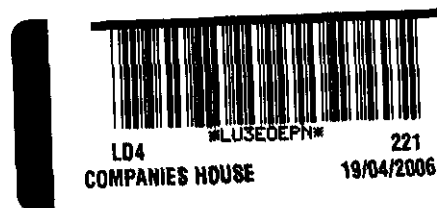


# **CATER ALLEN LIMITED**

**Registered in England and Wales No. 383032**

## **ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2005**



# CATER ALLEN LIMITED

## REPORT OF THE DIRECTORS

The Directors submit their report together with the accounts for the year ended 31 December 2005.

### 1. Principal activity and review of the year

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. The high net worth banking market is very competitive and whilst every effort will be made to increase the success of the Company, the Directors do not expect any significant change in the level of business in the foreseeable future.

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

### 2. Results and dividend

The profit for the year on ordinary activities after taxation amounted to £12,310,397 (2004 - £4,173,000).

The Directors do not recommend the payment of a dividend (2004 - £nil).

The retained profit of £12,310,397 (2004 - £4,173,000) has been transferred to reserves.

### 3. Directors and their interests

The Directors who served throughout the year, except as noted, were:

Mr R J Dunn  
Mr D M Green  
Mr T C Murley (Appointed 4 July 2005)  
Mr A Weir (Resigned 30 June 2005)

No Director of the Company has any interests in the shares of the Company, or of other Group Companies incorporated in Great Britain.

### 4. Directors' Responsibility in respect of the Preparation of Accounts

The Directors are responsible for preparing their report and financial statements. The Directors have chosen to prepare accounts for the Company in accordance with International Financial Reporting Standards (IFRS). Company law requires the Directors to prepare such financial statements in accordance with International Financial Reporting Standards, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- > properly select and apply accounting policies;
- > present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- > provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- > prepare the accounts on a going concern basis unless, having assessed the ability of the Company to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report which comply with the requirements of the Companies Act 1985.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

# CATER ALLEN LIMITED

## REPORT OF THE DIRECTORS (CONTINUED)

### 5. 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 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 Payment Practice) Regulations 1997. The number of days supplier invoices which are included in trade creditors at 31 December 2005 is 25 (2004: 12).

### 6. Auditors

In accordance with Section 386 of the Companies Act 1985, the Company has elected to dispense with the obligation to appoint auditors annually. Accordingly, Deloitte & Touche LLP are therefore deemed to have been re-appointed as auditors of the Company.

### By Order of the Board



For and on behalf of  
Abbey National Secretariat Services Limited, Secretary

3<sup>rd</sup> March 2006

Registered Office Address:

Abbey National House  
2 Triton Square  
Regent's Place  
London NW1 3AN

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CATER ALLEN LIMITED**

We have audited the individual company financial statements (the "financial statements") of Cater Allen Limited for the year ended 31 December 2005, which comprise the income statement, the balance sheet, the statement of recognised income and expense, the cash flow statement and the related notes 1 to 32. 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 Annual Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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 in accordance with the relevant framework and are properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you 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 and other members of the group is not disclosed.

We also report if, in our opinion, the directors' report is not consistent with the financial statements. We 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**

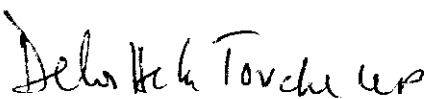
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 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 in accordance with those International Financial Reporting Standards as adopted for use in the European Union, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.



**Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors  
London

*8th March 2006*

# CATER ALLEN LIMITED

## Income Statement

For the year ended 31 December 2005

	Notes	2005 £000	Restated 2004 £000
Interest and similar income		186,301	165,198
Interest expenses and similar charges		(150,610)	(126,807)
<b>Net interest income</b>	<b>3</b>	<b>35,691</b>	<b>38,391</b>
Fee and commission income		2,204	2,733
Fee and commission expense		(9,134)	(7,396)
<b>Net fee and commission income</b>	<b>4</b>	<b>(6,930)</b>	<b>(4,663)</b>
Dividend income	5	-	326
Other operating income/(expense)	6	992	(184)
<b>Total operating income</b>		<b>29,753</b>	<b>33,870</b>
Operating expenses	7	(11,142)	(14,462)
Depreciation and amortisation	9	(419)	(9,504)
<b>Total operating expenses</b>	<b>10</b>	<b>(11,561)</b>	<b>(23,966)</b>
Impairment losses on loans and advances	11	(481)	(586)
<b>Operating profit</b>		<b>17,711</b>	<b>9,318</b>
<b>Profit before tax</b>		<b>17,711</b>	<b>9,318</b>
Taxation expense	12	(5,401)	(5,145)
<b>Profit for the year</b>		<b>12,310</b>	<b>4,173</b>
<b>Attributable to:</b>			
Equity holders of the company		<b>12,310</b>	<b>4,173</b>

The notes on pages 7 to 28 are an integral part of these separate financial statements.

All the income and expenses above relate to continuing operations.

# CATER ALLEN LIMITED

## Balance Sheet

As at 31 December 2005

	Notes	2005 £000	Restated 2004 £000
<b>Assets</b>			
Loans and advances to banks	14	4,173,121	3,722,601
Items in the course of collection from other banks		5,683	12,609
Loans and advances to customers	15	1,319	1,936
Investment in subsidiary undertakings	16	4,002	4,002
Intangible assets	17	90,079	90,079
Property, plant and equipment	18	688	1,109
Other assets	19	517	398
<b>Total assets</b>		<b>4,275,409</b>	<b>3,832,734</b>
<b>Liabilities</b>			
Deposits by banks	20	79,344	37,733
Customer accounts	21	4,013,323	3,618,238
Items in the course of transmission by other banks		6,483	5,578
Other liabilities	22	5,432	12,614
Other provisions	23	5,087	5,246
Current tax liabilities		5,249	5,242
Deferred tax liabilities	24	190	92
<b>Total liabilities</b>		<b>4,115,108</b>	<b>3,684,743</b>
Share capital	25	100,000	100,000
Share premium account		2,950	2,950
Retained earnings	26	57,351	45,041
<b>Total shareholders' equity</b>		<b>160,301</b>	<b>147,991</b>
<b>Total equity</b>		<b>160,301</b>	<b>147,991</b>
<b>Total liabilities and equity</b>		<b>4,275,409</b>	<b>3,832,734</b>

The notes on pages 7 to 28 are an integral part of these separate financial statements.

