SCOTTISH PROVIDENT LIMITED

REPORT AND ACCOUNTS

31 DECEMBER 2003

Registration No. 212709

Directors' report

The directors have pleasure in submitting their report and accounts for Scottish Provident Limited for the year ended 31 December 2003.

Statement of directors' responsibilities

United Kingdom company law and accounting standards require the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company and of the result for the period. In preparing those accounts, the directors are required to (a) select suitable accounting policies and then apply them consistently, (b) make judgements and estimates that are reasonable and prudent, (c) state whether applicable accounting standards have been followed, and (d) prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985. They have a responsibility for the system of internal control and for taking such steps as are reasonably open to them to safeguard the assets of the Company and prevent and detect fraud and other irregularities.

The directors confirm the accounts comply with the above requirements.

Activities

The principal activity of the Company is the transaction of ordinary long term insurance business. All activities are undertaken in the United Kingdom and the Republic of Ireland.

The Company is a wholly owned subsidiary of Abbey National plc. There are two principal subsidiary undertakings in the long term fund. Scottish Provident (Holdings) Limited is an intermediate holding company and SPI Finance PLC is a finance company.

During the year, investment management and business administration services were provided to the Company by wholly owned subsidiaries of Abbey National plc. Services were provided by Abbey National Asset Managers Limited, Abbey National Financial and Investment Services plc and Abbey National Financial and Investment Services Ireland plc.

Business review

The Company has written a small amount of new business in respect of policy increments. The results of the Company for the year ended 31 December 2003 are set out on page 2.

The directors do not propose the payment of a dividend for the period.

Share Capital

Details of share capital issued in the year to date are disclosed at note 17 to the accounts.

Directors

Except as shown, the directors of the Company throughout the period were:

C Dunlop	(Appointed 4 August 2003)
K Luscombe	(Appointed 16 July 2003)
A S A Wyatt *	(Appointed 30 September 2003)
M J Boleat	(Resigned 16 July 2003)
J A Denholm	(Resigned 16 July 2003)
A R Devereaux	(Resigned 18 April 2003)
A J Foden	(Resigned 16 July 2003)
J D Gallagher	(Resigned 16 July 2003)
M J Millington	(Resigned 30 September 2003)

* Also a director of Abbey National plc as at 31 December 2003.

Note 24 to the accounts discloses details of the beneficial interests of directors in the shares of Abbey National plc, except for those directors who are also directors of Abbey National plc.

Employment of disabled persons and employee involvement

The Company had no employees in the current or prior year.

It is the policy of the Abbey National Group to encourage applications from people with disabilities and to take all practical steps to assist the recruitment, retention and development of disabled persons.

The Abbey National Group continues its commitment to an active programme of employee communication using a wide range of media with the aim of ensuring employees are fully informed of its performance.

Payment of suppliers

In the forthcoming year, goods and services will continue to be supplied to the Company by Abbey National Financial and Investment Services plc, and Abbey National Financial and Investment Services Ireland plc. Those companies will continue to be responsible for agreeing terms and conditions under which business is to be transacted and for making suppliers aware of these before business is contracted. It is policy to ensure payments are made in accordance with legal and contractual obligations. For the period ended 31 December 2003, suppliers of goods and services were paid in an average of 18 days (2002: 21 days).

Auditors

On 1 August 2003, Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989.

At the forthcoming Annual General Meeting of the Company it will be proposed that Deloitte & Touche LLP be re-appointed as auditors of the Company, in accordance with the resolution by Abbey National plc to appoint Deloitte and Touche LLP as auditors of Abbey National plc and its subsidiaries.

By Order of the Board

C H Ramsay
Secretary
30 March 2004

Profit and Loss Account for the year ended 31 December 2003

Notes		2003 £m	2002 £m
	Technical account – long term business		
2(a)	**Earned premiums, net of reinsurance**		
	Gross premiums written	468	581
	Outward reinsurance premiums	(48)	(32)
		420	549
	Other income		
3	Investment income	315	358
3	Unrealised gains on investments	241	-
		556	358
	Total income	976	907
2(d),5	**Claims incurred, net of reinsurance**		
	Claims paid		
	– gross amount	865	844
	– reinsurers' share	(41)	(43)
	– net of reinsurance	824	801
5,20	**Change in provision for claims**		
	– gross amount	(7)	27
	– reinsurers' share	2	1
	– net of reinsurance	(5)	28
		819	829
2(d),20	**Change in other technical provisions, net of reinsurance**		
	Long term business provision, net of reinsurance		
	– gross amount	(651)	(80)
	– reinsurers' share	219	(79)
		(432)	(159)
20	**Other technical provisions, net of reinsurance**		
	– technical provision for linked business	71	(320)
		(361)	(479)
	Other expenditure		
6	Net operating expenses	54	40
3	Investment expenses and charges	243	332
3	Unrealised losses on investments	-	804
4	Other technical charges, net of reinsurance	10	54
8	Tax attributable to the long term business	49	(21)
19	Transfer to/(from) the fund for future appropriations	270	(616)
		626	593
	Total expenditure	1,084	943
	Balance on the technical account–long term business	(108)	(36)

Notes		2003 £m	2002 £m
	Non-technical account		
	Balance on the technical account – long term business	(108)	(36)
8	Tax attributable to balance on the long term business technical account	(4)	13
		(112)	(23)
9	Other charges – Impairment of Goodwill	-	(546)
9	Other charges – Amortisation of Goodwill	(14)	(42)
	Operating loss on ordinary activities before taxation	(126)	(611)
8	Tax on loss on ordinary activities	4	(13)
	Retained loss for the financial period	(122)	(624)

The results of the company are from continuing operations.

