SOVEREIGN FINANCE PLC
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2002

Registration number: 1533123

Directors' report and financial statements

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List of directors, advisers and other information

Directors

R. L. Banks	(Appointed 2 September 2002)
M.W. Evans	
C. R. Morley	(Appointed 1 April 2003)
A.B. Swann	
R.L. Towers	

Secretary

I.A. Sinclair-Ford

Auditor

Deloitte & Touche
Manchester

Bankers

Girobank plc
Bridle Road
Bootle
Merseyside
GIR 0AA

Registered office

Carlton Park
Narborough
Leicester

Directors' report

The Directors present their report, together with the financial statements, for the year ended 31 December 2002.

Principal activities

The principal activities of the Company and its subsidiaries (the "Group") during the year continued to be those of lessors and financiers.

Business Review and Future Developments

No significant changes to the Group activities are envisaged.

Despite a fiercely competitive market in 2002 our book has continued to grow. Group pre tax profit for the year at £8.7m is satisfactory given the current challenging trading conditions which, throughout the industry, has forced down margins. In addition to the profits generated in the Sovereign group it is recognised that the staff have materially contributed to profits arising elsewhere within the wider Alliance and Leicester plc group. Once again this performance could not have been achieved without the dedication and enthusiasm of our staff and the Board are grateful for their support.

Results and dividend

The results for the year are set out in the Profit and Loss Account on page 9. The Directors do not recommend the payment of a dividend for the year (2001: £nil).

The retained profit of £7,817,000 (2001: £8,754,000) has been transferred to reserves.

Directors and their interests

The following served as Directors of the company during the year:

R. L. Banks	(Appointed 2 September 2002)
M.W Evans	
A.B. Swann	
C.S. Taylor	(Resigned 2 September 2002)
R.L.Towers	

On 1 April 2003, C R Morley was appointed as a director.

None of the Directors hold any beneficial interests in shares or debentures of the Company. The beneficial interests of the Directors in Ordinary shares of the parent undertaking, Alliance & Leicester plc, were:-

Fully Paid Shares of 50p each		
Directors	**At 1st January 2002 (or date of appointment)**	**At 31st December 2002**
R. L. Banks	See Alliance & Leicester plc accounts	
M. W. Evans	938	1,296
A.B. Swann	1,945	2,605
R L Towers	1,244	1,648

Directors' report *(continued)*

Options to acquire shares

In addition, the Directors have options to subscribe for such shares granted under the terms of Alliance & Leicester plc Share Option Schemes:

	Number of Options				Exercise Price	Exercise period
		During the Year				
Directors	**At 01.01.02 or date of appointment**	**Granted**	**Exercised**	**At 31.12.02**		
R. L. Banks	See Alliance & Leicester plc accounts					
M. W. Evans	5,637	-	-	5,637	£5.10 (i)	17.02.03-17.02.10
	2,658	-	-	2,658	£3.644 (iii)	01.11.03-01.05.04
	186	-	-	186	£6.70 (i)	23.02.04-23.02.11
	3,684	-	-	3,684	£6.70 (ii)	23.02.04-23.02.08
	4,849	-	-	4,849	£8.055 (ii)	23.07.04-23.07.11
	-	2,240	-	2,240	£8.37 (ii)	12.03.05-12.03.12
	-	7,273	-	7,273	£7.95 (ii)	06.08.05-06.08.12
A.B. Swann	3,821	-	-	3,821	£7.85 (i)	04.03.02-04.03.09
	3,184	-	-	3,184	£7.85 (ii)	04.03.02-04.03.06
	5,998	-	-	5,998	£5.10 (ii)	17.02.03-17.02.07
	11,105	-	-	11,105	£6.70 (ii)	23.02.04-23.02.08
	10,172	-	-	10,172	£8.055 (ii)	23.07.04-23.07.11
	2,618	-	-	2,618	£6.444 (iii)	01.11.06-01.05.07
	-	4,129	-	4,129	£8.37 (ii)	12.03.05-12.03.12
	-	13,755	-	13,755	£7.95 (ii)	06.08.05-06.08.12
R L Towers	5,882	-	-	5,882	£5.10 (i)	17.01.03-17.02.10
	1,176	-	-	1,176	£5.10 (ii)	17.02.03-17.02.07
	2,658	-	-	2,658	£3.644 (iii)	01.11.03-01.05.04
	5,335	-	-	5,335	£6.70 (ii)	23.02.04-23.02.08
	4,211	-	-	4,211	£8.055 (ii)	23.07.04-23.07.11
	-	2,525	-	2,525	£8.37 (ii)	12.03.05-12.03.12
	-	8,662	-	8,662	£7.95 (ii)	06.08.05-06.08.12

