Company Registration No:3696179

PARAGON MORTGAGES (No. 1) PLC

Report and Financial Statements

Year ended 30 September 2003

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 September 2003.

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. 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 4.
No interim dividend was paid during the year (2002 : £nil per share). The directors propose a final dividend of £50,000 (2002 : £36,000). The loss of £14,000 (2002 : profit £7,000) has been transferred from / to reserves.

DIRECTORS

The directors throughout the year, unless otherwise noted, 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 2003 J G Gemmell beneficially held 8,967 (2002: 937) ordinary shares and Richard Shelton held 18,725 (2002 : 10,695) 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

On 1 August 2003, Deloitte & Touche, the company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnership Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under provision of section 26 (5) of the Companies Act 1989. 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
8 January 2004

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 20), 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.

[illegible]

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 2003 which comprise the profit and loss account, the balance sheet , the statement of movement in shareholders' 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 2003 and of its profit 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
16 January 2004

PROFIT AND LOSS ACCOUNT

Year ended 30 September 2003

	Note	2003 £'000	2002 £'000
Interest receivable			
Mortgages		6,632	8,697
Other	2	1,323	1,633
		7,955	10,330
Interest payable and similar charges	3	(6,614)	(8,548)
Net interest income		1,341	1,782
Other operating income		43	53
Total operating income		1,384	1,835
Operating expenses		(1,332)	(1,773)
Operating profit, being profit on ordinary activities before taxation	5	52	62
Taxation credit on profit on ordinary activities	6	(16)	(19)
Profit on ordinary activities after taxation		36	43
Dividends	7	(50)	(36)
(Loss) / profit on ordinary activities after taxation	12	(14)	7

STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS	£'000	£'000
Profit attributable to shareholders	36	43
Dividends	(50)	(36)
Net movement in shareholders' funds	(14)	7
Opening shareholders' funds	40	33
Closing shareholders' funds	26	40

All material activities derive from continuing operations.

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

BALANCE SHEET

30 September 2003

	Note	£'000	2003 £'000	£'000	2002 £'000
ASSETS EMPLOYED					
FIXED ASSETS					
Loans to customers	8	92,621		114,573	
Investments - group companies	9	15,877		19,112	
			108,498		133,685
CURRENT ASSETS					
Debtors falling due within one year	10	638		410	
Investments		3,017		10,073	
Cash at bank and in hand		7,648		4,024	
			11,303		14,507
			119,801		148,192
FINANCED BY					
SHAREHOLDERS' FUNDS					
Called up share capital	11	13		13	
Profit and loss account	12	13		27	
		26		40	
Non-equity shareholders' funds			12		12
Equity shareholders' funds			14		28
CREDITORS					
Amounts falling due within one year	14		1,704		2,620
Amounts falling due after more than one year	14		118,071		145,532
			119,801		148,192

These financial statements were approved by the Board of Directors on 11 January 2004.

Signed on behalf of the Board of Directors.

R D Shelton
Director

NOTES TO THE ACCOUNTS

Year ended 30 September 2003

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 differencies 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 differencies 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.

NOTES TO THE ACCOUNTS

Year ended 30 September 2003

2. OTHER INTEREST RECEIVABLE

Other interest receivable includes £993,561 (2002 : £1,268,018) in respect of interest received on loans to other group companies which are not subsidiaries of the company.

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £'000	2002 £'000
Asset backed loan notes	5,180	6,913
Interest on fee letter	13	50
Interest rate swap	744	736
Subordinated loan interest	373	393
Amortised issue costs	304	456
	6,614	8,548

4. DIRECTORS AND EMPLOYEES

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

Three directors exercised share options in the parent company during the year (2002 : one director), 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	4	6
Auditors' remuneration - audit services	6	6

NOTES TO THE ACCOUNTS

Year ended 30 September 2003

6. TAXATION

a) Tax charge for the year

	2003 £'000	2002 £'000
U K corporation tax at 30% based on the profit for the year		
Current		
Corporation tax	16	19

b) Factors affecting the current tax charge

	£'000	£'000
Profit before tax	52	62
Tax at 30%	16	19
Other adjustments	-	-
	16	19

7. DIVIDEND

No interim dividend was paid during the year (2002 : £ nil). A final dividend of £0.05 per preference share and £475.50 per ordinary share is proposed (2002: £0.05 per preference share and £335.05 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	114,573	139,169
Additions	(18)	5,889
Other debits	6,970	9,074
Repayments and redemptions	(28,904)	(39,559)
Balance at 30 September	92,621	114,573

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

NOTES TO THE ACCOUNTS

Year ended 30 September 2003

9. INVESTMENTS - GROUP COMPANIES

	2003 £'000	2002 £'000
Balance at 1 October	19,112	20,676
Repayments	(3,235)	(1,564)
Balance at 30 September	15,877	19,112

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	612	321
Prepayments and accrued income	26	89
	638	410

