Report and Accounts

for the period ended 31 December 2004

STANDARD LIFE BANK®

Contents

Statutory Information

Directors	:	Sir B Stewart KB, CBE, MSc, CA (Non-Executive Chairman)
		Miss A M Gunther BSc, FCIOBS, 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 (Sales and Marketing Director) Ms A Mitchell BA (Non-Executive Director) Sir N J Monck KCB (Non-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

Chief Executive's Statement

Summary

In 2004 Standard Life Bank continued on its path of profitable growth, after breaking into profit in 2003. Mortgages under management passed the £10 billion milestone for the first time and ended 2004 at £10.2 billion. Profit before tax for the 13.5 month period was £9.1m.

Market Background

The UK mortgage market began the year in buoyant mood. By the autumn, the rise in house prices had slowed and gross mortgage lending for the industry in the fourth quarter was 15% down on the same period of the previous year. In a competitive environment, customer and introducer support held up well and in 2004 Standard Life Bank maintained gross lending market share over the year.

Customer Proposition

Standard Life Bank offers good value mortgages and savings, backed up by a high quality service through the use of efficient telephone and internet based processes, avoiding the need for a costly branch network.

We continue to grow our relationship with our customers. They are financially sophisticated and many are now interacting with our Freestyle® Mortgage, turning it into a financial planning tool. The flexible features of Freestyle, such as the ability to overpay or draw down extra cash, have been used by 64% of our customers at least once during the lifetime of their mortgage. During the year Standard Life Bank continued to invest in customer interface technology to further improve the customer experience.

People

The success of our customer proposition rests largely on the expertise of our people whose professionalism is a source of great pride. The quality of our customer service was recognised in November 2004 with a five-star service award from Financial Adviser.

Financial results

Profit before tax for the 13.5 month period to 31 December 2004 was £9.1m[1] compared with £4.6m for the previous financial year. At the same time gross mortgage lending for the period increased to £4.6bn from £3.7bn, resulting in mortgages under management of £10.2bn at the year-end. The impressive growth has been achieved alongside substantial improvements in efficiency: the Bank currently operates with 18% fewer staff than when the mortgage book was half its current size in May 2000.

Mortgage Book Quality

Business quality remains very high. The average indexed loan-to-value ratio of our mortgage book fell from 46.3% to 44.7%. Arrears (customers three or more monthly payments down) were 0.12% at 31 December, about a sixth of the industry average.[2]

Funding

The Bank continues to maintain a diverse funding base, with 40% of our funding coming from retail deposits, 30% from wholesale sources and 30% from our securitisation programme, at 31 December. Our high quality mortgage book continues to be a cornerstone of our successful ongoing Lothian securitisation programme. In June, Lothian Mortgages (No.3) plc went to market and the offering was oversubscribed.

Regulation

2004 will be remembered for the introduction of statutory mortgage regulation. Both our people and our systems were well prepared for the 1 November launch. The Bank has embraced the regulatory framework around Treating Customers Fairly and our customers are better informed.

Group strategic review

For our parent company, Standard Life, 2004 was a challenging year. The results of the strategic review in March confirmed that the Bank is at the heart of Standard Life's future. As a product extension of Standard Life, the Bank will work with all the operating companies within the group to seek openings and leverage for cross-group opportunities and product integration. This integration has already begun: Standard Life Bank provides the cash deposit facility for Standard Life's new Self Invested Personal Pension.

Conclusion

2004 has been a year of change, success and solid performance. Plans are now in place to continue on the same path in the year ahead.

Anne Gunther
Chief Executive
23 February 2005

1 During the period there was a change in the accounting treatment of commission. If this change had not been made, £2.3m before tax (£1.6 after tax) more would have been charged to the profit and loss account.

2 Council of Mortgage Lenders data for H2 2004 (the last available figures) show arrears (three or more payments down) standing at 0.76%.

REPORT BY THE DIRECTORS

The directors submit their Report and Accounts for the period ended 31 December 2004.

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

Standard Life Bank Group ("the Group") made a profit for the thirteen and a half month period ended 31 December 2004 of £6.8m (year to 2003 – £2.7m).

The directors do not recommend the payment of a dividend for the period. 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 the associated financial activities of its subsidiary companies (as defined in Note 15 to the accounts.) 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 its parent company, The Standard Life Assurance Company ("SLAC"), totalling £581 million as at 31 December 2004 (2003 – £629 million) and Lifetime mortgages advanced by another SLAC subsidiary, Standard Life Lifetime Mortgages Limited totalling £6 million as at 31 December 2004 (2003 – nil). Total mortgages under administration were £10.2 billion as at 31 December 2004 (2003 – £8.7 billion).

On 13 January 2004 SLAC announced that it was conducting a strategic review of its own business and the businesses of its subsidiary companies (with SLAC and its subsidiaries being hereafter referred to as "The Standard Life Group"). On 31 March 2004 the Standard Life Group announced that, in principle demutualisation would be in the best interests of the Standard Life Group and its policyholders and that it was envisaged that a proposal for demutualisation would be put to members by the 2006 Annual General Meeting.

