

CATER ALLEN LIMITED

**Report and Accounts
31st December, 2002**



Registered No. 383032

CATER ALLEN LIMITED

DIRECTORS' REPORT

The directors submit their report and accounts for the year ended 31st December, 2002.

Results and dividends

The results for the year and the state of the company's affairs are as set out in the attached accounts.
The directors do not recommend the payment of a dividend (2001: £nil).

Review of activities and future prospects

The company is an Authorised deposit taker under the Financial Services and Markets Act 2000, and operates as a bank which provides account facilities to a range of 'high net worth' customers. Growth in business during the year was excellent and combined with the effect of the business transfer (note 10) customer deposits at the year end were £3.7bn, up from £1.4bn. It is planned to build upon this success in the future with the company anticipating further growth in deposits next year.

The company is supervised by the Financial Services Authority, which also exercises consolidated supervision over the Abbey National Group as a whole.

Fixed assets and investments

Changes are set out in notes 8 and 9 to the accounts.

Investment in subsidiaries

During the year, following the approval of the High Court, the company transferred in the business of CA Premier Banking Limited (note 10).

Directors and their interests

The directors who served during the year were:

M. J. Millington	(Resigned 1st July, 2003)
R. J. Wise	(Resigned 13th November, 2002)
M. R. D. Evans	
G. S. Long	(Resigned 15th November, 2002)
J. Connor	(Resigned 13th November, 2002)

M. Rein was appointed a director on 1st July, 2003.

In accordance with the Articles of Association the directors are not subject to retirement by rotation.

None of the directors had a beneficial interest in the shares of the company at any time during the year. The Directors' interests in the shares of the ultimate parent company, Abbey National plc, were as follows:

	As at 1st January 2002 or date of appointment if later	Purchased during year or date of appointment if later	Sold during year or date of appointment if later	As at 31st December 2002
Shares:				
M. J. Millington	84,057	8,382	-	92,439
M. R. D. Evans	66	146	-	212
	As at 1st January 2002 or date of appointment if later	Options granted during year or date of appointment if later	Options exercised or lapsed during year or date of appointment if later	As at 31st December 2002
Share Options:				
M. J. Millington	29,685	64,177	-	93,862
M.R.D. Evans	4,064	-	-	4,064

CATER ALLEN LIMITED

DIRECTORS' REPORT (continued)

Directors and their interests (continued)

Options granted to directors under the ultimate parent company's Sharesave Scheme are exercisable at prices between 428p and 997p per share within six months of the third, fifth or seventh anniversary of the contract start date. Options granted under the Executive Share Option Scheme and Employee Share Option Schemes are exercisable at prices between 314p and 1306p per share after three years or five years and before ten years from the date of grant.

Shares in respect of Executive Share Options granted in 2002 are held by the Abbey National ESOP Trust (the "Trust").

Whilst the directors' interests in these shares (if any) are included above, each of the directors of the company is a potential beneficiary of the Trust and is therefore deemed to have an interest in the shares held by the Trust.

At 31st December, 2002 the Trust held 8,639,158 ordinary shares (2001 - 5,890,235 shares).

None of the directors had an interest in the share capital of any of the subsidiary companies of Abbey National plc at any time during the year.

Abbey National also operates a Share Matching Scheme and a Partnership Share Scheme under its Employee Share Option Scheme.

Under the Share Matching Scheme all eligible employees who are invited to participate can choose to use all or part of their annual bonus to buy shares under the Scheme. Abbey National grants matching awards over shares ("matching shares") equal in value to the amount of bonus before tax that the employees uses to buy the shares. These will normally vest on the third anniversary of the date on which they are granted, as long as specified performance conditions are met. The matching awards are included, where applicable, in the options shown for the directors above. The shares automatically transfer to the individual as and when they vest.

