

# **CATER ALLEN LIMITED**

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

## **ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2006**

MONDAY



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# **CATER ALLEN LIMITED**

## **REPORT OF THE DIRECTORS**

The Directors submit their report together with the financial statements for the year ended 31 December 2006

### **Principal activity and Enhanced Business Review**

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.

On 27 September 2006 the Company transferred its subsidiary Cater Allen Nominees Limited to Abbey National plc.

During the year several of the Company's subsidiaries were liquidated (see Note 16). The one remaining subsidiary CA Premier Banking Limited has not traded during the year and is not expected to do so for the foreseeable future.

The Abbey National plc group manages its operations on a divisional basis. For this reason, the company's directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the divisions of Abbey National plc, which include the company, are discussed in the group's Annual Report which does not form part of this Report.

The purpose of this Report is to provide information to the members of the Company and as such it is only addressed to those members. The Report may contain certain forward-looking statements with respect to the operations, performance and financial condition of the Company. By their nature, these statements involve inherent risks and uncertainties since future events, circumstances and other factors can cause results and developments to differ materially from the plans, objectives, expectations and intentions expressed in such forward-looking statements. Members should consider this when relying on any forward-looking statements. The forward-looking statements reflect knowledge and information available at the date of preparation of this Report and the Company undertakes no obligation to update any forward-looking statement during the year. Nothing in this Report should be construed as a profit forecast.

### **Results and dividend**

The profit for the year on ordinary activities after taxation amounted to £15,648,638 (2005: £12,310,397).

The Directors do not recommend the payment of a dividend (2005: £nil).

The retained profit of £15,648,638 (2005: £12,310,397) has been transferred to reserves.

### **Directors and their interests**

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

Mr N M Bostock (appointed 25 May 2006)  
Mr R J Dunn  
Mr D M Green  
Mr J I Izquierdo Saugar (appointed 25 May 2006)  
Mr T C Murley

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

### **Financial Instruments**

The Company's risks are managed on a group level by the ultimate UK parent company, Abbey National plc.

The financial risk management objectives of and policies of the Company, the policy for hedging each major type of forecasted transaction for which hedge accounting is used, and the exposure of the Company to price risk, credit risk, liquidity risk and cash-flow risk are outlined in Note 2 to the financial statements.

# CATER ALLEN LIMITED

## Directors' responsibility statement

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 entity'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 assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report which complies 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.

## Third Party Indemnities

During 2006, Abbey National plc applied the provisions of the Companies (Audit, Investigations and Community Enterprise) Act 2004 to provide enhanced indemnities to the Directors of the Company against liabilities and associated costs which they could incur in the course of their duties to the Company. The indemnities remain in force as at the date of this Annual Report & Accounts. A copy of each of the indemnities is kept at the registered office address of Abbey National plc.

## 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 2006 is 36 (2005: 25).

## Environment

The Abbey National plc group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the group's activities. The company operates in accordance with group policies, which are described in the group's Annual Report which does not form part of this Report. Initiatives designed to minimise the company's impact on the environment include safe disposal of waste, recycling and reducing energy consumption.

# CATER ALLEN LIMITED

## Auditors

In the case of each of the persons who are directors of the company at the date when this report was approved

- so far as each of the directors is aware, there is no relevant audit information (as defined in s234ZA of the Companies Act 1985) of which the company's auditors are unaware, and
- each of the directors has taken all steps that he ought to have taken as director to make himself aware of any relevant audit information (as defined in s234ZA of the Companies Act 1985) and to establish that the company's auditors are aware of that information

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 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

8 March 2007

Registered Office Address

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

# CATER ALLEN LIMITED

## Independent auditors' report to the members of Cater Allen Limited

We have audited the financial statements of Cater Allen Limited for the year ended 31 December 2006 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 33. 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 Directors Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Directors Report.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

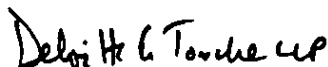
In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

### Separate opinion in relation to IFRSs

As explained in Note 1 to the financial statements, the company in addition to complying with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended.



