

Company Registration No. 2173068

**PARAGON AUTO AND SECURED FINANCE (NO 1) PLC**

**Report and Financial Statements**

**Year ended 30 September 2002**



# PARAGON AUTO AND SECURED FINANCE (NO 1) PLC

## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 September 2002.

## ACTIVITIES AND FUTURE PROSPECTS

The principal activity of the company is the provision of car loans and secured loans 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 (2001 : £nil per share). The directors do not propose a final dividend (2001 : £nil). The loss of £5,191,000 (2001 : profit of £483,000) 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 (appointed 20 May 2002)

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 10.

At 30 September 2002 J G Gemmell beneficially held 937 ordinary shares (2001: 937) 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.

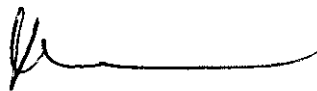
## CREDITOR PAYMENT POLICY

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

Deloitte & Touche have expressed their willingness to continue in office as auditors. A resolution for the reappointment of Deloitte & Touche as 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  
24 January 2003

## PARAGON AUTO AND SECURED FINANCE (NO 1) PLC

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

*in relation to the Financial Statements*

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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 17), the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

# PARAGON AUTO AND SECURED FINANCE (NO 1) PLC

## INDEPENDENT AUDITORS' REPORT

### TO THE MEMBERS OF PARAGON AUTO AND SECURED FINANCE (NO 1) PLC

We have audited the financial statements of Paragon Auto & Secured Finance (No 1) Plc for the year ended 30 September 2002 which comprise the profit and loss account, the balance sheet, the statement of movement in shareholders' funds and the related notes 1 to 13. These financial statements have been prepared under the accounting policies set out therein.

#### 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 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 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche*

Deloitte & Touche  
Chartered Accountants and Registered Auditors  
Birmingham

January 2003

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# PARAGON AUTO AND SECURED FINANCE (NO 1) PLC

## PROFIT AND LOSS ACCOUNT

Year ended 30 September 2002

	Note	2002 £'000	2001 £'000
Interest receivable			
Loans		25,215	21,681
Other		1,166	1,455
		<u>26,381</u>	<u>23,136</u>
Interest payable and similiar charges	2	(14,603)	(13,186)
Net interest income		11,778	9,950
Other operating income		717	382
Total operating income		<u>12,495</u>	<u>10,332</u>
Operating expenses		(13,951)	(9,057)
Provision for losses		<u>(3,735)</u>	<u>(849)</u>
Operating (loss) / profit,being (loss) / profit on ordinary activities before taxation	4	(5,191)	426
Taxation credit on (loss) / profit on ordinary activities	5	-	57
(Loss) / profit on ordinary activities after taxation	9	<u>(5,191)</u>	<u>483</u>

## STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS

	£'000	£'000
(Loss) / profit attributable to shareholders	(5,191)	483
Net proceeds of share issue	-	551
Net movement in shareholders' funds	<u>(5,191)</u>	<u>1,034</u>
Opening shareholders' funds	521	(513)
Closing shareholders' funds	<u>(4,670)</u>	<u>521</u>

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.

# PARAGON AUTO AND SECURED FINANCE (NO 1) PLC

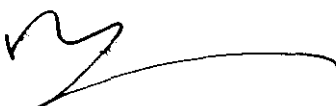
## BALANCE SHEET

30 September 2002

	Note	2002 £'000	2001 £'000
<b>ASSETS EMPLOYED</b>			
<b>FIXED ASSETS</b>			
Loans to customers	6	193,432	203,198
<b>CURRENT ASSETS</b>			
Debtors falling due within one year	7	11,222	1,352
Investments		16,000	20,000
Cash at bank and in hand		12,464	4,963
		<u>39,686</u>	<u>26,315</u>
		<u>233,118</u>	<u>229,513</u>
<b>FINANCED BY</b>			
<b>EQUITY SHAREHOLDERS FUNDS</b>			
Called up share capital	8	563	563
Profit and loss account	9	<u>(5,233)</u>	<u>(42)</u>
		(4,670)	521
<b>CREDITORS</b>			
Amounts falling due within one year	11	3,651	3,816
Amounts falling due after more than one year	11	234,137	225,176
		<u>233,118</u>	<u>229,513</u>

These financial statements were approved by the Board of Directors on 24 January 2003.

Signed on behalf of the Board of Directors

  
R D Shelton  
Director

NOTES TO THE ACCOUNTS

Year ended 30 September 2002

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**

Car loans and secured loans are stated at cost less provision for diminution in value.

**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 year are included within interest payable.

**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.

**Broker commission payable**

Broker commission payable is written off to the profit and loss account over the contractual life of individual loans. If the loans settle early the remaining unamortised commission is written off immediately.