The Partnership Share Scheme is available to all eligible employees, including the directors named above. Under this scheme, participants may make 12 monthly contributions up to a maximum of £1,500 per annum, to acquire shares in Abbey National. These shares may be purchased within 30 days from 31st May, 2003 at their market value on 1st June, 2002 or, if lower, their market value on or shortly after 31st May, 2003. The number of shares which may be acquired under this scheme, calculated on the basis of the maximum contribution and the share price on 1st June, 2002 (£10.21), is 146 shares. If the share price at 31st May 2003 (or shortly after) is lower than £10.21, then the number of shares which may be acquired, may be more than 146 shares. On the basis of the share price at 31st December, 2002 (£5.18), 289 shares would be the maximum number of shares that could be acquired under the scheme.

Shares awarded under the Abbey National Long Term Incentive Plan (the "Plan") are held by the Abbey National Employee Trust (the "Employee Trust"). Whilst the Plan is currently restricted to members of the Abbey National plc Executive Committee, each of the directors of the company is a potential beneficiary of the Employee Trust and is therefore deemed to have an interest in the shares held by the Employee Trust. At 31st December 2002, the Employee Trust held 1,559,738 ordinary shares (2001 - 604,362).

Directors' responsibility in respect of the preparation of Accounts

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and the profit or loss for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31st December, 2002. The directors also confirm that applicable accounting standards have been followed and that the statements have been prepared on a going concern basis.

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

Auditors

On 1st August, 2003 Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1st August, 2003 under the provisions of section 26(5) of the Companies Act 1989. The Company has elected to dispense with the obligation to appoint auditors annually and, accordingly, Deloitte & Touche LLP shall be deemed to be re-appointed as auditors for a further term under the provisions of section 386(2) of the Companies Act 1985.

CATER ALLEN LIMITED

DIRECTORS' REPORT (continued)

Political and charitable contributions

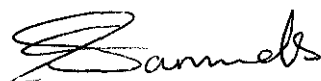
No political or charitable donations were made during the year (2001: £nil).

Payment policy

In the forthcoming year, the company will continue to deal with a large number of suppliers operating in a diverse range of industries and so will not operate a single payment policy in respect of all classes of suppliers. It is the company's policy to ensure that payments are made in accordance with the terms and conditions agreed, except where the supplier fails to comply with those terms and conditions.

The company's practice on payment of creditors has been quantified under the terms of the Companies Act 1985 (Directors' Report) (Statement of payment practice) Regulations 1997. The number of days' supplier invoices which are included in accruals and deferred income at 31st December, 2002 is 19 (2001:11).

BY ORDER OF THE BOARD



for and on behalf of
Abbey National Secretariat Services Limited

Registered Office
20 Birchln Lane,
London EC3V 9HN
27th October, 2003

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF CATER ALLEN LIMITED

We have audited the financial statements of Cater Allen Limited which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and related notes 1 to 23. These financial statements have been prepared under the historical cost convention and 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 no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of financial statements, which are required to be prepared 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 report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

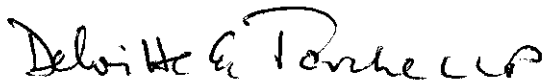
We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, 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 31st December, 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



DELOITTE & TOUCHE LLP

Chartered Accountants and Registered Auditors
London

30 October 2003

CATER ALLEN LIMITED

PROFIT AND LOSS ACCOUNT

For the year ended 31st December 2002

		2002 £000	2001 Restated £000
Interest receivable:	Notes 2		
Other interest receivable and similar income		122,394	74,232
Interest payable	2	(88,055)	(53,343)
<i>Net interest income</i>		<i>34,339</i>	<i>20,889</i>
Dividend received from subsidiaries		2,330	-
Fees and commissions receivable		1,275	610
Fees and commissions payable		(4,949)	(1,290)
<i>Profit on sale of investment securities</i>		<i>-</i>	<i>2,844</i>
Total operating income		32,995	23,053
Administrative expenses	3	(18,757)	(9,435)
Goodwill amortisation		(2,756)	-
(Loss)/profit on sale of fixed assets		(144)	1
Operating profit on ordinary activities before taxation		11,338	13,619
Tax on profit on ordinary activities	4	(3,445)	(4,093)
Profit for the financial year	17	7,893	9,526

The company has no recognised gains or losses other than the profit for the year and therefore no separate statement of total recognised gains and losses has been presented.