**Deloitte & Touche LLP**  
Chartered Accountants and Registered Auditors  
London

8 March 2007

# CATER ALLEN LIMITED

## Income Statement

For the year ended 31 December 2006

		2006 £000	2005 £000
<b>Continuing Operations</b>	<b>Notes</b>		
Interest and similar income		212,245	186,301
Interest expenses and similar charges		(173,285)	(150,610)
<b>Net interest income</b>	3	38,960	35,691
Fee and commission income		2,348	2,204
Fee and commission expense		(8,574)	(9,134)
<b>Net fee and commission income</b>	4	(6,226)	(6,930)
Dividend income	5	-	-
Other operating income	6	-	992
<b>Total operating income</b>		32,734	29,753
Operating expenses	7	(10,861)	(11,142)
Depreciation and amortisation	9	(419)	(419)
<b>Total operating expenses</b>		(11,280)	(11,561)
Impairment losses on loans and advances	11	(588)	(481)
<b>Operating profit</b>		20,866	17,711
<b>Profit before tax</b>		20,866	17,711
Taxation expense	12	(5,218)	(5,401)
<b>Profit for the year</b>		15,648	12,310
<b>Attributable to</b>			
Equity holders of the company		15,648	12,310

The notes on pages 8 to 25 are an integral part of these separate financial statements

# CATER ALLEN LIMITED

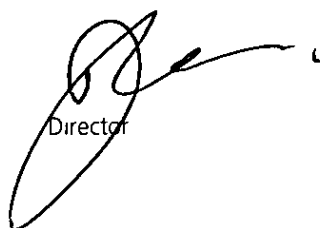
## Balance Sheet

As at 31 December 2006

	Notes	2006 £000	2005 £000
<b>Assets</b>			
Loans and advances to banks	14	4,823,811	4,173,121
Items in the course of collection from other banks		11,835	5,683
Loans and advances to customers	15	1,257	1,319
Investment in subsidiary undertakings	16	4,000	4,002
Intangible assets	17	90,079	90,079
Property, plant and equipment	18	266	688
Other assets	19	-	517
Deferred tax assets	24	629	-
<b>Total assets</b>		<b>4,931,877</b>	<b>4,275,409</b>
<b>Liabilities</b>			
Deposits by banks	20	34,112	79,344
Customer accounts	21	4,695,780	4,013,323
Items in the course of transmission by other banks		8,104	6,483
Other liabilities	22	13,485	5,432
Other provisions	23	4,447	5,087
Current tax liabilities		-	5,249
Deferred tax liabilities	24	-	190
<b>Total liabilities</b>		<b>4,755,928</b>	<b>4,115,108</b>
<b>Equity</b>			
Share capital	25	100,000	100,000
Share premium account		2,950	2,950
Retained earnings	26	72,999	57,351
<b>Total shareholders' equity</b>		<b>175,949</b>	<b>160,301</b>
<b>Total equity attributable to equity holders of the company</b>		<b>175,949</b>	<b>160,301</b>
<b>Total liabilities and equity</b>		<b>4,931,877</b>	<b>4,275,409</b>

The notes on pages 8 to 25 are an integral part of these separate financial statements

The financial statements were approved by the board of Directors and authorised for issue on 8 March 2007. They were signed on its behalf by *D Green*

  
Director

# CATER ALLEN LIMITED

## Statement of Recognised Income and Expense

For the year ended 31 December 2006

	Notes	2006 £000	2005 £000
Profit for the year	26	15,648	12,310
<b>Total recognised income and expense for the year</b>		<b>15,648</b>	<b>12,310</b>
Attributable to			
Equity holders of the parent		15,648	12,310
Minority interest		-	-

