

CATER ALLEN LIMITED

**Report and Accounts
31st December, 2003**



Registered No. 383032

CATER ALLEN LIMITED

DIRECTORS' REPORT

The directors submit their report and accounts for the year ended 31st December, 2003.

Results and dividends

The results for the year and the state of the company's affairs are as set out in the attached accounts.

The directors do not recommend the payment of a final dividend (2002: £Nil).

Review of activities and future prospects

The company is an authorised deposit taker under the Financial Services and Markets Act 2000, and operates as a bank which provides account facilities to a range of 'high net worth' customers. 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 (formerly the Bank of England), which also exercises consolidated supervision over the Abbey National Group as a whole.

Fixed assets

Changes are set out in note 9 to the accounts.

Investments in subsidiaries

These are set out in note 10 to the accounts.

Directors and their interests

The directors who served during the year were:

| | | |
|-----------------|------------------------------|-----------------------------|
| M.J. Millington | Resigned 1st July, 2003 | |
| M. Rein | Appointed 1st July, 2003 | Resigned 31st October, 2003 |
| M.R.D. Evans | | |
| R.J. Dunn | Appointed 31st October, 2003 | |
| T.C. Murley | Appointed 1st December, 2003 | |

After the year end, on 21st July, 2004, T.C. Murley resigned and A. Weir was appointed.

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

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

| | As at 1st January 2003 or date of appointment if later | Purchased during year or date of appointment if later | Sold during year or date of appointment if later | As at 31st December 2003 |
|----------------|--|---|--|--------------------------------|
| Shares: | | | | |
| M.R.D. Evans | 212 | 290 | - | 502 |
| R.J. Dunn | 288 | - | - | 288 |
| T.C. Murley | 20,504 | - | - | 20,504 |
| Share Options: | | | | |
| M.R.D. Evans | 4,064 | 5,367 | 3,289 | 6,142 |
| R.J. Dunn | 20,225 | - | - | 20,225 |
| T.C. Murley | 160,469 | - | - | 160,469 |

CATER ALLEN LIMITED

DIRECTORS' REPORT (continued)

Directors and their interests (continued)

Options granted to directors under the ultimate parent company's Sharesave Scheme are exercisable at prices between 306p and 337p per share within six months of the third, fifth or seventh anniversary of the contract start date. Options granted under the Executive Share Option Scheme and Employee Share Option Schemes are exercisable at prices between 373p and 543p per share after three years or five years and before ten years from the date of grant.

Shares in respect of Executive Share Options granted in 2003 are held by the Abbey National ESOP Trust (the "Trust"). Whilst the directors' interests in these shares (if any) are included above, each of the directors of the company is a potential beneficiary of the Trust and is therefore deemed to have an interest in the shares held by the Trust. At 31st December, 2003 the Trust held 7,694,620 ordinary shares (2002 - 8,639,158 shares).

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

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

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

The Partnership Share Scheme available to all eligible employees, including the directors named above, was terminated on 31st May, 2003. Under this scheme, participants made 12 monthly contributions up to a maximum of £1,500 per annum, to acquire shares in Abbey National plc. These shares were purchased at their market value on 3rd June, 2003. The number of shares which may have been acquired under this scheme, calculated on the basis of the maximum contribution and the share price on 3rd June, 2003 (519.5p) was 288 shares.

Shares awarded under the Abbey National Long Term Incentive Plan (the "Plan") are held by the Abbey National Employee Trust (the "Employee Trust"). Whilst the Plan is currently restricted to members of the Abbey National plc Executive Committee, each of the directors of the company is a potential beneficiary of the Employee Trust and is therefore deemed to have an interest in the shares held by the Employee Trust. At 31st December 2003, the Employee Trust held 1,580,736 ordinary shares (2002 - 1,559,738).

Directors' responsibility in respect of the preparation of accounts

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

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31st December, 2003. The directors also confirm that applicable accounting standards have been followed and that the statements have been prepared on a going concern basis.