All the above arises from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31st December 2002

	2002 £000	2001 £000
Profit for the financial year	7,893	9,526
Deferred tax - Adjustment in respect of prior year	110	-
Total gains recognised since the prior year:	8,003	9,526

The notes on pages 7 to 18 form part of these accounts.

CATER ALLEN LIMITED

BALANCE SHEET at 31st December 2002

			31st December 2002 £000	RESTATED 31st December 2001 £000
	Notes	£000	£000	£000
ASSETS:				
Loans and advances:				
- to banks	5		3,871,478	1,515,495
- to other customers	6		3,058	7,494
Collections on other banks			9,546	8,992
Other debtors	7		1,209	2,952
Intangible fixed assets	8		103,119	-
Tangible fixed assets	9		2,061	444
Investments in subsidiary undertakings	10		4,002	107,589
Prepayments and accrued income			2,928	8,418
TOTAL ASSETS			3,997,401	1,651,384
LIABILITIES:				
Deposits by banks	11		103,569	24,058
Customer accounts	12		3,634,157	1,387,534
Other liabilities	13		106,546	99,611
Accruals and deferred income			12,081	6,894
Provision for liabilities and charges	14		2,336	2,468
			3,858,689	1,520,565
Called up share capital	15	100,000		100,000
Share premium account	16	2,950		2,950
Profit and loss account	17	35,762		27,869
Shareholders' funds including non-equity interests	18		138,712	130,819
TOTAL LIABILITIES			3,997,401	1,651,384
MEMORANDUM ITEMS:				
Contingent liabilities:				
Guarantees	20		482	548

Approved on behalf of the Board of directors

M.R.D. Evans
Finance Director
27th October, 2003

The notes on pages 7 to 18 form part of these accounts.

CATER ALLEN LIMITED

NOTES TO THE ACCOUNTS at 31st December 2002

1. ACCOUNTING POLICIES

Basis of presentation

The accounts are drawn up in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banking companies, and the Statements of Recommended Accounting Practice issued by the British Bankers Association and the Irish Bankers' Federation.

Accounting convention

The accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom law and accounting standards. The company conducts one class of business wholly in the UK. In these circumstances, information is not required to be disclosed under Statement of Standard Accounting Practice No. 25, "Segmental Reporting".

Cash flow statement

The cash flows of the company are included in the cash flow statement prepared by Abbey National plc. Accordingly, the company has taken advantage of the exemption in paragraph 5(a) in the Financial Reporting Standard 1, "Cash Flow Statements" (Revised), and not published its own cash flow statement.

Goodwill

Goodwill is subject to review for impairment in accordance with FRS 11. The carrying value of goodwill are written down by the amount of any impairment, and the loss is recognised in the profit and loss account in the period in which this occurs. Should an external event reverse the effects of a previous impairment, the carrying value of the goodwill may be written up to a value no higher than the original depreciated cost.

Depreciation

Tangible fixed assets are depreciated on a straight line basis over their estimated useful lives. The following annual rates are applied:

Leasehold improvements	10% per annum, or life of lease if shorter
Motor vehicles	25% per annum
Equipment, furniture and fittings	12.5% per annum
Computer equipment - mainframe	25% per annum
- peripheral	20% per annum

Provisions

Specific provision is made against an advance when it is considered that recovery of the debt is doubtful. The specific provisions are deducted from advances as stated in the balance sheet. Provisions made during the year, less amounts released and recoveries of amounts previously written off, are charged to the profit and loss account.

Taxation

Corporation tax is provided at the current rate on the profit for the year.