## Cash Flow Statement

For the year ended 31 December 2006

	Notes	2006 £000	2005 £000
<b>Net cash flow from operating activities</b>	30(a)	<b>650,690</b>	<b>450,520</b>
<b>Net increase in cash and cash equivalents</b>		<b>650,690</b>	<b>450,520</b>
Cash and cash equivalents at the beginning of the year		4,173,121	3,722,601
<b>Cash and cash equivalents at the end of the year</b>	30(b)	<b>4,823,811</b>	<b>4,173,121</b>

The notes on pages 8 to 25 are an integral part of these separate financial statements



# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 1 Accounting policies

The principal accounting policies applied in the preparation of financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

#### Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union that are effective or available for early adoption at the company's reporting date. The company, in addition to complying with its legal obligation to comply with IFRSs adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. The financial statements have been prepared under the historical cost convention.

The company has adopted the following new or revised IFRS:

- a) The amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 4 "Insurance Contracts" relating to Financial Guarantee Contracts
- b) The company has decided to early adopt IFRS 7 "Financial Instruments: Disclosure". The company is going to adopt the amendments to IAS 1 "Presentation of Financial statements" in 2007.

#### 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 functional currency"). The financial statements are presented in Pounds Sterling, which is the functional currency of the immediate parent.

Foreign currency transactions are translated into the functional 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 receive payment has been established.

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 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, as adjusted for unrecognised past service cost, 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 recognised outside profit and loss and presented in the statement of recognised income and expense. 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 average period until the benefits become vested.

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 any recognised impairment loss. 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. 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 estimated useful lives as follows:

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

## Notes to the financial statements for the year ended 31 December 2006

### 1. Accounting policies (continued)

#### 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 or 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.

#### 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 amortised cost*

Impairment losses are assessed individually for the financial assets that are individually significant and individually or collectively for assets that are not individually significant. For individually assessed assets, the Company measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of the estimated future cash flows from the asset or group of assets discounted at the original effective interest rate of the asset.

In making collective assessment for impairment, financial assets are assessed for each portfolio segmented by similar risk characteristics. For each risk segment, future cash flows from these portfolios are estimated through the use of historical loss experience. The historical loss experience is adjusted for current observable data, to reflect the effects of current conditions not affecting the period of historical experience, based on observable data. The loss is discounted at the effective interest rate, except where portfolios meet the criteria for short-term receivables. The unwind of the discount over time is reported through interest receivable within the income statement, with the provision reserves on the balance sheet increasing.

Loans that are part of a homogeneous pool of similar loans are placed on default status based on the number of months in arrears, which is determined through number of missed payments or number of months in collection. Loans that are not part of a homogeneous pool of similar loans are analysed based on the number of months in arrears on a case-by-case basis and are placed on default status when the probability of default is likely.

Generally, the length of time before an asset is placed on default status for provisioning is when one payment is missed. However, for assessing the level of non-performing asset repayment default depends on the nature of the collateral that secures the advances. On advances secured by residential or commercial property, the default period is three months. For advances secured by consumer goods such as cars or computers, the default period is less than three months, the exact period being dependent on the particular type of loan in this category.

On unsecured advances, such as personal term loans, the default period is generally four missed payments (three months in arrears). Exceptions to the general rule exist with respect to revolving facilities, such as bank overdrafts, which are placed on default upon a breach of the contractual terms governing the applicable account, and on credit card accounts where the default period is three months.

Once a financial asset or a group of financial assets has been written down as a result of an impairment loss, interest income is continued to be recognised on an effective interest rate basis, though on the asset value after provisions have been deducted.

Impairment losses are recognised in the income statement and the carrying amount of the financial asset or group of financial reduced by establishing an allowance for impairment losses. If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance.

A write off is made when all collection procedures have been completed and is charged against previously established provisions for impairment.

**Notes to the financial statements for the year ended 31 December 2006**

**1 Accounting policies (continued)**

***(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 recognised 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 capitalised. 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 recognised as a reduction of rental expense over the lease term on a straight-line basis.