**Insurance commissions receivable**

All commissions earned on the sale of optional accident, sickness and redundancy insurance are recognised in the profit and loss account over the contractual life of individual loans. If loans settle early the remaining unamortised commission income is recognised immediately.

**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.

**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.

During the period Financial Reporting Standard 19 - 'Deferred Tax' came in to force. The application of the new standard has not resulted in any change to the Company's deferred tax liability for the current or previous periods.

**Cashflow Statement**

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

# **PARAGON AUTO AND SECURED FINANCE (NO 1) PLC**

## **NOTES TO THE ACCOUNTS**

**Year ended 30 September 2002**

### **2. INTEREST PAYBLE AND SIMILAR CHARGES**

	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
Asset backed loan notes	9,037	10,082
Interest on fee letter	145	193
Interest rate swap	1,859	332
Subordinated loan	2,931	2,079
Amortised issue costs	631	500
	<u>14,603</u>	<u>13,186</u>

### **3. DIRECTORS AND EMPLOYEES**

Directors remuneration from the company during the year is stated in note 4.

One director exercised share options in the parent company during the year (2001 : two directors), see note 10.

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

### **4. OPERATING (LOSS) / PROFIT**

	<b>£'000</b>	<b>£'000</b>
Operating (loss) / profit is after charging:		
Auditors' remuneration - audit services	5	5
Directors fees	<u>4</u>	<u>2</u>



# PARAGON AUTO AND SECURED FINANCE (NO 1) PLC

## NOTES TO THE ACCOUNTS

Year ended 30 September 2002

### 5. TAXATION CREDIT

#### a) Tax charge / credit for the year

	2002 £'000	2001 £'000
U K corporation tax at 30% based on the (loss) / profit for the year		
Current		
Corporation tax	-	(128)
Advanced corporation tax	-	185
	<u>-</u>	<u>57</u>

#### b) Factors affecting the current tax charge

	£'000	£'000
(Loss) / profit before tax	(5,191)	426
Tax at 30%	<u>1,557</u>	<u>(128)</u>
Advanced corporation tax	-	185
Group relief not paid for	<u>(1,557)</u>	<u>-</u>
	<u>-</u>	<u>57</u>

### 6. LOANS TO CUSTOMERS.

These comprise car loans and secured loans in the United Kingdom.

	£'000	£'000
Balance at 1 October	203,198	-
Additions	103,096	271,239
Amortisation of commissions	(12,351)	(7,800)
Other movements	22,799	22,750
Repayments and redemptions	<u>(123,310)</u>	<u>(82,991)</u>
Balance at 30 September	<u>193,432</u>	<u>203,198</u>

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

# PARAGON AUTO AND SECURED FINANCE (NO 1) PLC

## NOTES TO THE ACCOUNTS

Year ended 30 September 2002

### 7. DEBTORS

	2002 £'000	2001 £'000
Amounts falling due within one year:		
Amounts due from group companies	10,944	1,197
Advance corporation tax recoverable	100	100
Prepayments and accrued income	178	55
	<u>11,222</u>	<u>1,352</u>

### 8. CALLED UP SHARE CAPITAL

	£	£
Authorised:		
600,000 ordinary shares of £1 each	600,000	600,000
1 special share of £1	1	1
	<u>600,001</u>	<u>600,001</u>
Allotted:		
50,000 ordinary shares of £1 each (25p paid)	12,500	12,500
550,000 ordinary shares of £1 each (fully paid)	550,000	550,000
1 special share of £1 (fully paid)	1	1
	<u>562,501</u>	<u>562,501</u>

The special share has no particular rights which are any different to the ordinary shares.

### 9. STATEMENT OF MOVEMENT ON RESERVES

	Profit and loss account £'000
Balance at 1 October 2001	(42)
Loss in year	(5,191)
Balance at 30 September 2002	<u>(5,233)</u>

# PARAGON AUTO AND SECURED FINANCE (NO 1) PLC

## NOTES TO THE ACCOUNTS

Year ended 30 September 2002

### 10. DIRECTORS' SHARE OPTIONS

Details of individual options held by the directors at 30 September 2001 and 30 September 2002:

Dates from which exercisable	Expiry date	Option price (pence)	J G Gemmell	R D Shelton	A Mehmet
<b>Options held at 30 September 2001</b>					
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	36,000
31/03/01	31/03/05	218.00	16,000	16,000	24,000
11/01/02 *	11/01/09	147.50	60,000	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
			268,827	275,263	188,030
<b>Options exercised in the year</b>					
13/03/98 *	13/03/05	97.33	-	-	-
02/12/99	02/12/03	105.48	-	-	-
31/03/01 *	31/03/08	218.00	-	-	(36,000)
31/03/01	31/03/05	218.00	-	-	(24,000)
11/01/02 *	11/01/09	147.50	-	-	(60,000)
			268,827	275,263	68,030
<b>Options granted in the year</b>					
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
At 30 September 2002			338,827	345,263	158,030

At 30 September 2002 The Paragon Group of Companies PLC share price was 172.5p and the range during the year then ended was 165p to 287p. An aggregate gain before taxation of £106,000 was made by directors on the exercise of share options (2001 : £150,000).