The Company has adopted FRS 19, Deferred Tax, in its financial statements for the year ended 31 December 2002. Deferred taxation is now provided on all timing differences that have not reversed before the balance sheet date at the rate of tax expected to apply when those timing differences will reverse. Deferred tax assets are now recognised to the extent that they are regarded as recoverable. The 2001 comparative amounts have been restated to reflect this accounting policy change and as a consequence the tax charge for that year has been increased by £32k. Shareholders' funds including non-equity interests have been increased by £119k in 2001.

Foreign currency translation

Foreign currency balances are translated at the rates of exchange ruling at the balance sheet date. All exchange differences are taken to the profit and loss account.

CATER ALLEN LIMITED

NOTES TO THE ACCOUNTS at 31st December 2002

1. ACCOUNTING POLICIES (continued)

Leases

Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease.

Pensions

The company operates two pension schemes.

The expected cost of the company's defined benefit pension scheme is charged to the profit and loss account over the service lives of employees. Variations from regular cost are spread over the expected remaining service lives of the relevant employees. The pension cost charged to the profit and loss account in respect of the defined contribution scheme represents the contributions payable.

In addition, some of the employees are members of pension schemes operated by the Abbey National Group. These are funded defined benefits schemes and company contributions are based on actuarial advice. Details of the Abbey National Group schemes appear in the accounts of Abbey National plc.

2. INTEREST

Interest income receivable is primarily on loans and advances to banks, arising within the United Kingdom. Interest payable is on customer deposits.

3. ADMINISTRATIVE EXPENSES

	2002 £000	2001 £000
<i>Staff costs:</i>		
Wages and salaries	6,268	3,212
Social security costs	449	260
Other pension costs	750	351
	<u>7,467</u>	<u>3,823</u>
Auditors' remuneration - audit fees	68	80
Auditors' remuneration - other services	-	-
Operating lease rents of land and buildings	787	514
Depreciation of owned fixed assets	480	109
Other administrative costs	9,955	4,909
	<u>18,757</u>	<u>9,435</u>

	2002 No.	2001 No.
Average number of employees during the year, including executive directors	220	107
	<u>---</u>	<u>---</u>

Directors' remuneration

	£000	£000
<i>Emoluments:</i>		
Salaries	179	204
Benefits	2	5
Performance related bonuses	53	40
Compensation for loss of office	-	30
	<u>234</u>	<u>279</u>

The non-executive directors are remunerated by other group companies. No cost has been incurred by Cater Allen Limited and it is not considered feasible to apportion their remuneration for their time spent on this company.

CATER ALLEN LIMITED

NOTES TO THE ACCOUNTS at 31st December 2002 (continued)

3. ADMINISTRATIVE EXPENSES (continued)

Number of directors, whose emoluments are disclosed above, eligible for membership of a defined benefit pension scheme at end of year

1	2
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Details of share options granted during the year under the Abbey National plc approved share option scheme are disclosed in the Directors' report.

The emoluments of the highest paid director were as follows:

	2002	2001
	£	£
Salary	74,583	90,890
Compensation for loss of office	-	30,000
Benefits	-	2,978
	74,583	123,868
Bonuses	41,600	25,000
	116,183	148,868

4. TAX ON PROFIT ON ORDINARY ACTIVITIES

The charge for taxation comprises:

	2002	2001
	£000	restated £000
Based on the profit for the year:		
Corporation tax at 30% (2001 - 30%)	3,580	4,128
Adjustment in respect of prior years	37	5
Total current tax charge	3,617	4,133
Deferred tax::		
Originating and reversal of timing differences	(172)	(40)
	3,445	4,093

Factors affecting tax charge for the year

Profit on ordinary activities before tax	11,338	13,619
Taxation thereon at standard rate of corporation tax in the UK of 30% (2001 - 30%)	3,401	4,086
Effects of:		
Non-allowable provisions and other non-equalised items	-	27
Capital allowances in excess of depreciation	179	15
Provisions and short term timing differences	-	-
Adjustment to prior year provisions	37	5
	3,617	4,133

CATER ALLEN LIMITED

NOTES TO THE ACCOUNTS at 31st December 2002 (continued)

5. LOANS AND ADVANCES TO BANKS

Including £3,841,948,000 (2001 - £1,507,872,000) to banks within the Abbey National Group.