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

Payment policy

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

The company's practice on payment of creditors has been quantified under the terms of the Companies Act 1985 (Directors' Report) (Statement of payment practice) Regulations 1997. The number of days' supplier invoices which are included in accruals and deferred income at 31st December, 2003 is 44 (2002:19).

CATER ALLEN LIMITED

DIRECTORS' REPORT (continued)

Political and charitable contributions

No political or charitable donations were made during the year.

Auditors

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

BY ORDER OF THE BOARD

Helen McKenzie

for and on behalf of
Abbey National Secretariat Services Limited

Registered Office
20 Birchin Lane,
London EC3V 9HN

Date: *29 September 2004*

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

We have audited the financial statements of Cater Allen Limited which comprise the profit and loss account, the balance sheet and the related notes 1 to 23. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31st December, 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP

Chartered Accountants and Registered Auditors
London

Date:

29 September 2004

CATER ALLEN LIMITED

PROFIT AND LOSS ACCOUNT

For the year ended 31st December 2003

| | Notes | 2003 £000 | 2002 £000 |
|---|-------|--------------|--------------|
| Interest receivable: | | | |
| Other interest receivable and similar income | 2 | 158,066 | 122,394 |
| Interest payable | 2 | (114,367) | (88,055) |
| Net interest income | | 43,699 | 34,339 |
| Fees and commissions receivable | | 2,973 | 1,275 |
| Fees and commissions payable | | (7,214) | (4,949) |
| Total operating income | | 39,458 | 30,665 |
| Administrative expenses | 3 | (26,047) | (18,757) |
| Goodwill amortisation | | (5,293) | (2,756) |
| Operating profit on ordinary activities before taxation | | 8,118 | 9,152 |
| Dividend received from subsidiaries | | - | 2,330 |
| (Loss) on sale of fixed assets | | (3) | (144) |
| Tax on profit on ordinary activities | 4 | (3,742) | (3,445) |
| Profit for the financial year | 17 | 4,373 | 7,893 |

All activities of the company are regarded as continuing. The company has no recognised gains or losses other than those included in the profit and loss account above. Accordingly no separate statement of total recognised gains and losses has been presented.

The company's results as reported are on an historical cost basis. Accordingly, no statement of historical cost profits and losses has been presented.

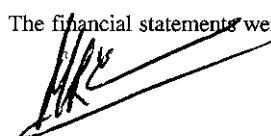
The notes on pages 7 to 16 form part of these accounts.

CATER ALLEN LIMITED

BALANCE SHEET at 31st December 2003

| | | | 31st December 2003 £000 | 31st December 2002 £000 |
|--|-------|---------|-------------------------------|-------------------------------|
| | Notes | | | |
| ASSETS: | | | | |
| Loans and advances: | | | | |
| - to banks | 5 | | 3,638,117 | 3,871,478 |
| - collections on other banks | | | 7,152 | 9,546 |
| - to other customers | 6 | | 2,312 | 3,058 |
| Investments in subsidiary undertakings | 7 | | 4,002 | 4,002 |
| Intangible fixed assets | 8 | | 97,826 | 103,119 |
| Tangible fixed assets | 9 | | 1,759 | 2,061 |
| Other assets | 10 | | 1,203 | 1,209 |
| Prepayments and accrued income | | | 923 | 2,928 |
| TOTAL ASSETS | | | 3,753,294 | 3,997,401 |
| LIABILITIES: | | | | |
| Deposits by banks | 11 | | 24,322 | 103,569 |
| Customer accounts | 12 | | 3,531,965 | 3,634,157 |
| Other liabilities | 13 | | 41,035 | 106,546 |
| Accruals and deferred income | | | 4,957 | 12,081 |
| Provision for liabilities and charges | 14 | | 7,930 | 2,336 |
| | | | 3,610,209 | 3,858,689 |
| Called up share capital | 15 | 100,000 | | 100,000 |
| Share premium account | 16 | 2,950 | | 2,950 |
| Profit and loss account | 17 | 40,135 | | 35,762 |
| Shareholders' funds including non-equity interests | 18 | | 143,085 | 138,712 |
| TOTAL LIABILITIES | | | 3,753,294 | 3,997,401 |
| MEMORANDUM ITEMS: | | | | |
| Contingent liabilities: | | | | |
| Guarantees | 20 | | 482 | 482 |

The financial statements were approved by the Board of Directors on 29th September, 2004 and signed on its behalf by:


M.R.D. Evans
Finance Director

The notes on pages 7 to 16 form part of these accounts.