(i) Options granted under the Alliance & Leicester plc Approved Company Share Option Scheme
(ii) Options granted under the Alliance & Leicester plc Unapproved Company Share Option Scheme
(iii) Options granted under the Alliance & Leicester plc Sharesave Scheme

Directors' report *(continued)*

Bonus award

The directors interests in options awarded under the deferred bonus scheme:-

Director	Bonus Year		Value of Award £	Market value at date of grant £	No. of shares under option	Exercise Price £	Exercise Period
R. L. Banks				See Alliance & Leicester plc accounts			
M. W. Evans	2001	Deferred Shares	2,497	6.785	368	Nil	15.03.04-15.03.08
	2001	Matching Shares	2,497	6.785	368	Nil	15.03.04-15.03.08
	2002	Deferred Shares	7,123	8.37	851	Nil	12.03.05-12.03.09
	2002	Matching Shares	7,123	8.37	851	Nil	12.03.05-12.03.09
A. B. Swann	2002	Deferred Shares	34,560	8.37	4,129	Nil	12.03.05-12.03.09
	2002	Matching Shares	34,560	8.37	4,129	Nil	12.03.05-12.03.09
R. L. Towers	2001	Deferred Shares	3,549	6.785	523	Nil	15.03.04-15.03.08
	2001	Matching Shares	3,549	6.785	523	Nil	15.03.04-15.03.08
	2002	Deferred Shares	8,805	8.37	1,052	Nil	12.03.05-12.03.09
	2002	Matching Shares	8,805	8.37	1,052	Nil	12.03.05-12.03.09

Neither the matching shares or deferred share option granted are subject to a performance objective.

Employee Involvement

The company's business strategy seeks the understanding and commitment of all staff to becoming " the most customer focused financial services provider in the UK – bar none". The Alliance & Leicester Group Intranet not only keeps employees of Sovereign Finance Plc up to date with business related information but also provides staff with the facility to ask questions on any subject related to the company. An annual employee opinion survey is sent to all staff, asking their views on each of the categories surveyed – Communications, Leadership & Involvement, Morale & Commitment, and Development.

The innovative "Valuing Individual People" (VIP) training programme aims to help our employees achieve our vision. VIP focuses on putting the internal and external customer at the centre of everything we do, and ensuring that everyone is treated as a valued and respected individual. The group encourages the involvement of employees in the performance of the company through the employee ShareSave, ShareAward and SharePlan schemes.

The company recognises the right of every employee to be treated with dignity and respect at work. We have promoted a policy to ensure that any problems are dealt with promptly and with sensitivity. We take our responsibilities under the Disability Discrimination Act 1995 very seriously and ensure all reasonable measures are taken to enable customers and potential customers to access the full range of group products and services at all our premises within the timescales as defined within the Act. Our Equal Opportunities policy commits us to removing barriers which would prevent the employment of disabled people and to implement all reasonable measures to ensure disabled staff can effectively carry out their jobs.

The company recognises the potential that all people bring to the workplace regardless of sex, race, ethnic or national origin, religious belief, marital status, disability or sexual orientation. As part of that philosophy and in keeping with our values, we believe that every employee should be treated with the same respect and dignity.

Directors' report *(continued)*

Health and Safety

Work within the financial sector is generally regarded as 'low hazard' employment. However, the Group recognises every type of employment may involve the potential for injury, damage or loss.

It is, therefore, our policy to provide a safe and healthy working environment for our staff, our customers and visitors to our premises.

Creditors' payment policy

The Alliance & Leicester plc Group is a signatory of the DTI's Better Payment Practice Code. Information regarding this code and its purpose can be obtained from the Better Payment Practice Group's website at www.payontime.co.uk.

It is Group policy to:

i) agree the terms of payment at the start of business with each supplier.
ii) ensure suppliers are aware of the payment terms.
iii) pay in accordance with any contractual and other legal obligations.

Trade creditor days of the Company for the year ended 31 December 2002 was 12 days (2001: 12 days), based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Deloitte & Touche be re-appointed as auditors of the company was passed at the Annual General Meeting.