	2002	2001
	£000	£000
Repayable on demand	79,478	15,495
up to three months	3,792,000	1,500,000
	-----	-----
	3,871,478	1,515,495
	-----	-----

6. LOANS AND ADVANCES TO CUSTOMERS

	2002	2001
	£000	£000
On demand	2,215	233
Up to three months	1,138	1,158
Up to one year	-	6,205
Provisions	(295)	(102)
	-----	-----
	3,058	7,494
	-----	-----

Included above is a loan of £15,000 to one director (31st December, 2001 - £15,000).

7. OTHER DEBTORS

	2002	2001
	£000	Restated £000
Taxation recoverable	610	1,460
Amounts due from subsidiary undertakings	1	1,100
Amounts due from other group undertakings	6	178
Deferred tax (Note 14)	291	119
Other	301	95
	-----	-----
	1,209	2,952
	-----	-----

DEFERRED TAX

The provision for deferred taxation is made up as follows :

	2002	2001
	£000	restated £000
Excess of capital allowances over depreciation	(163)	(54)
Provisions and short term timing differences	(128)	(65)
	-----	-----
Deferred tax asset (see Note 7)	(291)	(119)
	-----	-----
Amounts provided:		
At beginning of year (as previously reported)	(119)	72
Prior year adjustment	-	(151)
	-----	-----
At beginning of year - as restated	(119)	(79)
Profit and loss account	(172)	(40)
	-----	-----
At end of year	(291)	(119)
	-----	-----

CATER ALLEN LIMITED

NOTES TO THE ACCOUNTS at 31st December 2002 (continued)

8. INTANGIBLE FIXED ASSETS

	Goodwill £000
Cost:	
Additions	105,875
At 31st December 2002	105,875
Amortisation:	
Charge for the year	2,756
At 31st December 2002	2,756
Net book value	
At 31st December 2002	103,119
Net book value	
At 31st December 2001	-

During the year, the company acquired the entire business undertaking, including associated goodwill, of its subsidiary CA Premier Banking Limited, for a consideration of £110 million (note 10).

9. TANGIBLE FIXED ASSETS

	Leasehold premises £000	Motor vehicles £000	Equipment furniture and fittings £000	Total £000
Cost:				
At 1st January 2002	1,505	72	1,803	3,380
Additions	-	-	739	739
Transferred from CA Premier Banking Ltd	135	64	1,940	2,139
Disposals and write offs	(130)	(112)	(217)	(459)
At 31st December 2002	1,510	24	4,265	5,799
Depreciation:				
At 1st January 2002	1,391	55	1,490	2,936
Charge for the year	49	6	426	481
Transferred from CA Premier Banking Ltd	34	19	413	466
Disposals and write offs	(26)	(73)	(46)	(145)
At 31st December 2002	1,448	7	2,283	3,738
Net book value at				
At 31st December 2002	62	17	1,982	2,061
Net book value at				
At 31st December 2001	114	17	313	444

Leasehold premises are held on short leases. The net book value at 31st December 2002 relates wholly to premises occupied by the company for its own activities.

CATER ALLEN LIMITED

NOTES TO THE ACCOUNTS at 31st December 2002 (continued)

10. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Investments in subsidiary undertakings consist of:

2002	2001
£000	£000

Shares at cost	4,002	107,589
	-----	-----

During the year the company received a dividend of £106 million from CA Premier Banking Limited, most of which represented a return of the original investment in this company.

The company is the owner of the issued share capital of the following subsidiaries, all of which are wholly owned and are incorporated in Great Britain and registered and operate in England and Wales. The accounts therefore present information about the company as an individual entity and not about its group. The accounting reference date of all the subsidiaries coincides with that of the company.