The financial statements were approved by the board of Directors and authorised for issue on 3<sup>rd</sup> March 2006. They were signed on its behalf by: *D. Green*

  
Director

# CATER ALLEN LIMITED

## Statement of Recognised Income and Expense

For the year ended 2005

	<b>Notes</b>	<b>2005 £000</b>	<b>2004 £000</b>
Shareholders' equity at beginning of period – as restated	32	<b>147,991</b>	143,818
Profit retained for the period		<b>12,310</b>	4,173
Shareholders' equity at the end of the period		<b>160,301</b>	147,991

## Cash flow statement

For the years ended 31 December 2005 and 2004

	<b>Notes</b>	<b>2005 £000</b>	<b>2004 £000</b>
<b>Net cash flow from operating activities</b>	28	<b>450,418</b>	84,484
<b>Net increase in cash and cash equivalents</b>		<b>450,418</b>	84,484
Cash and cash equivalents at beginning of the year		<b>3,722,601</b>	3,638,117
<b>Cash and cash equivalents at the end of the year</b>		<b>4,173,019</b>	3,722,601

The notes on pages 7 to 28 are an integral part of these separate financial statements.

**Notes to the financial statements for the year ended 31 December 2005**

**1. Accounting policies**

**Adoption of International Financial Reporting Standards**

The Financial Statements have for the first time, been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). The date of transition to IFRS for the Company and the date of its opening IFRS balance sheet was 1 January 2004. On initial adoption of IFRS, the Company applied the following exemptions from the requirements of IFRS and from their retrospective application as permitted by IFRS 1 "First-time Adoption of International Financial Reporting Standards" (IFRS 1).

Implementation of IAS 32 and IAS 39 – as allowed by IFRS 1, the Company has not restated its 2004 income statement and balance sheet to comply with IAS 32 and IAS 39

The Company has decided to early adopt the requirements of IFRS 7 "Financial Instruments: Disclosures", and accordingly the required disclosures are included in these financial statements.

Property, plant and equipment – the Company has adopted the carrying values of all items of property, plant and equipment on the date of transition under UK GAAP as their deemed book value, rather than either reverting to historical cost or carrying out a valuation at the date of transition as permitted by IFRS 1.

Cumulative foreign currency difference – the Company has brought forward a nil opening balance on the cumulative foreign currency translation adjustment arising from the retranslation of foreign operations, which is shown as a separate item in shareholders' equity at the date of transition in accordance with IAS 21 "The Effects of changes in Foreign Exchange Rates".

**Consolidation**

The Company is a wholly-owned subsidiary of Abbey National plc, a company registered in England and Wales, whose consolidated financial statements comply with International Financial Reporting Standards. Accordingly, the Company has taken advantage of the exemption in paragraph 10 of International Accounting Standard 27, Consolidated and Separate Financial Statements and not prepared consolidated financial statements.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the tangible and intangible assets of the subsidiary acquired is recorded as goodwill. The accounting reference date of the Company and its subsidiary undertakings is 31 December.

**Foreign currency translation**

Items included in the financial statements of the Company are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that company ("the measurement currency"). The financial statements are presented in Pounds Sterling, which is the measurement currency of the immediate parent.

Foreign currency transactions are translated into the measurement currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

**Revenue recognition**

**(a) Interest Income and Expense**

Interest income on loans and receivables is determined using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset. When calculating the effective interest rate, the future cash flows are determined after considering all the contractual terms of the instrument but not future credit losses. The calculation includes all amounts paid or received by the Company that are an integral part of the overall return, direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts. When a loan and receivable has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**(b) Fee and commissions income**

Fees and commissions, which are not an integral part of the effective interest rate are generally recognised when the service has been provided.

**(c) Dividend Income**

Dividend income is recognised when the Company's right to received payment has been established.



**Notes to the financial statements for the year ended 31 December 2005****1. Accounting policies (continued)****Pensions and other post retirement benefits**

The Company has various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds as determined by periodic actuarial calculations. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. A defined contribution plan is a pension plan under which the entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees' benefits relating to employee service in the current and prior periods.

The liability in respect of defined benefit pension plans, is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Full actuarial valuations of the entities principal defined benefit schemes are carried out every three years with interim reviews in the intervening years; these valuations are updated to 31 December each year by qualified actuaries. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of government securities, which have terms to maturity approximating the terms of the related liability.

The Company's income statement includes the current service cost of providing pension benefits, the expected return on schemes' assets, net of expected administration costs, and the interest cost on the schemes' liabilities. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are taken directly to reserves. Past-service costs are charged immediately to the income statement, unless the changes are conditional on the employees remaining in service for a specified period, ("the vesting period"). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the Company has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs.

**Intangible assets and goodwill**

Goodwill was purchased on the acquisition of the business of CA Premier Banking Limited in 2002 and represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment or more frequently if there are indications that goodwill might be impaired, and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

**Property, plant and equipment**

Property, plant and equipment includes office fixtures and equipment and computer software. Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Items of property, plant and equipment are reviewed for indications of impairment at each reporting date. Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit reported as other operating expenses. Repairs and renewals are charged to the income statement when the expenditure is incurred.

Software development costs are capitalised when they are associated with identifiable and unique software products that are expected to provide economic benefits and the cost of these products can be measured reliably. Internally developed software meeting these criteria and externally purchased software are classified in property, plant and equipment on the balance sheet. Costs associated with maintaining software programmes are expensed as incurred.

Classes of property, plant and equipment are depreciated on a straight-line basis over their useful life as follows:

Office fixtures and equipment	5 to 8 years
Computer software	3 to 5 years

**Financial assets**

The Company classifies its financial assets, including intercompany financial assets, as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and which are not classified as available for sale. They arise when the Company provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest method. They are derecognised when the rights to receive cash flows have expired of the Company has transferred substantially all of the risks and rewards of ownership. The carrying value of financial assets are a fair approximation of their fair values.

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2005

### 1. Accounting policies (continued)

#### Offsetting financial instruments

Financial assets and liabilities including derivatives are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

#### Impairment of financial assets

At each balance sheet date the Company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets has become impaired. Evidence of impairment may include indications that the borrower or group of borrowers have defaulted, are experiencing significant financial difficulty, or the debt has been restructured to reduce the burden to the borrower.

##### (a) Financial assets carried at fair value

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In assessing whether available for sale assets are impaired, a significant or prolonged decline in the fair value of the security below its cost is considered evidence.

The cumulative loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously reported in the income statement and is removed from equity and recognised in the income statement.

If in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase is due to an event occurring after the impairment loss was recognised in the profit and loss statement (with objective evidence to support this), the impairment loss is reversed through the income statement.