On behalf of the Board

C. R. Morley
Director
9 May 2003

Statement of Directors' responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select appropriate accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to assume that the company or group will continue to be in business.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOVEREIGN FINANCE PLC

We have audited the financial statements of Sovereign Finance plc for the year ended 31 December 2002 which comprise the profit and loss account, the balance sheets, the statement of total recognised gains and losses and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

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

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

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company and the 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 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 company and the group as at 31 December 2002 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
Manchester
9 May 2003

Group profit and loss account
For the year ended 31 December 2002

	Notes	2002 £'000	2001 £'000 Restated
Turnover		189,364	171,417
Cost of sales		(61,228)	(49,073)
Gross profit	3	128,136	122,344
Administrative expenses		(20,936)	(19,515)
Operating profit		107,200	102,829
Profit on disposal of subsidiary undertaking	11	5,550	-
Interest payable and similar charges	4	(104,084)	(93,619)
Profit on ordinary activities before taxation	5	8,666	9,210
Tax on profit on ordinary activities	8	(849)	(456)
Profit for the financial year	17	7,817	8,754
Retained profit brought forward		60,882	52,128
Retained profit carried forward		68,699	60,882

In both the current and preceding year the Group had no material acquisitions or discontinued operations.

The restatement of the 2001 results is discussed in note 2.

Group statement of total recognised gains and losses
For the year ended 31 December 2002

	2002 £'000	2001 £'000 Restated
Profit for the financial year	7,817	8,754
Prior period adjustment: adoption of FRS 19 (Note 2)		
Prior to 1 January 2001	5,225	
Year ended 31 December 2001	(3,418)	
Total recognised gains and losses since last Annual Report	9,624	

Group balance sheet
As at 31st December 2002

	Notes	2002 £'000	2001 £'000 Restated
Fixed assets			
Intangible assets			
Positive goodwill	9	3,684	3,947
Negative goodwill	9	(199)	(1,110)
		3,485	2,837
Tangible assets	10	374,060	345,876
		377,545	348,713
Current assets			
Debtors: amounts falling due within one year	12	366,788	272,061
Debtors: amounts falling due after more than one year	12	1,752,139	1,524,298
		2,118,927	1,796,359
Cash at bank and in hand		20	847
		2,118,947	1,797,206
Creditors: amounts falling due within one year	14	(2,232,473)	(1,895,419)
Net current liabilities		(113,526)	(98,213)
Total assets less current liabilities		264,019	250,500
Creditors: amounts falling due after more than one year	14	(453)	(3,038)
Provisions for liabilities and charges	15	(174,062)	(165,775)
Net assets		89,504	81,687
Capital and reserves			
Called up share capital	16	20,657	20,657
Capital reserve		148	148
Profit and loss account		68,699	60,882
Equity shareholders' funds	17	89,504	81,687

The financial statements on pages 9 to 26 were approved by the Board of Directors on 9 May 2003.

C R Morley.

C. R. Morley
Director

Company balance sheet
As at 31st December 2002

	Notes	2002 £'000	2001 £'000 Restated
Fixed assets			
Tangible assets	10	7,913	8,250
Investments	11	9,477	10,717
		17,390	18,967
Current assets			
Debtors: amounts falling due within one year	12	260,411	212,153
Deferred tax asset	15	11,005	9,323
Debtors: amounts falling due after more than one year	12	696,334	559,593
		967,750	781,069
Cash at bank and in hand		8	840
		967,758	781,909
Creditors: amounts falling due within one year	14	(923,651)	(742,151)
Net current assets		44,107	39,758
Total assets less current liabilities		61,497	58,725
Creditors: amounts falling due after more than one year	14	(1,714)	(2,348)
Net assets		59,783	56,377
Capital and reserves			
Called up share capital	16	20,657	20,657
Profit and loss account		39,126	35,720
Equity Shareholders' funds	17	59,783	56,377

The financial statements on pages 9 to 26 were approved by the Board of Directors on 9 May 2003.