Standard Life Bank has changed its year end from 15 November to 31 December in line with other Standard Life Group companies and consequently these financial statements cover the thirteen and a half month period from 16 November 2003 to 31 December 2004. The comparatives are for the year from 16 November 2002 to 15 November 2003.

Directors

The names of the current directors are listed on page 2.

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

Ms Mitchell was appointed as a Non-Executive Director on 27 January 2004.

Sir Nicholas Monck was appointed as a Non-Executive Director on 27 January 2004.

The directors are 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 SLAC.

Post Balance Sheet Event

On 1 February 2005 Standard Life Bank announced the fourth issue of mortgage backed securities from its Lothian master trust structure.

Employees

The Company is committed to an equal opportunities policy. The sole criterion 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 also elect representatives of Bank LINK who, in turn, elect a National LINK representative. Formal consultation processes take place with staff via the elected bank LINK representatives and the National LINK representative also 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.

REPORT BY THE DIRECTORS (continued)

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.

Derivative transactions: The Group enters into derivative transactions (principally interest rate swaps, forward rate agreements, financial futures, cross currency swaps, forward currency contracts and equity swaps) for the purpose, as agreed by the directors, of managing interest rate, currency and equity risks. The Group 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 28.

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 manage transactional foreign currency exposure that occurs via its wholesale funding activities.

Equity risk: The Group uses equity swaps to manage equity exposure that occurs via its retail 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.

Operational risk: This is the risk of loss, resulting from inadequate or failed internal processes, people and systems or from external events. In the Company, operational risk also includes legal, reputational and strategic/business risk. 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 operational 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 group wide methodology.

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, LLP, Chartered Accountants are willing to continue in office.

On behalf of the Board of Directors
P Joshi, Finance Director
Edinburgh, 23 February 2005

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial period 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 period. 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 detected or prevented.

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 thirteen and a half month period ended 31 December 2004. 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 period ended 31 December 2004

	Notes	13½ months to 31 December 2004 £000	12 months to 15 November 2003 £000
Interest receivable:			
– Interest receivable and similar income arising from debt securities and other fixed income securities		69,841	60,974
– Other interest receivable and similar income		410,102	337,191
Interest payable		(348,651)	(287,739)
Net interest income		131,292	110,426
Fees and commissions receivable		18,619	13,524
Fees and commissions payable		(8,203)	(7,316)
Dealing profit/(loss)		125	(1,271)
Net operating income		141,833	115,363
Administrative expenses	3	(72,568)	(67,096)
Depreciation and amortisation	6	(59,122)	(42,608)
Other operating charges		(213)	–
Provision for bad and doubtful debts	13	(802)	(1,029)
Profit on ordinary activities before tax	6	9,128	4,630
Tax on profit on ordinary activities	7	(2,289)	(1,981)
Profit for the period	8, 25	6,839	2,649

The result for the period relates wholly to continuing activities.

CONSOLIDATED BALANCE SHEET

As at 31 December 2004

	Notes	31 December 2004 £000	15 November 2003 £000
Assets			
Treasury bills and other eligible bills	9	86,781	134,193
Loans and advances to banks	10	336,018	734,990
Loans and advances to customers	11	5,674,241	4,894,367
Securitised advances	12	3,906,324	3,193,630
Less: non-recourse finance	12	(3,180,619)	(2,333,627)
		725,705	860,003
Debt securities	14	956,564	797,728
Tangible fixed assets	16	80	127
Intangible fixed assets	16	827	1,322
Other assets	17	65,456	158,679
Prepayments and accrued income	18	55,019	46,998
Total assets		7,900,691	7,628,407
Liabilities			
Deposits by banks	19	866,961	252,284
Customer accounts	20	4,238,294	4,562,097
Debt securities in issue	21	2,221,158	2,241,194
Other liabilities	22	12,277	23,610
Accruals and deferred income		79,618	73,734
Subordinated liabilities	23	230,000	230,000
		7,648,308	7,382,919
Called up share capital	24	370,000	370,000
Reserves	25	311	255
Profit and loss account	25	(117,928)	(124,767)
Total shareholder's funds	26	252,383	245,488
Total liabilities		7,900,691	7,628,407
Memorandum items			
Contingent liabilities:			
– Guarantees	27	5,424,280	5,409,103
Other commitments:			
– Commitments to lend	27	2,307,779	2,203,794

