

# Report and Accounts

for the year ended 15 November 2003



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## Statutory Information

Directors	:	Sir B Stewart CBE, MSc, CA (Non-Executive Chairman)  A M Gunther BSc, ACIB, MBA (Chief Executive) A M Crombie FFA (Non-Executive Director) J Cummins BA, MBA (Non-Executive Director) J F Hylands BSc, FFA (Non-Executive Director) P Joshi BSc, FFA (Finance Director) Prof F Kirwan BA, MA (Non-Executive Director) D R Macmillan MA, MBA (Executive Director) K Morris BSc, MACT, ACIB (Non-Executive Director) I G Williamson BSc, FFA (Customer Service Director)
Secretary	:	J Johnstone LLB, DipLP, NP, MCIPD, MBA
Auditors	:	PricewaterhouseCoopers LLP Erskine House 68-73 Queen Street Edinburgh EH2 4NH
Registered Office	:	Standard Life House 30 Lothian Road Edinburgh EH1 2DH

## REPORT BY THE DIRECTORS

The directors submit their Report and Accounts for the year ended 15 November 2003.

### Annual General Meeting

As permitted by Section 366A of the Companies Act 1985, the Company has passed an elective resolution to dispense with the holding of an annual general meeting.

### Results and dividends

The Group made a profit for the year ended 15 November 2003 of £2.7m (2002 restated - £6.8m loss).

The directors do not recommend the payment of a dividend for the year. The directors consider the results to be satisfactory.

### Principal activities and business review

The Group's business is that of providing banking services through the Company and associated financial activities of its subsidiary. The directors aim to provide a competitive range of banking products and services at low cost while maintaining a consistently high level of service and efficiency. The Company is also responsible for the administration of Futureperfect mortgages advanced by The Standard Life Assurance Company, totalling £0.6 billion as at 15 November 2003 (2002 - £0.7 billion). Total mortgages under administration were £8.7 billion as at 15 November 2003 (2002 - £7.2 billion).

### Directors

The names of the current directors are listed on page 3.

Mr Trott resigned as Non-Executive Chairman on 30 June 2003.

Sir Brian Stewart resigned as Non-Executive Director on 30 June 2003.

Sir Brian Stewart was appointed as Non-Executive Chairman on 1 July 2003.

Mr Gill resigned as Finance Director on 16 September 2003 whilst retaining a role as an Executive Director.

Mr Gill resigned as an Executive Director on 21 October 2003.

Mr Joshi was appointed as Finance Director on 16 September 2003.

Mr Bartlett resigned as Non-Executive Director on 16 September 2003.

Mr Yelland resigned as Non-Executive Director on 16 September 2003.

Mr Kirwan was appointed as a Non-Executive Director on 16 September 2003.

Mr Morris was appointed as a Non-Executive Director on 16 September 2003.

Mr Macmillan was appointed as an Executive Director on 18 November 2003.

The appointment of directors is not subject to retirement by rotation. None of the directors has a beneficial interest in the shares of the Company, which is a wholly owned subsidiary of The Standard Life Assurance Company.

### Employees

The Company is committed to an equal opportunities policy. The sole criteria for selection or promotion is the suitability of any applicant for the job regardless of ethnic origin, religion, religious belief, sex, sexual orientation, marital status or disablement. The Company will continue to employ, arrange for retraining, or retire on disability pension, any member of staff who becomes disabled, as may be appropriate.

### Employee involvement

It is the Company's policy to have effective communication and consultation with staff. Staff involvement is achieved through a variety of approaches, including meetings, briefings, executive open fora and newsletters that help to ensure that staff are kept fully aware of the Company's goals and results. Staff elect representatives of Bank LINK who, in turn, elect a National LINK representative. The National LINK representative meets with members of the Bank Executive and senior managers on a regular basis to discuss matters of general staff interest or concern.

### Financial instruments

#### *Financial assets*

The principal financial assets held by the Group, other than mortgages, comprise loans and advances to banks and debt securities (certificates of deposit, gilts, floating rate notes, treasury bills and eligible bills). The main purpose of holding these financial assets as agreed by the directors is to ensure appropriate liquidity, ensuring the Group's liabilities are met as they fall due and to meet regulatory requirements in respect of liquidity management.

#### *Financial liabilities*

The principal financial liabilities of the Group, other than customer accounts, are deposits by other banks, certificates of deposit, commercial paper and medium term notes. The purpose of incurring these financial liabilities as agreed by the directors is to ensure the Group has flexible sources of diversified funding available. In addition the Group obtains funding through the issue of mortgage backed securities via securitisation of its mortgage assets.

## REPORT BY THE DIRECTORS (Continued)

### *Derivative transactions*

The Company enters into derivative transactions (principally interest rate swaps, forward rate agreements, financial futures, cross currency swaps and forward currency contracts) for the purpose, as agreed by the directors, of reducing interest rate and currency risks. The Company also enters into credit default swaps for the purpose of reducing credit risk on mortgage advances. The Company continues to maintain a policy of using derivatives to manage asset and liability risk and not for trading purposes. Further details on derivatives are given in Note 30.

### **Group risks**

The main risks arising from the Group's activities are summarised below. The ultimate responsibility for managing risk resides with the board of Standard Life Bank Limited and the directors review and agree policies for managing each of these risks.

**Market and interest rate risk:** The Group maintains a policy of monitoring global macroeconomic developments and the implications to the Group by using sensitivity and gap analyses. The Group's interest rate exposure on its assets and liabilities is managed using interest rate swaps, financial futures and forward rate agreements.

**Liquidity risk:** The Group maintains a policy of ensuring funds are available at all times to meet the Group's financial obligations as they fall due, including the withdrawal of customer deposits, and also to fund growth in the balance sheet. The Group ensures it can meet its financial obligations by maintaining a suitable level of liquid assets and having diverse sources of funding available. Wholesale funding is raised for the Group by taking deposits from banks, issuance of certificates of deposit, securitisation of mortgage assets and the issuance of commercial paper and medium term notes via its subsidiary undertaking.

**Foreign currency risk:** The Group is not exposed to material structural currency exposure since the majority of the Group's operations are based in the UK. The Company's investment in its subsidiary undertaking, whose functional currency is in euros, is not material. The Group uses foreign exchange forwards and cross currency swaps to remove any transactional foreign currency exposure that occurs via its wholesale funding activities.

**Credit risk:** The Group maintains a policy of investing in other debt programmes or with counterparties which are rated as investment grade by Standard and Poor's and Moody's. In addition to mortgage underwriting controls, the Company

utilises a programme that uses a credit derivative mechanism (i.e. an unfunded securitisation via a credit default swap) which allows it, for regulatory purposes, to treat exposures on its mortgage book covered by the swap as exposures to an OECD bank, which carries a lower risk weighting for regulatory purposes than exposures to individuals.

**Operational risk:** This is the risk to the Group of loss, resulting from inadequate or failed internal processes, people and systems or from external events. In the Company, this definition also includes legal, reputational and strategic/business risk. During the year, an Operational Risk Committee was established to focus and co-ordinate operational risk management activities and oversees the Company's risk profile. Senior management are responsible for the detailed management of risks in their area. Each business area undertakes risk self-assessment activities to identify and assess the key risks in its area including the adequacy of controls to manage the risks using a consistent methodology.

### **Economic and Monetary Union**

The Company is represented on a Standard Life Assurance Company Group ("Standard Life") project team responsible for carrying out extensive analysis of the implications of Economic and Monetary Union (EMU) on the Standard Life Group's activities. The project team is currently preparing for the possibility of UK entry to EMU. Euro processing capability for banking systems is the subject of current review.

### **Supplier payment policy**

It is the Standard Life Group's policy to negotiate payment terms with principal suppliers and to pay in accordance with the terms agreed. For other suppliers, where goods and services have been supplied to specification, payment is made in accordance with the terms offered by the supplier.