C R Morley

C. R. Morley
Director

Notes

(forming part of the financial statements)

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the proceeding year. The change in accounting policy in relation to Deferred Tax is detailed in Note 2.

a) *Accounting convention*

The company prepares its accounts under the historical cost convention, and in accordance with applicable UK accounting standards.

b) *Basis of consolidation*

The Group financial statements consolidate the financial statements of Sovereign Finance plc and all of its subsidiaries at 31st December 2002. A number of the subsidiary companies in the Group have year ends that are not coterminous with Sovereign Finance plc, for commercial reasons. In these instances, interim statements at 31st December are used for consolidation.

c) *Cash flow statement*

As a wholly owned subsidiary of Alliance & Leicester plc, the company is exempt under FRS1 (Revised) 'Cash flow statements' from producing a cash flow statement.

d) *Statements of Recommended Practice (SORPs)*

The accounts have been prepared in accordance with the Finance & Leasing Association SORP 'Accounting issues in the asset finance and leasing industry'.

e) *Goodwill*

Goodwill arising on the acquisition of subsidiary companies, which is represented by the excess of fair value of the purchase consideration over the fair value of assets acquired, is capitalised and shown as an asset in the balance sheet and subsequently amortised over a period of between 3 and 10 years as a charge to the profit and loss account.

Negative goodwill is included in the balance sheet and is credited to the profit and loss account in the periods in which the acquired non monetary assets are recovered through depreciation or sale. Negative goodwill in excess of the fair values of the non monetary assets acquired is credited to the profit and loss account in the periods expected to benefit.

f) *Taxation*

Deferred tax is provided using the full provision method following the company's adoption of FRS 19 'Deferred Tax'. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Provision is calculated at rates expected to be applicable when the liability or asset crystallises. Deferred tax is provided on a non-discounted basis.

A deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as more than likely that there will be suitable taxable profits from which the reversal of the underlying timing differences can be recovered.

Notes *(continued)*

1. Accounting Policies *(continued)*

g) ***Fixed Assets & Depreciation***

The cost of additions and major alterations to office premises, plant, fixtures, equipment and motor vehicles is capitalised. The cost of fixed assets less estimated residual value, is written off on a straight line basis over their estimated useful lives as follows:

Leasehold buildings	over the remainder of the lease up to 75 years
Fixtures and major alterations	10 to 15 years
Plant, equipment and motor vehicles	3 to 9 years

Software costs and external consultancy costs associated with software development are written off to the profit and loss account as incurred.

h) ***Operating lease assets***

Assets acquired for the purpose of renting out under operating lease agreements are capitalised. Depreciation is provided at rates calculated to write off the cost of the assets, less estimated residual value, over their useful lives using methods which allocate depreciation charges on a systematic basis to the periods which are expected to benefit from their use.

i) ***Impairment of fixed assets***

Both operating lease assets, intangible assets and property and equipment are regularly reviewed for impairment in accordance with FRS 11 'Impairment of fixed assets and goodwill'. Where an asset's carrying value has been impaired the amount is charged to the profit and loss account in the year of impairment.

j) ***Finance and rental agreements***

The minimum lease payments receivable from finance lease and other finance agreements, less appropriate future income arising from finance charges, are included in net investment in finance agreements in debtors.

Income recognition

Gross earnings on finance and rental agreements comprise the income component of repayments, after recognising sufficient income to cover initial direct costs, which are credited to the profit and loss account using methods which produce an approximate constant rate of return on the net cash investment.

Turnover comprises:

Finance lease agreements: the income component of repayments which are credited to the profit and loss account using methods which produce a constant rate of return on the net cash investment.

Operating lease agreements: accounting rentals recognised on a straight-line basis over the period of the lease.

Provisions for bad and doubtful debts: a charge equal to the losses written off in the year, recoveries and the movement in provisions.

Notes *(continued)*

1. Accounting Policies *(continued)*

j) ***Finance and rental agreements** (continued)*

Cost of sales comprise:

Operating lease agreements: depreciation of operating lease assets

The presentation of turnover and cost of sales has been re-classified for the 2001 comparatives. The presentation in the prior year accounts included turnover and cost of sales within a single heading "Gross earnings from finance and rental agreements". The comparatives have been restated to include turnover and cost of sales gross, as described in this and the above accounting policy as directors deem this treatment to be more appropriate. There has been no effect on the profit for the prior year as a result of this change, or on the net assets.

k) ***Operating lease agreements***

Rentals under operating leases incurred as lessee are charged to administrative expenses on a straight line basis.

l) ***Finance lease agreements***

Assets acquired under finance leases are capitalised at fair value at the start of the lease, with the corresponding obligations being included in other liabilities. The finance lease costs charged to the profit and loss account are based on a constant periodic rate as applied to the outstanding liabilities.