	Nature of Business
CA Premier Banking Limited	Dormant
Ryders Discount Company Limited	Dormant
Roger Cunliffe Investments Limited	Equity Dealing
Cater Allen Investment Management Limited	Leasing
Cater Allen Nominees Limited	Nominee
Suspense Nominees Limited	Nominee

Consolidated accounts have not been prepared as the company is itself a wholly owned subsidiary of another company registered in England and Wales. In the opinion of the directors the aggregate value of investments in subsidiary undertakings is not less than the amount at which they are stated in the accounts.

CATER ALLEN LIMITED

NOTES TO THE ACCOUNTS at 31st December 2002 (continued)

10. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS (continued)

	24th June, 2002
The balance sheet of CA Premier Banking Limited at transfer was:	£000
Loans and Advances to banks	1,689,433
Loans and Advances to other customers	2,386
Tangible fixed assets (excluding capitalised software)	1,673
Capitalised software	3,528
Other assets	508

	1,697,528

Customer accounts	1,669,943
Other liabilities	19,932

	1,689,875

Net assets	7,653
Consideration	110,000

Premium	102,347
Capitalised software	3,528

Goodwill	105,875

11. DEPOSITS BY BANKS

	2002	2001
	£000	£000
On demand	27,765	20,058
Up to three months	75,804	4,000
	-----	-----
	103,569	24,058
	-----	-----

12. OTHER CUSTOMER ACCOUNTS

	2002	2001
	£000	£000
On demand	2,781,652	958,066
Up to three months	817,508	423,429
Up to one year	34,997	6,039
	-----	-----
	3,634,157	1,387,534
	-----	-----

13. OTHER LIABILITIES

	2002	2001
	£000	£000
Amounts owed to other group undertakings	100,087	93,678
Taxation	1,884	3,377
Other	4,575	2,556
	-----	-----
	106,546	99,611
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CATER ALLEN LIMITED

NOTES TO THE ACCOUNTS at 31st December 2002 (continued)

14. PROVISION FOR LIABILITIES AND CHARGES

	2002 £000	2001 £000
Other provisions	2,336	2,468
	-----	-----
	2,336	2,468
	-----	-----

OTHER PROVISIONS

	Rent £000	Pensions £000	Other £000	Total £000
Amounts provided:				
At 1st January 2002	2,160	308	-	2,468
Transferred from CA Premier Banking Ltd	-	-	225	225
Released to profit and loss account during the year	(329)	(28)	-	(357)
	-----	-----	-----	-----
At 31st December 2002	1,831	280	225	2,336
	-----	-----	-----	-----

The rent provision is in respect of rental commitments in excess of market levels.

The pensions' provision is in respect of unfunded commitments to pensioners.

15. CALLED UP SHARE CAPITAL

	2002 £000	2001 £000
Authorised:		
Unclassified shares of £1 each	250	250
Ordinary shares of £1 each	100,000	100,000
Preference shares of £1 each (see below)	-	-
	-----	-----
	100,250	100,250
	-----	-----
Issued and fully paid:		
Unclassified shares of £1 each	-	-
Ordinary shares of £1 each	100,000	100,000
Preference shares of £1 each (see below)	-	-
	-----	-----
	100,000	100,000
	-----	-----

100 Preference shares of £1 each carry no voting rights; on winding up, shareholders are entitled to repayment at par and rank ahead of holders of ordinary shares.

16. SHARE PREMIUM ACCOUNT

	2002 £000	2001 £000
Arising on the issue of preference shares	2,950	2,950
	-----	-----

17. PROFIT AND LOSS ACCOUNT

	2002 £000	2001 <i>restated</i> £000
Balance at beginning of year as restated	27,869	18,192
<i>Prior year adjustment</i>		151
	-----	-----
Balance at beginning of year as restated	27,869	18,343
Profit for the financial year	7,893	9,526
	-----	-----
Balance at the end of the year	35,762	27,869

CATER ALLEN LIMITED

NOTES TO THE ACCOUNTS at 31st December 2002 (continued)