### **Auditors**

The auditors, PricewaterhouseCoopers, converted to a Limited Liability Partnership (LLP) from 1 January 2003. PricewaterhouseCoopers resigned on 28 Jan 2003 and the directors appointed its successor PricewaterhouseCoopers LLP, as auditors. PricewaterhouseCoopers LLP are willing to continue in office.

On behalf of the Board of Directors

P Joshi, Finance Director

Edinburgh, 11 January 2004

## DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which comply with the Companies Act 1985, are in accordance with applicable United Kingdom accounting standards and give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that year. In addition, the directors should take all reasonable steps to ensure that adequate accounting records are maintained, that the assets of the Group and Company are safeguarded and that fraud and other irregularities are prevented or detected.

The directors confirm that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the accounts of the Group and Company for the year ended 15 November 2003. The directors also confirm that the accounts have been appropriately prepared on a going concern basis and that applicable accounting standards have been followed as described in the Accounting Policies.

The maintenance and integrity of the Standard Life Bank website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## STANDARD LIFE BANK LIMITED

### CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 15 November 2003

	Notes	2003 £000	Restated 2002 £000
Interest receivable:			
- Interest receivable and similar income arising from debt securities and other fixed income securities		60,974	54,986
- Other interest receivable and similar income		337,191	284,114
Interest payable		(287,739)	(255,625)
Net interest income		110,426	83,475
Fees and commissions receivable		13,524	7,892
Fees and commissions payable		(7,316)	(5,932)
Dealing loss		(1,271)	(3,133)
Net operating income		115,363	82,302
Administrative expenses	4	(67,096)	(62,399)
Depreciation and amortisation	7	(42,608)	(28,641)
Provision for bad and doubtful debts	14	(1,029)	(1,150)
Profit/(loss) on ordinary activities before tax	7	4,630	(9,888)
Tax on profit/(loss) on ordinary activities	8	(1,981)	3,115
Profit/(loss) for the year	9,26	2,649	(6,773)

The result for the year relates wholly to continuing activities.

## CONSOLIDATED BALANCE SHEET

As at 15 November 2003

	Notes	2003 £000	Restated 2002 £000
<b>Assets</b>			
Treasury bills and other eligible bills	10	134,193	156,460
Loans and advances to banks	11	734,990	179,653
Loans and advances to customers	12	4,894,367	6,520,320
Securitised advances	13	3,193,630	–
Less: non-recourse finance	13	(2,333,627)	–
		860,003	–
Debt securities	15	797,728	1,042,233
Tangible fixed assets	17	127	45
Intangible fixed assets	17	1,322	–
Other assets	18	158,679	108,176
Prepayments and accrued income	19	46,998	39,467
Total assets		<u>7,628,407</u>	<u>8,046,354</u>
<b>Liabilities</b>			
Deposits by banks	20	252,284	312,777
Customer accounts	21	4,562,097	4,785,118
Debt securities in issue	22	2,241,194	2,387,253
Other liabilities	23	23,610	26,734
Accruals and deferred income		73,734	61,844
Subordinated liabilities	24	230,000	230,000
		<u>7,382,919</u>	<u>7,803,726</u>
Called up share capital	25	370,000	370,000
Reserves	26	255	44
Profit and loss account	26	(124,767)	(127,416)
Total shareholders' funds	27	<u>245,488</u>	<u>242,628</u>
Total liabilities		<u>7,628,407</u>	<u>8,046,354</u>
<b>Memorandum items</b>			
Contingent liabilities:			
- Guarantees	29	5,409,103	4,554,116
Other commitments:			
- Commitments to lend	28	2,203,794	1,953,958

On behalf of the Board of Directors  
P Joshi, Finance Director  
11 January 2004

## COMPANY BALANCE SHEET

As at 15 November 2003

	Notes	2003 £000	Restated 2002 £000
<b>Assets</b>			
Treasury bills and other eligible bills	10	134,193	156,460
Loans and advances to banks	11	734,760	179,638
Loans and advances to customers	12	4,894,367	6,520,320
Securitised advances	13	3,193,630	–
Less: non-recourse finance	13	(2,333,627)	–
		860,003	–
Debt securities	15	797,728	1,042,233
Shares in group undertaking	16	12	12
Tangible fixed assets	17	127	45
Intangible fixed assets	17	1,322	–
Other assets	18	158,679	108,176
Prepayments and accrued income	19	46,998	39,467
Total assets		<u>7,628,189</u>	<u>8,046,351</u>
<b>Liabilities</b>			
Deposits by banks	20	252,284	312,777
Customer accounts	21	4,562,097	4,785,118
Debt securities in issue	22	878,000	574,900
Other liabilities	23	1,395,378	1,842,312
Accruals and deferred income		66,470	60,415
Subordinated liabilities	24	230,000	230,000
		<u>7,384,229</u>	<u>7,805,522</u>
Called up share capital	25	370,000	370,000
Profit and loss account	26	(126,040)	(129,171)
Total shareholders' funds	27	<u>243,960</u>	<u>240,829</u>
Total liabilities		<u>7,628,189</u>	<u>8,046,351</u>
<b>Memorandum items</b>			
Contingent liabilities:			
- Guarantees	29	6,772,298	6,366,469
Other commitments:			
- Commitments to lend	28	2,203,794	1,953,958

On behalf of the Board of Directors  
 P Joshi, Finance Director  
 11 January 2004

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 15 November 2003

	Notes	2003 £000	Restated 2002 £000
Profit/(loss) attributable to ordinary shareholders		2,649	(6,773)
Foreign currency gain on investment in subsidiary	26	211	44
Total recognised gains/(losses) for the year		<u>2,860</u>	<u>(6,729)</u>
Prior year adjustment – fixed assets	2,17		
Prior to 16 November 2001		(3,813)	
Year ended 15 November 2002		(129)	
		<u>(3,942)</u>	
Prior year adjustment – effect on deferred tax			
Prior to 16 November 2001		971	
Year ended 15 November 2002		42	
		<u>1,013</u>	
Total recognised losses since last annual report		<u>(69)</u>	

## NOTES TO THE ACCOUNTS

### 1. ACCOUNTING POLICIES

#### (a) Accounting convention

The accounts have been prepared under the historical cost convention in accordance with applicable Accounting Standards, all Statements of Recommended Accounting Practice issued by the British Bankers' Association, and in accordance with Section 255A and Schedule 9 to the Companies Act 1985.

#### (b) Basis of consolidation

The consolidated accounts consolidate the profit and loss account and balance sheet of Standard Life Bank Limited and its subsidiary undertaking. Special purpose vehicles used in securitisation transactions are accounted for as quasi subsidiaries in the accounts of the Company (see note 13).

#### (c) Shares in subsidiary undertaking

Shares in the subsidiary undertaking are valued at cost.

#### (d) Provision for bad and doubtful debts

Specific provisions are made against loans and advances (including securitised advances where appropriate) on a case by case basis where the specified advance is more than two payments in arrears and recovery is therefore considered doubtful. The specific provision is calculated as the amount required to reduce the current loan balance to the estimated net realisable value of the advance. The estimated net realisable value is calculated by adjusting the last valuation of the security by reference to movements in an appropriate house price index and deducting, on the basis of past experience, legal and other costs expected to be incurred in realising the security.

General provision is made in respect of losses which although not yet specifically identified, are known from experience to be present in the portfolio of customer advances (including securitised advances where appropriate). Such provisions are calculated by segmenting the total portfolio (excluding cases already specifically provided for) according to risk profiles reflecting product characteristics, borrower credit-worthiness and loan to value ratios. This segmentation is then stress tested under various scenarios, applying estimated rates of loss based on experience, to produce an estimated loss, which is then provided for. Estimated loss rates are regularly compared to actual experience and adjusted accordingly.

Interest, receipt of which is considered to be doubtful, is not credited to the profit and loss account when applied to a customer's account but is held in suspense until collection is assured.

