

COMPANY REGISTRATION No: 3696179

PARAGON MORTGAGES (No. 1) PLC

PARAGON MORTGAGES (No. 1) PLC

Report and Financial Statements

Year ended 30 September 2004



PARAGON MORTGAGES (No. 1) PLC

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 September 2004.

ACTIVITIES AND FUTURE PROSPECTS

The principal activity of the company is the provision of mortgage loans secured by first charges over residential properties within the United Kingdom. During the year the company sold the loans to a fellow group company and used the proceeds to repay the outstanding notes. 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 4.

No interim dividend was paid during the year (2003: £nil per share). The directors do not propose a final dividend (2003: £50,000). The loss of £137,000 (2003: £14,000) has been transferred 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

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 stated in note 13.

At 30 September 2004 J G Gemmell beneficially held 8,967 (2003: 8,967) ordinary shares and Richard Shelton held 18,725 (2003: 18,725) ordinary shares 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

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
15 January 2005

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 4 to 19), 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.

PARAGON MORTGAGES (No. 1) PLC

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 2004 which comprise the profit and loss account, the balance sheet, the statement of movement in shareholders' (deficit) / funds and the related notes 1 to 16. 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 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Birmingham
25 January 2005

PARAGON MORTGAGES (No. 1) PLC

PROFIT AND LOSS ACCOUNT

Year ended 30 September 2004

	Note	2004 £'000	2003 £'000
Interest receivable			
Mortgages		2,873	6,632
Other	2	623	1,323
		<u>3,496</u>	<u>7,955</u>
Interest payable and similar charges	3	(2,791)	(6,614)
Net interest income		<u>705</u>	<u>1,341</u>
Other operating income		45	43
Total operating income		<u>750</u>	<u>1,384</u>
Operating expenses		(718)	(1,332)
Operating profit, being profit on ordinary activities before taxation	5	<u>32</u>	<u>52</u>
Taxation charge on profit on ordinary activities	6	(169)	(16)
(Loss) / profit on ordinary activities after taxation		<u>(137)</u>	<u>36</u>
Dividends	7	-	(50)
Loss on ordinary activities after taxation	12	<u>(137)</u>	<u>(14)</u>

STATEMENT OF MOVEMENT IN SHAREHOLDERS' (DEFICIT) / FUNDS

	£'000	£'000
(Loss) / profit attributable to shareholders	(137)	36
Dividends	-	(50)
Net movement in shareholders' funds	<u>(137)</u>	<u>(14)</u>
Opening shareholders' funds	26	40
Closing shareholders' (deficit) / funds	<u>(111)</u>	<u>26</u>

All activities derive from continuing operations.

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

PARAGON MORTGAGES (No. 1) PLC

BALANCE SHEET

30 September 2004

	Note	£'000	2004 £'000	£'000	2003 £'000
ASSETS EMPLOYED					
FIXED ASSETS					
Loans to customers	8	-		92,621	
Investments - group companies	9	-		15,877	
			-		108,498
CURRENT ASSETS					
Debtors falling due within one year	10	212		638	
Investments		-		3,017	
Cash at bank and in hand		56		7,648	
			268		11,303
			268		119,801
FINANCED BY					
SHAREHOLDERS' FUNDS					
Called up share capital	11	13		13	
Profit and loss account	12	(124)		13	
		(111)		26	
Non-equity shareholders' funds			12		12
Equity shareholders' funds			(123)		14
CREDITORS					
Amounts falling due within one year	14		379		1,704
Amounts falling due after more than one year	14		-		118,071
			268		119,801

These financial statements were approved by the Board of Directors on 25 January 2005.

Signed on behalf of the Board of Directors.



R D Shelton
Director

NOTES TO THE ACCOUNTS

Year ended 30 September 2004

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.

Current assets - Investments

Balances shown as current asset investments in the balance sheet comprise short-term deposits with banks with maturities of not more than 90 days and more than 7 days.

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. 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. The Company does not enter into speculative derivative 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.

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.

PARAGON MORTGAGES (No. 1) PLC

NOTES TO THE ACCOUNTS

Year ended 30 September 2004

2. OTHER INTEREST RECEIVABLE

Other interest receivable includes £439,869 (2003: £993,561) in respect of interest received on loans to other group companies which are not subsidiaries of the company.

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2004 £'000	2003 £'000
Asset backed loan notes	2,383	5,180
Interest on fee letter	-	13
Interest rate swap	206	744
Subordinated loan interest	202	373
Amortised issue costs	-	304
	<u>2,791</u>	<u>6,614</u>

4. DIRECTORS AND EMPLOYEES

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

One director exercised share options in the parent company during the year (2003: three directors), see note 13.