##### (b) Impairment of intangible assets and property, plant and equipment

At each balance sheet date, or more frequently when events or changes in circumstances dictate, property plant and equipment and intangible assets are assessed for indicators of impairment. If indications are present, these assets are subject to an impairment review. Goodwill is subject to an impairment review as at the balance sheet date each year. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount: the higher of the asset's or the cash-generating unit's net selling price and its value in use. Net selling price is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arms length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market based discount rate on a pre tax basis.

The carrying values of fixed assets and goodwill are written down by the amount of any impairment and the loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss relating to a fixed asset may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the fixed asset's recoverable amount. The carrying amount of the fixed asset will only be increased up to the amount that would have been had the original impairment not been recognised. Impairment losses on goodwill are not reversed. For conducting impairment reviews, cash generating units are the lowest level at which management monitors the return on investment on assets.

#### Leases

The Company as lessee – the Company principally enters into operating leases for the rental of real estate. Payments made under such leases are charged to the income statement principally on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place. If the lease agreement transfers the risk and rewards of the asset, the lease is recorded as a finance lease and the related asset is capitalized. At inception, the asset is recorded at the lower of the present value of the minimum lease payments or fair value and depreciated over the estimated useful life. The corresponding rental obligations are recorded as borrowings.

The aggregate benefit of incentives, if any, is recognized as a reduction of rental expense over the lease term on a straight-line basis.

# **CATER ALLEN LIMITED**

## **Notes to the financial statements for the year ended 31 December 2005**

### **1. Accounting policies (continued)**

#### **Tax, including deferred income taxes**

Income tax payable on profits, based on the applicable tax law in each jurisdiction is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available to carry forward are recognised as an asset when it is probable that future taxable profits will be available, against which these losses can be utilised.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### **Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short term investments in securities

#### **Financial liabilities**

The entity classifies its financial liabilities, including intercompany financial liabilities, as deposits and payables which are held at amortised cost unless designated as held at fair value through profit and loss. The carrying value of financial liabilities are a fair approximation of their fair values.

#### **Provisions**

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

When a leasehold property ceases to be used in the business, provision is made where the unavoidable costs of the future obligations relating to the lease are expected to exceed anticipated rental income. The net costs are discounted using market rates of interest to reflect the long-term nature of the cash flows.

Provision is made for the anticipated cost of restructuring, including redundancy costs, when an obligation exists. An obligation exists when the Company has a detailed formal plan for restructuring a business, and has raised valid expectations in those affected by the restructuring and has started to implement the plan or announce its main features.

Contingent liabilities are possible obligations whose existence will be confirmed only by certain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless the likelihood of a transfer of economic benefit is considered to be remote.

#### **Dividends**

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2005

### 2. Financial risk factors

The Company's activities expose it to a variety of financial risks: including currency risk, fair value interest rate risk and risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the central risk management function of the Abbey Group. Authority flows from the Abbey National plc Board of Directors to the Chief Executive Office and from him to his direct reports. Delegation of authority is to individuals. Formal standing committees are maintained for effective management or oversight. Their authority is derived from the person they are intended to assist.

#### Currency Risk

The main operating (or "functional") currencies of its operations are sterling. There are also small balances in euro and US dollars. As the Company prepares its financial statements in sterling, these will be affected by movements in the euro/sterling and US dollar/sterling exchange rates. The exposure to this risk is mitigated by the use of currency matched funding. Taking this into account, the Company did not have a material financial exposure to foreign exchange gains and losses in either the year to 31 December 2005 or the period to 31 December 2004.

Included in the table below are the Company's assets and liabilities at carrying amounts classified by currency.

	<b>Euro £000</b>	<b>US Dollars £000</b>
Loans and advances to group companies	12,171	12,717
Loans and advances to banks	2,502	728
<b>Total assets</b>	<b>14,673</b>	<b>13,445</b>
Customer accounts	(13,660)	(13,650)
Other liabilities	(5)	(20)
<b>Total Liabilities</b>	<b>(13,665)</b>	<b>(13,670)</b>

#### Credit risk

The Company takes on credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or the health of a particular industry segment that represents a concentration in the Company's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or group of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The Company's credit risk is reduced as its policy is to place the majority of its loans and advances with Group companies.

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2005

### 2. Financial risk factors (continued)

#### Cash flow and fair value interest rate risk

Interest rate repricing information is shown in the table below at 31 December 2005. It provides an estimate of the repricing profile of the Company's financial assets and liabilities. For the major categories of assets and liabilities, the table shows the values of interest earning assets and liabilities, which reprice within selected time bands. Items are allocated to time bands by reference to the earlier of the next interest rate repricing date and the legal maturity date. This may lead to an apparent timing mismatch where the anticipated maturity date is different from the legal maturity date and hedges have been structured accordingly. The tables do not purport to measure market risk exposure.

	< 1 year	1-2 years	3-5 years	Over 5 years	Non-interest bearing	Total
	£000	£000	£000	£000	£000	£000
Loans and advances to banks	4,173,121	-	-	-	-	4,173,121
Items in the course of collection from other banks	5,683	-	-	-	-	5,683
Loans and advances to customers	1,319	-	-	-	-	1,319
Investment in subsidiary undertakings	-	-	-	-	4,002	4,002
Intangible assets	-	-	-	-	90,079	90,079
Property, plant and equipment	-	-	-	-	688	688
Other assets	-	-	-	-	517	517
<b>Total assets</b>	<b>4,180,123</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>95,286</b>	<b>4,275,409</b>
Deposits by banks	(79,344)	-	-	-	-	(79,344)
Customer accounts	(4,013,323)	-	-	-	-	(4,013,323)
Items in the course of transmission by other banks	(6,483)	-	-	-	-	(6,483)
Other liabilities	-	-	-	-	(5,432)	(5,432)
Other provisions	-	-	-	-	(5,087)	(5,087)
Current tax liabilities	-	-	-	-	(5,249)	(5,249)
Deferred tax liabilities	-	-	-	-	(190)	(190)
<b>Total Liabilities</b>	<b>(4,099,150)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(15,958)</b>	<b>(4,115,108)</b>
<b>Interest rate repricing gap</b>	<b>80,973</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>80,328</b>	<b>160,301</b>

#### Interest rate sensitivity

As a result of matching the profile of assets to the profile of liabilities the Company has no material sensitivity to changes in interest rates. Where Cater Allen offers customers products linked to a market index, a hedging derivative (options and swaps) is always purchased.

