Company Registration No: 4513172

PARAGON MORTGAGES (NO. 8) PLC

Report and Financial Statements

Year ended 30 September 2007

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 September 2007

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The Company is a wholly owned subsidiary of The Paragon Group of Companies PLC ('the Group') and was set up to provide finance for its mortgage loan assets, by issuing mortgage backed floating rate loan notes and using the proceeds to purchase mortgage loans from other Group companies

Its principal activities are the provision of first mortgage loans There have been no significant changes in the Company's principal activities in the year under review The directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year

As shown in the Company's profit and loss account on page 5, the Company's net interest income decreased by 4% over the prior year This was principally due to a fall in the mortgage loan book during the year, although the majority of the decline in the mortgage loan book happened at the end of the current year Profit after tax has improved from £2,335,000 to £3,691,000

The balance sheet on page 6 of the financial statements shows that the Company's financial position at the year end Loans to customers has decreased by 18% due to customers redeeming their accounts during the year As a result the asset backed loan notes have reduced by 13% during the year Details of amounts owed from and to other group companies are shown in notes 14 and 18

The company has entered into derivative contracts in order to provide an economic hedge against its exposure to fixed rate loans to customers Although these instruments provide an economic hedge the prescriptive nature of the requirements of FRS 26 means that hedge accounting cannot always be achieved This has led to the company recognising a fair value net gain of £1,084,000, in the year (2006 £79,000) This represents a timing difference and cumulative gains and losses recognised will tend to zero over time

The Group manages its operations on a centralised basis For this reason, the Company's directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business The performance of the Group's mortgage lending operation, which includes the Company, is discussed in the Group's Annual Report, which does not form part of this Report

INDEPENDENT FUNDING AND OPERATING ARRANGEMENTS

The consolidated financial statements of The Paragon Group of Companies PLC for the year ended 30 September 2007, approved by the Group directors on 22 November 2007, indicated a material uncertainty relating to Group funding arrangements and in particular a proposed rights issue The proposed rights issue received shareholder approval on 28 January 2008

In assessing the appropriateness of the going concern assumption for this subsidiary company, the directors have given consideration to the independent funding of the company, and its ability to continue operations independently of the Group The Company's assets are match funded to maturity, with the cash payments that the Company can be required to make limited to the cash available within the Company, and there are agreements in place for the provision of stand-by operating arrangements with a financial institution, to enable the Company to continue trading, should the current Group operating arrangements run into financial or other difficulties

Accordingly the directors have concluded that there is no material uncertainty relating to the funding or operations of the Company For this reason the directors consider that the going concern assumption remains appropriate in preparing the financial statements of the Company

PRINCIPAL RISKS AND UNCERTAINTIES

The Company is a securitisation Company and has been structured so as to avoid, in as far as is possible all forms of financial risk An analysis of the Company's exposure to risk, including financial risk, is set out in note 3

DIRECTORS' REPORT (CONTINUED)

ENVIRONMENT

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the Group's activities The Company operates in accordance with Group policies, which are described in the Group's Annual Report which does not form part of this Report

EMPLOYEES

The Company has no employees All operational services are provided by employees of the Group The Group's employment policies are described in its annual report which does not form part of this report

DIRECTORS

The directors throughout the year and subsequently were

N Keen
R D Shelton
J G Gemmell
A Mehmet
J P J Fairrie (resigned 20 July 2007)
M H Filer (appointed 26 July 2007)

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

The directors have taken all necessary steps to make themselves and the Company's auditors aware of any information needed in preparing the audit of the Annual Report and Financial Statements for the year, and, as far as each of the directors is aware, there is no relevant audit information of which the auditors are unaware

A resolution for the re-appointment of Deloitte & Touche LLP as the 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,
28 January 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES
in relation to Financial Statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PARAGON MORTGAGES (NO. 8) PLC

We have audited the financial statements of Paragon Mortgages (No 8) PLC for the year ended 30 September 2007 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the statement of movement in shareholders' funds and the related notes 1 to 21 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

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 to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 September 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Birmingham, United Kingdom
28 January 2008