**Tax, including deferred taxes**

The tax expense represents the sum of the income tax currently payable and deferred income tax.

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. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. 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 tax losses can be utilised.

Deferred 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. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets (other than in a business combination) and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where we are able to control reversal of the temporary difference and it is probable that it will not reverse.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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.

# **CATER ALLEN LIMITED**

## **Notes to the financial statements for the year ended 31 December 2006**

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

#### **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

### **2 Financial risk factors**

The Company's activities expose it to a variety of financial risks including currency risk, cash flow and fair value interest rate 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

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 2. Financial risk factors (continued)

#### Currency Risk

The main operating (or "functional") currencies of the Company's 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 2006 or the year to 31 December 2005.

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

	Euro £000	US Dollars £000
Loans and advances to group companies	11,009	11,145
Loans and advances to banks	3,503	5,492
Other assets	11	-
<b>Total assets</b>	<b>14,523</b>	<b>16,637</b>
Customer accounts	(14,388)	(16,492)
Other liabilities	(6)	(26)
<b>Total liabilities</b>	<b>(14,394)</b>	<b>(16,518)</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 2006

### 2 Financial risk factors (continued)

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

Interest rate repricing information is shown in the table below as at 31 December 2006. 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	4,823,811	-	-	-	-	4,823,811
Items in the course of collection from other banks	11,835	-	-	-	-	11,835
Loans and advances to customers	1,257	-	-	-	-	1,257
Investment in subsidiary undertakings	-	-	-	-	4,000	4,000
Intangible assets	-	-	-	-	90,079	90,079
Property, plant and equipment	-	-	-	-	266	266
Other assets	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	629	629
<b>Total assets</b>	<b>4,836,903</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>94,974</b>	<b>4,931,877</b>
Deposits by banks	(34,112)	-	-	-	-	(34,112)
Customer accounts	(4,695,780)	-	-	-	-	(4,695,780)
Items in the course of transmission by other banks	(8,104)	-	-	-	-	(8,104)
Other liabilities	-	-	-	-	(13,485)	(13,485)
Other provisions	-	-	-	-	(4,447)	(4,447)
Deferred tax liabilities	-	-	-	-	-	-
<b>Total liabilities</b>	<b>(4,737,996)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(17,932)</b>	<b>(4,755,928)</b>
<b>Interest rate repricing gap</b>	<b>98,907</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>77,062</b>	<b>175,949</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.

The fair value of derivatives held for hedging purposes is set out in the following table.

	Contract/ notional amount 2006 £000	Fair value assets 2006 £000
Equity and credit contracts	110,345	105,812
	Contract/ notional amount 2005 £000	Fair value assets 2005 £000
Equity and credit contracts	16,959	102

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 2 Financial risk factors (continued)

#### Liquidity risk

The table below analyses the Company'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
	£000	£000	£000	£000	£000	£000
Loans and advances to banks	4,823,811	-	-	-	-	4,823,811
Items in the course of collection from other banks	11,835	-	-	-	-	11,835
Loans and advances to customers	532	725	-	-	-	1,257
Investment in subsidiary undertakings	-	-	-	-	4,000	4,000
Intangible assets	-	-	-	-	90,079	90,079
Property, plant and equipment	-	-	-	-	266	266
Other assets	-	-	-	-	-	-
Deferred tax assets	-	-	629	-	-	629
<b>Total assets</b>	<b>4,836,178</b>	<b>725</b>	<b>629</b>	<b>-</b>	<b>94,345</b>	<b>4,931,877</b>
Deposits by banks	1,772,385	-	(1,806,497)	-	-	(34,112)
Customer accounts	(3,794,756)	-	(901,024)	-	-	(4,695,780)
Items in the course of transmission by other banks	(8,104)	-	-	-	-	(8,104)
Other liabilities	(3,886)	(1,223)	(2,190)	-	-	(7,299)
Other provisions	-	-	(492)	(3,955)	-	(4,447)
Current tax liabilities	-	-	(6,186)	-	-	(6,186)
Deferred tax liabilities	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>(2,034,361)</b>	<b>(1,223)</b>	<b>(2,716,389)</b>	<b>(3,955)</b>	<b>-</b>	<b>(4,755,928)</b>
<b>Net liquidity gap</b>	<b>2,801,817</b>	<b>(498)</b>	<b>(2,715,760)</b>	<b>(3,955)</b>	<b>94,345</b>	<b>175,949</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 fee and commission expense.