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2005

### 2. Financial risk factors (continued)

#### Liquidity risk

The table below analyses the LLP's assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity date:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Loans and advances to banks	4,173,121	-	-	-	-	4,173,121
Items in the course of collection from other banks	5,683	-	-	-	-	5,683
Loans and advances to customers	594	725	-	-	-	1,319
Investment in subsidiary undertakings	-	-	-	-	4,002	4,002
Intangible assets	-	-	-	-	90,079	90,079
Property, plant and equipment	-	-	-	-	688	688
Other assets	517	-	-	-	-	517
<b>Total assets</b>	<b>4,179,915</b>	<b>725</b>	<b>-</b>	<b>-</b>	<b>94,769</b>	<b>4,275,409</b>
Deposits by banks	(35,937)	-	(43,407)	-	-	(79,344)
Customer accounts	(3,169,824)	-	(843,499)	-	-	(4,013,323)
Items in the course of transmission by other banks	(6,483)	-	-	-	-	(6,483)
Other liabilities	(2,457)	(1,138)	(1,837)	-	-	(5,432)
Other provisions	-	-	(1,295)	(3,792)	-	(5,087)
Current tax liabilities	-	-	(5,249)	-	-	(5,249)
Deferred tax liabilities	-	-	(190)	-	-	(190)
<b>Total Liabilities</b>	<b>(3,214,701)</b>	<b>(1,138)</b>	<b>(895,477)</b>	<b>(3,972)</b>	<b>-</b>	<b>(4,115,108)</b>
<b>Net liquidity gap</b>	<b>1,055,214</b>	<b>(413)</b>	<b>(895,477)</b>	<b>(3,972)</b>	<b>94,769</b>	<b>160,301</b>

#### Accounting for derivative financial instruments and hedging activities

The interest payable on a number of the Company's savings products is linked to indexes, such as the FTSE. As a result, the financial instruments contain embedded derivatives. These derivatives are initially measured at fair value and subsequently measured at fair value and are included as valuation adjustments within the customer accounts balances. Any gains and losses on these derivatives are included within other operating income.

#### Fair value estimation

Where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

### 3. Net interest income

	2005 £000	2004 £000
<b>Interest and similar income:</b>		
Loans and advances to banks	185,913	164,753
Loans and advances to customers	388	445
<b>Total interest and similar income</b>	<b>186,301</b>	<b>165,198</b>
<b>Interest and similar charges:</b>		
Deposits by customers	(150,610)	(126,807)
<b>Total interest and similar charges</b>	<b>(150,610)</b>	<b>(126,807)</b>
<b>Net interest income</b>	<b>35,691</b>	<b>38,391</b>

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2005

### 4. Net fee and commission income

	2005 £000	2004 £000
<b>Fee and commission income:</b>		
Credit related fees and commissions	2,204	2,733
<b>Total fee and commission income</b>	<b>2,204</b>	<b>2,733</b>
<b>Fee and commission expense:</b>		
Introducer fees	(7,123)	(6,392)
Brokerage fees paid	(1,103)	(554)
Other fees paid	(908)	(450)
<b>Total fee and commission expense</b>	<b>(9,134)</b>	<b>(7,396)</b>
<b>Net fee and commission income</b>	<b>(6,930)</b>	<b>(4,663)</b>

### 5. Dividend income

	2005 £000	2004 £000
Income from group undertakings	-	326

A dividend of £27.10 has been received from subsidiary companies (2004: £325,785).

### 6. Other operating income

	2005 £000	2004 £000
loss on sale of fixed assets	-	(184)
Net gains on derivatives	992	-
	<b>992</b>	<b>(184)</b>

### 7. Operating expenses

	2005 £000	2004 £000
<b>Staff costs:</b>		
Wages and salaries	4,224	4,766
Social security costs	119	308
<b>Pensions costs:</b>		
- defined contribution plans	9	66
- defined benefit plans	149	616
Other personnel costs	18	8
	<b>4,519</b>	<b>5,764</b>
 Auditors' remuneration – audit fees	 128	 159
Property and equipment expenses	661	968
Other Administrative expenses	5,834	7,571
	<b>11,142</b>	<b>14,462</b>

Abbey National plc is the employer of all staff working for the Company.

	2005 £000	2004 £000
Administrative staff	152	200
Sales and marketing staff	19	14
<b>Average number of employees, including executive directors</b>	<b>171</b>	<b>214</b>

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2005

### 8. Directors Emoluments

The Directors' aggregate emoluments in respect of qualifying services were:

	2005 £000	2004 £000
Emoluments receivable	203	299
Amounts receivable under long-term incentive schemes:	-	76
	<b>203</b>	<b>375</b>

Emoluments of highest paid Director:

	2005 £000	2004 £000
Total emoluments (excluding pension contributions)	<b>138</b>	<b>261</b>

The number of Directors who accrued benefits under company pension schemes was as follows:

	2005 £000	2004 £000
Defined Benefit schemes	<b>1</b>	<b>1</b>

The above includes the remuneration of R Dunn for both years, and M Evans for 2004. The other directors are remunerated by group companies. No cost has been incurred by the Company and it is not considered feasible to apportion their remuneration for their time spent on this Company.

### 9. Depreciation and amortisation

	2005 £000	2004 £000
Depreciation of tangible fixed assets excluding operating lease assets	<b>419</b>	419
Amortisation of intangible fixed assets	-	1,338
Impairment of intangible assets	-	7,747
	<b>419</b>	<b>9,504</b>

### 10. Audit and other services

The aggregate fees for audit and other services payable to Deloitte & Touche LLP is analysed as follows:

	2005 £000	2004 £000
Audit services		
- statutory audit	<b>128</b>	159
	<b>128</b>	<b>159</b>

### 11. Impairment losses on loans and advances

	2005 £000	2004 £000
Loans and advances to customers	<b>481</b>	586
	<b>481</b>	<b>586</b>



# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2005

### 12. Taxation expense

	2005 £000	2004 £000
Current tax	5,303	4,990
Deferred tax (Note 24)	98	155
	<b>5,401</b>	<b>5,145</b>

Further information about deferred income tax is presented in Note 24. The tax on the Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as follows:

	2005 £000	2004 £000
Profit before tax	17,711	9,318
Tax calculated at a tax rate of 30% (2004: 30%)	5,313	2,795
Amortisation of goodwill		2,725
Expenses not deductible for tax	65	5
Non taxable UK dividend income	-	(98)
Adjustment to prior year provisions for tax	55	(170)
Capital allowances in excess of depreciation	(130)	(221)
Other short term timing differences	98	109
Tax expense	<b>5,401</b>	<b>5,145</b>

### 13. Cash and balances at central banks

The company held no cash balances nor balances held with central banks (2004: £Nil).