CATER ALLEN LIMITED

NOTES TO THE ACCOUNTS at 31st December 2003

1. ACCOUNTING POLICIES

Basis of presentation

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

Accounting convention

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

Cash flow statement

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

Investment in subsidiary undertakings

Investment in subsidiary undertakings is stated at cost less any provisions for impairment.

Goodwill

Goodwill was purchased on acquisition of the business of CA Premier Banking Limited in 2002 and is being amortised over 20 years. Goodwill is subject to review for impairment in accordance with FRS 11. The carrying value of goodwill is written down by the amount of any impairment, and the loss is recognised in the profit and loss account in the period in which this occurs. Should an external event reverse the effects of a previous impairment, the carrying value of the goodwill may be written up to a value no higher than the original depreciated cost.

Income recognition

Interest income is recognised in the profit and loss account as it accrues.

Fees receivable, which represent a return for services provided are credited to income when the related service is performed. Fees receivable which represent a return for risk borne which is in the nature of interest are taken to the profit and loss account over the period of the loan on a systematic basis over the expected life of the transaction to which they relate.

Depreciation

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

| | |
|-----------------------------------|--|
| Leasehold improvements | 10% per annum, or life of lease if shorter |
| Motor vehicles | 25% per annum |
| Equipment, furniture and fittings | 12.5% to 20% per annum |

Provisions

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

Taxation

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

Deferred taxation is provided on all timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

CATER ALLEN LIMITED

NOTES TO THE ACCOUNTS at 31st December 2003

1. ACCOUNTING POLICIES (continued)

Foreign currency translation

Monetary foreign currency assets and liabilities are translated at the rates of exchange ruling at the balance sheet date. Transactions are translated at the exchange rate ruling at the date of the transaction and all exchange differences are taken to the profit and loss account.

Derivative financial instruments

The company uses derivative financial instruments to reduce exposure to interest rate movements. The company does not hold or issue derivative financial instruments for speculative purposes.

For an interest rate swap to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.

Leases

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

Pensions

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

The pension cost charged to the profit and loss account in respect of the defined contribution scheme represents contributions paid on behalf of employees.

2. INTEREST

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

3. ADMINISTRATIVE EXPENSES

| | 2003 £000 | 2002 £000 |
|---|--------------|--------------|
| Staff costs: | | |
| Wages and salaries | 6,958 | 6,268 |
| Social security costs | 512 | 449 |
| Other pension costs | 1,311 | 750 |
| | 8,781 | 7,467 |
| Auditors' remuneration - audit fees | 121 | 68 |
| Auditors' remuneration - other services | - | - |
| Operating lease rents of land and buildings | 4,477 | 787 |
| Depreciation of owned fixed assets | 530 | 480 |
| Other administrative costs | 12,138 | 9,955 |
| | 26,047 | 18,757 |

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

| | 2003 No. | 2002 No. |
|--|-------------|-------------|
| Administration staff | 239 | 154 |
| Sales and marketing staff | 13 | 66 |
| | --- | --- |
| Average number of employees during the year, including executive directors | 252 | 220 |
| | --- | --- |

CATER ALLEN LIMITED

NOTES TO THE ACCOUNTS at 31st December 2003 (continued)

3. ADMINISTRATIVE EXPENSES (continued)

| | 2003 | 2002 |
|-----------------------------|------|------|
| | £000 | £000 |
| Directors' remuneration | | |
| Emoluments: | | |
| Salaries | 124 | 179 |
| Benefits | 2 | 2 |
| Performance related bonuses | 38 | 53 |
| | 164 | 234 |