Loans and advances are written off when there is no realistic prospect of recovery. Loans and advances are stated net of specific and general provisions and of interest in suspense in the balance sheet.

#### (e) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date or if appropriate at the contracted rate under a forward contract or cross currency swap. The results of the overseas subsidiary undertaking are translated using an average exchange rate. Exchange differences resulting from the translation of opening reserves are dealt with as a movement in reserves. Other exchange differences arising on the translation of the overseas subsidiary are dealt with in the profit and loss account.

Other foreign currency transactions are translated at the rate of exchange ruling on the date on which the transaction occurred.

## NOTES TO THE ACCOUNTS (Continued)

### 1. ACCOUNTING POLICIES (Continued)

#### (f) Fixed assets

Tangible and intangible fixed assets are capitalised and depreciated on a straight line basis over their estimated useful lives which range from two to four years.

#### (g) Deferred taxation

Deferred tax is recognised on a discounted basis for all timing differences that have originated but not reversed at the balance sheet date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

The value of the deferred tax asset is calculated using the average tax rates expected to be applicable in the periods in which the timing differences are expected to reverse. The value of the tax asset is then discounted at the corresponding gilt rates extant at the year end in order to reflect the time value of money.

#### (h) Mortgage incentives

Repayment of legal and valuation fees to mortgage customers and discounts offered on mortgage products are deferred and amortised to the profit and loss account over either 12 months or the early redemption charge period of the product. Mortgage incentive costs relating to advances which are considered bad or doubtful are however written off to the profit and loss account immediately.

#### (i) Debt securities and other eligible bills

Where debt securities are held for the short term, they are included in the balance sheet at market value. Any changes in the market value of such assets are recognised in the profit and loss account as dealing profits or losses as they arise.

Where debt securities, treasury bills or other eligible bills are held for use on a continuing basis for investment purposes, they are stated at cost adjusted for any amortisation of premium or discount.

#### (j) Interest

Interest income and interest payable are recognised on an accruals basis.

#### (k) Cashflow statement

A cashflow statement has not been provided as the Group has taken advantage of the exemption contained in Financial Reporting Standard 1 (Revised) "Cashflow Statements" as consolidated accounts in which the Group is included are available (see note 33).

#### (l) Pensions

Charges in respect of employer's contributions are calculated on a basis which spreads the cost over the service lives of scheme members.

#### (m) Commission

Commission payable on savings accounts and regular commission on mortgage accounts is recognised as it is incurred. Initial commission payable on mortgage accounts is included in prepayments in the balance sheet and is amortised to the profit and loss account over three years.

## NOTES TO THE ACCOUNTS (Continued)

### 1. ACCOUNTING POLICIES (Continued)

#### (n) Derivatives

Transactions are undertaken in derivative financial instruments, 'derivatives', which include interest rate swaps, forward rate agreements, interest rate futures, cross currency swaps, credit derivatives and forward foreign exchange contracts, for non-trading purposes only.

Derivatives classified as non-trading are those entered into for the purpose of matching or reducing risk from potential movements in foreign exchange rates and interest rates inherent in the Company's non-trading assets and liabilities or for the purposes of reducing credit risk inherent in the Company's balance sheet. Non-trading assets and liabilities are those intended for use on an ongoing basis in the retail banking activities of the Company. Where non-trading assets are held for the short term, they are included in the balance sheet at market value. Non-trading derivatives hedging such assets are also held at market value in order to offset the market value movement in the underlying instrument being hedged.

A derivative is designated as non-trading where there is an offset between the effects of potential movements in market rates on the derivative and the designated non-trading asset or liability being hedged. Non-trading derivatives are reviewed regularly for their effectiveness as hedges. Non-trading derivatives are accounted for on a basis consistent with the assets or liabilities being hedged. Where used to hedge debt issues, the debt is recorded at the contracted rate of the associated hedge. Up front premiums on non-trading derivatives are deferred and amortised over the life of the instrument. Income and expense on non-trading derivatives are recognised as they accrue over the life of the instruments as an adjustment to 'Fees and commissions payable' for credit derivatives or 'Interest receivable' or 'Interest payable' for all other non-trading derivatives. Where a non-trading derivative no longer represents a hedge because either the underlying non-trading asset or liability has been derecognised, or transferred into a trading portfolio, or the effectiveness of the hedge has been undermined, it is restated at fair value and any change in value is taken directly to the profit and loss account and reported within 'Other operating income' or 'Other operating charges'.

Once a non-trading derivative is deemed to no longer constitute a hedge, the derivative can either be classified as trading or if subsequently found to be appropriate, redesignated as a hedge of a non-trading item and accounted for accordingly. If a non-trading derivative is terminated early, the realised gain or loss is deferred and amortised to earnings over the residual life of the underlying instrument.

Derivatives hedging anticipatory transactions are accounted for on a basis consistent with the relevant type of transaction. Where anticipatory transactions do not actually occur, related derivatives are either reclassified as trading or re-designated as a hedge of a non-trading item and accounted for accordingly.

If a derivative hedging an anticipatory transaction is reclassified as trading it is restated at fair value and changes in value are taken directly to the profit and loss account and reported within 'Other operating income' or 'Other operating charges.'

#### (o) Securitised advances subject to non-recourse financing

Securitised advances include advances that are subject to non-recourse finance arrangements following securitisation of mortgage portfolios. Securitised advances subject to non-recourse finance are reported in accordance with FRS 5 "Reporting the Substance of Transactions" with linked presentation being used. Under linked presentation, the net amount of the Group's interest in the assets is consolidated, with the related gross amounts shown on the face of the balance sheet. Within the consolidated profit and loss account, the net income, including any deferred purchase consideration, is included within 'Other interest receivable', with the main elements separately identified within the note 13 to the accounts. The Group provisioning policy as stated in note (d) above also applies to securitised advances.

### 2. CHANGE IN ACCOUNTING POLICY

Comparative figures have been restated to reflect a change in the accounting policy for the capitalisation of software license and project development costs, with only license costs now capitalised. The directors consider the new policy is more appropriate in light of the type of development expenditure.

## NOTES TO THE ACCOUNTS (Continued)

### 3. SEGMENTAL REPORTING

The Group's two main classes of business are banking services, conducted in the UK, and financing conducted in the UK and in Europe. A segmental analysis of the Group is given below.

Segmental results 15/11/03	UK Banking Services £000	UK Financing £000	Europe Financing £000	Intra-group items £000	Group total £000
Interest receivable	369,881	28,240	42,908	(42,864)	398,165
Fees & commissions receivable	13,524	-	-	-	13,524
Dealing loss	(1,271)	-	-	-	(1,271)
Total gross income	<u>382,134</u>	<u>28,240</u>	<u>42,908</u>	<u>(42,864)</u>	<u>410,418</u>
Results before taxation	<u>4,592</u>	<u>26</u>	<u>1,409</u>	<u>(1,397)</u>	<u>4,630</u>
Total assets	<u>7,628,163</u>	<u>26</u>	<u>1,337,340</u>	<u>(1,337,122)</u>	<u>7,628,407</u>
Net assets	<u>243,934</u>	<u>26</u>	<u>1,541</u>	<u>(13)</u>	<u>245,488</u>
Segmental results 15/11/02 (Restated)	UK Banking Services £000	UK Financing £000	Europe Financing £000	Intra-group items £000	Group total £000
Interest receivable	339,091	-	39,829	(39,820)	339,100
Fees & commissions receivable	7,892	-	-	-	7,892
Dealing loss	(3,133)	-	-	-	(3,133)
Total gross income	<u>343,850</u>	<u>-</u>	<u>39,829</u>	<u>(39,820)</u>	<u>343,859</u>
Results before taxation (restated)	<u>(11,433)</u>	<u>-</u>	<u>1,563</u>	<u>(18)</u>	<u>(9,888)</u>
Total assets (restated)	<u>8,046,351</u>	<u>-</u>	<u>1,786,413</u>	<u>(1,786,410)</u>	<u>8,046,354</u>
Net assets (restated)	<u>240,829</u>	<u>-</u>	<u>1,828</u>	<u>(29)</u>	<u>242,628</u>

## NOTES TO THE ACCOUNTS (Continued)

### 4. ADMINISTRATIVE EXPENSES

	2003 £000	Restated 2002 £000
Staff costs:		
- Wages and salaries	19,595	18,265
- Social security costs	1,426	1,204
- Other pension costs	2,472	2,246
Other administrative expenses	43,603	40,684
	<u>67,096</u>	<u>62,399</u>

The staff who manage the affairs of the Group are employed by both the ultimate parent undertaking and the Company. Their costs are recharged from the parent undertaking to the Company and the amounts recharged are set out above. There are no staff employed by the subsidiary undertaking. The staff numbers during the year averaged 912 (2002 - 881).