On behalf of the Board of Directors
P Joshi, Finance Director
23 February 2005

COMPANY BALANCE SHEET

As at 31 December 2004

	Notes	31 December 2004 £000	15 November 2003 £000
Assets			
Treasury bills and other eligible bills	9	86,781	134,193
Loans and advances to banks	10	335,751	734,760
Loans and advances to customers	11	5,674,241	4,894,367
Securitised advances	12	3,906,324	3,193,630
Less: non-recourse finance	12	(3,180,619)	(2,333,627)
		725,705	860,003
Debt securities	14	956,564	797,728
Shares in group undertaking	15	12	12
Tangible fixed assets	16	80	127
Intangible fixed assets	16	827	1,322
Other assets	17	65,456	158,679
Prepayments and accrued income	18	55,019	46,998
Total assets		7,900,436	7,628,189
Liabilities			
Deposits by banks	19	866,961	252,284
Customer accounts	20	4,238,294	4,562,097
Debt securities in issue	21	940,000	878,000
Other liabilities	22	1,296,976	1,395,378
Accruals and deferred income		77,410	66,470
Subordinated liabilities	23	230,000	230,000
		7,649,641	7,384,229
Called up share capital	24	370,000	370,000
Profit and loss account	25	(119,205)	(126,040)
Total shareholder's funds	26	250,795	243,960
Total liabilities		7,900,436	7,628,189
Memorandum items			
Contingent liabilities:			
– Guarantees	27	6,705,438	6,772,298
Other commitments:			
– Commitments to lend	27	2,307,779	2,203,794

On behalf of the Board of Directors
P Joshi, Finance Director
23 February 2005

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the period ended 31 December 2004

	Notes	13½ months to 31 December 2004 £000
Profit attributable to ordinary shareholders		6,839
Foreign currency gain on investment in subsidiary	25	56
Total recognised gains for the period		6,895
Total recognised gains since last annual report		6,895

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 12).

(c) Shares in subsidiary undertaking

Shares in the subsidiary undertaking are valued at cost less any permanent diminution in value.

(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 considered under various scenarios in light of past loss experience.

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.

(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.

NOTES TO THE ACCOUNTS (continued)

1. ACCOUNTING POLICIES (continued)

(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 period 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 31).

(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.

(n) 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 Company’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 Note 12 to the accounts. The Group provisioning policy as stated in section (d) above also applies to securitised advances.

NOTES TO THE ACCOUNTS (continued)

1. ACCOUNTING POLICIES (continued)

(o) Derivatives

Transactions are undertaken in derivative financial instruments, 'derivatives', which include interest rate swaps, equity swaps, forward rate agreements, interest rate futures, cross currency swaps and forward foreign exchange contracts, for non-trading purposes only. In addition there are non-trading interest rate swaps transacted to hedge reset risk on mortgage backed securities in issue which are accounted for on a mark to market basis with changes in fair value taken directly to the profit and loss account and reported within 'Other operating income' or 'Other operating charges'.

Derivatives classified as non-trading are those entered into for the purpose of matching or reducing risk from potential movements in foreign exchange rates, equity indices and interest rates inherent in the Company's non-trading assets and liabilities. 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 foreign currency debt issues, the debt is recorded at the contracted spot rate of the associated hedge. Income and expense on non-trading derivatives are recognised as they accrue over the life of the instruments as an adjustment to 'Interest receivable' or 'Interest payable'. 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, 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 remaining 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 redesignated as a hedge of a non-trading item and accounted for accordingly.

NOTES TO THE ACCOUNTS (continued)

2. 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 for 13½ months to 31/12/04	UK Banking Services £000	UK Financing £000	Europe Financing £000	Intra-group items £000	Group total £000
Interest receivable	404,684	75,255	45,240	(45,236)	479,943
Fees & commissions receivable	18,619	–	–	–	18,619
Dealing profit	125	–	–	–	125
Total gross income	423,428	75,255	45,240	(45,236)	498,687
Results before taxation	8,521	142	1,426	(961)	9,128
Total assets	7,900,310	126	1,267,416	(1,267,161)	7,900,691
Net assets	250,669	126	1,670	(82)	252,383

Segmental results for 12 months to 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	382,134	28,240	42,908	(42,864)	410,418
Results before taxation	4,592	26	1,409	(1,397)	4,630
Total assets	7,628,163	26	1,337,340	(1,337,122)	7,628,407
Net assets	243,934	26	1,541	(13)	245,488

NOTES TO THE ACCOUNTS (continued)

3. ADMINISTRATIVE EXPENSES

	13½ months to 31 December 2004 £000	12 months to 15 November 2003 £000
Staff costs:		
– Wages and salaries	22,175	19,595
– Social security costs	1,683	1,426
– Other pension costs	3,255	2,472
Other administrative expenses	45,455	43,603
	72,568	67,096

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 Company's subsidiary undertaking. The staff numbers during the period averaged 899 (2003 – 912).

4. DIRECTORS' REMUNERATION

	13½ months to 31 December 2004 £000	12 months to 15 November 2003 £000
Aggregate emoluments	975	757
Amounts paid as compensation for loss of office	–	31
Amounts receivable under long term incentive schemes	134	100

All of the executive directors are participants in a long-term incentive plan operated by the ultimate parent undertaking. The benefits arising under the incentive plan are recorded in the period in which entitlement was determined.