Statement of total recognised gains and losses for the period ended 31 December 2003

There were no recognised gains or losses affecting shareholders' funds other than those disclosed in the profit and loss account.

Balance Sheet as at 31 December 2003

Notes		2003 £m	2002 £m
	Assets		
9	**Intangible fixed assets**	**240**	254
	Investments		
10	Land and buildings	**561**	630
11 (a)	Investments in group undertakings	**52**	51
11 (b) (c)	Other financial investments	**5,849**	5,837
		6,462	6,518
12	**Assets held to cover linked liabilities**	**1,282**	1,206
20	**Reinsurers' share of technical provisions**		
	Long term business provision	**341**	560
	Claims outstanding	**4**	6
		345	566
	Debtors		
	Debtors arising out of direct insurance operations		
	– policyholders	**9**	10
	– reinsurers	**12**	4
13	Other debtors	**731**	861
		752	875
	Other assets		
14	Cash at bank and in hand	**251**	156
15	Other – present value of acquired in-force business	**72**	82
		323	238
	Prepayments and accrued income		
	Accrued interest and rent	**60**	57
	Total assets	**9,464**	9,714

At 31 December 2003, the total amount of assets representing the long term fund valued in accordance with Schedule 9A to the Companies Act 1985 was £7.0bn (2002: £7.2bn).

Balance Sheet as at 31 December 2003

Notes		2003 £m	2002 £m
	Liabilities		
16	**Capital and reserves**		
17	Called up share capital	**1,765**	1,545
	Capital contribution reserve	**178**	178
	Other reserves	**222**	222
	Profit and loss account	**(795)**	(673)
	Shareholders' funds attributable to equity interests	**1,370**	1,272
18	**Subordinated liabilities**	**823**	782
19	**Fund for future appropriations**	**(183)**	(453)
20	**Technical provisions**		
	Long term business provision	**5,800**	6,451
	Claims outstanding	**83**	90
		5,883	6,541
20	**Technical provision for linked liabilities**	**1,276**	1,205
21	**Provisions for other risks and charges**	**26**	24
23	**Creditors**		
	Creditors arising out of direct insurance operations		
	– policyholders	**10**	14
	– reinsurers	**5**	3
	Amounts owed to credit institutions	**52**	140
23	Other creditors including taxation and social security	**195**	175
		262	332
	Accruals and deferred income	**7**	11
	Total liabilities	**9,464**	9,714

Approved by the Board of Directors on 30 March 2004 and signed on its behalf by:

Kerr Luscombe
Director

Notes to the Accounts

1. Accounting policies

Basis of presentation
The accounts are prepared on the basis of the accounting policies set out below.
The accounts have been prepared in compliance with the special provisions relating to insurance companies of section 255 and Schedule 9A to the Companies Act 1985 and in accordance with applicable UK accounting standards. They are also prepared under the historical cost accounting rules, modified to include the revaluation of investments.
These accounts have also been prepared in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 1998.
The company is not required to prepare consolidated accounts under S228 of the Companies Act 1985 as it is itself included in the consolidated accounts of Abbey National plc, a company registered in England. These financial statements thus present information about the company as an individual entity and not about its group.
Under Financial Reporting Standard 1, the company is exempt from the requirement to prepare a cash flow statement on the grounds that is it a wholly owned subsidiary.
Certain reclassifications have been made to prior year amounts to conform to the current period presentation.

Present value of acquired in-force business
The present value of acquired in-force business is held on the balance sheet as an asset and represents the capitalised value of future profits that are expected to emerge for the benefit of the shareholder from acquired insurance business. The present value of acquired in-force business is the actuarially determined fair value of the acquired long term business calculated using a risk – adjusted discount rate and appropriate assumptions for future mortality, morbidity, persistency, expenses, taxation and investment return, based on investment conditions in existence at the reporting period-end date.
The asset is amortised over the lives of the contracts acquired.

Intangible fixed assets – goodwill
Goodwill arising on the purchase of businesses is capitalised under the heading Intangible fixed assets and amortised on a straight line basis over its expected useful economic life, subject to a maximum period of 20 years.

Impairment of intangible assets
Intangible assets are subject to review for impairment under FRS 11. The carrying value is written down by the amount of any impairment and the loss is recognised in the profit and loss account in the period in which it occurs. Should an external event reverse the effects of a previous impairment, the carrying value of the intangible assets may be written up to a value no higher than the original depreciated cost, which would have been recognised had the original impairment not occurred.

Premiums
Premiums are credited when the policy liability is set up and the premium becomes due. Reinsurance premiums are charged when they become payable.

Claims
Death claims are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.
Surrenders are recorded on the earlier of the date when paid or when the policy benefit (or part thereof) ceases to be included within the long term business provision and/or the technical provision for linked liabilities. Claims on participating business include bonuses payable. Claims payable include costs of settlement. Reinsurance recoveries are credited to match the relevant gross amounts.