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

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

| | |
|-----|-----|
| 2 | 1 |
| --- | --- |

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

The emoluments of the highest paid director were as follows:

| | £ | £ |
|----------|---------|---------|
| Salary | 105,724 | 74,583 |
| Benefits | 2,023 | - |
| | 107,747 | 74,583 |
| Bonuses | 5,924 | 41,600 |
| | 113,671 | 116,183 |

4. TAX ON PROFIT ON ORDINARY ACTIVITIES

The charge for taxation comprises:

| | 2003 | 2002 |
|---|-------|-------|
| | £000 | £000 |
| Based on the profit for the year: | | |
| Corporation tax at 30% (2002 - 30%) | 3,748 | 3,580 |
| Adjustment in respect of prior years | (281) | 37 |
| Total current tax charge | 3,467 | 3,617 |
| Deferred tax : Originating and reversal of timing differences | 275 | (172) |
| | 3,742 | 3,445 |

Factors affecting tax charge for the year

| | | |
|--|-------|-------|
| Profit on ordinary activities before tax | 8,118 | 9,152 |
| Taxation thereon at standard rate of corporation tax in the UK of 30% (2002 - 30%) | 2,435 | 2,746 |
| Effects of: | | |
| Non-allowable provisions and other non-equalised items | 1,536 | - |
| Capital allowances in excess of depreciation | (219) | 179 |
| Provisions and short-term timing differences | (4) | - |
| Adjustment to prior year provisions | (281) | 37 |
| | 3,467 | 3,617 |

CATER ALLEN LIMITED

NOTES TO THE ACCOUNTS at 31st December 2003 (continued)

5. LOANS AND ADVANCES TO BANKS

Including £3,622,441,000 (2002 - £3,841,948,000) to banks within the Abbey National Group.

| | 2003 £000 | 2002 £000 |
|---------------------|--------------|--------------|
| Repayable on demand | 61,117 | 79,478 |
| Up to three months | 3,577,000 | 3,792,000 |
| | ----- | ----- |
| | 3,638,117 | 3,871,478 |
| | ----- | ----- |

6. LOANS AND ADVANCES TO CUSTOMERS

| | 2003 £000 | 2002 £000 |
|-------------------------------|--------------|--------------|
| On demand | 1,639 | 2,215 |
| Up to three months | 805 | 1,138 |
| Provisions for doubtful debts | (132) | (295) |
| | ----- | ----- |
| | 2,312 | 3,058 |
| | ----- | ----- |

Included above is an advance of £13,292 to one director (31st December, 2002 - £15,000).

7. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Investments in subsidiary undertakings consist of:

| | 2003 £000 | 2002 £000 |
|----------------|--------------|--------------|
| Shares at cost | 4,002 | 4,002 |
| | ----- | ----- |

The company is the owner of the issued share capital of the following subsidiaries, all of which are wholly owned and are incorporated in Great Britain and registered and operate in England and Wales. The accounting reference date of all the subsidiaries coincides with that of the company.

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

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

CATER ALLEN LIMITED

NOTES TO THE ACCOUNTS at 31st December 2003 (continued)

8. INTANGIBLE FIXED ASSETS

| | Goodwill £000 |
|--------------------------------|------------------|
| Cost: | |
| At 31st December 2002 and 2003 | 105,875 |
| | ----- |
| Amortisation: | |
| At 31st December 2002 | 2,756 |
| Charge for the year | 5,293 |
| | ----- |
| At 31st December 2003 | 8,049 |
| | ----- |
| Net book value: | |
| At 31st December 2002 | 103,119 |
| | ----- |
| At 31st December 2003 | 97,826 |
| | ----- |