### 5. DIRECTORS' REMUNERATION

	2003 £000	2002 £000
Aggregate emoluments	757	860
Amounts paid as compensation for loss of office	31	95
Amounts receivable under long term incentive schemes	100	144

The directors are participants in a long-term incentive plan. The benefits arising under the incentive plan are recorded in the period in which entitlement was determined.

Retirement benefits are accruing to three directors under a defined benefit scheme operated by the parent undertaking. Non-executive directors are not entitled to retirement benefits.

	2003 £000	2002 £000
Highest paid director		
Aggregate emoluments and benefits payable under long term incentive schemes	448	347
Defined benefit pension scheme	8	3

## NOTES TO THE ACCOUNTS (Continued)

### 6. PENSION COSTS

The ultimate parent undertaking operates a pension scheme for its employees and those of its subsidiaries providing benefits based on final pensionable pay. The contributions to the scheme are determined by independent qualified actuaries using the projected unit credit method. These continue to be accounted for in accordance with SSAP 24.

FRS 17 - Retirement Benefits has been amended by the Accounting Standards Board to extend the transitional arrangements and therefore defer the mandatory requirement for its full adoption until 15 November 2006. As the Company's employees only form part of the multi-employer scheme operated by the parent undertaking for which the assets and liabilities relating to individual subsidiaries are not identified, on full adoption of FRS 17, the Company will account for its pension contributions as if they were made to a defined contribution scheme.

Full details of the parent undertaking's pension scheme, including the transitional disclosures required under FRS 17, are contained in the financial statements of Standard Life Assurance Company.

### 7. PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAX

	2003	Restated 2002
	£000	£000
The profit/(loss) on ordinary activities before tax is stated after charging:		
Interest payable with respect to subordinated liabilities	11,154	11,976
Auditors' remuneration		
- Audit services	108	72
- Non-audit services	180	9
Depreciation and amortisation		
- Tangible fixed assets	171	66
- Intangible fixed assets	440	-
- Prepayments	41,997	28,575
	<u>42,608</u>	<u>28,641</u>

The majority of the non-audit services relate to other assurance services.

## NOTES TO THE ACCOUNTS (Continued)

### 8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2003 £000	Restated 2002 £000
Current tax:		
- UK corporation tax on profits of year	-	-
- Group relief in respect of current year	-	(2,070)
- Group relief in respect of prior year	794	(1,852)
- Overseas taxes	494	430
Total current tax	<u>1,288</u>	<u>(3,492)</u>
Deferred tax:		
- Origination and reversal of timing differences	1,012	1,016
- Movement in discount	(319)	(639)
Tax on profit/(loss) on ordinary activities	<u>1,981</u>	<u>(3,115)</u>

There is no current year charge to UK tax due to prior year losses in the Company. The group relief taxation represents an adjustment to prior year payments for losses surrendered to other Standard Life Group companies.

There is no deferred tax liability in the year due to the availability of tax losses. The discounted deferred tax asset of £14.9m (2002 - £15.6m restated) in respect of these losses has been recognised as an asset within the Group and the corresponding tax credit taken to the profit and loss account. The directors fully expect that there will be taxable profits in future years against which the deferred tax asset can be recovered. A deferred tax asset of £949k (2002 - £648k) has not been recognised on the bad debt provision on the basis that it is unlikely to reverse in the foreseeable future.

A reconciliation of current tax on profit on ordinary activities at the standard UK corporation tax rate to the Group's actual current tax charge for the years ended 15 November 2003 and 2002 is shown as follows:

	2003 £000	Restated 2002 £000
Profit on ordinary activities before tax	4,630	(9,888)
Profit on ordinary activities multiplied by the standard rate of corporation tax 30%	1,389	(2,966)
Effects of:		
- Expenses not deductible for tax purposes	456	608
- Capital allowances for period in excess of depreciation	(606)	(16)
- Current year losses not group relieved	-	766
- Offsetting prior year losses	(1,227)	-
- Effect of group income	411	-
- Adjustment in respect of previous periods	794	(1,852)
- Higher/(lower) tax rate in overseas subsidiary	71	(32)
Current tax charge	<u>1,288</u>	<u>(3,492)</u>

## NOTES TO THE ACCOUNTS (Continued)

### 9. PROFIT FOR THE YEAR

Of the consolidated profit for the year, £3.1m (2002 – loss of £7.9m restated) has been dealt with in the accounts of Standard Life Bank Limited. As permitted by Section 230 of the Companies Act 1985, the profit and loss account of Standard Life Bank Limited has not been presented separately.

### 10. TREASURY BILLS AND OTHER ELIGIBLE BILLS

	Consolidated & Company			
	Carrying value		Market value	
	2003 £000	2002 £000	2003 £000	2002 £000
Investment securities:				
- Treasury bills and similar securities	129,768	76,247	129,700	95,945
- Other eligible bills	4,425	80,213	4,422	89,290
	<u>134,193</u>	<u>156,460</u>	<u>134,122</u>	<u>185,235</u>

	Consolidated & Company		
	Cost	Amortised discounts	Carrying value
	£000	£000	£000
Investment securities:			
At 16 November 2002	155,478	982	156,460
Acquisitions	813,220	5,743	818,963
Disposals and redemptions	(835,410)	(5,820)	(841,230)
At 15 November 2003	<u>133,288</u>	<u>905</u>	<u>134,193</u>
		2003	2002
		£000	£000
Unamortised discounts on treasury bills and other eligible bills		<u>549</u>	<u>683</u>

### 11. LOANS AND ADVANCES TO BANKS

	Consolidated		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Repayable:				
- On demand	121,560	1,021	121,330	1,007
- Within 3 months	613,430	158,632	613,430	158,631
- Between 3 months and 1 year	-	20,000	-	20,000
	<u>734,990</u>	<u>179,653</u>	<u>734,760</u>	<u>179,638</u>

## NOTES TO THE ACCOUNTS (Continued)

### 12. LOANS AND ADVANCES TO CUSTOMERS

	Consolidated & Company	
	2003	2002
	£000	£000
Remaining maturity:		
- Over 5 years	4,818,652	6,433,106
- 5 years or less but over 1 year	74,890	86,828
- 1 year or less but over 3 months	3,005	2,417
- 3 months or less excluding on demand	387	293
- On demand	230	178
Provisions (Note 14)	(2,697)	(2,411)
Suspended interest (Note 14)	(100)	(91)
	<u>4,894,367</u>	<u>6,520,320</u>
Loans and advances to customers on which interest is being placed in suspense:	2003	2002
	£000	£000
- Loans and advances before provisions	11,446	5,469
- Loans and advances after provisions	11,194	5,338

### 13. SECURITISATION

Securitised advances include a portfolio of residential mortgage loans secured on residential property in England, Wales and Scotland that is subject to non-recourse financing arrangements.