Retirement benefits are accruing to all executive directors in respect of their services to the company under a defined benefit scheme operated by the parent undertaking. Non-executive directors are not entitled to retirement benefits in respect of their services to the company.

Highest paid director	12 months to 15 November 2004 £000	13½ months to 31 December 2004 £000	12 months to 15 November 2003 £000
Aggregate emoluments and benefits payable under long term incentive schemes	413	465	448
Defined benefit pension scheme:			
Accrued pension at end of period	5	5	3

In addition, there were £13k of amounts (2003 – £5k) accrued in respect of unfunded pension arrangements with the parent undertaking.

NOTES TO THE ACCOUNTS (continued)

5. 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 on the basis of advice from qualified actuaries using the projected unit credit method. These continue to be accounted for in accordance with SSAP 24. With effect from 16 November 2004 the UK defined benefit scheme was closed to new entrants and new employees are eligible to join a defined contribution scheme. As the UK scheme is now closed to new entrants, the projected unit credit method will result in the current service cost increasing as members of the scheme approach retirement.

FRS 17 – Retirement Benefits will not be mandatory for the Group until the year ending 31 December 2005. 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 The Standard Life Assurance Company.

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

The profit on ordinary activities before tax is stated after charging:	13½ months to 31 December 2004 £000	12 months to 15 November 2003 £000
Interest payable with respect to subordinated liabilities	14,416	11,154
Auditors' remuneration		
– Audit services	132	108
– Non-audit services	117	180
Depreciation and amortisation		
– Tangible fixed assets	230	171
– Intangible fixed assets	496	440
– Prepayments	58,396	41,997
	59,122	42,608

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

NOTES TO THE ACCOUNTS (continued)

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	13½ months to 31 December 2004 £000	12 months to 15 November 2003 £000
Current tax:		
– UK corporation tax on profits of the period	370	–
– Double tax relief	(370)	
– Group relief in respect of prior year	(1,560)	794
– Overseas taxes	504	494
Total current tax	(1,056)	1,288
Deferred tax:		
– Origination and reversal of timing differences	3,813	1,012
– Movement in discount	(468)	(319)
Tax on profit on ordinary activities	2,289	1,981

There is no current period charge to UK tax due to prior year losses in the Company.

There is no deferred tax liability in the period due to the availability of tax losses. The discounted deferred tax asset of £11.5m (2003 – £14.9m) 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. There is an additional deferred tax asset of £1,129k (2003 – £949k) which 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 is as follows.

	13½ months to 31 December 2004 £000	12 months to 15 November 2003 £000
Profit on ordinary activities before tax	9,128	4,630
Profit on ordinary activities multiplied by the standard rate of corporation tax 30%	2,738	1,389
Effects of:		
– Expenses not deductible for tax purposes	84	456
– Capital allowances for period in excess of depreciation	(388)	(606)
– Offsetting prior year losses	(2,006)	(1,227)
– Effect of group income	–	411
– Adjustment in respect of previous periods	(1,560)	794
– Higher/(lower) tax rate in overseas subsidiary	76	71
Current tax charge	(1,056)	1,288

NOTES TO THE ACCOUNTS (continued)

8. PROFIT FOR THE PERIOD ENDED 31 DECEMBER 2004

Of the consolidated profit for the 13½ month period ended 31 December 2004, £6.8m (year ended 2003 – £3.1m) 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.

9. TREASURY BILLS AND OTHER ELIGIBLE BILLS

	Consolidated & Company			
	Carrying value		Market value	
	31 December 2004 £000	15 November 2003 £000	31 December 2004 £000	15 November 2003 £000
Investment securities:				
– Treasury bills and similar securities	86,781	129,768	86,729	129,700
– Other eligible bills	–	4,425	–	4,422
	86,781	134,193	86,729	134,122

	Consolidated & Company		
	Cost £000	Amortised discounts £000	Carrying value £000
Investment securities:			
At 16 November 2003	133,288	905	134,193
Acquisitions	433,674	5,803	439,477
Disposals and redemptions	(481,132)	(5,757)	(486,889)
At 31 December 2004	85,830	951	86,781

	2004 £000	2003 £000
Unamortised discounts on treasury bills and other eligible bills	744	549

10. LOANS AND ADVANCES TO BANKS

	Consolidated		Company	
	31 December 2004 £000	15 November 2003 £000	31 December 2004 £000	15 November 2003 £000
Repayable:				
– On demand	64,243	121,560	64,243	121,330
– Within 3 months	264,510	613,430	264,243	613,430
– Between 3 months and 1 year	7,265	–	7,265	–
	336,018	734,990	335,751	734,760

NOTES TO THE ACCOUNTS (continued)