9. TANGIBLE FIXED ASSETS

| | Leasehold improvements £000 | Motor vehicles £000 | Equipment, furniture and fittings £000 | Total £000 |
|--------------------------|-----------------------------------|---------------------------|---|---------------|
| Cost: | | | | |
| At 1st January 2003 | 1,510 | 24 | 4,265 | 5,799 |
| Additions | - | - | 245 | 245 |
| Disposals and write offs | - | (24) | - | (24) |
| | ----- | ----- | ----- | ----- |
| At 31st December 2003 | 1,510 | - | 4,510 | 6,020 |
| | ----- | ----- | ----- | ----- |
| Depreciation: | | | | |
| At 1st January 2003 | 1,448 | 7 | 2,283 | 3,738 |
| Charge for the year | 59 | - | 471 | 530 |
| Disposals and write offs | - | (7) | - | (7) |
| | ----- | ----- | ----- | ----- |
| At 31st December 2003 | 1,507 | - | 2,754 | 4,261 |
| | ----- | ----- | ----- | ----- |
| Net book value at | | | | |
| At 31st December 2002 | 62 | 17 | 1,982 | 2,061 |
| | ----- | ----- | ----- | ----- |
| At 31st December 2003 | 3 | - | 1,756 | 1,759 |
| | ----- | ----- | ----- | ----- |

Leasehold premises are held on short leases. The net book value at 31st December 2003 relates wholly to premises occupied by the company for its own activities.

CATER ALLEN LIMITED

NOTES TO THE ACCOUNTS at 31st December 2003 (continued)

10. OTHER DEBTORS

| | 2003 £000 | 2002 £000 |
|---|--------------|--------------|
| Taxation recoverable | 610 | 610 |
| Amounts due from subsidiary undertakings | - | 1 |
| Amounts due from other group undertakings | 413 | 6 |
| Deferred tax | 16 | 291 |
| Other | 164 | 301 |
| | ----- | ----- |
| | 1,203 | 1,209 |
| | ----- | ----- |

DEFERRED TAX

The provision for deferred taxation is made up as follows :

| | 2003 £000 | 2002 £000 |
|--|--------------|--------------|
| Excess of capital allowances over depreciation | 86 | (163) |
| Provisions and short-term timing differences | (102) | (128) |
| | ----- | ----- |
| Deferred tax asset | (16) | (291) |
| | ----- | ----- |
| Amounts provided: | | |
| At beginning of year | (291) | (119) |
| | ----- | ----- |
| Profit and loss account | 275 | (172) |
| | ----- | ----- |
| At end of year | (16) | (291) |
| | ----- | ----- |

11. DEPOSITS BY BANKS

| | 2003 £000 | 2002 £000 |
|--------------------|--------------|--------------|
| On demand | 6,822 | 27,765 |
| Up to three months | 17,500 | 75,804 |
| | ----- | ----- |
| | 24,322 | 103,569 |
| | ----- | ----- |

12. OTHER CUSTOMER ACCOUNTS

| | 2003 £000 | 2002 £000 |
|--------------------|--------------|--------------|
| On demand | 2,780,296 | 2,781,652 |
| Up to three months | 716,614 | 817,508 |
| Up to one year | 35,055 | 34,997 |
| | ----- | ----- |
| | 3,531,965 | 3,634,157 |
| | ----- | ----- |

13. OTHER LIABILITIES

| | 2003 £000 | 2002 £000 |
|--|--------------|--------------|
| Amounts owed to subsidiary undertakings | 4,448 | 5,476 |
| Amounts owed to other group undertakings | 28,532 | 94,611 |
| Taxation | 2,882 | 1,884 |
| Other | 5,173 | 4,575 |
| | ----- | ----- |
| | 41,035 | 106,546 |
| | ----- | ----- |

CATER ALLEN LIMITED

NOTES TO THE ACCOUNTS at 31st December 2003 (continued)

14. PROVISION FOR LIABILITIES AND CHARGES

| | | | | 2003 £000 | 2002 £000 |
|---|--------------|------------------|--------------------|---------------|---------------|
| Other provisions | | | | 7,930 | 2,336 |
| | | | | ----- | ----- |
| OTHER PROVISIONS | | | | | |
| Amounts provided: | Rent £000 | Premises £000 | Redundancy £000 | Other £000 | Total £000 |
| At 1st January 2003 | 1,831 | - | - | 505 | 2,336 |
| Charge to profit and loss account during the year | (1,831) | 5,100 | 2,350 | (25) | 5,594 |
| | ----- | ----- | ----- | ----- | ----- |
| At 31st December 2003 | - | 5,100 | 2,350 | 480 | 7,930 |
| | ----- | ----- | ----- | ----- | ----- |

The rent provision in respect of rental commitments in excess of market levels has been released as it is planned to move out of the premises in the near future, when they will become empty. The premises' provision has been made to cover all future costs of the premises which it is estimated will be not recovered by sub-letting. Other provisions include unfunded commitments to pensioners and other estimates for liabilities not yet finalised.