Investment return
Investment income and expenses includes dividends, interest, rents, gains and losses on the realisation of investments and related expenses. Dividends are included as investment income on the date that shares become quoted ex-dividend. Interest, rents and expenses are included on an accruals basis. Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original cost.
Unrealised investment gains and losses are calculated as the difference between the valuation at the balance sheet date and their valuation at the last balance sheet date or purchase price, if acquired during the year. Unrealised investment gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years which have been realised during the year and are reported as realised gains and losses in the current profit and loss account.
The investment return (and taxation thereon) on assets which are directly connected with the carrying on of long term business are dealt with in the technical account – long term business.

Derivatives
Outstanding derivative contracts, including forward foreign exchange contracts, are marked to market on the balance sheet date. Unrealised gains or losses thereon are included in the profit and loss accounts as unrealised gains or losses on investments.

Investments
All investments, including those classified under assets held to cover linked liabilities, are stated at their current value as described below.
Land and buildings are valued quarterly and are stated at the open market value determined on the date of their most recent valuation. The valuation of each property is carried out in accordance with generally recognised methods of valuation by a qualified chartered surveyor. An allowance is made for estimated costs of disposal.
In accordance with the Statement of Standard Accounting Practice 19, no depreciation or amortisation is provided in respect of investment properties. This treatment may be a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, such properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. Depreciation is only one of the many factors reflected in the annual valuation. The accounting policy adopted is therefore necessary for the financial statements to give a true and fair view. This departure from the Act has no effect on reported results.
Debt securities and other fixed income securities are stated at their current value.
Listed investments are valued at market value on the balance sheet date, or on the last stock exchange trading day before the balance sheet date.
Unlisted investments for which a market exists are valued at the average price at which they were traded on the balance sheet date or on the last trading day before that date.
Units in authorised unit trusts held for the long term have been valued at their realisable value which is taken to equate to the price at which the managers under the scheme would purchase the units if required to do so.
Investments in group undertakings and participating interests are stated at net asset value.
Other unlisted investments are valued by the directors on a prudent basis with regard to their likely realisable values.

Notes to the Accounts

1. Accounting policies continued

Fund for future appropriations
The balance on this account represents funds, the allocation of which either to participating policyholders or to shareholders has not been determined at the balance sheet date. A debit balance on the account is restricted in value to the value of the outstanding limited recourse loan (see note 18). Subject to that, transfers to and from the fund reflect the excess or deficiency of income over outgoings in each accounting period arising from participating business in the Company's long term business fund.

Long term business provision/technical provision for linked liabilities
One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events such as death or specific types of illness. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies.
As a consequence of this uncertainty, sophisticated estimation techniques are employed by suitably qualified personnel in computing the levels of provisions held against such uncertainty.
The long term business provision is determined by the Company's Appointed Actuary following his annual investigation of the long term business and reflects the value of related assets and the yield derived therefrom.
The long term business provision is calculated initially to comply with the reporting requirements under the Financial Services and Markets Act 2000 and Interim Prudential Sourcebook for insurance companies. For Conventional participating life and pensions business the net premium valuation method has mostly been used, with the gross premium valuation method being used for non participating business.
Accordingly the long term business provision includes explicit provision for vested bonuses including those relating to the current declaration. No such explicit provision is made for future reversionary and terminal bonuses under conventional participating policies. The net premium valuation method makes implicit provision for these bonuses by reducing the valuation rate of interest accordingly. This statutory solvency basis of valuation is then adjusted by eliminating the undistributed surplus determined by that valuation, general contingency reserves, certain reserves required under insurance companies regulations and deferred acquisition costs allowed for in the net premium valuation.
The long term business provision includes the non-unit liabilities and the with-profit unit liabilities in respect of unit linked business. The technical provision for linked liabilities is based on the market value of the related assets. The long term provision includes provision, based on known facts and experience, against liabilities that may arise under insurance contracts as a result of investment performance and similar guarantees contained therein.
Although the process for the establishment of technical provisions follows specified rules and guidelines, the provisions that result from the process remain uncertain. As a consequence of this uncertainty, the eventual value of claims could vary from the amounts provided to cover such future claims. The Company seeks to provide appropriate levels of technical provisions taking known facts and experience into account but nevertheless such provisions remain uncertain.

Taxation
Provision has been made for any taxation liability arising in respect of income or gains arising in the accounting period. Deferred Tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. The timing differences arise from the inclusion of items of income, gains on investments and expenditure in taxation computations in different periods from those in which they are included in the financial statements.
Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted. The long term business fund element of the transfer from the long term business technical account to the non-technical account is grossed up at the effective tax rate.

Foreign currencies
Assets and liabilities held in foreign currencies are translated to sterling at rates of exchange ruling at the end of the year. Income and expenditure denominated in foreign currencies are translated at the appropriate rates prevailing during the year.

Notes to the Accounts

2. Premium and bonus analysis

All business is written in the UK or the Republic of Ireland in respect of long term insurance business provided primarily to customers in these countries. Single premiums from property-linked business include £5m (2002: £10m) of premiums reassured from Scottish Mutual International plc. Premiums from individuals include group personal pension scheme premiums. Premiums under property-linked contracts include those that are invested in with-profit units. Single premiums are all classified as new business and include a) DSS rebates, b) non-recurring increments to existing policies and c) funds at retirement under pension contracts that are left with the Company.