11. LOANS AND ADVANCES TO CUSTOMERS

	Consolidated & Company	
	31 December 2004 £000	15 November 2003 £000
Remaining maturity:		
– Over 5 years	5,577,017	4,818,652
– 5 years or less but over 1 year	97,911	74,890
– 1 year or less but over 3 months	1,969	3,005
– 3 months or less excluding on demand	418	387
– On demand	342	230
Provisions (Note 13)	(3,198)	(2,697)
Suspended interest (Note 13)	(218)	(100)
	5,674,241	4,894,367

Loans and advances to customers on which interest is being placed in suspense:	31 December 2004 £000	15 November 2003 £000
– Loans and advances before provisions	13,545	11,446
– Loans and advances after provisions	13,139	11,194

12. 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 period, Standard Life Bank Ltd sold a further portfolio of residential mortgage loans with a book value of £1.6 billion to Lothian Trustees Limited (the "Trust"). Lothian Funding Limited ("Funding") and Standard Life Bank ("Standard Life Bank") each acquired, at book value, a beneficial interest in the Trust property. Funding's beneficial interest was acquired on 30 June 2004, for £1.25 billion. Funding financed its acquisition through borrowing from its subsidiary company, Lothian Mortgages (No.3) plc. This company financed its loan to Funding via the issue of mortgage backed floating rate notes. A summary of securitisation activity to date is provided in the table below.

Securitisation company	Date of securitisation	Gross debt issued £m	Subordinated loans made by Group £m
Lothian Mortgages (No.1) PLC	16 April 2003	1,000	14.0
Lothian Mortgages (No.2) PLC	23 September 2003	1,500	20.7
Lothian Mortgages (No.3) PLC	30 June 2004	1,250	4.4

NOTES TO THE ACCOUNTS (continued)

12. 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 purposes 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)

12. SECURITISATION (continued)

An aggregated summary of the results and balance sheet for the period ended 31 December 2004 for Lothian Mortgages Holdings Group, including the assets and liabilities held on trust by Lothian Trustees Limited, is set out below.

	13½ months to 31 December 2004 £000	12 months to 15 November 2003 £000
Interest receivable	233,094	60,122
Interest payable to third parties	(157,617)	(31,835)
Net interest receivable	75,477	28,287
Administrative expenses to third parties	(179)	(36)
Provision for taxation	(43)	(11)
Net profit	75,255	28,240

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'.

	31 December 2004 £000	15 November 2003 £000
Loans and advances to banks	194,881	126,998
Securitised advances	3,894,486	3,187,788
Other assets	12,888	6,992
Total assets	4,102,255	3,321,778
Debt securities in issue	3,343,504	2,449,371
Amounts owed to group companies	726,755	860,718
Other liabilities	31,996	11,689
Total liabilities	4,102,255	3,321,778

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

	31 December 2004 £000	15 November 2003 £000
Securitised advances	3,894,486	3,187,788
Accrued interest on securitised mortgages	12,888	6,584
Less provisions for bad and doubtful debts	(1,050)	(742)
	3,906,324	3,193,630
SLB's beneficial interest in mortgage portfolio	654,598	813,700
Subordinated loans and other credit enhancement	71,107	46,303
	725,705	860,003

NOTES TO THE ACCOUNTS (continued)

13. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

	Consolidated & Company		
	Specific £000	General £000	Total £000
At 16 November 2003	276	3,163	3,439
Charge against profits	201	601	802
Amounts written off	(41)	–	(41)
At 31 December 2004	436	3,764	4,200

Interest in suspense:	£000
At 16 November 2003	100
Interest suspended during the period	166
At 31 December 2004	266

Included in the bad and doubtful debt provision is £1.02m in respect of securitised advances (2003 – £0.70m). Included within suspended interest is £48k in respect of securitised advances (2003 – £4k).

NOTES TO THE ACCOUNTS (continued)

14. DEBT SECURITIES

	Consolidated & Company			
	Carrying value		Market value	
	31 December 2004 £000	15 November 2003 £000	31 December 2004 £000	15 November 2003 £000
Issued by public bodies				
Investment securities:				
– Government securities	131,855	130,451	132,053	129,560
	131,855	130,451	132,053	129,560

	Market value		Cost	
	31 December 2004 £000	15 November 2003 £000	31 December 2004 £000	15 November 2003 £000
Issued by other issuers				
Other securities:				
– Bank and building society certificates of deposit	387,758	278,028	385,304	274,002
– Other debt securities	436,951	389,249	434,681	386,723
	824,709	667,277	819,985	660,725

All debt securities are listed.