### 14. Loans and advances to banks

	2005 £000	2004 £000
Placements with other banks	4,173,019	3,722,678
Derivatives	102	(77)
Total	<b>4,173,121</b>	<b>3,722,601</b>
Included in cash equivalents (Note 28)	<b>4,173,121</b>	<b>3,722,601</b>

Included in the above is an amount of £101,921 (2004: -£77,302) in respect of fair value derivatives.

The placements with other banks in the table above have the following repayment structure:

	2005 £000	2004 £000
Repayable:		
On demand	22,914	56,288
In not more than 3 months	4,150,105	3,666,390
	<b>4,173,019</b>	<b>3,722,678</b>

The placements with other banks in the above table have the following interest rate structures:

	2005 £000	2004 £000
Fixed rate	10,182	-
Variable rate	4,162,837	3,722,678
	<b>4,173,019</b>	<b>3,722,678</b>

The fair value of placements with the banks equals book value.

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2005

### 15. Loans and advances to customers

	2005 £000	2004 £000
Other secured advances	725	725
Other unsecured advances	842	1,490
<b>Loans and advances to customers</b>	<b>1,567</b>	<b>2,215</b>
Less: loan loss allowances	(248)	(279)
<b>Loans and advances to customers, net of loan loss allowances</b>	<b>1,319</b>	<b>1,936</b>

	2005 £000	2004 £000
Repayable:		
On demand	842	1,490
In not more than 3 months	725	725
<b>Loans and advances to customers</b>	<b>1,567</b>	<b>2,215</b>
Less: loan loss allowances	(248)	(279)
<b>Loans and advances to customers, net of loan loss allowances</b>	<b>1,319</b>	<b>1,936</b>

The loans to customers in the above table have the following interest rate structures:

	2005 £000	2004 £000
Fixed rate	725	725
Variable rate	842	1,490
Less: loan loss allowances	(248)	(279)
<b>1,319</b>	<b>1,936</b>	

Accrued interest on impaired loans amounted to £29,000 (2004: £41,000). The fair value of the loans above equals book value.

Movement in loan loss allowances:

	Other Unsecured advances £000	Total £000
As at 1 January 2005	(279)	(279)
Charge for the period	(481)	(481)
Other movements	512	512
At 31 December 2005	(248)	(248)

### Non-performing loans and advances

At 31 December 2005, the only non-performing loans and advances were £92,000 of non-accruing loans and advances (2004: £185,000) All were in the UK.

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2005

### 16. Investment in subsidiary undertakings

The following is a list of the subsidiary undertakings of the Company:

Name of subsidiaries	Place of incorporation ownership (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Method used to account for investment	Principal activity
CA Premier Banking Limited	England and Wales	100	100	Cost	Dormant
Cater Allen Investment Management Limited	England and Wales	100	100	Cost	In liquidation
Cater Allen Nominees Limited	England and Wales	98	98	Cost	Nominee
Roger Cunliffe Investments Limited	England and Wales	100	100	Cost	In liquidation
Ryders Discount Company Limited	England and Wales	100	100	Cost	In liquidation

Consolidated accounts have not been prepared as the Company itself is 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.

### 17. Intangible assets

	Goodwill	Software Capitalised	Total
	2005 £000	2005 £000	2005 £000
<b>Cost</b>			
At 1 January	105,875	5,429	111,304
At 31 December	105,875	5,429	111,304
<b>Accumulated impairment</b>			
At 1 January	15,796	5,429	21,225
At 31 December	15,796	5,429	21,225
<b>Net book value at 31 December 2005</b>	<b>90,079</b>	<b>-</b>	<b>90,079</b>
Net book value at 31 December 2004	90,079	-	90,079

The Goodwill represents that recognised on the purchase of the Cater Allen Premier Banking business in 2002.

The impairment charge for 2004 relating to Goodwill was £7,747k and for Capitalised Software it was £1,338k.

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2005

### 18. Property, plant and equipment

	Office fixtures and equipment £000	Total £000
<b>Cost:</b>		
At 1 January 2005	3,010	3,010
Disposals	(2)	(2)
At 31 December 2005	<b>3,008</b>	<b>3,008</b>
<b>Accumulated depreciation:</b>		
At 1 January 2005	1,901	1,901
Depreciation charge	419	419
At 31 December 2005	2,320	2,320
Closing net book amount	688	688

	Office fixtures and equipment £000	Total £000
<b>Cost:</b>		
At 1 January 2004	4,833	4,833
Disposals	(1,823)	(1,823)
At 31 December 2004	3,010	3,010
<b>Accumulated depreciation:</b>		
At 1 January 2004	3,077	3,077
Depreciation charge	419	419
Disposals	(1,595)	(1,595)
At 31 December 2004	1,901	1,901
Closing net book amount	1,109	1,109

Depreciation expense of £419,000 has been charged to the income statement (2004: £419,000).

At 31 December 2005, the Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £nil (2004: £nil).

### 19. Other assets

	2005 £000	2004 £000
Receivables		
Prepayments	511	112
Accrued income	6	-
<b>Total other assets</b>	<b>517</b>	<b>398</b>

### 20. Deposits by banks

	2005 £000	2004 £000
Other deposits	79,344	37,733
<b>Total deposits by banks</b>	<b>79,344</b>	<b>37,733</b>
Repayable:		
On demand	35,937	37,733
In more than 3 months but not more than 1 year	43,407	-
	<b>79,344</b>	<b>37,733</b>

The deposits by banks in the above table have the following interest rate structures:

	2005 £000	2004 £000
Fixed rate	43,407	
Variable rate	35,937	37,733
	<b>79,344</b>	<b>37,733</b>

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2005

### 21. Customers accounts

	2005 £000	2004 £000
Retail deposits	4,013,323	3,618,083
Derivatives	-	155
<b>Total deposits by customers</b>	<b>4,013,323</b>	<b>3,618,238</b>
Repayable:		
In no more than 3 months	3,169,824	3,574,146
In more than 3 months but no more than 1 year	843,499	44,092
	<b>4,013,323</b>	<b>3,618,238</b>

Contracts involving the receipt of cash on which customers received an index linked return are accounted for in substance as equity index linked deposits.

### 22. Other liabilities

	2005 £000	2004 £000
Trade payables	-	721
Tax and social security	1,838	1,861
Accrued expenses	1,138	6,771
Other	2,456	3,261
	<b>5,432</b>	<b>12,614</b>

The directors consider that the carrying amount of trade payables approximates to their fair value.

The above amounts, for both 2005 and 2004, represent amounts due within one year.