			2003			2002
(a) Premiums written	**Gross £m**	**Reinsurance £m**	**Net £m**	Gross £m	Reinsurance £m	Net £m
Ordinary business						
Non participating contracts						
– periodic premium	**111**	**(40)**	**71**	135	(31)	104
– single premium	**-**	**-**	**-**	-	-	-
Participating contracts						
– periodic premium	**139**	**(1)**	**138**	154	(1)	153
- single premium	**-**	**-**	**-**	-	-	-
Property-linked contracts						
– periodic premium	**37**	**(7)**	**30**	39	-	39
– single premium	**2**	**-**	**2**	3	-	3
	289	**(48)**	**241**	331	(32)	299
Pension business						
Non participating contracts						
– periodic premium	**8**	**-**	**8**	6	-	6
– single premium	**77**	**-**	**77**	63	-	63
Participating contracts						
– periodic premium	**28**	**-**	**28**	41	-	41
– single premium	**11**	**-**	**11**	64	-	64
Property-linked contracts						
– periodic premium	**26**	**-**	**26**	30	-	30
– single premium	**29**	**-**	**29**	46	-	46
	179	**-**	**179**	250	-	250
Total premiums written	**468**	**(48)**	**420**	581	(32)	549
Being:						
– premiums from individuals	**409**			505		
– premiums under group contracts	**59**			76		
Total premiums written	**468**			581		

	2003	2002
The reassurance balance in respect of all outwards reassurance is as follows:	**£m**	£m
Outward reinsurance premiums	**(48)**	(32)
Reinsurers' share of claims	**39**	42
Reinsurers' share of change in technical provisions	**(219)**	79
	(227)	89

2. Premium and bonus analysis continued

(b) Gross new annualised periodic premiums	2003 £m	2002 £m
Ordinary business		
– non participating contracts	1	1
– property-linked contracts	1	2
	2	3
Pension business		
- non participating contracts	-	1
– participating contracts	1	2
– property-linked contracts	1	1
	2	4
Total gross new annualised periodic premiums	4	7

(c) Premiums written

	2003 £m	2002 £m
Net premiums written in:		
UK	332	439
Republic of Ireland	88	111
	420	549

(d) Bonuses

Claims and the change in other technical provisions include bonuses paid and bonuses declared but not paid, respectively. The charge incurred for bonuses is as follows:

	2003 £m	2002 £m
Terminal and interim bonuses paid	78	100
Linked contracts: bonus added to with-profit unit values	15	17
	93	117

3. Investment activity account

Technical account – long term business	2003 £m	2002 £m
Investment income		
Income from land and buildings	47	51
Income from other investments	268	307
	315	358
Investment expenses and charges		
Investment management expenses		
- management fee:		
From Abbey National Asset Managers Limited	(2)	(2)
Other	(1)	(7)
- interest on subordinated loan notes payable after 5 years	(11)	(11)
- interest on limited recourse loan payable to Abbey National SMA Holdings Limited (note 18)	(40)	(40)
- other interest payable	(7)	(4)
Loss on the realisation of investments	(182)	(268)
	(243)	(332)
Unrealised gains/(losses) on investments	241	(804)
Net investment return	313	(778)

Income from other investments includes £8m (2002: £4m) of interest earned on deposits placed with Abbey National plc or subsidiaries thereof.

Other interest payable includes £3m (2002: £1m) of interest payable to Abbey National Treasury Services plc, and £2m (2002: £2m) of interest payable to Prolific Holdings Ltd.

Notes to the Accounts

4. Other technical charges, net of reinsurance

	2003	2002
	£m	£m
Technical account		
Amortisation of present value of acquired in-force business (note 15)	10	54
	10	54

5. Claims incurred

	2003			2002		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Claims paid	861	(41)	820	840	(43)	797
Claim handling expenses	4	-	4	4	-	4
	865	(41)	824	844	(43)	801
Change in outstanding claims	(7)	2	(5)	27	1	28
Claims incurred	858	(39)	819	871	(42)	829
Claims, excluding handling expenses, analysed by type:						
Death and critical illness	94	(39)	55	116	(42)	74
Maturities	238	-	238	255	-	255
Surrenders	470	-	470	449	-	449
Annuities	52	-	52	47	-	47
	854	(39)	815	867	(42)	825

6. Net operating expenses

	2003 £m	2002 £m
Technical account		
Acquisition costs incurred	5	3
Administrative expenses	49	37
	54	40

Income totalling £16m, previously included in other technical income in 2002 has been reclassified within administrative expenses for consistency within 2003 presentation.

Auditors' remuneration, exclusive of VAT, in respect of audit services amounted to £370,000 (2002: £226,000). Fees in respect of non audit services amounted to £557,000 (2002: £198,000).

Commissions payable in respect of direct insurance business amounted to £13m (2002: £10m)

The Company has no employees. All business administration services are provided to the Company in the UK by Abbey National Financial and Investment Services plc and in the Republic of Ireland by Abbey National Financial and Investment Services Ireland plc. Management charges by these companies included in the operating results amount to £42m (2002: £59m).

