Company Registration No: 4579544

FIRST FLEXIBLE (NO. 7) 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

ACTIVITIES AND FUTURE PROSPECTS

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 The Company commenced trading on 25 January 2007, when the Company issued floating rate notes and used the proceeds to purchase mortgage loans from fellow Group companies 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 profit after tax is £653,000

The balance sheet on page 6 of the financial statements shows the Company's financial position at the year end It reflects the issue of floating rate notes and the purchase of mortgage assets during the year Details of amounts owed from and to other Group companies are shown in notes 11 and 15

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

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' REPORT (CONTINUED)

DIRECTORS

The directors throughout the year and subsequently were

N Keen
R D Shelton
J G Gemmell
A Mehmet
Wilmington Trust SP Services (London) Limited
M H Filer (appointed 10 August 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 FIRST FLEXIBLE (NO. 7) PLC

We have audited the financial statements of First Flexible (No 7) PLC for the year ended 30 September 2007 which comprise the profit and loss account, the balance sheet, and the related notes 1 to 17 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		13,126	-
Other		786	-
		13,912	-
Interest payable and similar charges	4	(11,078)	-
Net interest income		2,834	-
Other operating income		332	-
Total operating income		3,166	-
Operating expenses		(2,421)	-
Provisions for losses	6	(26)	-
Operating profit, being profit on ordinary activities before taxation	7	719	-
Tax on profit on ordinary activities	8	(66)	-
Profit on ordinary activities after taxation	13	653	-

All activities derive from continuing operations

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

BALANCE SHEET

30 September 2007

	Note	£000	2007 £000	£000	2006 £000
ASSETS EMPLOYED					
FIXED ASSETS					
Loans to customers	10		210,120		-
CURRENT ASSETS					
Debtors falling due within one year	11	902		12	
Cash at bank		7,998		-	
			8,900		12
			219,020		12
FINANCED BY					
SHAREHOLDERS' FUNDS					
Called up share capital	12	12		12	
Profit and loss account	13	653		-	
			665		12
PROVISIONS FOR LIABILITIES AND CHARGES	14		126		-
CREDITORS					
Amounts falling due within one year	15	4,035		-	
Amounts falling due after more than one year	15	214,194		-	
			218,229		-
			219,020		12

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

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

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 whose accounts are publicly available

NOTES TO THE ACCOUNTS

Year ended 30 September 2007

1. **ACCOUNTING POLICIES (CONTINUED)**

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

Fee and commission income

Other income includes administration fees charged to borrowers, which are credited when the related service is performed

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

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 regularly 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

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

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

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'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 10) 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 Mortgage Trust Services 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 First Flexible (No 7) 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 16 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 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 £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
Loans to customers	209,946	3	6	72	93	-	210,120
Debtors	-	-	-	-	-	902	902
Cash at bank and in hand	7,998	-	-	-	-	-	7,998
Total assets	217,944	3	6	72	93	902	219,020
Shareholders' funds	-	-	-	-	-	(665)	(665)
Asset backed loan notes	(213,388)	-	-	-	-	-	(213,388)
Subordinated loan	(806)	-	-	-	-	-	(806)
Other liabilities	-	-	-	-	-	(4,161)	(4,161)
Total liabilities and shareholders' funds	(214,194)	-	-	-	-	(4,826)	(219,020)
Notional swap principal	-	-	-	-	-	-	-
Interest rate repricing gap	3,750	3	6	72	93	(3,924)	-
Cumulative gap	3,750	3,753	3,759	3,831	3,924	-	-

NOTES TO THE ACCOUNTS

Year ended 30 September 2007

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

At 30 September 2006	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
Debtors	-	-	-	-	-	12	12
Total assets	-	-	-	-	-	12	12
Shareholders' funds	-	-	-	-	-	(12)	(12)
Total liabilities and shareholders' funds	-	-	-	-	-	(12)	(12)

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

Currency risk

The Company has no material exposure to foreign currency risk

NOTES TO THE ACCOUNTS

Year ended 30 September 2007

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2007 £000	2006 £000
Asset backed loan notes	10,540	-
Internal funding costs	141	-
Interest on fee letter	113	-
Amortisation of premium	111	-
Subordinated loan interest	173	-
	11,078	-

5. DIRECTORS AND EMPLOYEES

Directors' remuneration from the Company during the year is stated in note 7

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

6. PROVISIONS FOR LOSSES

	2007 £000	2006 £000
Impairment of financial assets		
First mortgage loans	26	-

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

	2007 £000	2006 £000
Operating profit is after charging		
Directors' fees	3	-
Auditors' remuneration – audit services	7	-