PROFIT AND LOSS ACCOUNT

Year ended 30 September 2007

	Note	2007 £000	2006 £000
Interest receivable			
Mortgages		51,887	53,900
Other		3,334	2,121
		55,221	56,021
Interest payable and similar charges	4	(47,472)	(47,939)
Net interest income		7,749	8,082
Other operating income		775	512
Total operating income		8,524	8,594
Operating expenses		(4,432)	(5,174)
Provisions for losses	6	(152)	(163)
		3,940	3,257
Fair value net gain	7	1,084	79
Operating profit, being profit on ordinary activities before taxation	8	5,024	3,336
Tax on profit on ordinary activities	9	(1,333)	(1,001)
Profit on ordinary activities after taxation	16	3,691	2,335

All activities derive from continuing operations

BALANCE SHEET
30 September 2007

	Note	£000	2007 £000	£000	2006 £000
ASSETS EMPLOYED					
FIXED ASSETS					
Financial assets	10		660,713		801,105
CURRENT ASSETS					
Debtors falling due within one year	14	1,380		2,781	
Investments		69,391		52,390	
Cash at bank		20,007		11,749	
			90,778		66,920
			751,491		868,025
FINANCED BY					
SHAREHOLDERS' FUNDS					
Called up share capital	15	12		12	
Cash flow hedge reserve	16	(102)		(249)	
Profit and loss account	16	5,099		3,908	
			5,009		3,671
PROVISIONS FOR LIABILITIES AND CHARGES	17		2,401		1,332
CREDITORS					
Amounts falling due within one year	18	17,766		16,351	
Amounts falling due after more than one year	18	726,315		846,671	
			744,081		863,022
			751,491		868,025

These financial statements were approved by the Board of Directors on 28 January 2008

Signed on behalf of the Board of Directors

R D Shelton
Director

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 30 September 2007

	Note	2007 £000	2006 £000
Profit attributable to members of the Company		3,691	2,335
Cash flow hedge gain taken to equity		192	382
Tax on items taken directly to equity		(45)	(114)
Total recognised gains and losses for the year		3,838	2,603
Change in accounting policy on adoption of FRS 25 and FRS 26	16	-	2,044
Total gains and losses recognised since last Annual Report and Financial Statements		3,838	4,647

STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Note	2007 £000	2006 £000
Profit attributable to shareholders		3,691	2,335
Dividend		(2,500)	(1,300)
Cash flow hedge gain taken to equity		147	268
Net movement in shareholders' funds		1,338	1,303
Change in accounting policy on adoption of FRS 25 and FRS 26	16	-	2,044
Opening shareholders' funds		3,671	324
Closing shareholders' funds		5,009	3,671

NOTES TO THE ACCOUNTS

Year ended 30 September 2007

1 ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable UK accounting standards The particular accounting policies adopted are described below They have been applied consistently throughout the current and preceding year

Independent funding and operating arrangements

The consolidated financial statements of The Paragon Group of Companies PLC for the year ended 30 September 2007, approved by the Group directors on 22 November 2007, indicated a material uncertainty relating to Group funding arrangements and in particular a proposed rights issue The proposed rights issue received shareholder approval on 28 January 2008

In assessing the appropriateness of the going concern assumption for this subsidiary company, the directors have given consideration to the independent funding of the company, and its ability to continue operations independently of the Group The Company's assets are match funded to maturity, with the cash payments that the Company can be required to make limited to the cash available within the Company, and there are agreements in place for the provision of stand-by operating arrangements with a financial institution, to enable the Company to continue trading, should the current Group operating arrangements run into financial or other difficulties

Accordingly the directors have concluded that there is no material uncertainty relating to the funding or operations of the Company For this reason the directors consider that the going concern assumption remains appropriate in preparing the financial statements of the Company

Accounting convention

The financial statements are prepared under the historical cost convention, except as required in the valuation of certain financial instruments which are carried at fair value

Loans to customers

Loans to customers are considered to be 'loans and receivables' as defined by Financial Reporting Standard 26 – 'Financial Instruments Measurement' (FRS 26) They are therefore accounted for on the amortised cost basis

Such loans are valued at inception as amount of initial advance, which is the fair value at that time, inclusive of procuration fees paid to brokers or other business providers and less initial fees paid by the customer Thereafter they are valued at this amount less the cumulative amortisation calculated using the Effective Interest Rate ('EIR') method The loan balances are then reduced where necessary by a provision for balances which are considered to be impaired