During the year, Standard Life Bank Limited ("Standard Life Bank") sold portfolios of residential mortgage loans with a book value of £3.4 billion to Lothian Trustees Limited (the "Trust"). Lothian Funding Limited ("Funding") and Standard Life Bank each acquired, at book value, a beneficial interest in the Trust property. Funding's beneficial interest was acquired in two separate transactions, the first on 16 April 2003 for £1.0 billion and the second on 23 September 2003, for £1.5 billion. Funding financed its acquisitions through borrowings from its subsidiary companies, Lothian Mortgages (No.1) plc and Lothian Mortgages (No.2) plc. These companies financed their loans to Funding via the issue of mortgage backed floating rate notes.

Securitisation company	Date of securitisation	Gross assets securitised £m	Subordinated loans made by Group £m
Lothian Mortgages (No.1) plc	16th April 2003	1,000	14.0
Lothian Mortgages (No.2) plc	23rd September 2003	1,500	20.7

## NOTES TO THE ACCOUNTS (Continued)

### 13. SECURITISATION (continued)

These special purpose vehicles are part of a group of which Lothian Mortgages Holdings Limited is the parent company. Standard Life Bank does not own directly or indirectly any of the share capital of these special purpose vehicles or of their parent. In accordance with applicable accounting standards, these special purpose vehicles have been accounted for as quasi subsidiaries of the Company.

Standard Life Bank (as originator of the securitised advances) is not obliged to support any losses in respect of the securitised advances subject to non-recourse financing, except as described below, nor does it intend to do so. This is clearly stated in the offering circular subscribed to by the noteholders of the debt issued by the special purpose vehicles and in the legal agreements with the noteholders. Losses are shared equally in accordance with the interests held in the Trust. Standard Life Bank's interest in the Trust will only bear additional loss in limited exceptional circumstances set out in the offering circular (such as in the event of insolvency of Standard Life Bank or the default and set-off by Standard Life Bank customers who are both mortgage and deposit holders).

Standard Life Bank has made start-up loans to Funding, repayments of interest and capital on which are subordinated to the claims of the noteholders of the debt issued by the special purpose vehicles.

Standard Life Bank has an option (but not an obligation) to sell further mortgage loans to the Trust where at the end of any trust determination period the rate of repayment of principal exceeds the level agreed at the date of sale of the loans. Standard Life Bank has no right or obligation to repurchase the benefit of any securitised loan except to the extent that the loan breaches representations and warranties given at the date of sale. It does, however, have the option (but not the obligation) to repurchase loans from the Trust, on being offered the opportunity to do so, where the borrower requests a further advance or a product switch.

Standard Life Bank has entered into an interest rate basis swap with Funding. This swap converts fixed and variable interest flows from the mortgage loans held by the special purpose vehicles, into LIBOR based interest flows to match the interest flows payable on the floating rate notes.

The Company receives administration fees for servicing the mortgage portfolios and providing cash management services. In addition, any residual income arising after the claims of the bondholders and other creditors of these special purpose vehicles are met, is due to the Company as deferred purchase consideration for the residential mortgages sold to the Trust.

## NOTES TO THE ACCOUNTS (Continued)

### 13. SECURITISATION (continued)

An aggregated summary of the results and balance sheet for the year ended 15 November 2003 for Lothian Mortgages Holdings Group, including the assets and liabilities held on trust by Lothian Trustees Limited, is set out below.

	2003 £000
Interest receivable	60,122
Interest payable to third parties	<u>(31,835)</u>
Net interest receivable	28,287
Administrative expenses to third parties	(36)
Provision for taxation	(11)
Net profit	<u>28,240</u>

The net profit above is attributable to Standard Life Bank and has been included in the Profit and Loss Account within 'Other interest receivable'. The Company's additional cost of funding the assets producing this profit is included within 'Interest payable'.

	2003 £000
Loans and advances to banks	126,998
Securitised advances	3,187,788
Other assets	<u>6,992</u>
Total assets	<u>3,321,778</u>
Debt securities in issue	2,449,371
Amounts owed to group companies	860,718
Other liabilities	<u>11,689</u>
Total liabilities	<u>3,321,778</u>

The securitised advances in the Group balance sheet, together with the beneficial interest owned by the Company is analysed as follows:

	2003 £000
Book value of mortgages securitised	3,187,788
Accrued interest on securitised mortgages	6,584
Less provisions for bad and doubtful debts	<u>(742)</u>
	<u>3,193,630</u>
SLB's beneficial interest in mortgage portfolio	813,700
Subordinated loans and other credit enhancement	<u>46,303</u>
	<u>860,003</u>

## NOTES TO THE ACCOUNTS (Continued)

### 14. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

	Consolidated & Company		
	Specific £000	General £000	Total £000
At 16 November 2002	131	2,280	2,411
Charge against profits	146	883	1,029
Amounts written off	(1)	-	(1)
At 15 November 2003	<u>276</u>	<u>3,163</u>	<u>3,439</u>
Interest in suspense:			£000
At 16 November 2002			91
Interest suspended during the year			9
At 15 November 2003			<u>100</u>

Included in the bad and doubtful debt provision is £0.7m in respect of securitised advances (2002 - £nil).

## NOTES TO THE ACCOUNTS (Continued)

### 15. DEBT SECURITIES

	Consolidated & Company			
	Carrying value		Market value	
	2003 £000	2002 £000	2003 £000	2002 £000
Issued by public bodies				
Investment securities:				
- Government securities	130,451	132,535	129,560	133,553
	<u>130,451</u>	<u>132,535</u>	<u>129,560</u>	<u>133,553</u>
	Market value		Cost	
	2003 £000	2002 £000	2003 £000	2002 £000
Issued by other issuers				
Other securities:				
- Bank and building society certificates of deposit	278,028	662,497	274,002	652,414
- Other debt securities	389,249	247,201	386,723	245,792
	<u>667,277</u>	<u>909,698</u>	<u>660,725</u>	<u>898,206</u>

All debt securities are listed.

	Consolidated & Company	
	2003 £000	2002 £000
Due within 1 year	378,202	691,606
Due 1 year and over	419,526	350,627
	<u>797,728</u>	<u>1,042,233</u>
Unamortised premiums on investment securities	<u>5,451</u>	<u>7,535</u>

Investment securities:

	Consolidated & Company		
	Cost	Amortised premiums	Carrying value
	£000	£000	£000
At 16 November 2002	134,160	(1,625)	132,535
Amortisation of premiums	-	(2,084)	(2,084)
At 15 November 2003	<u>134,160</u>	<u>(3,709)</u>	<u>130,451</u>

## NOTES TO THE ACCOUNTS (Continued)

### 16. SHARES IN GROUP UNDERTAKING

	£000
As at 16 November 2002	12
Additions	-
As at 15 November 2003	<u>12</u>

All shares in group undertakings are in the subsidiary undertaking and are unlisted.

The subsidiary undertaking is as follows:

Subsidiary	Percentage of equity capital and voting rights held	Country of incorporation	Principal activity	Year end
Standard Life Funding B.V.	100%	Netherlands	Financing	15 Nov

In addition, Lothian Mortgages (No.1) plc, Lothian Mortgages (No.2) plc, Lothian Funding Limited, Lothian Mortgages Holdings Limited and Lothian Options Limited, all companies incorporated in England & Wales and Lothian Trustees Limited, incorporated in Jersey, have been accounted for as quasi-subidiaries (see Note 13).