### 23. Other provisions

	Provision for redundancy <sup>(1)</sup> £000	Provision for premise <sup>(2)</sup> £000	Other provisions <sup>(3)</sup> £000	Total £000
At 1 January 2005	602	4,482	162	5,246
Additional provisions	218	623	313	1,154
Used during the year	-	(1,313)	-	(1,313)
At 31 December 2005	820	3,792	475	5,087

	Provision for redundancy <sup>(1)</sup> £000	Provisions for premises <sup>(2)</sup> £000	Other provisions <sup>(3)</sup> £000	Total £000
Analysis of total provisions:				
Provisions to be settled within 12 months	820	-	475	1,295
Provisions to be settled in more than 12 months	-	3,792	-	3,792
	<b>820</b>	<b>3,792</b>	<b>475</b>	<b>5,087</b>

#### (1) Provisions for redundancy

It is expected that the redundancy provision will be utilised in accordance with Abbey National plc's overall cost reduction programme.

#### (2) Provision for premises

The premise provision has been made to cover all future costs of vacant premises, which it is estimated will not be recovered through sub-letting.

#### (3) Other provisions

Other provisions include other estimates for liabilities not yet finalised.

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2005

### 24. Deferred tax liabilities

The following are the major deferred tax liabilities and assets recognised by the Company and the movements thereon during the current and prior reporting year.

	Accelerated tax depreciation £000	Other temporary differences £000	Total £000
At 1 January 2004	86	(102)	(16)
Charge to income	109	46	155
Charge to equity	-	(47)	(47)
At 1 January 2005	195	(103)	92
Charge/(credit) to income	97	1	98
At 31 December 2005	292	(102)	190

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2005 £000	2004 £000
Deferred tax liabilities	190	92
	190	92

### 25. Share capital

	2005 £000	2004 £000
<b>Authorised:</b>		
250,000 unclassified shares of £1 each	250	250
100,000,000 ordinary shares of £1 each	100,000	100,000
100 preferred ordinary shares of £1 each	-	-
<b>Issued and fully paid:</b>		
100,000,000 ordinary shares of £1 each	100,000	100,000
100 preferred ordinary shares of £1 each	-	-

There have been no changes from the previous period.

Holders of ordinary shares are entitled to:

- receive such dividends as the directors approve out of profits remaining after payment of the preferred dividend;
- one vote for every share held in respect of resolutions proposed at general meetings; and
- receive, upon winding up, an amount in respect of each ordinary share equal to the paid up capital value thereof after paying the holders of the preference shares as described above, the balance being distributed between the shareholders in proportion to their paid up ordinary shareholdings.

Holders of preferred ordinary shares are entitled to:

- receive a specific dividend in priority to all other shareholders but have no right to a fixed coupon or a guaranteed dividend
- receive notice and to attend any meetings at which any matter affecting the rights attaching to the preferred shares is to be considered.

The unclassified shares have been in existence since 2001. The articles do not define the rights attached to these shares.

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2005

### 26. Retained earnings

Movements in retained earnings were as follows:

	£000
<b>Balance at 1 January 2004</b>	<b>41,072</b>
Net profit attributable to the parent	4,173
After all retrospective adjustments	45,245
Prospective IFRS adjustment	(204)
<b>Balance at 31 December 2004</b>	<b>45,041</b>
<b>Balance at 1 January 2005</b>	<b>45,041</b>
Net profit attributable to the parent	12,310
<b>Balance at 31 December 2005</b>	<b>57,351</b>

### 27. Contingent liabilities and commitments

The Company gives guarantees on behalf of customers. These guarantees have been made in the normal course of business. A financial guarantee represents an undertaking that the Company will meet a customer's obligation to third parties if the customer fails to do so. The Company expects most of the guarantees it provides to expire unused and they are fully secured.

	2005 £000	2004 £000
Guarantees given to third parties	440	440
	<b>440</b>	<b>440</b>

### Operating lease commitments

#### The Company as lessee

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows;

	2005 £000	2004 £000
Within one year	748	748
In the second to fifth years inclusive	2,992	2,992
After five years	2,244	2,992
	<b>5,984</b>	<b>6,732</b>

### Unutilised overdraft facilities

At the balance sheet date, the Company had approved but unutilised overdraft facilities of £3,109,598.

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2005

### 28. Cash flow statement

#### a) Reconciliation of profit before tax to net cash inflow/(outflow) from operating activities:

	2005 £000	2004 £000
<b>Company operating profit/(loss)</b>	<b>17,711</b>	<b>8,115</b>
Depreciation and amortisation	419	648
Amortisation of Goodwill	-	9,085
Provisions for liabilities and charges	(159)	(2,684)
Provision for impairment	481	586
Other non-cash items	-	(204)
<b>Net cash flow from / (used in) trading activities</b>	<b>18,452</b>	<b>15,546</b>
<b>Changes in operating assets and liabilities</b>		
Net decrease/(increase) in items in course of collection	6,926	(1,946)
Net decrease/(increase) in loans and advances to banks and customers	136	(376)
Net decrease/(increase) in other assets	(221)	1,728
Net (decrease)/increase in deposits by banks and customer accounts	437,601	105,262
Net (decrease)/increase in other liabilities	(7,182)	(25,264)
Net cash flow from / (Used in) operating activities before tax	455,712	94,950
Income tax paid	(5,294)	(13,956)
<b>Net cash flow from / (used in) operating activities</b>	<b>450,418</b>	<b>80,994</b>

#### b) Analysis of the balances of cash and cash equivalents in the balance sheet

	2005 £000	2004 £000
Loans and advances to banks (Note 14)	4,173,121	3,722,601

### 29. Related party transactions

#### Trading transactions

During the year, the Company entered into the following transactions with related parties who are not members of the Company:

	Income		Expenditure		Amounts owed by related parties		Amounts owed to related parties	
	2005 £000	2004 £000	2005 £000	2004 £000	2005 £000	2004 £000	2005 £000	2004 £000
Parent company	-	-	7,915	3,061	-	-	4,894	1,734
Subsidiaries	-	-	-	-	-	-	4,002	4,002
Parent or Company key management personnel	-	-	-	-	-	-	106	33
Fellow subsidiaries	185,913	164,616	2,725	1,559	4,155,610	3,723,551	44,546	43,741

#### Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Company, is set out in Note 8.

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



## CATER ALLEN LIMITED

### Notes to the financial statements for the year ended 31 December 2005

#### 29. Related party transactions (continued)

##### Deposits and bank accounts

	No. of directors	Amounts in respect of directors and their close family members £'000
Balances outstanding at 1 January 2005	1	33
Net movement during the year	-	73
Balances outstanding at 31 December 2005	1	106

There were no other transactions with directors.