7. Directors' emoluments

The remuneration of directors included within management charges to the Company was:	2003 £	2002 £
Aggregate emoluments (excluding pension contributions)	22,621	92,482

The above amounts represent that proportion of total remuneration of the directors as is charged to the Company and its subsidiaries according to the proportion of their time spent on company and subsidiary affairs.

Directors who are executives of Abbey National plc receive no fees in respect of services as directors of the Company.

In 2002 aggregate emoluments included £42,919 by way of compensation for loss of office and £26,885 was paid by way of additional pension contribution on behalf of those directors losing office.

	Number of directors	
	2003	2002
Directors to whom retirement benefits under a defined benefit scheme were accruing in respect of qualifying services	2	2

Notes to the Accounts

8. Taxation

	2003 £m	2002 £m
Technical account		
The charge for tax is made up as follows:		
UK corporation tax	**26**	30
Overseas tax	**15**	8
Deferred tax charge/(credit):		
– on timing differences	**13**	(5)
– on unrealised gains on investments	**-**	(46)
– due to changes in tax rates	**2**	-
Adjustments to prior years' estimates – corporation tax	**(7)**	(8)
	49	(21)
Non-technical account		
Tax attributable to balance on long term business technical account	**(4)**	13

Factors affecting the charge for taxation for the period:

	2003 £m	2002 £m
Operating loss on ordinary activities before taxation	**(126)**	(611)
Operating loss on ordinary activities multiplied by standard rate of corporation tax of 30%	**(38)**	(183)
Technical account loss not subject to standard rate of corporation tax	**30**	20
Amortisation of goodwill not subject to corporation tax	**4**	176
Tax charge: non-technical account	**(4)**	13

9. Intangible fixed assets

Intangible fixed assets comprise purchased goodwill arising on the acquisition of the business of The Scottish Provident Institution on 1 August 2001. The purchased goodwill is being amortised over a 20 year period.

	Purchased goodwill £m
Cost at 1 January and 31 December 2003	860
Amortisation at 1 January 2003	60
Provision against impairment at 1 January 2003	546
Charge for period - amortisation	14
Amortisation at 31 December 2003	**620**
Net book value – 31 December 2003	**240**
Net book value – 31 December 2002	254

10. Land and buildings

Land and buildings are valued quarterly by members of the Royal Institute of Chartered Surveyors. All the valuations at the balance sheet date were undertaken by independent external professional valuers.

	Freehold £m	Long leasehold £m	Total £m
Valuation at 1 January 2003	**446**	**184**	**630**
Additions	**1**	**1**	**2**
Disposals	**(64)**	**(27)**	**(91)**
Revaluation	**18**	**2**	**20**
Valuation at 31 December 2003	**401**	**160**	**561**
Historical cost at 31 December 2003	**291**	**144**	**435**
Historical cost at 31 December 2002	364	163	527

The value of properties occupied by the Company was £22m (2002: £36m).

Notes to the Accounts

11. Non-property investments

(a) Shares in subsidiary undertakings	£m
Cost at 31 December 2003 and 31 December 2002	166
Valuation at 31 December 2003	52
Valuation at 31 December 2002	*51*

The principal subsidiary undertakings in the long term fund are stated below. Both are registered in England, have share capital consisting solely of one class, and are wholly owned.

Subsidiary	Nature of business
Scottish Provident (Holdings) Limited	Intermediate Holding Company
SPI Finance plc	Finance Company

(b) Other financial investments	Current value		Historical cost	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Shares and other variable-yield securities and units in unit trusts	**1,710**	2,416	**1,462**	2,487
Debt securities and other fixed income securities	**3,007**	2,732	**2,971**	2,646
Other loans - loans secured by insurance policies	**9**	11	**9**	11
Time deposits with credit institutions	**1,123**	678	**1,123**	678
	5,849	5,837	**5,565**	5,822
Shares and other variable-yield securities and units in unit trusts comprise:				
– Listed investments	**1,463**	2,362	**1,143**	2,241
– Unit trusts	**265**	38	**319**	10
– Unlisted investments	**(18)**	16	**0**	236
	1,710	2,416	**1,462**	2,487

Debt securities and other fixed income securities include £2,962m (2002: £2,732m) of listed securities.

(c) Unit trust holdings (including those held within linked assets)
Investments in unit trusts managed by subsidiaries of Abbey National plc. amounted to £953m (2002: £865m).

Investments in open-ended investment companies that are partly owned by Abbey National Asset Managers Limited amounted to £225m (2002: £nil).

(d) Related party option contracts
At 31 December 2003, the Company had entered option contracts, with nominal values totalling £739m, with Abbey National Treasury Services plc under which that company could require Scottish Provident Ltd to pay the value of out-performance of the undernoted indices over certain levels (Strike Level (1)) on the specified dates below. The Company could require Abbey National Treasury Services plc to pay the value of under-performance of the undernoted indices below certain levels (Strike Level (2)) on the specified dates below.