### 17. FIXED ASSETS

	Consolidated & Company		Total £000
	Tangible assets Computers and other equipment £000	Intangible assets Licenses £000	
Cost or valuation:			
At 16 November 2002 (restated)	399	-	399
Additions	304	1,762	2,066
Disposals	<u>(51)</u>	<u>-</u>	<u>(51)</u>
At 15 November 2003	<u>652</u>	<u>1,762</u>	<u>2,414</u>
Depreciation:			
At 16 November 2002 (restated)	354	-	354
Charge for the year	171	440	611
Disposals	<u>-</u>	<u>-</u>	<u>-</u>
At 15 November 2003	<u>525</u>	<u>440</u>	<u>965</u>
Net book value:			
At 15 November 2003	<u>127</u>	<u>1,322</u>	<u>1,449</u>
At 15 November 2002 (restated)	<u>45</u>	<u>-</u>	<u>45</u>

## NOTES TO THE ACCOUNTS (Continued)

### 18. OTHER ASSETS

	Consolidated & Company Restated	
	2003 £000	2002 £000
Amount due from parent undertaking	-	5,051
Market debtors - unsettled trades	143,538	87,229
Deferred tax asset	14,873	15,566
Other assets	268	330
	<u>158,679</u>	<u>108,176</u>

	Consolidated & Company Restated	
	2003 £000	2002 £000
Deferred tax asset:		
Excess depreciation over capital allowances	1,781	2,411
Tax losses carried forward	14,065	14,498
Other timing differences	169	118
Undiscounted deferred tax asset	16,015	17,027
Discount	(1,142)	(1,461)
Discounted deferred tax asset	<u>14,873</u>	<u>15,566</u>
Opening deferred tax asset	15,566	14,972
Prior year adjustment	-	971
Movement in year	<u>(693)</u>	<u>(377)</u>
Closing deferred tax asset	<u>14,873</u>	<u>15,566</u>

### 19. PREPAYMENTS AND ACCRUED INCOME

	Consolidated & Company	
	2003 £000	2002 £000
Prepayments	16,920	14,292
Accrued income	30,078	25,175
	<u>46,998</u>	<u>39,467</u>

Included in prepayments above are unamortised mortgage incentive costs of £4.4m (2002 - £6.1m). If all mortgage incentive costs had been written off in the year in which they were incurred, £1.7m less (2002 - £2.1m more) would have been charged to the profit and loss account in 2003, increasing the profit for the year to £4.3m (2002 - increasing the loss (restated) to £8.9m).

## NOTES TO THE ACCOUNTS (Continued)

### 20. DEPOSITS BY BANKS

	Consolidated & Company	
	2003	2002
	£000	£000
Repayable:		
- On demand	6,900	-
- 3 months or less but not repayable on demand	178,438	289,277
- Between 3 months and 1 year	64,946	23,500
- More than 1 year	2,000	-
	<u>252,284</u>	<u>312,777</u>

### 21. CUSTOMER ACCOUNTS

	Consolidated & Company	
	2003	2002
	£000	£000
Repayable:		
- On demand	2,521,746	2,778,931
- 3 months or less but not repayable on demand	1,871,662	1,837,103
- Between 3 months and 1 year	104,863	111,267
- 5 years or less but over 1 year	63,826	57,817
	<u>4,562,097</u>	<u>4,785,118</u>

## NOTES TO THE ACCOUNTS (Continued)

### 22. DEBT SECURITIES IN ISSUE

	Consolidated		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Bonds and medium term notes	734,507	632,422	-	-
Other debt securities	<u>1,506,687</u>	<u>1,754,831</u>	<u>878,000</u>	<u>574,900</u>
	<u>2,241,194</u>	<u>2,387,253</u>	<u>878,000</u>	<u>574,900</u>
Maturity analysis:				
Bonds and medium term notes:				
- Between 3 months and 1 year	152,882	125,139	-	-
- Between 1 year and 2 years	409,942	150,213	-	-
- Between 2 years and 5 years	85,103	269,841	-	-
- Over 5 years	<u>86,580</u>	<u>87,229</u>	-	-
	<u>734,507</u>	<u>632,422</u>	-	-
Other debt securities in issue:				
- 3 months or less	1,234,616	897,094	798,000	211,900
- Between 3 months and 1 year	<u>272,071</u>	<u>857,737</u>	<u>80,000</u>	<u>363,000</u>
	<u>1,506,687</u>	<u>1,754,831</u>	<u>878,000</u>	<u>574,900</u>
	<u>2,241,194</u>	<u>2,387,253</u>	<u>878,000</u>	<u>574,900</u>

The Company issues sterling denominated certificates of deposit in the UK. The Group also issues short term commercial paper in the US and Euro CP markets and medium term notes via its subsidiary undertaking.

### 23. OTHER LIABILITIES

	Consolidated		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Taxation	2,534	2,891	2,381	2,673
Amount due to group companies	4,748	6,936	4,748	6,936
Amount due to subsidiary undertaking	-	-	1,371,969	1,815,805
Market creditors – unsettled trades	14,979	13,469	14,979	13,469
Other liabilities	<u>1,349</u>	<u>3,438</u>	<u>1,301</u>	<u>3,429</u>
	<u>23,610</u>	<u>26,734</u>	<u>1,395,378</u>	<u>1,842,312</u>

## NOTES TO THE ACCOUNTS (Continued)

### 24. SUBORDINATED LIABILITIES

	Consolidated & Company	
	2003	2002
	£000	£000
Undated loan capital	<u>230,000</u>	<u>230,000</u>

Claims in respect of the Company's loan capital are subordinated to the claims of other creditors. None of the Company's loan capital is secured. The loan capital has no final date of maturity. All loan capital is due to the parent undertaking and is denominated in sterling.

Interest is payable at a rate of 1.1% over 3 month LIBOR.

### 25. CALLED UP SHARE CAPITAL

	Consolidated & Company	
	2003	2002
	£000	£000
Authorised:		
Ordinary shares of £1 each	<u>500,000</u>	<u>500,000</u>
Issued, allotted and fully paid:		
Ordinary shares of £1 each	<u>370,000</u>	<u>370,000</u>

During the year no ordinary shares were issued, therefore the Group's total issued share capital remains at £370,000,000. All shares are beneficially owned by the parent undertaking, The Standard Life Assurance Company.

### 26. RESERVES

	Consolidated	Company
	£000	£000
Profit and loss account:		
At 16 November 2002	(124,487)	(126,242)
Prior year adjustment for fixed assets	<u>(2,929)</u>	<u>(2,929)</u>
Opening reserves restated	(127,416)	(129,171)
Profit/(loss) for the year	<u>2,649</u>	<u>3,131</u>
At 15 November 2003	<u>(124,767)</u>	<u>(126,040)</u>
Reserves:		
At 16 November 2002	44	-
Exchange gain on translation of foreign subsidiary	<u>211</u>	<u>-</u>
At 15 November 2003	<u>255</u>	<u>-</u>

During the year the Group changed its policy for fixed asset capitalisation as detailed in Note 2. This change in policy has led to a consolidated profit for the year of £2.7m (2002 restated – loss £6.8m). If this accounting policy had not changed the consolidated profit for the year would have been £3.0m (2002 – loss of £6.7m).

## NOTES TO THE ACCOUNTS (Continued)

### 27. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Consolidated		Company	
	2003 £000	Restated 2002 £000	2003 £000	Restated 2002 £000
Opening shareholders' funds	242,628	252,199	240,829	251,558
Prior year adjustment for fixed assets	-	(2,842)	-	(2,842)
Gain on translation of foreign subsidiary	211	44	-	-
Profit/(loss) attributable to members	2,649	(6,773)	3,131	(7,887)
Closing shareholders' funds	<u>245,488</u>	<u>242,628</u>	<u>243,960</u>	<u>240,829</u>

### 28. COMMITMENTS

	Consolidated & Company	
	2003 £000	2002 £000
In addition to the undrawn loan facilities disclosed on the face of the balance sheet there are contracted for capital commitments as follows:		
Authorised by the directors	<u>0</u>	<u>1,500</u>

### 29. MEMORANDUM ITEMS

The Company has guaranteed the liabilities of its subsidiary undertaking, Standard Life Funding B.V., in connection with the subsidiary undertaking's issuance of commercial paper and medium term notes. The guarantee is in respect of notes issued and is for a maximum of US dollar 2 billion and Euro 4 billion in relation to the US commercial paper and Euro commercial paper programmes respectively, and Euro 4 billion in respect of the medium term note programme.