	Consolidated & Company	
	31 December 2004 £000	15 November 2003 £000
Due within 1 year	595,057	378,202
Due 1 year and over	361,507	419,526
	956,564	797,728
Unamortised premiums on investment securities	6,855	5,451

Investment securities:

	Consolidated & Company		
	Cost £000	Amortised Premiums £000	Carrying value £000
At 16 November 2003	134,160	(3,709)	130,451
Acquisitions	80,631	(2,680)	77,951
Disposals and redemptions	(77,245)	2,245	(75,000)
Amortisation of premiums	–	(1,547)	(1,547)
At 31 December 2004	137,546	(5,691)	131,855

NOTES TO THE ACCOUNTS (continued)

15. SHARES IN GROUP UNDERTAKING

	£000
As at 16 November 2003	12
Additions	–
As at 31 December 2004	12

All shares held by the Company 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	31 Dec

In addition, Lothian Mortgages (No.1) plc, Lothian Mortgages (No.2) plc, Lothian Mortgages (No.3) plc, Lothian Funding Limited, Lothian Funding (No.2) Limited, Lothian Conduit (No.1) 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-subsidiaries (see Note 12).

16. FIXED ASSETS

	Consolidated & Company		
	Tangible assets	Intangible assets	
	Computers & other equipment	Licenses	Total
	£000	£000	£000
Cost or valuation:			
At 16 November 2003	652	1,762	2,414
Additions	235	1	236
Disposals	(52)	–	(52)
At 31 December 2004	835	1,763	2,598
Depreciation:			
At 16 November 2003	525	440	965
Charge for the period	230	496	726
Disposals	–	–	–
At 31 December 2004	755	936	1,691
Net book value:			
At 31 December 2004	80	827	907
At 15 November 2003	127	1,322	1,449

NOTES TO THE ACCOUNTS (continued)

17. OTHER ASSETS

	Consolidated & Company	
	31 December 2004 £000	15 November 2003 £000
Market debtors – unsettled trades	45,000	143,538
Deferred tax asset	11,528	14,873
Other assets	8,928	268
	65,456	158,679

	Consolidated & Company	
	31 December 2004 £000	15 November 2003 £000
Deferred tax asset:		
Excess depreciation over capital allowances	1,337	1,781
Tax losses carried forward	10,865	14,065
Other timing differences	–	169
Undiscounted deferred tax asset	12,202	16,015
Discount	(674)	(1,142)
Discounted deferred tax asset	11,528	14,873
Opening deferred tax asset	14,873	15,566
Movement in period	(3,345)	(693)
Closing deferred tax asset	11,528	14,873

18. PREPAYMENTS AND ACCRUED INCOME

	Consolidated & Company	
	31 December 2004 £000	15 November 2003 £000
Prepayments	21,818	16,920
Accrued income	33,201	30,078
	55,019	46,998

Included in prepayments above are unamortised mortgage incentive costs of £3.7m (2003 – £4.4m). If all mortgage incentive costs had been written off in the period in which they were incurred, £0.1m more (2003 – £1.7m less) would have been charged to the profit and loss account in 2004, decreasing the profit after tax for the period to £6.7m (2003 – increasing the profit to £4.3m).

The accounting policy for commission is to capitalise and then amortise it over 3 years. During the period the amortisation technique was changed to reflect an even charge over the 3 year period. Previously the amortisation technique reflected a full years charge in the year in which the commission was incurred. If this change had not been made, £1.6m more would have been charged to the profit and loss account in 2004, decreasing the profit after tax to £5.2m.

NOTES TO THE ACCOUNTS (continued)

19. DEPOSITS BY BANKS

	Consolidated & Company	
	31 December 2004 £000	15 November 2003 £000
Repayable:		
– On demand	–	6,900
– 3 months or less but not repayable on demand	378,591	178,438
– Between 3 months and 1 year	480,507	64,946
– 5 years or less but over 1 year	7,863	2,000
	866,961	252,284

20. CUSTOMER ACCOUNTS

	Consolidated & Company	
	31 December 2004 £000	15 November 2003 £000
Repayable:		
– On demand	2,259,124	2,521,746
– 3 months or less but not repayable on demand	1,797,485	1,871,662
– Between 3 months and 1 year	141,750	104,863
– 5 years or less but over 1 year	39,935	63,826
	4,238,294	4,562,097

NOTES TO THE ACCOUNTS (continued)

21. DEBT SECURITIES IN ISSUE

	Consolidated		Company	
	31 December 2004 £000	15 November 2003 £000	31 December 2004 £000	15 November 2003 £000
Bonds and medium term notes	593,507	734,507	–	–
Other debt securities	1,627,651	1,506,687	940,000	878,000
	2,221,158	2,241,194	940,000	878,000
Maturity analysis:				
Bonds and medium term notes:				
– 3 months or less	199,987	–	–	–
– Between 3 months and 1 year	210,169	152,882	–	–
– Between 1 year and 2 years	85,101	409,942	–	–
– Between 2 years and 5 years	11,670	85,103	–	–
– Over 5 years	86,580	86,580	–	–
	593,507	734,507	–	–
Other debt securities in issue:				
– 3 months or less	1,327,513	1,234,616	711,000	798,000
– Between 3 months and 1 year	285,138	272,071	214,000	80,000
– Between 1 year and 2 years	15,000	–	15,000	–
	1,627,651	1,506,687	940,000	878,000
	2,221,158	2,241,194	940,000	878,000

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. Additional financing activity is undertaken through the Lothian securitisation programme as detailed in Note 12.