#### Fair value estimation

The fair value of financial assets and liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.
- The fair value of derivative instruments are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates to their fair values.



# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 3. Net interest income

	2006 £000	2005 £000
<b>Interest and similar income</b>		
Loans and advances to banks	210,980	185,913
Loans and advances to customers	1,265	388
<b>Total interest and similar income</b>	<b>212,245</b>	<b>186,301</b>
<b>Interest and similar charges</b>		
Deposits by customers	(173,285)	(150,610)
<b>Total interest and similar charges</b>	<b>(173,285)</b>	<b>(150,610)</b>
<b>Net interest income</b>	<b>38,960</b>	<b>35,691</b>

### 4. Net fee and commission income

	2006 £000	2005 £000
<b>Fee and commission income</b>		
Credit related fees and commissions	2,348	2,204
<b>Total fee and commission income</b>	<b>2,348</b>	<b>2,204</b>
<b>Fee and commission expense</b>		
Introducer fees	(7,183)	(7,123)
Brokerage fees paid	(1,058)	(1,103)
Other fees paid	(333)	(908)
<b>Total fee and commission expense</b>	<b>(8,574)</b>	<b>(9,134)</b>
<b>Net fee and commission income</b>	<b>(6,226)</b>	<b>(6,930)</b>

### 5. Dividend income

	2006 £000	2005 £000
Income from group undertakings	-	-

A dividend of £nil has been received from subsidiary companies (2005 £27 10)

### 6 Other operating income

	2006 £000	2005 £000
Net gains on derivatives	-	992

### 7. Operating expenses

	2006 £000	2005 £000
<b>Staff costs</b>		
Wages and salaries	4,320	4,224
Social security costs	95	119
<b>Pensions costs (see note 32)</b>		
- defined contribution plans	13	9
- defined benefit plans	90	149
Other personnel costs	1	18
	<b>4,519</b>	<b>4,519</b>
Auditors' remuneration – audit fees	15	15
Property and equipment expenses	1,166	661
Other administrative expenses	5,161	5,947
	<b>10,861</b>	<b>11,142</b>

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

	2006 Number	2005 Number
Administrative staff	142	152
Sales and marketing staff	17	19
<b>Average number of employees, including executive directors</b>	<b>159</b>	<b>171</b>

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 8 Directors Emoluments

The aggregate emoluments received by the Directors of the Company were

	2006 £000	2005 £000
Salaries and fees	134	138
Performance related payments	50	40
<b>Total emoluments excluding pension contributions</b>	<b>184</b>	<b>178</b>
Pension contributions	42	65
	<b>226</b>	<b>243</b>

The above includes the remuneration of R Dunn for both years. 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.

The Company did not enter into any loans, quasi loans or credit transactions with persons who are or were directors, connected persons or officers of the Company in the current year.

No Director had a material interest in any contract with the Company or any of its subsidiaries at any time during the year. The Directors did not have any interests in shares or debentures of these subsidiaries.