Index	Strike Date	Strike Level (1)	Strike Level (2)
FTSE 100	19.03.04	4327	3300
FTSE 100	19.03.04	4355	3300
FTSE 100	18.06.04	4405	3625
FTSE 100	18.06.04	4425	3625
FTSE 100	18.06.04	4440	3625
FTSE 100	18.06.04	4475	3625
FTSE 100	18.06.04	4580	3625
EUROSTOXX 50	19.03.04	2832	2000
S&P 500	18.06.04	1120	850

No premium was payable or receivable by the Company for the purchase or sale of these options.
At 31 December 2003 there was an unrealised loss of £27m on the options held at that date.
As security for the maturity proceeds of these derivatives, Abbey National Treasury Services plc had lent to the Company sumsamounting to £40m at 31 December 2003 – such liabilities are included in amounts owed to credit institutions. Accrued interest outstanding on such loans at 31 December 2003 amounted to £126,000

At 31 December 2003, the company had entered into interest rate swap contracts with Abbey National Treasury Services plc to hedge GAO exposures. The contracts, valued at a loss of £22m are included in other creditors.

Notes to the Accounts

12. Assets held to cover linked liabilities

	Current value		Historical cost	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Assets held to cover linked liabilities	**1,282**	1,206	**1,332**	1,394

Assets held to cover linked liabilities comprise investments, cash at bank, accrued income, investments purchased or sold for subsequent settlement and taxation balances.

13. Other debtors

	2003	2002
	£m	£m
Investments sold for subsequent settlement	**-**	12
Deferred tax asset	**34**	43
Sundry debtors	**11**	9
Due from Abbey National SMA Holdings Limited	**677**	777
Due from other fellow subsidiary undertakings	**9**	20
	731	861

Details of the deferred tax asset of £34m (2002:£43m) are given in note 22 below.

14. Cash at bank and in hand

Includes £255m (2002: £70m) held in accounts with Abbey National plc.

15. Present value of acquired in-force business

	£m
At 1 January and 31 December 2003 – cost	**184**
Amortisation at 1 January 2003	**102**
Amortisation for period (note 4)	**10**
Cumulative amortisation at 31 December 2003	**112**
Net book value – 31 December 2003	**72**
Net book value – 31 December 2002	82

16. Reconciliation of movements in shareholders' funds

	Ordinary share *capital* £m	**Capital contribution *reserve* £m**	**Other *reserves* £m**	**Profit and *loss account* £m**	**Total shareholders' funds £m**
Balance at 1 January 2003	**1,545**	**178**	**222**	**(673)**	**1,272**
Issue of share capital	**220**	**-**	**-**	**-**	**220**
Loss for the period after taxation	**-**	**-**	**-**	**(122)**	**(122)**
Balance at 31 December 2003	**1,765**	**178**	**222**	**(795)**	**1,370**

Due to the deficit on profit and loss account, the directors consider there to be no distributable reserves at 31 December 2003. Other reserves are not distributable.

17. Share capital

	2003	2002
	£m	£m
Authorised:		
4,336 million (2002: 1,611 million) ordinary shares of £1 each	**4,336**	1,611
Allotted, called up and fully paid:		
1,765 million (2002: 1,545 million) ordinary shares of £1 each	**1,765**	1,545

Notes to the Accounts

17. Share capital continued

On 27 January 2003 the Company increased its authorised share capital to £4,336m. During 2003 the Company issued 220 million ordinary shares of £1 each for cash totalling £220m as follows:

Date of Issue	Number of shares
27 January 2003	120,000,000
10 March 2003	25,000,000
12 March 2003	75,000,000

18. Subordinated liabilities

	2003 £m	*2002* £m
(a) Undated subordinated guaranteed bond capital		
Capital value of subordinated debt	**125**	125
Unamortised issue costs	**(1)**	(1)
Carrying value at end of period	**124**	124
(b) Limited recourse loans		
Original loan:		
Capital	**552**	618
Accrued interest - 6.5% (note 3)	**37**	40
Second Loan Tranche:		
Capital	**107**	-
Accrued interest - LIBOR less 0.125 basis points (note 3)	**3**	-
Carrying value at end of period	**699**	658
Subordinated liabilities	**823**	782

£125 million 8.75% undated subordinated guaranteed bonds were issued by SPI Finance PLC, a wholly owned subsidiary of the Company, in 1997, and the proceeds were lent to the Company on terms equal to those applicable to the bonds. The bonds are guaranteed by the Company. The earliest repayment date of the bonds, repayable by SPI Finance PLC, is 13 May 2007 and thereafter on each fifth anniversary so long as the bonds are outstanding. In the event of the winding-up of the Company, the right of payment under the debt shall be subordinated to the rights of higher ranking creditors (principally policyholders). All interest payments due under the debt have been made when due.

Under the terms of an agreement dated 1 August 2001, the Company borrowed £627m from Abbey National SMA Holdings Limited, with interest accruing on that original loan principal at 6.5% per annum. The loan principal and interest outstanding are repayable by the Company only to the extent that two conditions are satisfied:

i. surplus is available within the Company's non-profit sub fund, and
ii. any repayment does not result in the Company, in the reasonable opinion of the Appointed Actuary, falling below its statutory solvency requirements under insurance company regulations.

