. INVESTMENTS - GROUP COMPANIES

	2005 £'000	2004 £'000
Balance at 1 October	-	15,877
Repayments	-	(15,877)
Balance at 30 September	-	-

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

9. DEBTORS

	£'000	£'000
Amounts falling due within one year:		
Amounts owed by group companies	402	212

10. CALLED UP SHARE CAPITAL

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

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.

NOTES TO THE ACCOUNTS

Year ended 30 September 2005

10. CALLED UP SHARE CAPITAL (continued)

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.

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.

11. STATEMENT OF MOVEMENT ON RESERVES

	Profit and Loss Account £'000
Balance at 1 October 2004	(124)
Profit for the year	271
Balance at 30 September 2005	<u>147</u>

12. CREDITORS

	2005 £'000	2004 £'000
Amounts falling due within one year:		
Amounts owing to group companies	191	191
Corporation tax	57	184
Accruals	1	4
	<u>249</u>	<u>379</u>

13. ULTIMATE PARENT COMPANY

The company's immediate and ultimate parent company and ultimate controlling party 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.