### 9 Depreciation and amortisation

	2006 £000	2005 £000
Depreciation of tangible fixed assets excluding operating lease assets	419	419

### 10 Audit and other services

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

	2006 £000	2005 £000
Audit services		
- statutory audit	15	15

### 11 Impairment losses on loans and advances

	2006 £000	2005 £000
Impairment losses on loans and advances to customers	588	481

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 12 Taxation expense

	2006 £000	2005 £000
Corporation tax		
Current year	6,186	5,303
Prior year	(149)	-
	6,037	5,303
Deferred tax (note 24)	(819)	98
	5,218	5,401

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

	2006 £000	2005 £000
Profit before tax	20,866	17,711
Tax calculated at a tax rate of 30% (2005: 30%)	6,260	5,313
Amortisation of goodwill	-	-
Expenses not deductible for tax	2	13
Non taxable UK dividend income	-	-
Adjustment to prior year provisions for tax	(1,044)	75
Tax expense	5,218	5,401

### 13 Cash and balances at central banks

The company held neither cash balances nor balances held with central banks (2005: £nil)

### 14 Loans and advances to banks

	2006 £000	2005 £000
Placements with other banks	4,717,999	4,173,019
Derivatives	105,812	102
Total	4,823,811	4,173,121
Included in cash equivalents (note 30)	4,823,811	4,173,121

Included in the above is an amount of £105,811,966 (2005: £101,921) in respect of fair value derivatives

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

	2006 £000	2005 £000
Repayable		
On demand	15,148	22,914
In not more than three months	4,702,851	4,150,105
	4,717,999	4,173,019

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

	2006 £000	2005 £000
Fixed rate	23,912	10,182
Variable rate	4,694,087	4,162,837
	4,717,999	4,173,019

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 2006

### 15 Loans and advances to customers

	2006 £000	2005 £000
Other secured advances	726	725
Other unsecured advances	654	842
<b>Loans and advances to customers</b>	<b>1,380</b>	<b>1,567</b>
Less loan loss allowances	(123)	(248)
<b>Loans and advances to customers, net of loan loss allowances</b>	<b>1,257</b>	<b>1,319</b>
	2006 £000	2005 £000
Repayable		
On demand	654	842
In not more than three months	726	725
<b>Loans and advances to customers</b>	<b>1,380</b>	<b>1,567</b>
Less loan loss allowances	(123)	(248)
<b>Loans and advances to customers, net of loan loss allowances</b>	<b>1,257</b>	<b>1,319</b>

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

	2006 £000	2005 £000
Fixed rate	725	725
Variable rate	653	842
Less loan loss allowances	(123)	(248)
	<b>1,257</b>	<b>1,319</b>

Accrued interest on impaired loans amounted to £23,000 (2005 £29,000)

Movement in loan loss allowances

	Other unsecured advances £000	Total £000
As at 1 January 2006	(248)	(248)
Increase in allowance recognised in profit or loss	(588)	(588)
Amounts written off during the year	713	713
At 31 December 2006	(123)	(123)

### Non-performing loans and advances

At 31 December 2006, the only non-performing loans and advances were £72,000 of accruing loans and advances (2005 £92,000) All were in the UK

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 16. Investment in subsidiary undertakings

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

Name of subsidiary	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 was liquidated on 26 September 2006

The ownership of Cater Allen Nominees Limited was transferred to Abbey National plc on 27 September 2006

Roger Cunliffe Investments Limited was liquidated on 23 March 2006

Ryders Discount Company Limited was liquidated on 29 March 2006

Investment in subsidiary undertakings	Cost £000	Impairment £000	Total £000
At 1 January 2006	4,002	-	4,002
Disposals	(2)	-	(2)
At 31 December 2006	4,000	-	4,000

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 £000	Software Capitalised £000	Total £000
<b>Cost</b>			
At 1 January 2006	105,875	5,429	111,304
At 31 December 2006	105,875	5,429	111,304
<b>Accumulated impairment</b>			
At 1 January 2006	(15,796)	(5,429)	(21,225)
Impairment charge	-	-	-
At 31 December 2006	(15,796)	(5,429)	(21,225)
<b>Net book value at 31 December 2006</b>	<b>90,079</b>	<b>-</b>	<b>90,079</b>
	Goodwill £000	Software Capitalised £000	Total £000
<b>Cost</b>			
At 1 January 2005	105,875	5,429	111,304
At 31 December 2005	105,875	5,429	111,304
<b>Accumulated impairment</b>			
At 1 January 2005	(15,796)	(5,429)	(21,225)
Impairment charge	-	-	-
At 31 December 2005	(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>