Non audit fees provided to the group are disclosed in the accounts of the parent company and the exemption from disclosure of fees payable to the Company's auditors in respect on non-audit services in these financial statements has been taken

NOTES TO THE ACCOUNTS

Year ended 30 September 2007

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

a) Tax charge for the year

	2007 £000	2006 £000
Current tax		
Corporation tax	86	-
Deferred tax (note 14)		
Origination and reversal of timing differences	(20)	-
	66	-

b) Factors affecting the current tax charge

	£000	£000
Profit before tax	719	-
UK corporation tax at 30% (2006 30%) based on the profit for the year	216	-
Effects of		
Revaluation on investments	(140)	-
Movement on short term timing differences	10	-
	86	-

The United Kingdom government has enacted provisions reducing the standard rate of corporation tax to 28% with effect from 1 April 2008 Therefore the standard rate of corporation tax applicable to the Group will be 29% in the year ending 30 September 2008 and 28% thereafter The expected impact of this change on the values at which deferred tax amounts are expected to crystallise has been accounted for in the year

9. LOANS AND RECEIVABLES

Loans and receivables at 30 September 2007, 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 was,

	Average rate charged to customers 2007	Average effective interest rate 2007
Mortgage loans	7 61%	7 54%

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

NOTES TO THE ACCOUNTS

Year ended 30 September 2007

10. 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 9)

	2007	2006
	£000	£000
Balance at 1 October 2006	-	-
Additions	273,577	-
Other debits	14,895	-
Repayments and redemptions	(78,352)	-
Balance at 30 September 2007	210,120	-

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

11. DEBTORS

	2007 £000	2006 £000
Amounts falling due within one year		
Amounts due from Group companies	788	-
Prepayments and accrued income	114	-
	902	-

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

12. 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

NOTES TO THE ACCOUNTS

Year ended 30 September 2007

13. COMBINED STATEMENT OF MOVEMENTS IN SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENT ON RESERVES

	Share capital £000	Profit and loss account £000	Shareholders' Funds £000
At 1 October 2005	12	-	12
Result for the financial year	-	-	-
At 30 September 2006	12	-	12
Profit for the financial year	-	653	653
At 30 September 2007	12	653	665

14. 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	-	-
Loans purchased	146	
Profit and loss credit	(20)	-
Balance at 30 September 2007	126	-

The net deferred tax liability for which provision has been made is analysed as follows		
Other timing differences	126	-

NOTES TO THE ACCOUNTS

Year ended 30 September 2007

15. CREDITORS

	2007 £000	2006 £000
Amounts falling due within one year		
Amounts due to Group companies	3,299	-
Corporation tax	86	
Accruals and deferred income	650	-
	4,035	-

Included with the accruals and deferred income is an amount of £63,000 (2006 £nil) due to fellow subsidiaries of The Paragon Group of Companies PLC

	£000	£000
Amounts falling due after more than one year		
Asset backed loan notes	213,388	-
Intercompany subordinated loan	806	-
	214,194	-

A maturity analysis and further details of the asset backed loan notes are given in note 16

NOTES TO THE ACCOUNTS

Year ended 30 September 2007

16. BORROWINGS

The asset backed floating rate notes are secured over a portfolio comprising variable rate secured loans secured by first charges over residential properties in the United Kingdom 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 mortgage The maturity date of the notes matches the maturity date of the underlying assets It is likely that a substantial proportion of these notes will be repaid within five years

The Company has the option to repay all of the notes at an earlier date (the 'call date'), at the outstanding principal amount

Interest is payable at a fixed margin above

- the London Interbank Offered Rate ('LIBOR') on notes denominated in sterling,

The margin has a step-up to a higher rate from March 2012

All payments in respect of the notes are required to be made in the currency in which they are denominated

Notes in issue at 30 September 2007 were

Notes	Maturity date	Call date	Principal outstanding 2007 £m	Note margin Current	Note margin Step up
'A'	September 2033	March 2011	206 81	0 12%	0 24%
'B'	September 2033	March 2011	4 05	0 18%	0 36%
'C'	September 2033	March 2011	4 05	0 28%	0 56%

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 and Mortgage Trust Services PLC on the earlier of the last Interest Payment Date in September 2033 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 2007

17. 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 Company's financial statements are available from that company's registered office at St Catherine's Court, Herbert Road, Solihull, West Midlands, B91 3QE