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

5. OPERATING PROFIT

	£'000	£'000
Operating profit is after charging:		
Directors' fees	2	4
Auditors' remuneration - audit services	<u>4</u>	<u>6</u>

PARAGON MORTGAGES (No. 1) PLC

NOTES TO THE ACCOUNTS

Year ended 30 September 2004

6. TAXATION

a) Tax charge for the year

	2004 £'000	2003 £'000
U K corporation tax at 30% (2003: 30%) based on the profit for the year		
Current		
Corporation tax	169	16

b) Factors affecting the current tax charge

	£'000	£'000
Profit before tax	32	52
Tax at 30%	10	16
Expenses not deductible for tax purposes	159	-
	169	16

7. DIVIDEND

No interim dividend was paid during the year (2003: £ nil). No final dividend is proposed (2003: £0.05 per preference share and £475.50 per ordinary share).

8. LOANS TO CUSTOMERS

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

	£'000	£'000
Balance at 1 October	92,621	114,573
Additions	-	(18)
Securitisations and other sales	(80,643)	-
Other debits	2,882	6,970
Repayments and redemptions	(14,860)	(28,904)
Balance at 30 September	-	92,621

Other debits includes 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 2004

9. INVESTMENTS - GROUP COMPANIES

	2004 £'000	2003 £'000
Balance at 1 October	15,877	19,112
Repayments	(15,877)	(3,235)
Balance at 30 September	<u>-</u>	<u>15,877</u>

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

10. DEBTORS

	£'000	£'000
Amounts falling due within one year:		
Amounts owed by group companies	212	612
Prepayments and accrued income	-	26
	<u>212</u>	<u>638</u>

11. 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.

PARAGON MORTGAGES (No. 1) PLC

NOTES TO THE ACCOUNTS

Year ended 30 September 2004

11. 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.

12. STATEMENT OF MOVEMENT ON RESERVES

	Profit and Loss Account £'000
Balance at 1 October 2003	13
Loss for the year	(137)
Balance at 30 September 2004	<u>(124)</u>

PARAGON MORTGAGES (No. 1) PLC

NOTES TO THE ACCOUNTS

Year ended 30 September 2004

13. DIRECTORS SHARE OPTIONS

Details of individual options held by the directors at 30 September 2003 and 30 September 2004:

Dates from which exercisable	Expiry date	Option price J G Gemmell (pence)	R D Shelton	A Mehmet
Options held at 30 September 2003				
13/03/98 *	13/03/05	97.33	-	65,307
02/12/99	02/12/03	105.48	-	46,926
31/03/01 *	31/03/08	218.00	24,000	24,000
31/03/01	31/03/05	218.00	16,000	16,000
11/01/02 *	11/01/09	147.50	60,000	60,000
17/02/03 #	17/02/10	147.50	15,000	15,000
26/05/03	26/05/07	148.50	40,000	40,000
27/11/04	27/11/11	248.00	30,000	30,000
29/07/05	29/07/12	186.50	40,000	40,000
14/03/06	14/03/13	186.50	21,316	21,053
01/08/06	01/02/07	183.04	5,053	-
01/08/08	01/02/09	183.04	-	8,700
			251,369	366,986
Options exercised in the year				
02/12/99	02/12/03	105.48	-	46,926
			251,369	320,060
Options granted in the year				
09/12/06	08/12/13	339	14,012	12,537
				20,206
At 30 September 2004				
			265,381	332,597
				149,470

At 30 September 2004 The Paragon Group of Companies PLC share price was 341p (2003: 334p) and the range during the year then ended was 295p - 400p (2003:159.5p - 344.5p). An aggregate gain before taxation of £97,000 was made by directors on the exercise of share options (2003: £350,000).

* The exercise of these options is conditional upon earnings per share increasing at a rate in excess of the retail price index over the three preceding years. The initial earnings per share is adjustable, in certain circumstances, subject to Inland Revenue approval.

The exercise of these options is conditional upon the Company's total shareholder return exceeding the average of that of a specified group of comparator companies.

NOTES TO THE ACCOUNTS

Year ended 30 September 2004

13. DIRECTORS SHARE OPTIONS

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

Awards under this plan comprise a right to acquire shares in the Company for nil or nominal payment and will vest on the third anniversary of their granting to the extent that the companies total shareholder return is better than that of the constituents of the FTSE ALL Share Banks and Speciality and Other Finance sectors.