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

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 2003

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 2002	27
Loss for the year	(14)
Balance at 30 September 2003	13

NOTES TO THE ACCOUNTS

Year ended 30 September 2003

13. DIRECTORS SHARE OPTIONS

Details of individual options held by the directors at 30 September 2002 and 30 September 2003:

Dates from which exercisable	Expiry date	Option price (pence)	J G Gemmell	R D Shelton	A Mehmet
Options held at 30 September 2002					
13/03/98 *	13/03/05	97.33	105,797	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	20,000
26/05/03	26/05/07	148.50	40,000	40,000	40,000
21/06/03	20/12/03	120.64	8,030	8,030	8,030
27/11/04	27/11/11	248.00	30,000	30,000	50,000
29/07/05	29/07/12	186.50	40,000	40,000	40,000
			338,827	345,263	158,030
Options exercised in the year					
13/03/98 *	13/03/05	97.33	105,797	-	-
17/02/03 #	17/02/10	147.50	-	-	20,000
26/05/03	26/05/07	148.50	-	-	40,000
21/06/03	20/12/03	120.64	8,030	8,030	8,030
			113,827	8,030	68,030
Options granted in the year					
14/03/06	14/03/13	186.50	21,316	21,053	34,211
01/08/06	01/02/07	183.04	5,053	-	5,053
01/08/08	01/02/09	183.04	-	8,700	-
At 30 September 2003			251,369	366,986	129,264

NOTES TO THE ACCOUNTS

Year ended 30 September 2003

13. DIRECTORS SHARE OPTIONS

At 30 September 2003 The Paragon Group of Companies PLC share price was 334p (2002 : 172.5p) and the range during the year then ended was 159.5p - 344.5p (2002 :165p to 287p). An aggregate gain before taxation of £350,000 was made by directors on the exercise of share options (2002 : £106,000).

* 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 2003

14. CREDITORS

	2003 £'000	2002 £'000
Amounts falling due within one year :		
Amounts owing to group companies	388	930
Corporation tax	35	19
Accruals	1,281	1,671
	1,704	2,620
Amounts falling due after more than one year :		
Class A asset backed loan notes due 2030	96,295	123,756
Class B asset backed loan notes due 2041	17,000	17,000
Subordinated loan	4,776	4,776
	118,071	145,532

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 2003

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.

NOTES TO THE ACCOUNTS

Year ended 30 September 2003

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 2003

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 2003 and 30 September 2002.

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 2003

15. FINANCIAL INSTRUMENTS (continued)

At 30 September 2003	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	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	-	-

"Off balance sheet items" shows the notional principal amount of swap agreements. Included within "no more than 3 months" are £14.8m (2002: £14.8m) of capped rate loans hedged by interest rate cap agreements which reset quarterly.

NOTES TO THE ACCOUNTS

Year ended 30 September 2003

15. FINANCIAL INSTRUMENTS (continued)

At 30 September 2002	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	83,630	352	2,160	25,704	2,727	-	114,573
Investments - group companies	19,112	-	-	-	-	-	19,112
Debtors	-	-	-	-	-	410	410
Investments	10,073	-	-	-	-	-	10,073
Cash at bank and in hand	4,024	-	-	-	-	-	4,024
Total assets	116,839	352	2,160	25,704	2,727	410	148,192
Shareholders' funds	-	-	-	-	-	(40)	(40)
Asset backed loan notes	(140,756)	-	-	-	-	-	(140,756)
Subordinated loan	(4,776)	-	-	-	-	-	(4,776)
Other liabilities	-	-	-	-	-	(2,620)	(2,620)
Total liabilities	(145,532)	-	-	-	-	(2,660)	(148,192)
Off balance sheet items	40,000	-	-	(36,400)	(3,600)	-	-
Interest rate repricing gap	11,307	352	2,160	(10,696)	(873)	(2,250)	-
Cumulative gap	11,307	11,659	13,819	3,123	2,250	-	-

NOTES TO THE ACCOUNTS

Year ended 30 September 2003

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 2002	154	(1,283)	(1,129)
Gains and losses arising in previous years that were recognised in the year	-	653	653
Gains and losses arising before 1 October 2002 that were not recognised in the year	154	(630)	(476)
Gains and losses arising in the year that were not recognised in the year	(63)	(25)	(88)
Unrecognised gains and losses on hedges at 30 September 2003	91	(655)	(564)
Of which:			
Gains and losses expected to be recognised in the year to 30 September 2004	75	(459)	(384)
Gains and losses expected to be recognised in the year to 30 September 2005 or later	16	(196)	(180)

NOTES TO THE ACCOUNTS

Year ended 30 September 2003

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 2003.

		2003		2002
	Book value	**Fair value**	**Book value**	**Fair value**
	£'000	**£'000**	**£'000**	**£'000**
Derivative financial instruments held to manage the interest rate profile:				
Swaps	-	(555)	-	(1,076)
Caps	9	-	54	1

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 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.