The EIR method spreads the expected net income arising from a loan over its expected life The EIR is that rate of interest which, at inception, exactly discounts the expected future cash payments and receipts arising from the loan to the initial carrying amount

The Company's policy is to hedge against any exposure to fixed rate loan assets

Impairment of loans and receivables

Loans and receivables are reviewed for indications of possible impairment throughout the year and at each balance sheet date, in accordance with FRS 26 Where loans exhibit objective evidence of impairment, the carrying value of the loans is reduced to the net present value of their expected future cash flows, including the value of the potential realisation of any security, discounted at the original EIR Loans are assessed collectively, compared by risk characteristics and account is taken of any impairment arising due to events which are believed to have taken place but have not been specifically identified at the balance sheet date

Current assets - investments

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

NOTES TO THE ACCOUNTS

Year ended 30 September 2007

1. ACCOUNTING POLICIES (CONTINUED)

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 as it is a wholly owned subsidiary of The Paragon Group of Companies PLC, the accounts of which are publicly available

Current 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 substantively 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

Borrowings

Borrowings are carried in the balance sheet on the amortised cost basis The initial value recognised includes the principal amount received less any discount on issue or costs of issuance

Interest and all other costs of the funding are expensed to the profit and loss account as interest payable over the term of the borrowing on an Effective Interest Rate basis

Derivative financial instruments

Derivative instruments utilised by the Company comprise currency swaps and interest rate swaps 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 Company's risk management policies

The Company does not enter into speculative derivative contracts

All derivatives are carried in the balance sheet at fair value, as assets where the value is positive or as liabilities where the value is negative Fair value is based on market prices, where a market exists If there is no active market, fair value is calculated using present value models which incorporate assumptions based on market conditions and are consistent with accepted economic methodologies for pricing financial instruments Changes in the fair value of derivatives are recognised in the profit and loss account, except where such amounts are permitted to be taken to equity as part of the accounting for a cash flow hedge

NOTES TO THE ACCOUNTS

Year ended 30 September 2007

1. ACCOUNTING POLICIES (CONTINUED)

Hedgıng

For all hedges, the Company documents, at ınceptıon, the relatıonshıp between the hedgıng ınstruments and the hedged ıtems, as well as ıts rısk management strategy and objectıves for undertakıng the transactıon The Company also documents ıts assessment, both at hedge ınceptıon and on an ongoıng basıs, of whether the hedgıng arrangement put ın place are consıdered to be 'hıghly effectıve' as defined by FRS 26

For a faır value hedge, as long as the hedgıng relatıonshıp ıs deemed 'hıghly effectıve' and meets the hedgıng requırements of FRS 26, any gaın or loss on the hedgıng ınstrument recognısed ın ıncome can be offset agaınst the faır value loss or gaın arısıng from the hedged ıtem for the hedged rısk For macro hedges (hedges of ınterest rate rısk for a portfolıo of loan assets) thıs faır value adjustment ıs dısclosed ın the balance sheet alongsıde the hedged ıtem, for other hedges the adjustment ıs made to the carryıng value of the hedged asset or lıabılıty Only the net ıneffectıveness of the hedge ıs charged or credıted to ıncome Where a faır value hedge relatıonshıp ıs termınated, or deemed ıneffectıve, the faır value adjustment ıs amortısed over the remaınıng term of the underlyıng ıtem

Where a derıvatıve ıs used to hedge the varıabılıty of cash flows of an asset or lıabılıty, ıt may be desıgnated as a cash flow hedge so long as thıs relatıonshıp meets the hedgıng requırements of FRS 26 For such an ınstrument the effectıve portıon of the change ın the faır value of the derıvatıve ıs taken ınıtıally to equıty, wıth the ıneffectıve part taken to profit or loss The amount taken to equıty ıs released to the profit and loss account at the same tıme as the hedged ıtem affects the profit and loss account Where a cash flow hedge relatıonshıp ıs termınated, or deemed ıneffectıve, the amount taken to equıty wıll remaın there untıl the hedged transactıon ıs recognısed, or ıs no longer hıghly probable

Fee and commıssıon income

Other ıncome ıncludes admınıstratıon fees charged to borrowers, whıch are credıted when the related servıce ıs performed