15. CALLED UP SHARE CAPITAL

| | 2003 £000 | 2002 £000 |
|--|--------------|--------------|
| Authorised: | | |
| Unclassified shares of £1 each | 250 | 250 |
| Ordinary shares of £1 each | 100,000 | 100,000 |
| Preference shares of £1 each (see below) | - | - |
| | ----- | ----- |
| | 100,250 | 100,250 |
| | ----- | ----- |
| Issued and fully paid: | | |
| Unclassified shares of £1 each | 0 | 0 |
| Ordinary shares of £1 each | 100,000 | 100,000 |
| Preference shares of £1 each (see below) | - | - |
| | ----- | ----- |
| | 100,000 | 100,000 |
| | ----- | ----- |

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

16. SHARE PREMIUM ACCOUNT

| | 2003 £000 | 2002 £000 |
|---|--------------|--------------|
| Arising on the issue of preference shares | 2,950 | 2,950 |
| | ----- | ----- |

17. PROFIT AND LOSS ACCOUNT

| | 2003 £000 | 2002 £000 |
|--------------------------------|--------------|--------------|
| Balance at beginning of year | 35,762 | 27,869 |
| Profit for the financial year | 4,373 | 7,893 |
| | ----- | ----- |
| Balance at the end of the year | 40,135 | 35,762 |
| | ----- | ----- |

CATER ALLEN LIMITED

NOTES TO THE ACCOUNTS at 31st December 2003 (continued)

18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | 2003 £000 | 2002 £000 |
|--|--------------|--------------|
| Profit for the year attributable to shareholders | 4,373 | 7,893 |
| Net increase in shareholders' funds | 4,373 | 7,893 |
| Opening shareholders' funds | 138,712 | 130,819 |
| Closing shareholders' funds | 143,085 | 138,712 |
| Equity shareholders' funds | 140,135 | 135,762 |
| Non-equity shareholders' funds | 2,950 | 2,950 |
| | 143,085 | 138,712 |

19. RETIREMENT BENEFITS

During the year all assets and liabilities of the Cater Allen Pension and Life Assurance Scheme were transferred to the Abbey National Group Pension Scheme, details of which can be found in the financial statements of Abbey National plc.

20. COMMITMENTS AND CONTINGENT LIABILITIES

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

| | 2003 £000 | 2002 £000 |
|---|--------------|--------------|
| Guarantees provided on behalf of customers are fully secured. | 482 | 482 |

At 31st December, 2003 the company had commitments under non-cancellable operating leases as set out below.

| | 2003 £000 | 2002 £000 |
|------------------------------------|-----------------------|-----------------------|
| | Land and Buildings | Land and Buildings |
| Operating lease rents payable: | | |
| Within one year | 1,003 | 1,257 |
| In second to fifth years inclusive | 2,992 | 3,247 |
| Over five years | 3,740 | 4,488 |
| | 7,735 | 8,992 |

CATER ALLEN LIMITED

NOTES TO THE ACCOUNTS at 31st December 2003 (continued)

21. FINANCIAL INSTRUMENTS

The company uses derivatives to hedge interest rate exposures arising on fixed rate customer ISA deposits.