22. OTHER LIABILITIES

	Consolidated		Company	
	31 December 2004 £000	15 November 2003 £000	31 December 2004 £000	15 November 2003 £000
Taxation	2,662	2,534	2,617	2,381
Amount due to group companies	9,004	4,748	9,004	4,748
Amount due to subsidiary undertaking	–	–	1,284,761	1,371,969
Market creditors – unsettled trades	–	14,979	–	14,979
Other liabilities	611	1,349	594	1,301
	12,277	23,610	1,296,976	1,395,378

Included within amounts due to group companies is an amount of £1.6m (2003 £nil) in respect of prior period group relief.

NOTES TO THE ACCOUNTS (continued)

23. SUBORDINATED LIABILITIES

	Consolidated & Company	
	31 December 2004 £000	15 November 2003 £000
Undated loan capital	230,000	230,000

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.

24. CALLED UP SHARE CAPITAL

	Consolidated & Company	
	31 December 2004 £000	15 November 2003 £000
Authorised:		
Ordinary shares of £1 each	500,000	500,000
Issued, allotted and fully paid:		
Ordinary shares of £1 each	370,000	370,000

During the period 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.

25. RESERVES

	Consolidated £000	Company £000
Profit and loss account:		
At 16 November 2003	(124,767)	(126,040)
Profit for the period	6,839	6,835
At 31 December 2004	(117,928)	(119,205)
Reserves:		
At 16 November 2003	255	–
Exchange gain on translation of foreign subsidiary	56	–
At 31 December 2004	311	–

NOTES TO THE ACCOUNTS (continued)

26. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	Consolidated		Company	
	31 December 2004 £000	15 November 2003 £000	31 December 2004 £000	15 November 2003 £000
Opening shareholder's funds	245,488	242,628	243,960	240,829
Gain on translation of foreign subsidiary	56	211	–	–
Profit attributable to members	6,839	2,649	6,835	3,131
Closing shareholder's funds	252,383	245,488	250,795	243,960

27. 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.

Commitments to lend disclosed on the face of the balance sheets relate to the total undrawn mortgage loan facilities available to customers at the balance sheet date.

NOTES TO THE ACCOUNTS (continued)

28. 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 31 December 2004. 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 31 December 2004

	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
Assets:							
Treasury bills and other eligible bills	62,786	23,995	–	–	–	–	86,781
Loans and advances to banks	328,753	7,265	–	–	–	–	336,018
Loans and advances to customers	4,687,349	32,640	10,588	853,750	89,914	–	5,674,241
Securitised advances	3,089,817	61,065	25,001	682,878	47,563	–	3,906,324
Less non recourse Finance	(3,148,623)	–	–	–	–	(31,996)	(3,180,619)
Debt securities	824,709	–	51,729	80,126	–	–	956,564
Other assets	–	–	–	–	–	121,382	121,382
Total assets	5,844,791	124,965	87,318	1,616,754	137,477	89,386	7,900,691
Liabilities:							
Deposits by banks	378,591	358,819	121,688	1,100	6,763	–	866,961
Customer accounts	4,056,609	74,663	67,087	39,935	–	–	4,238,294
Debt securities in issue	1,819,440	285,138	–	30,000	86,580	–	2,221,158
Subordinated liabilities	230,000	–	–	–	–	–	230,000
Other liabilities	–	–	–	–	–	91,895	91,895
Shareholder's funds	–	–	–	–	–	252,383	252,383
Total liabilities	6,484,640	718,620	188,775	71,035	93,343	344,278	7,900,691
Off balance sheet items	1,261,785	55,000	–	(1,338,100)	21,315	–	–
Interest rate sensitivity gap	621,936	(538,655)	(101,457)	207,619	65,449	(254,892)	–
Cumulative gap	621,936	83,281	(18,176)	189,443	254,892	–	–

NOTES TO THE ACCOUNTS (continued)

28. FINANCIAL INSTRUMENTS (continued)

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
Assets:							
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
Total assets	6,023,736	75,980	132,977	1,116,117	84,133	195,464	7,628,407
Liabilities:							
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
Shareholder's funds	–	–	–	–	–	245,488	245,488
Total liabilities	6,583,775	344,370	205,024	49,826	102,580	342,832	7,628,407
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	–	–

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 31 December 2004 of £252m (2003 – £246m) were predominantly sterling denominated.

NOTES TO THE ACCOUNTS (continued)

28. 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.

Non–trading derivatives used to hedge the reset risk within mortgage backed securities are accounted for on a mark to market basis. As the fair value of these instruments was immaterial at the period end no further disclosures have been made.