Foreign currency

Foreıgn currency transactıons, assets and lıabılıtıes are accounted for ın accordance wıth Fınancıal Reportıng Standard 23 – 'The Effects of Changes ın Foreıgn Exchange Rates' The functıonal currency of the Company ıs pound sterlıng Transactıons whıch are not denomınated ın sterlıng are translated ınto sterlıng at the spot rate of exchange on the date of the transactıon Monetary assets and lıabılıtıes whıch are not denomınated ın sterlıng are translated at the closıng rate on the balance sheet date

Gaıns and losses on retranslatıon are ıncluded ın ınterest payable or ınterest receıvable dependıng on whether the underlyıng ınstrument ıs an asset or a lıabılıty, except where deferred ın equıty ın accordance wıth cash flow hedgıng provısıons of FRS 26

Cashflow statement

The Company has taken advantage of the exemptıon granted by Fınancıal Reportıng Standard 1 - 'Cashflow Statements' and does not therefore provıde a cashflow statement as ıt ıs a wholly owned subsıdıary of The Paragon Group of Companıes PLC, the accounts of whıch are publıcly avaılable

NOTES TO THE ACCOUNTS

Year ended 30 September 2007

2. CRITICAL ACCOUNTING ESTIMATES

Certain balances reported in the financial statements are based wholly or in part on estimates or assumptions made by the directors There is, therefore, a potential risk that they may be subject to change in future periods The most significant of these are

Impairment losses on loans to customers

Impairment losses on loans are calculated based on statistical models The key assumptions revolve around estimates of future cash flows from customer's accounts, their timing and, for secured accounts, the expected proceeds from the realisation of the property These key assumptions are based on observed data from historical patterns and are updated regulated based on new data as it becomes available

In addition the directors consider how appropriate past trends and patterns might be in the current economic situation and make any adjustments they believe are necessary to reflect the current conditions

The accuracy of the impairment calculations would therefore be affected by unexpected changes to the economic situation, variances between the models used and the actual results or assumptions which differ from the actual outcomes

In particular, if the impact of economic factors such as employment levels on customers is worse than is implicit in the model then the number of accounts requiring provision might be greater than suggested by the model, while falls in house prices, over and above any assumed by the model might increase the provision required in respect of accounts currently provided

Effective interest rates

In order to determine the effective interest rate applicable to loans an estimate must be made of the expected life of each loan and hence the cash flows relating thereto These estimates are based on historical data and reviewed regularly The accuracy of the effective interest rate applied would therefore be compromised by any differences between actual borrower behaviour and that predicted

Fair values

Where financial assets and liabilities are carried at fair value, in the majority of cases this can be derived by reference to quoted market prices Where such a quoted price is not available the valuation is based on cash flow models, based, where possible on independently sourced parameters The accuracy of the calculation would therefore be affected by unexpected market movements or other variances in the operation of the models or the assumptions used

NOTES TO THE ACCOUNTS

Year ended 30 September 2007

3. **FINANCIAL RISK MANAGEMENT**

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

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's credit risk is primarily attributable to its loans to customers The maximum credit risk at 30 September 2007 approximates to the carrying value of loans to customers (note 12) There are no significant concentrations of credit risk due to the large number of customers included in the portfolios

The Company acquired mortgages from Paragon Mortgages Limited and Arianty (No 1) PLC, fellow group companies which place 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 and Mortgages Trust Services PLC continues to administer the mortgages on behalf of Paragon Mortgages (No 8) PLC and the collections process is the same as that utilised for all companies in the group

In order to control credit risk relating to counterparties to the Company's financial instruments, the board of the Company's holding company determines on a group basis, 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 2007

3. **FINANCIAL RISK MANAGEMENT (CONTINUED)**

Liquidity risk

The Company's assets are principally financed by asset backed loan notes issued through the securitisation process Details of the Company's borrowings are given in note 19 Securitisation effectively eliminates the Company's liquidity risk by matching the maturity profile of the Company's funding to the profile of the assets to be funded

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 or EURIBOR 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 2007