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

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 18. Property, plant and equipment

	Office fixtures and equipment £000	Total £000
<b>Cost</b>		
At 1 January 2006	3,008	3,008
Disposals	(3)	(3)
At 31 December 2006	3,005	3,005
<b>Accumulated depreciation</b>		
At 1 January 2006	(2,320)	(2,320)
Depreciation charge	(419)	(419)
Disposals	-	-
At 31 December 2006	(2,739)	(2,739)
<b>Net book value at 31 December 2006</b>	<b>266</b>	<b>266</b>

	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	3,008	3,008
<b>Accumulated depreciation</b>		
At 1 January 2005	(1,901)	(1,901)
Depreciation charge	(419)	(419)
Disposals	-	-
At 31 December 2005	(2,320)	(2,320)
<b>Net book value at 31 December 2005</b>	<b>688</b>	<b>688</b>

Depreciation expense of £419,000 has been charged to the income statement (2005 £419,000)

### 19. Other assets

	2006 £000	2005 £000
Receivables	-	511
Prepayments	-	6
Accrued income	-	-
<b>Total other assets</b>	<b>-</b>	<b>517</b>

### 20 Deposits by banks

	2006 £000	2005 £000
Other deposits	34,112	79,344
<b>Total deposits by banks</b>	<b>34,112</b>	<b>79,344</b>
<b>Repayable</b>		
On demand	32,306	35,937
In more than three months but not more than one year	1,806	43,407
	<b>34,112</b>	<b>79,344</b>

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

	2006 £000	2005 £000
Fixed rate	1,806	43,407
Variable rate	32,306	35,937
	<b>34,112</b>	<b>79,344</b>

The fair value of deposits by banks equals book value

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 21 Customer accounts

	2006 £000	2005 £000
Retail deposits	4,695,780	4,013,323
<b>Total deposits by customers</b>	<b>4,695,780</b>	<b>4,013,323</b>
Repayable		
In no more than three months	3,794,756	3,169,824
In more than three months but no more than one year	901,024	843,499
	<b>4,695,780</b>	<b>4,013,323</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

The fair value of customer accounts equals book value

### 22 Other liabilities

	2006 £000	2005 £000
Amounts due to group companies – group relief	6,186	-
Tax and social security	2,190	1,838
Accrued expenses	1,223	1,138
Other	3,886	2,456
	<b>13,485</b>	<b>5,432</b>

The directors consider that the carrying amount of other liabilities approximates to their fair value

The above amounts, for both 2006 and 2005, represent amounts due within one year

### 23 Other provisions

	Provision for redundancy <sup>(1)</sup> £000	Provision for premises <sup>(2)</sup> £000	Other provisions <sup>(3)</sup> £000	Total £000
At 1 January 2006	820	3,792	475	5,087
Used during the year	(695)	55	-	(640)
<b>At 31 December 2006</b>	<b>125</b>	<b>3,847</b>	<b>475</b>	<b>4,447</b>

	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	17	-	475	492
Provisions to be settled in more than 12 months	108	3,847	-	3,955
	<b>125</b>	<b>3,847</b>	<b>475</b>	<b>4,447</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 provision for premises 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 estimates for potential litigation not yet finalised

# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 24 Deferred tax

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 2005	(195)	103	(92)
Charge to income	(97)	(1)	(98)
<b>At 31 December 2005 and 1 January 2006</b>	<b>(292)</b>	<b>102</b>	<b>(190)</b>
Charge to income	791	28	819
<b>At 31 December 2006</b>	<b>499</b>	<b>130</b>	<b>629</b>

### 25 Share capital

	2006 £000	2005 £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 year

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, and
- 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

### 26 Retained earnings

Movements in retained earnings were as follows

	£000
<b>Balance at 1 January 2005</b>	<b>45,041</b>
Profit for the year	12,310
<b>Balance at 31 December 2005</b>	<b>57,351</b>
<b>Balance at 1 January 2006</b>	<b>57,351</b>
Profit for the year	15,648
<b>Balance at 31 December 2006</b>	<b>72,999</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.