The table below summarises the unrecognised gains and losses on hedges at 31 December 2004 and the movements therein during the period. 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 31/12/2004

	Gains £000	Losses £000	Total net gains/(losses) £000
Unrecognised gains and losses on hedges at 16 November 2003	13,027	(2,084)	10,943
Of which recognised in the period to 31 December 2004	(14,794)	71,081	56,287
Gains and losses arising before 16 November 2003 not recognised in the period to 31 December 2004	(1,767)	68,997	67,230
Gains and losses arising in the period to 31 December 2004 not recognised in that period	8,544	(87,606)	(79,062)
Unrecognised gains and losses on hedges at 31 December 2004	6,777	(18,609)	(11,832)
Of which expected to be recognised in the year to 31 December 2005	55,357	(93,594)	(38,237)

There are deferred gains of £12.5m (2003 gains of £3.5m) and deferred losses of £3.3m (2003 – £27.3m) carried forward in the balance sheet that are expected to be recognised in the profit and loss account during the year to 31 December 2005.

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	(2,571)	7,380	4,809
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	11,008	3,001	14,009
Unrecognised gains and losses on hedges at 15 November 2003	13,027	(2,084)	10,943
Of which expected to be recognised in the year to 15 November 2004	14,794	(71,081)	(56,287)

NOTES TO THE ACCOUNTS (continued)

28. 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 31 December 2004 £000	Non-trading book value 31 December 2004 £000	Non-trading fair value 15 November 2003 £000	Non-trading book value 15 November 2003 £000
Assets:				
Treasury bills and other eligible bills	86,729	86,781	134,193	134,122
Debt securities	956,762	956,564	796,836	797,728
Derivatives (see non-trading derivatives below)	16,523	9,746	18,790	5,763
Liabilities:				
Debt securities in issue	2,214,129	2,200,679	2,241,194	2,241,194
Subordinated liabilities	230,000	230,000	230,000	230,000
Derivatives (see non-trading derivatives below)	224,567	205,958	129,641	127,557

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)

28. FINANCIAL INSTRUMENTS (continued)

Derivatives held for non-trading purposes

At 31 December 2004 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	Period-end positive fair value £000	Period-end positive book value £000	Period-end negative fair value £000	Period-end negative book value £000
Foreign exchange derivatives:					
Forward foreign exchange	842,261	12,145	7,465	3,043	4,061
Cross currency swaps	2,186,529	1,497	2,005	208,723	200,956
	3,028,790	13,642	9,470	211,766	205,017
Interest rate derivatives:					
Interest rate swaps	2,856,900	2,604	276	11,982	919
Forward rate agreements	60,000	277	–	–	–
	2,916,900	2,881	276	11,982	919
Equity derivatives:					
Equity swaps	4,446	–	–	819	22
Total non–trading derivatives	5,950,136	16,523	9,746	224,567	205,958

NOTES TO THE ACCOUNTS (continued)

28. FINANCIAL INSTRUMENTS (continued)

Derivatives held for non-trading purposes (continued)

At 15 November 2003

	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
	2,634,343	11,832	5,196	121,009	124,853
Interest rate derivatives:					
Interest rate swaps	1,240,000	6,958	567	8,632	2,704
Forward rate agreements	–	–	–	–	–
	1,240,000	6,958	567	8,632	2,704
Credit derivatives:					
Credit default swap	914,469	–	–	–	–
Total non-trading derivatives	4,788,812	18,790	5,763	129,641	127,557

Maturity of notional principal amounts

At 31 December 2004 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	842,261	–	–	842,261
Cross currency swaps	339,938	1,753,376	93,215	2,186,529
	1,182,199	1,753,376	93,215	3,028,790
Interest rate derivatives:				
Interest rate swaps	1,275,000	1,510,000	71,900	2,856,900
Forward rate agreements	–	60,000	–	60,000
	1,275,000	1,570,000	71,900	2,916,900
Equity derivatives:				
Equity swaps	–	4,446	–	4,446
Total non–trading derivatives	2,457,199	3,327,822	165,115	5,950,136

NOTES TO THE ACCOUNTS (continued)

28. FINANCIAL INSTRUMENTS (continued)

Maturity of notional principal amounts (continued)

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

Maturity analyses of net replacement cost

At 31 December 2004

	One year or less	Over one year but not more than five years	Over five years	Total
	£000	£000	£000	£000
Foreign exchange derivatives	13,642	–	–	13,642
Interest rate derivatives	308	2,573	–	2,881
Equity derivatives	–	–	–	–
	13,950	2,573	–	16,523

NOTES TO THE ACCOUNTS (continued)

28. FINANCIAL INSTRUMENTS (continued)

Maturity analyses of net replacement cost (continued)

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
	4,709	5,006	9,075	18,790

29. ARRANGEMENTS WITH DIRECTORS

At 31 December 2004, the aggregate amounts outstanding under transactions, arrangements and agreements entered into on normal commercial terms by the Company with directors of the Company and its parent undertaking were:

	Number of persons	£000
Directors' loans	3	388

30. 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.

31. 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 consider 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 and the Chief Executive's statement.

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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company at 31 December 2004 and of the profit of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

Edinburgh
23 February 2005