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

At 30 September 2007	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
Financial assets	463,306	5,663	52,315	139,429	-	-	660,713
Debtors	-	-	-	-	-	1,380	1,380
Investments	69,391	-	-	-	-	-	69,391
Cash at bank and in hand	20,007	-	-	-	-	-	20,007
Total assets	552,704	5,663	52,315	139,429	-	1,380	751,491
Shareholders' funds	-	-	-	-	-	(5,009)	(5,009)
Asset backed loan notes	(706,337)	-	-	-	-	-	(706,337)
Derivative financial liability	(969)	-	-	-	-	-	(969)
Subordinated loan	(19,009)	-	-	-	-	-	(19,009)
Other liabilities	-	-	-	-	-	(20,167)	(20,167)
Total liabilities and shareholders' funds	(726,315)	-	-	-	-	(25,176)	(751,491)
Notional swap principal	195,600	(16,600)	(33,550)	(145,450)	-	-	-
Interest rate repricing gap	21,989	(10,937)	18,765	(6,021)	-	(23,796)	-
Cumulative gap	21,989	11,052	29,817	23,796	23,796	-	-

NOTES TO THE ACCOUNTS

Year ended 30 September 2007

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

At 30 September 2006	3 months or less £000	More than 3 months but not more than 6 months £000	More than 6 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	More than 5 years £000	Non interest bearing £000	Total £000
Financial assets	534,960	24,420	82,509	159,216	-	-	801,105
Debtors	-	-	-	-	-	2,781	2,781
Investments	52,390	-	-	-	-	-	52,390
Cash at bank and in hand	11,749	-	-	-	-	-	11,749
Total assets	599,099	24,420	82,509	159,216	-	2,781	868,025
Shareholders' funds	-	-	-	-	-	(3,671)	(3,671)
Asset backed loan notes	(813,061)	-	-	-	-	-	(813,061)
Derivative financial liability	(14,601)	-	-	-	-	-	(14,601)
Subordinated loan	(19,009)	-	-	-	-	-	(19,009)
Other liabilities	-	-	-	-	-	(17,683)	(17,683)
Total liabilities and shareholders' funds	(846,671)	-	-	-	-	(21,354)	(868,025)
Notional swap principal	236,910	(8,500)	(78,610)	(149,800)	-	-	-
Interest rate repricing gap	(10,662)	15,920	3,899	9,416	-	(18,573)	-
Cumulative gap	(10,662)	5,258	9,157	18,573	18,573	-	-

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

NOTES TO THE ACCOUNTS

Year ended 30 September 2007

3. **FINANCIAL RISK MANAGEMENT (CONTINUED)**

Currency risk

All of the Group's assets and liabilities are denominated in sterling with the exception of the asset backed loan notes denominated in euros, described in note 19 Although FRS 26 requires that they be accounted for as currency liabilities and valued at their spot rates, it was a condition of the issue of these notes that the interest rate and currency swaps were put in place for the duration of the borrowing, having the effect of converting the liability to a LIBOR linked floating rate sterling borrowing As a result the Company has no material exposure to foreign currency risk

The equivalent sterling principal amounts of notes in issue under these arrangements, and their carrying values at 30 September 2007 and 30 September 2006 are

	2007 Equivalent sterling principal £000	2007 Carrying value £000	2006 Equivalent sterling principal £000	2006 Carrying value £000
Euro notes	344,044	348,156	439,644	431,009

Use of derivative financial instruments

The Company uses derivative financial instruments for risk management purposes Such instruments are used only to limit the exposure of the Company to movements in market interest or exchange rates, as described above

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken, and hence all of the Company's derivative financial instruments are for commercial hedging purposes These are used to protect the Company from exposures principally arising from fixed rate lending or borrowing and borrowings denominated in foreign currencies Hedge accounting is applied where appropriate, though it should be noted that some derivatives, while forming part of an economic hedge relationship, do not qualify for this accounting treatment under FRS 26 either because natural accounting offsets are expected, or obtaining hedge accounting would be especially onerous

The Company has designated a number of derivatives as fair value hedges In particular this treatment is used for hedging the interest rate risk of groups of fixed rate prepayable loan assets with interest rate derivatives on a portfolio basis The Company believes this solution is the most appropriate as it is consistent with the economic hedging approach taken by the Company to these assets