	2006 £000	2005 £000
Guarantees given to third parties	281	440



# CATER ALLEN LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 28. Operating lease commitments

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

	2006 £000	2005 £000
Within one year	748	748
In the second to fifth years inclusive	2,992	2,992
After five years	1,496	2,244
	<b>5,236</b>	<b>5,984</b>

### 29 Unutilised overdraft facilities

At the balance sheet date, the Company had approved but unutilised overdraft facilities of £4,076,055 (2005 £3,109,598)

### 30 Cash flow statement

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

	2006 £000	2005 £000
<b>Company operating profit</b>	<b>20,866</b>	<b>17,711</b>
Depreciation and amortisation	419	419
Provisions for liabilities and charges	(640)	(159)
Provision for impairment	713	481
<b>Net cash flow from/(used in) trading activities</b>	<b>21,358</b>	<b>18,452</b>
<b>Changes in operating assets and liabilities</b>		
Net decrease/(increase) in items in course of collection	(6,152)	6,926
Net decrease/(increase) in loans and advances to banks and customers	(651)	136
Net decrease/(increase) in other assets	521	(119)
Net decrease/(increase) in investment in subsidiary undertakings	2	-
Net (decrease)/increase in deposits by banks and customer accounts	638,846	437,601
Net (decrease)/increase in other liabilities	1,866	(7,182)
Net cash flow from/(used in) operating activities before tax	655,790	455,814
Tax paid	(5,100)	(5,294)
<b>Net cash flow from/(used in) operating activities</b>	<b>650,690</b>	<b>450,520</b>

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

	2006 £000	2005 £000
Loans and advances to banks (note 14)	<b>4,823,811</b>	<b>4,173,121</b>

### 31 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 due from related parties		Amounts due to related parties	
	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000
Parent company	-	-	5,413	7,915	333	-	6,186	4,894
Subsidiaries	-	-	-	-	-	-	4,000	4,002
Parent or company key management personnel	-	-	-	-	-	-	132	106
Fellow subsidiaries	<b>210,981</b>	<b>185,913</b>	<b>323</b>	<b>2,725</b>	<b>4,811,966</b>	<b>4,155,610</b>	<b>4,247</b>	<b>44,546</b>
	<b>210,981</b>	<b>185,913</b>	<b>5,736</b>	<b>10,640</b>	<b>4,812,299</b>	<b>4,155,610</b>	<b>14,433</b>	<b>53,548</b>

## CATER ALLEN LIMITED

### Notes to the financial statements for the year ended 31 December 2006

#### 31 Related party transactions (continued)

##### 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

##### Deposits and bank accounts

	Number of directors	Amounts in respect of directors and their close family members £000
Balances outstanding at 1 January 2006	1	106
Net movement during the year	-	26
Balances outstanding at 31 December 2006	1	132

There were no other transactions with directors

##### Key management compensation

	2006 £000	2005 £000
Short-term employee benefits	184	178
Post-employment benefits	42	65
	226	243

#### 32. Retirement Benefit Schemes

Some of the Company's employees are members of the Abbey National Group Pension Scheme. This is a funded defined benefit scheme. 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 £13,000 (2005: £19,000) for defined contribution plans. The amount is included in staff costs in the income statement. None of this amount was recognised for key management personnel for the year ending 31 December 2006 (2005: £nil).

#### 33 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. Abbey National plc is the immediate parent undertaking of the smallest group of undertakings for which the group accounts are drawn up.

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.