18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002	2001 restated
	£000	£000
Profit for the year attributable to shareholders	7,893	9,526
Issue of share capital	-	70,000
Net increase in shareholders' funds	7,893	79,526
Opening shareholders' funds as previously reported	130,819	51,142
Prior year adjustment		151
Closing shareholders' funds	138,712	130,819
Equity shareholders' funds	135,762	127,869
Non-equity shareholders' funds	2,950	2,950
	138,712	130,819

19. RETIREMENT BENEFITS

The Cater Allen Pension and Life Assurance Scheme is a funded defined benefits scheme. This is a closed scheme, thus under the projected unit method the current service cost will increase as members of this scheme reach retirement.

The latest formal actuarial valuation carried out by an independent professionally qualified actuary was made as at 1st May 2001.

The main long term financial assumptions, as stated in absolute terms, used in the valuations were:

	2002	2001 Actuarial Valuation
	% Nominal p.a.	% Nominal p.a.
Discount rate for scheme liabilities	5.50	6.00
Pension increases	3.00 - 5.00	3.00 - 5.00
General salary increases	3.50	4.00
General price inflation	2.50	2.75

Formal actuarial valuation of the assets and liabilities of the scheme is carried out on a triennial basis and, in addition, there is an annual review by the appointed actuary. The result of this review is included in the financial statements. As at 31st December 2002, the funding level was 33.2%.

As shown in the table below, the pension cost reflects the regular contribution rate less amounts in respect of the surplus or deficit being recognised over the expected remaining service lives of the members of the scheme in accordance with SSAP 24 'Accounting for pension costs'. Surpluses or deficits are amortised on the basis of straight line amortisation with interest on the reducing balance. The pension cost charge to the profit and loss account for the year was as follows:

	2002	2001
	£000	£000
Regular cost	859	806
Amortisation of surplus	-	-
Recharged to other group companies	(758)	(688)
Profit and loss account	101	118

CATER ALLEN LIMITED
NOTES TO THE ACCOUNTS at 31st December 2002 (continued)
19. RETIREMENT BENEFITS (continued)

Additional disclosures required under the transitional provisions of FRS 17:

The fair value of the assets held by the pension scheme at 31st December 2002, and the expected rate of return for each class of asset for the current and subsequent periods, are as follows:

	Expected rate of return (%)		Fair value	Fair value
	2002	2001	2002	2001
			£m	£m
Equities	6.50	7.00	24.5	29.0
Bonds	4.50	5.25	11.5	13.1
Cash	3.75	4.00	1.2	1.8
			-----	-----
			37.2	43.9
			-----	-----

All the pension fund liabilities are valued on an actuarial basis using the projected unit method and pension assets are stated at fair value.

The net pension scheme liability as the year end comprised the following:

	2002	2001
	£m	£m
Total market value of assets	37.2	43.9
Present value of scheme liabilities	(51.4)	(46.4)
	-----	-----
(Deficit)	(14.2)	(2.5)
	-----	-----

Some employees are members of other Abbey National Group Pension Schemes, the employer contribution of which is paid by the company. Details of these schemes can be found in the financial statements of Abbey National plc.

The following amounts would be reflected in the profit and loss account and statement of total recognised gains and losses on implementation of FRS 17:

	2002
	£000
Amount that would be charged to operating profit:	
Current service cost	
Past service cost	898
	-
Total Operating charge	-----
	898

Amount that would be charged to finance income:	
Expected return on scheme assets	2,793
Interest on scheme liabilities	(2,784)

Net Return	9

Amount that would be recognised in the statement of total recognised gains and losses	
Actual return less expected return on pension scheme assets	(8,361)
Experience gains and losses arising on scheme liabilities	(533)
Gains arising from changes in assumptions underlying the present value of scheme liabilities	(2,815)

Actuarial loss	(11,709)

Movement on pension scheme deficits during the year:

	2002
	£000
Deficit as at 1 January	(2,460)
Current service cost	(898)
Contributions	859
Past service cost	0
Other finance income	9
Actuarial loss recognised	(11,709)