## NOTES TO THE ACCOUNTS (Continued)

### 30. FINANCIAL INSTRUMENTS

A description of the risks faced by the Group is given on page 5. All the derivatives relate to the non-trading book of the Group.

#### *Interest rate sensitivity gap analysis*

Part of the Company's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The table below summarises these repricing mismatches on the Group's non-trading book as at 15 November 2003. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

#### As at 15 November 2003

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	Five years or more	Non-interest bearing	Total
	£000	£000	£000	£000	£000	£000	£000
<b>Assets:</b>							
Treasury bills and other eligible bills	116,252	17,941	-	-	-	-	134,193
Loans and advances to banks	734,990	-	-	-	-	-	734,990
Loans and advances to customers	4,153,859	13,538	36,023	652,069	38,878	-	4,894,367
Securitised advances	2,652,908	18,967	67,858	408,642	45,255	-	3,193,630
Less: non-recourse finance	(2,321,965)	-	-	-	-	(11,662)	(2,333,627)
Debt securities	687,692	25,534	29,096	55,406	-	-	797,728
Other assets	-	-	-	-	-	207,126	207,126
<b>Total assets</b>	<b>6,023,736</b>	<b>75,980</b>	<b>132,977</b>	<b>1,116,117</b>	<b>84,133</b>	<b>195,464</b>	<b>7,628,407</b>
<b>Liabilities:</b>							
Deposits by banks	185,338	2,446	62,500	2,000	-	-	252,284
Customer accounts	4,375,946	60,873	61,452	47,826	16,000	-	4,562,097
Debt securities in issue	1,792,491	281,051	81,072	-	86,580	-	2,241,194
Subordinated liabilities	230,000	-	-	-	-	-	230,000
Other liabilities	-	-	-	-	-	97,344	97,344
Shareholders' funds	-	-	-	-	-	245,488	245,488
<b>Total liabilities</b>	<b>6,583,775</b>	<b>344,370</b>	<b>205,024</b>	<b>49,826</b>	<b>102,580</b>	<b>342,832</b>	<b>7,628,407</b>
Off balance sheet items	211,056	416,996	25,000	(705,000)	51,948	-	-
Interest rate sensitivity gap	(348,983)	148,606	(47,047)	361,291	33,501	(147,368)	-
Cumulative gap	(348,983)	(200,377)	(247,424)	113,867	147,368	-	-

## NOTES TO THE ACCOUNTS (Continued)

### 30. FINANCIAL INSTRUMENTS (Continued)

As at 15 November 2002 (Restated)

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	Five years or more	Non-interest bearing	Total
	£000	£000	£000	£000	£000	£000	£000
<b>Assets:</b>							
Treasury bills and other eligible bills	136,720	19,740	-	-	-	-	156,460
Loans and advances to banks	159,653	20,000	-	-	-	-	179,653
Loans and advances to customers	5,766,521	17,530	-	653,285	82,984	-	6,520,320
Debt securities	494,824	208,774	206,099	75,799	56,737	-	1,042,233
Other assets	-	-	-	-	-	147,688	147,688
<b>Total assets</b>	<b>6,557,718</b>	<b>266,044</b>	<b>206,099</b>	<b>729,084</b>	<b>139,721</b>	<b>147,688</b>	<b>8,046,354</b>
<b>Liabilities:</b>							
Deposits by banks	289,277	11,000	12,500	-	-	-	312,777
Customer accounts	4,616,034	35,277	75,990	57,817	-	-	4,785,118
Debt securities in issue	1,344,754	570,198	297,687	87,385	87,229	-	2,387,253
Subordinated liabilities	230,000	-	-	-	-	-	230,000
Other liabilities	-	-	-	-	-	88,578	88,578
Shareholders' funds	-	-	-	-	-	242,628	242,628
<b>Total liabilities</b>	<b>6,480,065</b>	<b>616,475</b>	<b>386,177</b>	<b>145,202</b>	<b>87,229</b>	<b>331,206</b>	<b>8,046,354</b>
Off balance sheet items	(23,937)	60,167	55,000	(143,178)	51,948	-	-
Interest rate sensitivity gap	53,716	(290,264)	(125,078)	440,704	104,440	(183,518)	-
Cumulative gap	53,716	(236,548)	(361,626)	79,078	183,518	-	-

A negative interest rate sensitivity gap exists when more liabilities than assets reprice during a given period. Although a negative gap position tends to benefit net interest income in a declining interest rate environment, with the converse being true in a rising rate environment, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted date and variations in interest rate sensitivity within repricing periods.

#### Currency risk

##### Transactional currency exposures

Having taken into account the forward contracts and the cross currency swaps entered into to manage these currency exposures the Group has no significant transactional currency exposures. The net assets at 15 November 2003 of £246m (2002 - £243m restated) were predominantly sterling denominated.

## NOTES TO THE ACCOUNTS (Continued)

### 30. FINANCIAL INSTRUMENTS (Continued)

#### Hedging

Non-trading derivatives are measured on a basis consistent with the assets or liabilities being hedged. Where used to hedge debt issues, the debt is recorded at the contracted rate of the associated hedge. The gains and losses on these instruments (arising from changes in fair value) are recorded in line with the treatment applied to the underlying transaction. They are either not recognised at all or are recognised and carried forward in the balance sheet; then, when the hedged transaction occurs, the gain or loss is recognised in the profit and loss account at the same time as the hedged item. Where non-trading derivatives are reclassified as trading or where non-trading derivatives are terminated prior to the end of the life of the asset, liability or cashflow being hedged, they are measured at fair value. Any gains or losses are deferred and amortised into interest income or expense over the remaining life of the item previously being hedged.

A credit default swap has been entered into to provide cover if credit losses exceed a specific amount to the value of approximately £1 billion of mortgage assets.

The table below summarises the unrecognised gains and losses on hedges at 15 November 2003 and the movements therein during the year. The table shows the gains and losses on off balance sheet non-trading derivatives used for hedging by the Group. The gains and losses do not therefore represent absolute gains or losses expected by the Group, as they will be substantially offset by corresponding gains or losses on the underlying balance sheet asset or liability being hedged.

#### Unrecognised gains and losses on hedges 15/11/2003

	Gains £000	Losses £000	Total net gains/(losses) £000
Unrecognised gains and losses on hedges at 16 November 2002	4,590	(12,465)	(7,875)
Of which recognised in the year to 15 November 2003	<u>(2,571)</u>	<u>7,380</u>	<u>4,809</u>
Gains and losses arising before 16 November 2002 not recognised in the year to 15 November 2003	2,019	(5,085)	(3,066)
Gains and losses arising in the year to 15 November 2003 not recognised in that year	<u>11,008</u>	<u>3,001</u>	<u>14,009</u>
Unrecognised gains and losses on hedges at 15 November 2003	<u>13,027</u>	<u>(2,084)</u>	<u>10,943</u>
Of which expected to be recognised in the year to 15 November 2004	<u>14,794</u>	<u>(71,081)</u>	<u>(56,288)</u>

There are deferred gains of £3.5m (2002 gains of £1.9m) and deferred losses of £27.3m (2002-nil) carried forward in the balance sheet that are expected to be recognised in the profit and loss account during the year to 15 November 2004.

#### Unrecognised gains and losses on hedges 15/11/2002

	Gains £000	Losses £000	Total net gains/(losses) £000
Unrecognised gains and losses on hedges at 16 November 2001	6,002	-	6,002
Of which recognised in the year to 15 November 2002	<u>(6,002)</u>	<u>-</u>	<u>(6,002)</u>
Gains and losses arising before 16 November 2001 not recognised in the year to 15 November 2002	-	-	-
Gains and losses arising in the year to 15 November 2002 not recognised in that year	<u>4,590</u>	<u>(12,465)</u>	<u>(7,875)</u>
Unrecognised gains and losses on hedges at 15 November 2002	<u>4,590</u>	<u>(12,465)</u>	<u>(7,875)</u>
Of which expected to be recognised in the year to 15 November 2003	<u>2,571</u>	<u>(7,380)</u>	<u>(4,809)</u>

## NOTES TO THE ACCOUNTS (Continued)

### 30. FINANCIAL INSTRUMENTS (Continued)

#### *Fair values of financial assets and financial liabilities*

Set out below is a comparison by category of book values and fair values of all of the Group's non-trading financial assets and financial liabilities.