\* 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.

# PARAGON AUTO AND SECURED FINANCE (NO 1) PLC

## NOTES TO THE ACCOUNTS

Year ended 30 September 2002

### 11. CREDITORS

	2002 £'000	2001 £'000
Amounts falling due within one year:		
Amounts due to group companies	1,691	1,753
Accruals	1,960	2,063
	<u>3,651</u>	<u>3,816</u>
Amounts falling due after more than one year :		
Asset backed loan notes due	193,628	193,003
Subordinated loan	40,509	32,173
	<u>234,137</u>	<u>225,176</u>

All amounts falling due after more than one year fall due after more than five years. Further details of the asset backed loans are given in note 12.

### 12. 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, retained earnings 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.

## PARAGON AUTO AND SECURED FINANCE (NO 1) PLC

### NOTES TO THE ACCOUNTS

Year ended 30 September 2002

#### 12. FINANCIAL INSTRUMENTS (continued)

##### Credit risk

The Company acquired car loans from Paragon Car Finance Limited and secured loans from Paragon Personal Finance Limited, fellow group companies which place a strong emphasis on good credit management at the time of underwriting new loans. The acquired car loans are secured by the finance vehicle.

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.

Paragon Finance PLC, a fellow group company, administers the loans on behalf of Paragon Auto and Secured Finance (No. 1) PLC and the collections process is the same as that utilised for all subsidiary companies of 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.

##### 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 Asset Backed Floating Rate Notes due 2031 are secured over a portfolio of fixed rate car loans and secured loans in the United Kingdom.

The loans were obtained by and purchased from Paragon Car Finance Limited, Paragon Personal Finance Limited, fellow group companies. Paragon Finance PLC continues to administer the loans on behalf of Paragon Auto and Secured Finance (No. 1) PLC.

The Class 'A' 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 loans, except that, up until and including November 2006 the company may use principal received to acquire additional car loans or secured loans from fellow group companies. If not otherwise redeemed or purchased and cancelled, the notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in November 2031.

After the occurrence of the "Determination Date" (when the ratio of the aggregate principal amount outstanding of the Class 'B' and 'C' Notes to the aggregate principal outstanding of all the Notes is 59:195 or more), providing there is a nil balance on the Principal Deficiency Ledger and there are no Class 'A' Notes outstanding, the Class 'B' and 'C' Notes will be subject to pro rata redemption on each Interest Payment Date in an amount equal to the principal received or recovered in respect of the loans, such that where any Class 'A' Notes remain outstanding, the aggregate principal outstanding of the Class 'B' and 'C' Notes may not be less than £13,165,000. If not otherwise redeemed or purchased and cancelled the Class 'B' and 'C' Notes will be redeemed at their Principal Amount Outstanding on the Class 'B' and 'C' Notes falling in November 2031.

# PARAGON AUTO AND SECURED FINANCE (NO 1) PLC

## NOTES TO THE ACCOUNTS

Year ended 30 September 2002

### 12. FINANCIAL INSTRUMENTS (continued)

Interest on the class A Notes will be payable in euros. Interest on the class B Notes and class C Notes will be payable in pounds sterling. The Interest rates applicable to the Notes from time to time will be determined by reference (in the case of A Notes ) to the Euro Interbank Offered Rate and ( in case of class B Notes and class C Notes ) to the London Interbank Offered Rate for three month deposits plus in each case a margin which will differ for each class of note. The margins applicable to each class of Note are as follows :

Rates	-	Class 'A'	0.34% per annum up to and including the interest period ending in November 2006 and thereafter 0.68% per annum.
	-	Class 'B'	0.80% per annum up to and including the interest period ending in November 2006 and thereafter 1.60% per annum.
	-	Class 'C'	1.80% per annum up to and including the interest period ending in November 2006, and thereafter 3.60% per annum.

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 November 2031 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 2002 and 30 September 2001.

#### 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 EURIBOR or LIBOR (as described above). The interest rates charged on the Company's variable rate loan assets are determined by reference to, inter alia, the Company's funding costs and the rates being charged on similar products in the market. Generally this ensures the matching of changes in interest rates on the Company's loan assets and borrowings and any exposure arising on the interest rate resets is relatively short term.