The Company has also designated cash flow hedging relationships, principally arising from currency borrowings, where a specified foreign exchange basis swap, set up as part of the terms of the borrowing is used

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 and liquid market exists The fair values of cash at bank and in hand, bank loans and overdrafts and asset backed loan notes are not materially different from their book values because all the assets mature within three months of the year end and the interest rates charged on financial liabilities reset on a quarterly basis

Derivative financial instruments are stated at their fair values The fair values of the interest rate swaps and caps have been determined by reference to prices available from the markets on which these instruments are traded

The fair value of loans to customers is considered to be not materially different to the amortised cost value at which they are disclosed

NOTES TO THE ACCOUNTS

Year ended 30 September 2007

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2007	2006
	£000	£000
Asset backed loan notes	45,022	44,218
Internal funding costs	405	471
Interest on fee letter	236	339
Interest rate swap	-	1,271
Subordinated loan interest	1,809	1,640
	47,472	47,939

5. DIRECTORS AND EMPLOYEES

Directors' remuneration from the Company during the year is stated in note 8

The only employees during the year or the preceding year were the directors as disclosed on page 2

6. PROVISIONS FOR LOSSES

	2007	2006
	£000	£000
Impairment of financial assets		
First mortgage loans	152	163

7. FAIR VALUE NET GAIN

The fair value net gain of £1,084,000 (2006 £79,000) represents the accounting volatility on derivative instruments which are matching risk exposure on an economic basis Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting has not been adopted or is not achievable on certain items The gain is primarily due to timing differences in income recognition between the derivative instruments and the economically hedged assets and liabilities

NOTES TO THE ACCOUNTS

Year ended 30 September 2007

8 OPERATING PROFIT, BEING PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2007 £000	2006 £000
Operatıng profit ıs after chargıng		
Dırectors' fees	4	5
Audıtors' remuneratıon - audıt servıces	7	7

Non audıt fees provıded to the group are dısclosed ın the accounts of the parent company and the exemptıon from dısclosure of fees payable to the Company's audıtors ın respect on non-audıt servıces ın these fınancıal statements has been taken

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

a) Tax charge for the year

	2007 £000	2006 £000
Current tax		
Corporatıon tax	309	660
Deferred tax (note 17)		
Orıgınatıon and reversal of tımıng dıfferences	1,198	341
Rate change	(174)	-
	1,024	341
	1,333	1,001

b) Factors affecting the current tax charge

	£000	£000
Profit before tax	5,024	3,336
UK corporatıon tax at 30% (2006 30%) based on the profit for the year	1,507	1,001
Effects of		
Movement on short term tımıng dıfferences	(1,198)	(341)
	309	660

The Unıted Kıngdom government has enacted provısıons reducıng the standard rate of corporatıon tax to 28% wıth effect from 1 Aprıl 2008 Therefore the standard rate of corporatıon tax applıcable to the Group wıll be 29% ın the year endıng 30 September 2008 and 28% thereafter The expected ımpact of thıs change on the values at whıch deferred tax amounts are expected to crystallıse has been accounted for ın the year

NOTES TO THE ACCOUNTS

Year ended 30 September 2007

10. FINANCIAL ASSETS

	2007	2006
	£000	£000
Loans to customers (note 12)	658,937	800,194
Fair value adjustments from portfolio hedging	147	344
Derivative financial assets (note 13)	1,629	567
	660,713	801,105

11. LOANS AND RECEIVABLES

Loans and receivables at 30 September 2007 and 30 September 2006, which are all denominated and payable in sterling, were first mortgages which are secured on residential property within the United Kingdom

Mortgage loans have a contractual term of up to thirty years, the borrower is entitled to settle the loan at any point and in most cases such settlement does take place All borrowers are required to make monthly payments, except where an initial deferred period is included in the contractual terms

The average rate of interest being charged on customer accounts and the average rate at which income is being recognised under the effective interest rate method at 30 September 2007 and 30 September 2006 was,

	Average rate charged to customers		Average effective interest rate	
	2007	2006	2007	2006
Mortgage loans	6 26%	6 02%	7 07%	6 29%

The interest rate repricing profile of the above loans is shown in note 3 All the mortgage loans are pledged as collateral for liabilities at 30 September 2007 and 30 September 2006