As condition (ii) above was not satisfied at 31 December 2002, no repayment of the original loan principal or accrued interest was made in relation to the year then ended. Accordingly, under the terms of the agreement, £107m of the £658m outstanding at 31 December 2002, being an amount equivalent to the surplus on the non profit fund for the year then ended, was converted into a second loan tranche on which interest is payable at LIBOR less 0.125 basis points, with effect from 22 April 2003. The second loan tranche is repayable under the terms of the agreement to the extent that the condition in ii. above is satisfied. At 31 December 2003 an amount of £80m is expected to be repaid on the outstanding contingent loan in April 2004.

19. Fund for future appropriations

	£m
Balance at 1 January 2003	**(453)**
Movement from the long term business technical account	**270**
Balance at 31 December 2003	**(183)**

The balance on the Fund for future appropriations account at a particular date represents the surplus or deficit of assets over liabilities within the Company's With Profits Insurance sub-fund, calculated in accordance with the accounting policies disclosed in note 1 to the accounts. In calculating the balance on the account at 31 December 2003, the limited recourse loans of £699m (2002: £658m), detailed at note 18 above, have been deducted in full as a liability.

20. Technical provisions

	Long term business provision £m	Technical provision for linked liabilities £m	Claims outstanding £m
Gross amount			
Balance at 1 January 2003	6,451	1,205	90
Movement to/(from) the long term business technical account	(651)	71	(7)
Balance at 31 December 2003	5,800	1,276	83
Reinsurers' share			
Balance at 1 January 2003	560	-	6
Movement to the long term business technical account	(219)	-	(2)
Balance at 31 December 2003	341	-	4
Net technical provisions			
Balance at 1 January 2003	5,891	1,205	84
Net movement from/(to) the long term business technical account	(432)	71	(5)
Balance at 31 December 2003	5,459	1,276	79

The principal assumptions underlying the calculation of the long-term business provision are noted below.

With-profits business was valued using the net premium method and without-profits assurances using a gross premium method. The basis used for valuing the principal classes of business are shown, together with the annual rates of interest used for UK business. Variation to the interest rates used for Irish business is also given.

	Note to valuation basis *	UK rate of interest %
Special With-Profit Fund assurances	(1)	3.40
With-profits assurances with early maturity options	(1)	3.40
Other with-profits assurances	(1)	3.40
Life Fund term assurances	(2)	4.05
Other Non-Profit Life Fund assurances	(1)	4.25
Pension Fund term assurances	(2)	4.05
Annuities in payment	(3)	4.65
Deferred annuity contracts (after vesting)	(4)	4.25
With-profits pension and annuity contracts in deferred period	(5)	4.30

Interest rates used for Irish business were lower than the equivalent UK classes by:

- 0.55% for Life With-Profit and "Annuities in payment";
- 0.4% for Life Non-Profit, Pension Fund term assurances" & "Deferred annuity contracts (after vesting)";
- 0.75% for With-Profit Pensions contracts.

*** Notes to valuation basis**

(1) For Endowments: 90% of AM80 ultimate and 95% of AF80 ultimate with multiple for smokers/non-smokers of 1.5/0.8 respectively for contracts having only a benefit on death. For Whole of Life: an age-related percentage of TM92(5) select and percentage allowance for smoker/non-smoker status as appropriate. For contracts with benefits on contingencies other than death, a percentage of reassurers' rates was used, allowing for deterioration of 2% per annum compound for mortality, critical-illness and total permanent disability, with an age-related percentage allowance for smoker/non-smoker status as appropriate.
(2) For contracts having only a death benefit, an age-related percentage of TM92(5) select and TF92(5) select and percentage allowance for smoker/non-smoker status as appropriate. For contracts having no death benefit, 145% (Gteed) / 125% (Rvwble) of reassurer's rates with multiples of {97.1%/88.8%/89.6%/80.5%} for {MNS/MS/FNS/FS} and a deterioration allowance of 2.5% per annum compound for both critical illness and total permanent disability. For contracts having both death and other (critical illness and/or total permanent disability) benefits, the latter basis is amended to use multiples of {112.0%/88.0%/83.0%/74.7%} for {MNS/MS/FNS/FS} and uses a deterioration allowance of 2% per annum compound in respect of mortality, critical illness and total permanent disability.
(3) Mortality of 89% RMV92(C=2020) for males, 98% RFV92(C=2020) for females.
(4) Mortality of 73% RMV92(C=2020) for males, 73% RFV92(C=2020) for females.
(5) Nil mortality.

Technical provision for linked liabilities includes £159m (2002: £150m) in respect of managed fund business. Assets of this value are included in assets held to cover linked liabilities.

21. Provisions for other risks and charges

	Demutualisation Costs £m	Rental Costs £m	Other £m	Total £m
At 1 January 2003	6	17	1	24
Transfer from technical account	-	1	2	3
Utilised in the period	-	(1)	-	(1)
At 31 December 2003	6	17	3	26

The provision for demutualisation costs represents costs associated with the demutualisation of The Scottish Provident Institution and is expected to be utilised or reversed during 2004. The provision for rental costs is in respect of vacant properties. It is reviewed quarterly and is required to be held until all property leases expire. Other provisions include a capital gains provision of £3m.

22. Deferred taxation asset

	£m
At 1 January 2003 - asset	(43)
Transfer to the technical account	15
Transfer from assets held to cover linked liabilities	(6)
At 31 December 2003 - asset	(34)

The deferred tax asset balance is shown within Other debtors in note 13 above.