In part, the Company's interest rate hedging objectives are achieved by the controlled mismatching of the dates on which instruments mature, redeem or have their interest rates reset. The table below summarises these repricing mismatches. For the purposes of the table, loan assets, borrowings and derivatives are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity dates. For those fixed rate loan assets where the customer has contracted to make regular repayments of both capital and interest, the assets have been allocated across the time bands in the table by reference to the contracted repayments. The analysis takes no account of early terminations which are likely to occur in practice. In determining the amount of hedging required, the Company makes assumptions about the level of regular capital repayments and early terminations of its loan assets. The actual interest rate sensitivity will therefore be determined by reference to subsequent customer and management decisions and is expected to be less sensitive than shown.

# PARAGON AUTO AND SECURED FINANCE (NO 1) PLC

## NOTES TO THE ACCOUNTS

Year ended 30 September 2002

### 12. FINANCIAL INSTRUMENTS (continued)

	3 months or less	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Non interest bearing	Total
At 30 September 2002	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loans to customers	90,490	8,775	16,741	77,410	16	-	193,432
Other assets	-	-	-	-	-	11,222	11,222
Investments	16,000	-	-	-	-	-	16,000
Cash at bank and in hand	12,464	-	-	-	-	-	12,464
Total assets	118,954	8,775	16,741	77,410	16	11,222	233,118
Shareholders' funds	-	-	-	-	-	4,670	4,670
Asset backed loan notes	(193,628)	-	-	-	-	-	(193,628)
Subordinated loan	(40,509)	-	-	-	-	-	(40,509)
Other liabilities	-	-	-	-	-	(3,651)	(3,651)
Total liabilities	(234,137)	-	-	-	-	1,019	(233,118)
Off balance sheet items	62,900	(12,800)	(22,700)	(27,400)	-	-	-
Interest rate repricing gap	(52,283)	(4,025)	(5,959)	50,010	16	12,241	-
Cumulative gap	(52,283)	(56,308)	(62,267)	(12,257)	(12,241)	-	-

"Off balance sheet items" shows the notional principal amount of swap agreements. Included within "no more than 3 months" are £404k (2001: £nil) of capped rate loans hedged by interest rate cap agreements which reset quarterly.

# PARAGON AUTO AND SECURED FINANCE (NO 1) PLC

## NOTES TO THE ACCOUNTS

Year ended 30 September 2002

### 12. FINANCIAL INSTRUMENTS (continued)

	3 months or less	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Non interest bearing	Total
At 30 September 2001	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loans to customers	92,087	7,084	14,968	89,018	41	-	203,198
Other assets	-	-	-	-	-	1,352	1,352
Investments	20,000	-	-	-	-	-	20,000
Cash at bank and in hand	4,963	-	-	-	-	-	4,963
Total assets	117,050	7,084	14,968	89,018	41	1,352	229,513
Shareholders' funds	-	-	-	-	-	(521)	(521)
Asset backed loan notes	(193,003)	-	-	-	-	-	(193,003)
Subordinated loan	(32,173)	-	-	-	-	-	(32,173)
Other liabilities	-	-	-	-	-	(3,816)	(3,816)
Total liabilities	(225,176)	-	-	-	-	(4,337)	(229,513)
Off balance sheet items	117,800	(12,500)	(23,600)	(64,800)	(16,900)	-	-
Interest rate repricing gap	9,674	(5,416)	(8,632)	24,218	(16,859)	(2,985)	-
Cumulative gap	9,674	4,258	(4,374)	19,844	2,985	-	-



NOTES TO THE ACCOUNTS

Year ended 30 September 2002

12. 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 2001	5,441	-	5,441
Gains and losses arising in previous years that were recognised in the year	(3)	-	(3)
Gains and losses arising before 1 October 2001 that were not recognised in the year	5,438	-	5,441
Gains and losses arising in the year that were not recognised in the year	(5,438)	(3,140)	(8,578)
Unrecognised gains and losses on hedges at 30 September 2002	-	(3,140)	(3,140)
Of which:			
Gains and losses expected to be recognised in the year to 30 September 2003	-	(1,351)	(1,351)
Gains and losses expected to be recognised in the year to 30 September 2004 or later	-	(1,789)	(1,789)

# PARAGON AUTO AND SECURED FINANCE (NO 1) PLC

## NOTES TO THE ACCOUNTS

Year ended 30 September 2002

### 12. 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 2002 and 30 September 2001.

	Book value £'000	2002 Fair value £'000	Book value £'000	2001 Fair value £'000
Derivative financial instruments held to manage the interest rate profile:				
Swaps	-	(999)	-	4,555
Caps	109	(2,032)	-	886

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

£168.7m (2001: £168.7m) of the 'Asset Backed Loan Notes', are denominated in euros. As a condition of the issue of these notes, 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.

### 13. 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.