	Non-trading fair value 2003 £000	Non-trading book value 2003 £000	Non-trading fair value 2002 £000	Non-trading book value 2002 £000
<b>Assets:</b>				
Treasury bills and other eligible bills	134,193	134,122	156,245	156,460
Debt securities	796,836	797,728	1,043,251	1,042,223
Derivatives (see non-trading derivatives below)	18,790	5,763	8,671	4,081
<b>Liabilities:</b>				
Debt securities in issue	2,241,194	2,241,194	2,387,253	2,387,253
Subordinated liabilities	230,000	230,000	230,000	230,000
Derivatives (see non-trading derivatives below)	129,641	127,557	23,628	11,163

No financial instruments were held or issued for trading purposes.

Market values have been used to determine the fair value of all debt securities, swaps and forward foreign currency contracts. Due to the short term nature or repricing periods of all other financial assets and liabilities the directors do not consider that there is any significant difference between the fair value and the book value.

## NOTES TO THE ACCOUNTS (Continued)

### 30. FINANCIAL INSTRUMENTS (Continued)

#### *Derivatives held for non-trading purposes*

At 15 November 2003 the notional principal amounts, fair values and book values of non-trading instruments entered into with third parties were as follows:

	Notional principal amount £000	Year-end positive fair value £000	Year-end positive book value £000	Year-end negative fair value £000	Year-end negative book value £000
Foreign exchange derivatives:					
Forward foreign exchange	481,335	238	131	15,715	20,478
Cross currency swaps	2,153,008	11,594	5,065	105,294	104,375
	<u>2,634,343</u>	<u>11,832</u>	<u>5,196</u>	<u>121,009</u>	<u>124,853</u>
Interest rate derivatives:					
Interest rate swaps	1,240,000	6,958	567	8,632	2,704
Forward rate agreements	-	-	-	-	-
	<u>1,240,000</u>	<u>6,958</u>	<u>567</u>	<u>8,632</u>	<u>2,704</u>
Credit derivatives:					
Credit default swap	914,469	-	-	-	-
Total non-trading derivatives	<u>4,788,812</u>	<u>18,790</u>	<u>5,763</u>	<u>129,641</u>	<u>127,557</u>

## NOTES TO THE ACCOUNTS (Continued)

### 30. FINANCIAL INSTRUMENTS (Continued)

#### Derivatives held for non-trading purposes (Continued)

At 15 November 2002

	Notional principal amount £000	Year-end positive fair value £000	Year-end positive book value £000	Year-end negative fair value £000	Year-end negative book value £000
Foreign exchange derivatives:					
Forward foreign exchange	824,300	-	-	2,399	2,399
Cross currency swaps	263,135	4,081	4,081	8,764	8,764
	<u>1,087,435</u>	<u>4,081</u>	<u>4,081</u>	<u>11,163</u>	<u>11,163</u>
Interest rate derivatives:					
Interest rate swaps	790,000	4,590	-	12,258	-
Forward rate agreements	70,000	-	-	207	-
	<u>860,000</u>	<u>4,590</u>	<u>-</u>	<u>12,465</u>	<u>-</u>
Credit derivatives:					
Credit default swap	897,241	-	-	-	-
Total non-trading derivatives	<u>2,844,676</u>	<u>8,671</u>	<u>4,081</u>	<u>23,628</u>	<u>11,163</u>

#### Maturity of notional principal amounts

At 15 November 2003 the notional principal amounts, by residual maturity, of the Company's non-trading derivatives were as follows:

	One year or less £000	Over one year but not more than five years £000	Over five years £000	Total £000
Foreign exchange derivatives:				
Forward foreign exchange	481,335	-	-	481,335
Cross currency swaps	86,822	741,064	1,325,122	2,153,008
	<u>568,157</u>	<u>741,064</u>	<u>1,325,122</u>	<u>2,634,343</u>
Interest rate derivatives:				
Interest rate swaps	290,000	915,000	35,000	1,240,000
Forward rate agreements	-	-	-	-
	<u>290,000</u>	<u>915,000</u>	<u>35,000</u>	<u>1,240,000</u>
Credit derivatives:				
Credit default swap	914,469	-	-	914,469
Total non-trading derivatives	<u>1,772,626</u>	<u>1,656,064</u>	<u>1,360,122</u>	<u>4,788,812</u>

## NOTES TO THE ACCOUNTS (Continued)

### 30. FINANCIAL INSTRUMENTS (Continued)

#### *Maturity of notional principal amounts (Continued)*

At 15 November 2002 the notional principal amounts, by residual maturity, of the Company's non-trading derivatives were as follows:

	One year or less	Over one year but not more than five years	Over five years	Total
	£000	£000	£000	£000
Foreign exchange derivatives:				
Forward foreign exchange	824,300	-	-	824,300
Cross currency swaps	10,167	166,388	86,580	263,135
	<u>834,467</u>	<u>166,388</u>	<u>86,580</u>	<u>1,087,435</u>
Interest rate derivatives:				
Interest rate swaps	95,000	660,000	35,000	790,000
Forward rate agreements	70,000	-	-	70,000
	<u>165,000</u>	<u>660,000</u>	<u>35,000</u>	<u>860,000</u>
Credit derivatives:				
Credit default swap	-	897,241	-	897,241
Total non-trading derivatives	<u>999,467</u>	<u>1,723,629</u>	<u>121,580</u>	<u>2,844,676</u>

#### *Maturity analyses of net replacement cost*

At 15 November 2003

	One year or less	Over one year but not more than five years	Over five years	Total
	£000	£000	£000	£000
Foreign exchange derivatives	2,757	-	9,075	11,832
Interest rate derivatives	1,952	5,006	-	6,958
	<u>4,709</u>	<u>5,006</u>	<u>9,075</u>	<u>18,790</u>

## NOTES TO THE ACCOUNTS (Continued)

### 30. FINANCIAL INSTRUMENTS (Continued)

*Maturity analyses of net replacement cost (Continued)*

At 15 November 2002

	One year or less	Over one year but not more than five years	Over five years	Total
	£000	£000	£000	£000
Foreign exchange derivatives	-	4,081	-	4,081
Interest rate derivatives	1,389	3,201	-	4,590
	<u>1,389</u>	<u>7,282</u>	<u>-</u>	<u>8,671</u>

### 31. ARRANGEMENTS WITH DIRECTORS

At 15 November 2003, the aggregate amounts outstanding under transactions, arrangements and agreements entered into by the Company with directors of the Company and its parent undertaking were:

	Number of persons	£000
Directors' loans	3	84

### 32. RELATED PARTY TRANSACTIONS

The Group has taken advantage of the exemption under Paragraph 3(c) of Financial Reporting Standard 8 from disclosing transactions with other undertakings of the Standard Life Group.

### 33. PARENT UNDERTAKING

The Company is a wholly owned subsidiary of The Standard Life Assurance Company.

Copies of the accounts of the parent undertaking can be obtained at Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH.

## AUDITORS' REPORT

### Independent auditors' report to the members of Standard Life Bank Limited

We have audited the financial statements which comprise the consolidated profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 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 is not disclosed.

We read the other information contained in the Annual Report and considered the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the accounts. The other information comprises only the Directors' Report.

### Basis of audit opinion

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

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

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company at 15 November 2003 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors

Edinburgh  
11 January 2004