	(14,199)

History of experience gains or losses:

	2002
Difference between expected and actual return on scheme assets:	
Amount (£000)	(8,361)
Percentage (%) of scheme assets	22.5%
Experience gains or losses on scheme liabilities:	
Amount (£000)	(533)
Percentage (%) of the present value of scheme liabilities	1.0%
Actuarial loss recognised:	
Amount (£000)	(11,709)
Percentage (%) of the present value of scheme liabilities	22.8%

CATER ALLEN LIMITED

NOTES TO THE ACCOUNTS at 31st December 2002 (continued)

20. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments which could give rise to credit risks are shown below but the amounts are intended to provide an indication of the volume of business transacted and not of the underlying risks:

	2002 £000	2001 £000
Annual commitments under non - cancellable operating leases held by the company in respect of land and buildings are as follows:		
Expiry after five years	748	817
Guarantees provided on behalf of customers are fully secured.	482	548

21. FINANCIAL INSTRUMENTS

The company does not use derivatives and hence disclosures required by FRS 13 relate solely to interest rate risk and foreign exchange risk.

INTEREST RATE RISK

All assets and liabilities are non-trading.

	Not more than 3 months	3 to 12 months	Non-interest bearing accounts	Total
	£000	£000	£000	£000
Assets				
Bank balances	9,546	-	-	9,546
Loans and advances to banks	3,871,478	-	-	3,871,478
Loans and advances to others	3,058	-	-	3,058
Other	-	-	113,319	113,319
Total assets	3,884,082	-	113,319	3,997,401
Liabilities				
Deposits and customer accounts	3,702,729	34,997	-	3,737,726
Other	-	-	120,963	120,963
Shareholders' funds	-	-	138,712	138,712
Total liabilities	3,702,729	34,997	259,675	3,997,401
Interest rate repricing gap	181,353	(34,997)	(146,356)	
2002 cumulative gap		146,356	-	

Positive gaps are asset sensitive and, all other things being equal, would indicate a benefit if interest rates increased.

FOREIGN EXCHANGE RISK

The aggregate amounts of assets and liabilities denominated in foreign currencies were as follows:

	2002 £000	2001 £000
Assets	26,310	20,389
Liabilities	(26,241)	(20,263)
Net foreign currency assets	69	126

The company provides banking facilities to its customers in several foreign currencies. All funds so accepted are invested with other banks in the same currency as the deposit. Consequentially, the resulting foreign exchange risk is minimal.

CATER ALLEN LIMITED

NOTES TO THE ACCOUNTS at 31st December 2002 (continued)

22. RELATED PARTY DISCLOSURES

Directors and members of their close families have undertaken the following transactions with the company:

	No. of directors	Amounts in respect of directors and their close family members £000
Secured loans (Note below), unsecured loans and overdrafts		
Balances outstanding at 31st December 2001	1	15
Net movement during the year	-	-
	---	---
Balances outstanding at 31st December 2002	1	15
	---	---
Deposit and bank accounts		
Balances outstanding at 31st December 2001	1	3
Net movement during the year	1	6
	---	-----
Balances outstanding at 31st December 2002	2	9
	---	-----

Note: Security is term life assurance policy

The company has taken advantage of the exemption allowed by paragraph 3(c) of the Financial Reporting Standard 8, "Related Party Disclosures" not to disclose transactions with entities that are part of the Abbey National Group.

23. ULTIMATE PARENT COMPANY

The company is a wholly owned subsidiary of Abbey National plc, the ultimate parent company and ultimate controlling entity, which is registered in England and Wales. Abbey National plc has guaranteed all amounts payable by this company. The smallest and largest group into which the accounts of the company for the year ended 31st December, 2002 are consolidated are those of Abbey National plc.

Copies of the consolidated accounts of Abbey National plc may be obtained from Abbey National House, 2 Triton Square, Regent's Place, London, NW1 3AN.