	2005 £
Short-term employee benefits	177,930
Post-employment benefits	65,411
	243,341

#### 30. Parent undertaking and controlling party

The Company's immediate parent Company is Abbey National plc.

The Company's ultimate parent undertaking and controlling party is Banco Santander Central Hispano S.A., a Company incorporated in Spain. Banco Santander Central Hispano, S.A. is the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member. Abbey National plc is the immediate parent undertaking of the smallest group of undertakings for which the group accounts are drawn up and of which the Company is a member.

Copies of all sets of group accounts, which include the results of the Company, are available from Abbey Secretariat, Abbey National House, 2 Triton Square, Regents Place, London, NW1 3AN.

#### 31. Retirement Benefit Schemes

Some of the Company's employees are members of the Abbey National Associated Bodies Pension Fund or the Abbey National Group Pension Scheme. These are both funded defined benefit schemes. Employers' contributions to these schemes are borne by the Company at a rate which applies to all group companies within the schemes. Details of the actuarial valuation of the schemes are reported in the accounts of the Abbey National plc.

The company is unable to identify its share of the underlying assets and liabilities of the various pension schemes in operation throughout the Abbey National Group and has, therefore, accounted for its contributions to the pension schemes as if they were defined contribution schemes. Details of the scheme and any associated deficit or surplus appear in the accounts of Abbey National plc.

Also included in the pension costs is an amount of £158,226 for defined contribution plans in 2005 and £615,979 in 2004.

The amount is included in staff costs in the income statement.

Of this amount £65,411 was recognised for key management personnel for the year ending 31 December 2005.

#### 32. Explanation of transition to International Financial Reporting Standards

Abbey National plc in line with all listed entities in the European Union ("EU"), was required to adopt International Financial Reporting Standards ("IFRS") in preparing its consolidated financial statements for the year ended 31 December 2005 and has elected to adopt IFRS for all its subsidiary undertakings, unless restricted by local regulations.

Up to 31 December 2004, the Company prepared its financial statements in accordance with UK Generally Accepted Accounting Principals ("UK GAAP").

IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition" have been applied prospectively from 1 January 2005. All other standards are required to be applied retrospectively.

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2005

### 32. Explanation of transition to International Financial Reporting Standards (continued)

**Reconciliation of profit attributable to shareholders under UK GAAP to profit attributable to shareholders under IFRS for the 12 months to 31 December 2004**

	2004 £000
<b>Profit attributable to Shareholders</b>	
<b>Profit after tax under UK GAAP</b>	<b>5,110</b>
Amortisation of software capitalised	(1,338)
Tax IFRS adjustment	401
IFRS profit after tax adjustment	(937)
Profit attributable to shareholders under IFRS	4,173

**Reconciliation of shareholders' funds under UK GAAP to shareholders equity under IFRS at 1 January 2004 and 31 December 2004**

	1 January 2004 £000	31 December 2004 £000
<b>Shareholders' Equity</b>		
<b>Shareholders' equity as previously reported under UK GAAP</b>	<b>143,085</b>	<b>148,195</b>
Unamortised amount of software capitalised	1,338	-
Prospective IFRS adjustment		(204)
Tax	(401)	-
<b>Total shareholders' equity under IFRS</b>	<b>144,022</b>	<b>147,991</b>

**Explanation of material adjustments to profit attributable to shareholders and shareholders' equity for 2004**

#### Software Capitalisation

IAS 38 "Intangible Assets" requires software costs to be capitalised and amortised rather than expensed immediately. The charge to the profit and loss reflects the impairment of amounts previously capitalised following the Grupo Santander acquisition.

#### Intangible Assets

IFRS 3 "Business Combinations" requires separately identifiable other intangibles to be reclassified as other intangible assets if requirements under IAS 38 are met, and amortised over their expected useful lives. Goodwill is no longer amortised but is capitalised and subject to annual impairment tests. The 2004 impact mainly represents the impairment charge resulting from a change in the mix of Top 20 independent financial advisors.

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2005

### 32. Explanation of transition to International Financial Reporting Standards (continued)

#### Reconciliation of balance sheet at 31 December 2004 Restated balance sheet at 31 December 2004

	UK GAAP £000	Reclassification £000	Total IAS Adjustment £000	IFRS £000
<b>ASSETS</b>				
Cash and balances at central banks	11,401	(11,401)	(11,401)	-
Loans and advances to banks	3,723,887	(1,209)	(1,209)	3,722,678
Items in the course of collection from other banks	-	12,610	12,610	12,610
Loans and advances to customers	2,029	-	-	2,029
Investment in subsidiary undertakings	4,002	-	-	4,002
Intangible assets	90,079	-	-	90,079
Property, plant and equipment	1,109	-	-	1,109
Prepayments and accrued income	112	(112)	(112)	-
Other assets	286	112	112	398
<b>Total assets</b>	<b>3,832,905</b>	<b>-</b>	<b>-</b>	<b>3,832,905</b>
<b>LIABILITIES</b>				
Deposits by banks	43,312	(5,579)	(5,579)	37,733
Customer accounts	3,613,199	4,884	4,884	3,618,083
Items in the course of transmission by other banks	-	5,579	5,579	5,579
Accruals and deferred income	5,267	(5,267)	(5,267)	-
Other liabilities	17,612	(4,998)	(4,998)	12,614
Other provisions	5,321	-	-	5,321
Current tax liabilities	-	5,242	5,242	5,242
Deferred tax liabilities	-	139	139	139
<b>Total liabilities</b>	<b>3,684,710</b>	<b>-</b>	<b>-</b>	<b>3,684,710</b>
<b>EQUITY</b>				
Called up share capital – ordinary shares	100,000	-	-	100,000
Share premium account	2,950	-	-	2,950
Retained earnings	45,245	-	-	45,245
<b>Total shareholders' equity</b>	<b>148,195</b>	<b>-</b>	<b>-</b>	<b>148,195</b>
Minority Interests	-	-	-	-
<b>Total equity and liabilities</b>	<b>3,832,905</b>	<b>-</b>	<b>-</b>	<b>3,832,905</b>