INTEREST RATE RISK

All assets and liabilities are non-trading.

| | | Not more than 3 months | 3 to 12 months | Non-interest bearing accounts | Total |
|--|--------------------------------|---------------------------|----------------|----------------------------------|-----------|
| | | £000 | £000 | £000 | £000 |
| Assets | Bank balances | 7,152 | - | - | 7,152 |
| | Loans and advances to banks | 3,638,117 | - | - | 3,638,117 |
| | Loans and advances to others | 2,312 | - | - | 2,312 |
| | Other | - | - | 105,713 | 105,713 |
| Total assets | | 3,647,581 | - | 105,713 | 3,753,294 |
| Liabilities | Deposits and customer accounts | 3,521,232 | 35,055 | - | 3,556,287 |
| | Other | - | - | 53,922 | 53,922 |
| | Shareholders' funds | - | - | 143,085 | 143,085 |
| Total liabilities | | 3,521,232 | 35,055 | 197,007 | 3,753,294 |
| Off balance sheet items - interest rate swap | | (30,000) | 30,000 | - | - |
| Interest rate repricing gap | | 96,349 | (5,055) | (91,294) | - |
| 2003 cumulative gap | | | 91,294 | - | |

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

FOREIGN EXCHANGE RISK

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

| | 2003 £000 | 2002 £000 |
|---|--------------|--------------|
| Assets | 27,225 | 26,310 |
| Liabilities | (27,982) | (26,241) |
| Net foreign currency (liabilities)/assets | (757) | 69 |

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

CATER ALLEN LIMITED

NOTES TO THE ACCOUNTS at 31st December 2003 (continued)

22. RELATED PARTY DISCLOSURES

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

| | No. of directors | Amounts in respect of directors and their close family members £000 |
|---|------------------|--|
| Secured loans (Note below), unsecured loans and overdrafts | | |
| Balances outstanding at 31st December 2002 | 1 | 15 |
| Net movement during the year | - | (2) |
| | --- | --- |
| Balances outstanding at 31st December 2003 | 1 | 13 |
| | --- | --- |
| Deposit and bank accounts | | |
| Balances outstanding at 31st December 2002 | 2 | 9 |
| Net movement during the year | - | 23 |
| | --- | ----- |
| Balances outstanding at 31st December 2003 | 2 | 32 |
| | --- | ----- |

Note: Security is term life assurance policy

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

23. ULTIMATE PARENT COMPANY

The company is a wholly owned subsidiary of Abbey National plc, the ultimate parent company and ultimate controlling entity, which is incorporated in Great Britain and registered in England and Wales. Abbey National plc has guaranteed all amounts payable by this company. The smallest and largest group into which the accounts of the company for the year ended 31st December, 2003 are consolidated are those of Abbey National plc.

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

CATER ALLEN LIMITED

Not for publication

DETAILED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31st DECEMBER 2003

| | 2003 £'000 | 2002 £'000 |
|---|----------------|----------------|
| Gross interest received | 157,715 | 122,068 |
| FX trading | 351 | 326 |
| Bank charges | 2,969 | 1,271 |
| Lloyd's guarantee fees | 4 | 4 |
| Leasing | - | - |
| Surplus on disposal of investment securities | - | - |
| Surplus on disposal of fixed assets | (3) | (144) |
| Dividends | - | - |
| Dividends from subsidiaries | - | 2,330 |
| | <u>161,036</u> | <u>125,855</u> |
| Interest payable on loans | (114,367) | (88,055) |
| Other direct costs | (7,214) | (4,949) |
| | <u>39,455</u> | <u>32,851</u> |
| Overheads: | | |
| Wages and salaries | 6,958 | 6,268 |
| Social security costs | 512 | 449 |
| Other pension costs | 1,311 | 750 |
| | <u>8,781</u> | <u>7,467</u> |
| Auditors' remuneration | 121 | 68 |
| Fees to auditors for other services | - | - |
| Depreciation of fixed assets | 530 | 480 |
| Operating lease rentals payable on land and buildings | 4,477 | 787 |
| Other administrative costs | 12,138 | 9,955 |
| | <u>26,047</u> | <u>18,757</u> |
| | 13,408 | 14,094 |
| Goodwill | 5,293 | 2,756 |
| Profit for the year before tax | <u>8,115</u> | <u>11,338</u> |