The amounts provided for deferred taxation and the amounts unprovided are as follows:

	2003		2002	
	Provided £m	**Unprovided £m**	Provided £m	Unprovided £m
On trading losses	-	(22)	-	-
On unrealised net appreciation on investments	-	(56)	-	(31)
Timing differences on income and expenses	(34)	-	(43)	-
At 31 December	(34)	(78)	(43)	(31)

Tax relief for acquisition expenses is spread over seven years. The long term fund is of sufficient scale to produce sufficient income each year to utilise these expenses; accordingly an asset has been provided reflecting the tax benefit of these deferred expenses.

The deferred tax asset in respect of trading losses is available to offset future trading profits. A deferred tax asset has not been recognised for the tax value of losses carried forward due to the uncertainties surrounding emergence of future profits.

Deferred tax assets on realised and unrealised investment losses are not provided as recoverability of these is dependent on future stock market performance.

23. Creditors

All creditors are payable within one year.

Other creditors including taxation and social security comprise:

	2003 £m	2002 £m
Taxation	33	36
Investments purchased for subsequent settlement	-	6
Due to fellow subsidiary undertakings	30	15
Due to subsidiary undertakings	49	49
Other	83	69
	195	175

24. Directors' and officers' interests

The beneficial interests of those directors who are also directors of Abbey National plc are disclosed in the accounts of that company.
The directors who held office at the end of the year had the following beneficial interests in the ordinary shares of 10p each of Abbey National plc, the Company's ultimate parent company, as recorded in the register of directors' share and debenture interests:

	At 1 January 2003*		*Options* granted during the year*	*Options* exercised during the year*	At 31 December 2003	
	Shares	Options			Shares	Options
C Dunlop	4,989	144,769	-	-	**4,991**	**144,769**
K Luscombe	4,840	71,708	-	-	**4,840**	**71,708**

* or from date of appointment if after 1 January 2003

The options referred to above are those granted by Abbey National plc Executive, Share Matching, All-employee and Sharesave schemes.

Certain directors hold life assurance or pension policies issued by the Company. The aggregate amount of premiums paid by those directors in respect of such policies during the period is not considered material.

Notes to the Accounts

25. Contingent liabilities

(a) Work is continuing in relation to the 'realistic' balance sheets required as part of the forthcoming Financial Services Authority (FSA) regulations with respect to the solvency of Life companies. The method of calculating these balance sheets remains subject to change as the FSA and the Life industry evolves its practices.

At 31 December 2003, £100m has been set aside in respect of potential shareholder support for the with profit fund. However, there remains considerable uncertainty as to the effect on the shareholder of the new regime and a significant project is underway to establish ongoing arrangements. The £100m represents management's current estimate of the potential cost to the shareholder though it remains possible that the final cost could be higher or lower than the amount set aside by a significant margin.

(b) The Company is required under the Financial Services Compensation Scheme to contribute towards any levies raised by that Scheme on long term insurance business companies for the purpose of assisting policyholders of UK long term business insurers that may become insolvent. The amount collected may vary, but cannot exceed 0.8% of relevant net premium income in any one financial year of the Scheme. A levy of nil in respect of long term insurance business was raised on the Company during the period covered by these accounts.

(c) The Company and its subsidiaries are registered with HM Customs and Excise as members of a group for VAT purposes and, as a result, they are jointly and severally liable on a continuing basis for amounts owing by any other member of that group in respect of unpaid VAT. Any liability in this respect is considered to be remote. At 31 December 2003 the Group liability was £18m (2002: £10m).

(d) The company has established provisions relating to both the cost of compensating policyholders who were advised by agents of the Company in the purchase of pension products and to the cost of liabilities in respect of certain endowment products. There may also be a requirement to contribute under the Financial Services Compensation Scheme to compensate policyholders advised independently in the purchase of pension products. The uncertainties surrounding these issues are such that the liabilities are currently unquantifiable as regards the Financial Services Compensation Scheme. As regards compensation in respect of alleged mis-selling of pension products, a review has been conducted and award payments made in line with the timetable laid down by the Financial Services Authority. A review of potential liability in respect of endowment products has been conducted internally and provisions established in line with board recommendations and those of the industry generally. Provisions have been made within technical provisions for both the advice given by agents regarding pension products and for the cost of liabilities in respect of endowment products as follows:

	£m
At 1 January 2003	11
Release to the technical account	(6)
Utilised in the year	(3)
At 31 December 2003	2

26. Immediate and ultimate parent company

The Company's immediate parent company is SPL (Holdings 1) Limited. The Company's ultimate parent company and controlling party is Abbey National plc which is registered in England. The only group in which the results of the Company are consolidated is headed by Abbey National plc. The consolidated accounts of Abbey National plc are available to the public and may be obtained from Abbey National plc, Abbey National House, 2 Triton Square, Regent's Place, London, NW1 3AN or www.abbeynational.plc.uk

Independent Auditors' Report to the members of Scottish Provident Limited

We have audited the accounts of Scottish Provident Limited for the year ended 31 December 2003, which comprise the profit and loss account, the balance sheets and the related notes 1 to 26. These accounts have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

We read the directors' report and the other information contained in the annual report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion

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

Opinion

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

Deloitte & Touche LLP.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
GLASGOW

30 March 2004