#### Reconciliation of profit or loss for 2004 Restated income statement at 31 December 2004

	UK GAAP £000	Reclass- ification £000	Software £000	Other £000	Total IAS Adjustment £000	IFRS £000
Interest and similar income	165,198	-	-	-	-	165,198
Interest expense and similar charges	(126,807)	-	-	-	-	(126,807)
<b>Net interest income</b>	<b>38,391</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>38,391</b>
Fees and commission income	2,733	-	-	-	-	2,733
Fee and commission expense	(7,396)	-	-	-	-	(7,396)
<b>Net fee and commission income</b>	<b>(4,663)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,663)</b>
Dividend income	326	-	-	-	-	326
Other operating income	(184)	-	-	-	-	(184)
<b>Total operating income</b>	<b>33,870</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,870</b>
Administration expenses	(15,467)	1,005	-	-	-	(14,462)
Depreciation and amortisation	(7,747)	(419)	(1,338)	-	(1,338)	(9,504)
<b>Total operating expenses</b>	<b>(23,214)</b>	<b>-</b>	<b>(1,338)</b>	<b>-</b>	<b>(1,338)</b>	<b>(23,966)</b>
Impairment losses on loans and advances	-	(586)	-	-	-	(586)
<b>Operating profit</b>	<b>10,656</b>	<b>-</b>	<b>(1,338)</b>	<b>-</b>	<b>(1,338)</b>	<b>9,318</b>
<b>Profit before tax</b>	<b>10,656</b>	<b>-</b>	<b>(1,338)</b>	<b>-</b>	<b>(1,338)</b>	<b>9,318</b>
Taxation expense	(5,546)	-	-	401	401	(5,145)
<b>Profit for the year after tax</b>	<b>5,110</b>	<b>-</b>	<b>(1,338)</b>	<b>401</b>	<b>(937)</b>	<b>4,173</b>
<b>Attributable to:</b>						
Minority interests – non-equity	-	-	-	-	-	-
Equity holders of the company	5,110	-	(1,338)	401	(937)	4,173

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2005

### 32. Explanation of transition to International Financial Reporting Standards (continued)

#### Impact analysis on the Opening Balance Sheet as at 1 January 2005

#### Reconciliation of previously reported shareholder funds' under UK GAAP to total shareholders' equity under IFRS at 1 January 2005

	At 1 January 2005 £000
<b>Shareholders' Equity</b>	
Shareholders' equity as previously reported under UK GAAP	148,195
<b>IAS 32, IAS 39 and IFRS 7 adjustments:</b>	
Derivatives and hedge accounting	(233)
Other	(18)
<b>Tax impact of the above items</b>	47
<b>Total shareholders' equity under IFRS</b>	<b>147,991</b>

#### Explanation of differences

##### Derivatives and hedge accounting

Under UK GAAP, derivatives were classified as trading or non trading. Trading derivatives were reported at market value in the balance sheet, with movements in market value recognised immediately in the income statement. Non- trading derivatives, which were transacted for hedging and risk management purposes, were accounted for on an accruals basis, equivalent to the assets, liabilities or net positions being hedged.

IAS 39 requires that all derivatives be recognised at fair value in the balance sheet as assets or liabilities. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and its resulting designation.

The application of IAS 39 as at 1 January 2005 resulted in the recognition of additional assets and liabilities relation to the fair values of derivatives at that date which were previously accounted for on an accruals basis. In addition, the carrying value of the non-derivative financial instruments subject to fair value hedges were adjusted at 1 January 2005 in relation to the fair value attributable to the hedged risks of those financial instruments.

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2005

### 32 Explanation of transition to International Financial Reporting Standards (continued)

#### Reconciliation of consolidated balance sheet at 1 January 2005

	IFRS 31 December 2004 £000	Effect of adoption of IAS 32, IAS 39 and IFRS 7 £000	IFRS £000
<b>ASSETS</b>			
Loans and advances to banks	3,722,678	(77)	3,722,601
Items in the course of collection from other banks	12,610	(1)	12,609
Loans and advances to customers	2,029	(93)	1,936
Investment in subsidiary undertakings	4,002	-	4,002
Intangible assets	90,079	-	90,079
Property, plant and equipment	1,109	-	1,109
Other assets	398	-	398
<b>Total assets</b>	<b>3,832,905</b>	<b>(171)</b>	<b>3,832,734</b>
<b>LIABILITIES</b>			
Deposits by banks	37,733	-	37,733
Customer accounts	3,618,083	155	3,618,238
Items in the course of transmission by other banks	5,579	(1)	5,578
Other liabilities	12,614	-	12,614
Other provisions	5,321	(75)	5,246
Current tax liabilities	5,242	-	5,242
Deferred tax liabilities	139	(47)	92
<b>Total liabilities</b>	<b>3,684,710</b>	<b>33</b>	<b>3,684,743</b>
<b>EQUITY</b>			
Called up share capital – ordinary shares	100,000	-	100,000
Share premium account	2,950	-	2,950
Retained earnings	45,245	(204)	45,041
<b>Total shareholders' equity</b>	<b>148,195</b>	<b>(204)</b>	<b>147,991</b>
<b>Total equity and liabilities</b>	<b>3,832,905</b>	<b>(171)</b>	<b>3,832,734</b>

#### Restated Balance Sheet at 1 January 2005

	IFRS 31 December 2004 £000	Non trading derivatives £000	Other £000	Total IAS Adjustments £000	IFRS £000
<b>Assets</b>					
Loans and advances to banks	3,722,678	(77)	-	(77)	3,722,601
Items in the course of collection from other banks	12,610	-	-	-	12,610
Loans and advances to customers	2,029	-	(93)	(93)	1,936
Investment in subsidiary undertakings	4,002	-	-	-	4,002
Intangible assets	90,079	-	-	-	90,079
Property plant and equipment	1,109	-	-	-	1,109
Other assets	398	-	-	-	398
<b>Total assets</b>	<b>3,832,905</b>	<b>(77)</b>	<b>(93)</b>	<b>(171)</b>	<b>3,832,734</b>
<b>Liabilities</b>					
Deposits by banks	37,733	-	-	-	37,733
Customer accounts	3,618,083	155	-	155	3,618,238
Items in the course of transmission by other banks	5,579	-	-	-	5,579
Other liabilities	12,614	-	-	-	12,614
Other provisions	5,321	-	(75)	(75)	5,246
Current tax liabilities	5,242	-	-	-	5,242
Deferred tax liabilities	139	-	(47)	(47)	92
<b>Total liabilities</b>	<b>3,684,710</b>	<b>155</b>	<b>(122)</b>	<b>33</b>	<b>3,684,743</b>
Called up share capital – ordinary shares	100,000	-	-	-	100,000
Share premium account	2,950	-	-	-	2,950
Retained earnings	45,245	(233)	29	(204)	45,041
<b>Total shareholders' equity</b>	<b>148,195</b>	<b>(233)</b>	<b>29</b>	<b>(204)</b>	<b>147,991</b>
<b>Total liabilities and equity</b>	<b>3,832,905</b>	<b>(77)</b>	<b>(93)</b>	<b>(171)</b>	<b>3,832,734</b>