12. LOANS TO CUSTOMERS

These comprise mortgage loans secured on residential properties in the United Kingdom and are categorised as loans and receivables as defined by FRS 26 (note 11)

	2007	2006
	£000	£000
Balance at 1 October 2006	800,194	918,387
Adoption of FRS 25 and 26	-	3,760
Additions	17,862	23,848
Other debits	53,482	55,218
Repayments and redemptions	(212,601)	(201,019)
Balance at 30 September 2007	658,937	800,194

Other debits include primarily interest charged to customers on loans outstanding, impairment movements on these loans and other changes in the amortised cost of the assets caused by the effective interest rate method

NOTES TO THE ACCOUNTS

Year ended 30 September 2007

13. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

All of the Company's financial derivatives are held for economic hedging purposes, although not all may be designated for hedge accounting in accordance with the provisions on FRS 26 The analysis below therefore splits derivatives between those accounted for as hedges and those which, while representing an economic hedge do not qualify for this treatment

	2007	2007	2007	2006	2006	2006
	Notional amount	**Assets**	**Liabilities**	**Notional amount**	**Assets**	**Liabilities**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Derivatives in accounting hedge relationships						
Fair value hedges						
Interest rate swaps	-	-	-	228,178	535	(1,115)
	-	-	-	228,178	535	(1,115)
Cash flow hedges						
Foreign exchange basis swaps	344,044	-	(533)	439,645	-	(13,403)
Interest rate swaps	-	-	-	8,295	31	(78)
	344,044	-	(533)	447,940	31	(13,481)
	344,0744	-	(533)	676,118	566	(14,596)
Other derivatives						
Interest rate swaps	197,804	1,629	(436)	7,936	1	(5)
Total recognised derivative assets / (liabilities)	541,848	1,629	(969)	684,054	567	(14,601)

14. DEBTORS

	2007 £000	2006 £000
Amounts falling due within one year		
Amounts due from Group companies	1,104	2,677
Prepayments and accrued income	276	104
	1,380	2,781

The fair value of the above items are not considered to be materially different to their carrying values

NOTES TO THE ACCOUNTS

Year ended 30 September 2007

15. CALLED UP SHARE CAPITAL

	2007 £	2006 £
Authorised		
50,000 ordinary shares of £1 each	50,000	50,000
Allotted		
49,998 ordinary shares of £1 each (25p called up and paid)	12,500	12,500
2 ordinary shares of £1 each (fully paid)	2	2
	12,502	12,502

16. RESERVES

	Profit and loss account £000	Cash flow hedge reserve £000	Total reserves £000
At 30 September 2005	312	-	312
FRS 25 and 26 transition	3,659	(738)	2,921
Deferred tax on FRS 25 and 26 adjustments	(1,098)	221	(877)
Change of accounting policy on adoption of FRS 25 and 26	2,561	(517)	2,044
At 1 October 2005	2,873	(517)	2,356
Profit for the financial year	2,335	-	2,335
Movement in fair value of hedging derivatives	-	268	268
Dividends	(1,300)	-	(1,300)
At 30 September 2006	3,908	(249)	3,659
Profit for the financial year	3,691	-	3,691
Movement in fair value of hedging derivatives	-	147	147
Dividends	(2,500)	-	(2,500)
At 30 September 2007	5,099	(102)	4,997

An interim dividend of £50 00 per share was paid during the year (2006 £26 00 per share) No final dividend is proposed (2006 £nil)

NOTES TO THE ACCOUNTS

Year ended 30 September 2007

17. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred tax

The movements in the net liability for deferred tax are as follows,

	2007 £000	2006 £000
Balance at 1 October 2006	1,332	-
Adoption of FRS 25 and 26	-	877
Charge to equity	45	114
Profit and loss charge	1,198	341
Rate change (note 9)	(174)	-
Balance at 30 September 2007	2,401	1,332

The net deferred tax liability for which provision has been made is analysed as follows		
Other timing differences	2,401	1,332

The deferred tax which arose on adoption of FRS 25 and FRS 26 includes £656,000 relating to the changes in carrying value of loan assets on the adoption of the effective interest rate method and the FRS 26 rules on impairment and £221,000 arising on the recognition of financial derivatives at fair value