Dates from which exercisable	Expiry date	J G Gemmell	R D Shelton	A Mehmet
At 30 September 2003				
13/03/06	13/09/06	10,658	10,526	17,105
02/07/06	02/01/07	7,105	7,018	11,404
Awarded in the year				
18/12/06	18/06/07	7,422	6,641	10,703
22/06/07	22/12/07	6,659	5,958	9,602
At 30 September 2004		31,844	30,143	48,814

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

Paragon Deferred Bonus Scheme

	J G Gemmell	R D Shelton
Granted during the year	3,592	3,592

Under the Deferred Bonus Scheme the shares awarded will be transferred to Mr Gemmell and Mr Shelton as soon as is reasonably practical after 1st October 2006

14. CREDITORS

	2004 £'000	2003 £'000
Amounts falling due within one year:		
Amounts owing to group companies	191	388
Corporation tax	184	35
Accruals	4	1,281
	<u>379</u>	<u>1,704</u>
Amounts falling due after more than one year:		
Class A asset backed loan notes due 2030	-	96,295
Class B asset backed loan notes due 2041	-	17,000
Subordinated loan	-	4,776
	<u>-</u>	<u>118,071</u>

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 15.

NOTES TO THE ACCOUNTS

Year ended 30 September 2004

15. 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. 1) 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.

PARAGON MORTGAGES (No. 1) PLC

NOTES TO THE ACCOUNTS

Year ended 30 September 2004

15. 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 2041 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. 1) 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 2041.

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	0.28% per annum up to and including the interest period ending in July 2004 and thereafter 0.56% per annum.
	-	Class 'B'	0.80% per annum up to and including the interest period ending in July 2004 and thereafter 1.60% per annum.

NOTES TO THE ACCOUNTS

Year ended 30 September 2004

15. 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 2041 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 facilities at 30 September 2004 and 30 September 2003.

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.

PARAGON MORTGAGES (No. 1) PLC

NOTES TO THE ACCOUNTS

Year ended 30 September 2004

15. FINANCIAL INSTRUMENTS (continued)

	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
At 30 September 2004	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Debtors	-	-	-	-	-	212	212
Investments	-	-	-	-	-	-	-
Cash at bank and in hand	56	-	-	-	-	-	56
Total assets	56	-	-	-	-	212	268
Shareholders' funds	-	-	-	-	-	111	111
Other liabilities	-	-	-	-	-	(379)	(379)
Total liabilities	-	-	-	-	-	(268)	(268)
Off balance sheet items	-	-	-	-	-	-	-
Interest rate repricing gap	56	-	-	-	-	(56)	-
Cumulative gap	56	56	56	56	56	-	-

"Off balance sheet items" shows the notional principal amount of swap agreements. Included within "no more than 3 months" are £nil (2003: £14.8m) of capped rate loans hedged by interest rate cap agreements which reset quarterly.

PARAGON MORTGAGES (No. 1) PLC

NOTES TO THE ACCOUNTS

Year ended 30 September 2004

15. FINANCIAL INSTRUMENTS (continued)

	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
At 30 September 2003	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loans to customers	52,138	5,524	8,473	24,518	1,968	-	92,621
Investments - group companies	15,877	-	-	-	-	-	15,877
Debtors	-	-	-	-	-	638	638
Investments	3,017	-	-	-	-	-	3,017
Cash at bank and in hand	7,648	-	-	-	-	-	7,648
Total assets	78,680	5,524	8,473	24,518	1,968	638	119,801
Shareholders' funds	-	-	-	-	-	(26)	(26)
Asset backed loan notes	(113,295)	-	-	-	-	-	(113,295)
Subordinated loan	(4,776)	-	-	-	-	-	(4,776)
Other liabilities	-	-	-	-	-	(1,704)	(1,704)
Total liabilities	(118,071)	-	-	-	-	(1,730)	(119,801)
Off balance sheet items	27,900	(12,100)	(12,200)	-	(3,600)	-	-
Interest rate repricing gap	(11,491)	(6,576)	(3,727)	24,518	(1,632)	(1,092)	-
Cumulative gap	(11,491)	(18,067)	(21,794)	2,724	1,092	-	-

NOTES TO THE ACCOUNTS

Year ended 30 September 2004

15. 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
Unrecognised gains and losses at 1 October 2003	91	(655)	(564)
Gains and losses arising in previous years that were recognised in the year	(91)	655	564
Gains and losses arising before 1 October 2003 that were not recognised in the year	-	-	-
Gains and losses arising in the year that were not recognised in the year	-	-	-
Unrecognised gains and losses on hedges at 30 September 2004	-	-	-
Of which:			
Gains and losses expected to be recognised in the year to 30 September 2005	-	-	-
Gains and losses expected to be recognised in the year to 30 September 2006 or later	-	-	-

NOTES TO THE ACCOUNTS

Year ended 30 September 2004

15. 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 2004.

	Book value £'000	2004 Fair value £'000	Book value £'000	2003 Fair value £'000
Derivative financial instruments held to manage the interest rate profile:				
Swaps	-	-	-	(555)
Caps	-	-	9	-

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.

16. 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.