NOTES TO THE ACCOUNTS

Year ended 30 September 2007

18. CREDITORS

	2007 £000	2006 £000
Amounts falling due within one year		
Amounts due to Group companies	7,057	6,095
Corporation tax	309	660
Accruals and deferred income	10,400	9,596
	17,766	16,351

Included with the accruals and deferred income is an amount of £978,000 (2006 £1,031,000) due to fellow subsidiaries of The Paragon Group of Companies PLC

	2007 £000	2006 £000
Amounts falling due after more than one year		
Asset backed loan notes	706,337	813,061
Derivative financial liabilities (note 13)	969	14,601
Intercompany subordinated loan	19,009	19,009
	726,315	846,671

The Company's securitisation borrowings are denominated in sterling, and euros All currency borrowings are swapped at inception so that they have the effect of sterling borrowings These swaps provide an effective hedge against exchange rate movements, but the requirement to carry them at fair value leads, when exchange rates have moved significantly since the issue of the notes, to large balances for the swaps being carried in the balance sheet

A maturity analysis and further details of the asset backed loan notes are given in note 19

NOTES TO THE ACCOUNTS

Year ended 30 September 2007

19. BORROWINGS

The Mortgage Backed Floatıng Rate Notes are secured over a portfolıo comprısıng varıable rate mortgage loans secured by first charges over resıdentıal propertıes ın the Unıted Kıngdom The Notes are subȷect to mandatory redemptıon ın part on each ınterest payment Date ın an amount equal to the prıncıpal receıved or recovered ın respect of the mortgage The maturıty date of the notes matches the maturıty date of the underlyıng assets It ıs lıkely that a substantıal proportıon of these notes wıll be repaıd wıthın five years

The Company has the optıon to repay all of the notes at an earlıer date (the 'call date'), at the outstandıng prıncıpal amount

Interest ıs payable at a fixed margın above

- the London Interbank Offered Rate ('LIBOR') on notes denomınated ın sterlıng, and
- the Euro Interbank Offered Rate ('EURIBOR') on notes denomınated ın euros

The margın has a step-up to a hıgher rate from October 2010

All payments ın respect of the notes are requıred to be made ın the currency ın whıch they are denomınated

Notes ın ıssue at 30 September 2007 and 30 September 2006 were

Notes	Maturıty date	Call date	Principal outstanding 2007	2006	Note margin Current	Step up
			£m	£m		
'A1a'	Aprıl 2035	October 2008	-	19 5	0 11%	0 22%
'A2a'	Aprıl 2035	October 2008	299 2	305 0	0 19%	0 38%
'B1a'	Aprıl 2044	October 2008	65 0	65 0	0 65%	1 30%
			€m	€m		
'A1b'	Aprıl 2035	October 2008	-	128 6	0 11%	0 22%
'A2b'	Aprıl 2035	October 2008	444 4	453 0	0 18%	0 36%
'B1b'	Aprıl 2044	October 2008	50 0	50 0	0 60%	1 20%

There ıs a Subordınated Loan Facılıty under whıch an amount was drawn down by the Company to establısh the Fırst Loss Fund, whıch ıs repayable to Paragon Fınance PLC on the earlıer of the last Interest Payment Date ın Aprıl 2044 or the first day on whıch there are no Notes outstandıng, except that on any Interest Payment Date sums borrowed wıll be repaıd to the extent of any amount released from the Fırst Loss Fund Interest ıs payable at the rate of 4% above the London Interbank Offered Rate for three month sterlıng deposıts

There are no amounts of commıtted but undrawn facılıtıes at 30 September 2007 and September 2006

20. ULTIMATE PARENT COMPANY

The Company's ımmedıate and ultımate parent company and ultımate controllıng party ıs The Paragon Group of Companıes PLC, a company regıstered ın England and Wales Copıes of the Company's financıal statements are avaılable from that company's regıstered office at St Catherıne's Court, Herbert Road, Solıhull, West Mıdlands, B91 3QE

NOTES TO THE ACCOUNTS

Year ended 30 September 2007

21. ADOPTION OF FRS 25 AND FRS 26

Details of the impact of the adoption of FRS 25 and FRS 26 with effect from 1 October 2005 are included in note 1 of the annual report and accounts for the year ended 30 September 2006