m) ***Pensions***

Employees are entitled to become members of the pension scheme operated by the parent undertaking, Alliance & Leicester plc. Alliance & Leicester plc operates both defined benefit and defined contribution pension arrangements. Under the defined benefit sections the cost of providing pensions is charged to the profit and loss account so as to spread the costs evenly over the employees' working lives. Under the defined contribution section contributions to the scheme are charged to the profit and loss account as they fall due. Further details are disclosed in the group report and accounts for Alliance & Leicester plc and within note 20.

n) ***Provisions for bad and doubtful debts***

Specific provisions are made in respect of finance and rental agreements where recovery is considered doubtful; a general provision is made for losses which, although not specifically identified, are known to be inherent in any portfolio of lending.

o) ***Foreign currencies***

Monetary assets and liabilities in foreign currencies, other than those covered by forward contracts which are translated at contracted rates, are translated into sterling using year-end exchange rates and any differences charged or credited to the profit and loss account.

p) ***Interest rates***

The Group employs various interest rate products to provide a hedge against fluctuations in interest rates. The interest charge is recognised on an accruals basis.

q) ***Repairs and Renewals***

The cost of repairs and renewals is written off in the period in which the expenditure is incurred.

r) ***Intra group charging***

Where services are provided between Group members, the charges are made on a commercial basis.

Notes *(continued)*

1. Accounting Policies *(continued)*

s) ***Related party transactions***

As the company is a wholly owned subsidiary of Alliance & Leicester plc the Company has taken advantage of the exemption contained in FRS 8 'Related party disclosures' and has therefore not disclosed transactions or balances with entities which form part of the Group. The consolidated financial statements of Alliance & Leicester plc, within which this Company is included, can be obtained from the address given in note 21.

2. Changes in Accounting Policy

The 2001 comparative figures have been restated to reflect the adoption of FRS 19 'Deferred Tax'. Previously deferred tax was recognised and provided only on assets and liabilities where it was expected that the tax would crystallise in the foreseeable future. Now, under FRS 19, deferred tax is provided on all timing differences which have not reversed by the balance sheet date, apart from certain exceptions detailed in FRS 19. The impact of adopting FRS 19 has been to decrease the profit for the year ended 31 December 2001 by £3,418,000.

The impact of this change on the profit and loss account for 2002 has been to increase the profit for the year by £1,975,000.

3. Gross profit

Turnover and pre-tax profit are attributable to the principal activities as shown in the directors' report and are carried out in the UK.

Amounts receivable during the year from which gross profit is derived are as follows:

	2002 £'000	2001 £'000
Amounts due on:		
Finance leases	162,034	160,487
Operating leases	95,460	150,405
Hire purchase and loan agreements	171,813	207,261
	429,307	518,153

4. Interest payable and similar charges

	2002 £'000	2001 £'000
Interest payable on:		
Loans with Group companies	103,891	93,380
Finance leases	104	109
	103,995	93,489
Interest to third parties	89	130
	104,084	93,619

Notes *(continued)*

5. Profit on ordinary activities before taxation

This represents the operating profit of the Group and is stated after charging / (crediting):

		2002 £'000	2001 £'000
Auditors' remuneration	-audit fee	50	46
	-non audit work	343	8
Amortisation (note 9)	-Net goodwill credit	(421)	(80)
Depreciation (note 10)	-operating lease assets	62,376	48,000
	-other assets	929	1,073
Operating lease rentals paid	-buildings	18	30

6. Staff Costs

	2002 £'000	2001 £'000
Wages and salaries	11,246	11,014
Social security costs	1,105	1,108
Other pension costs	446	432
	12,797	12,554

The average number of employees, including directors, during the year was as follows:

	No.	No.
External sales and direct selling:		
Commercial Division	184	133
Corporate Division	22	17
	206	150
Office, sales support and management	150	181
	356	331

Notes *(continued)*

7. Directors' remuneration

	2002 £'000	2001 £'000
The aggregate remuneration of the directors was as follows:		
Emoluments	361	366
Company contributions paid to money purchase pension schemes	23	26

The remuneration of R. L. Towers, R. L. Banks, since his appointment, and C. S. Taylor, until his resignation, were payable by another Group company Girobank plc.

The remuneration of the highest paid director was as follows:		
Emoluments	254	233
Company contributions paid to money purchase pension scheme	15	14

At the year end there were two executive directors of the company for whom contributions were made under money purchase pension schemes.

During the year no directors exercised share options under the Alliance and Leicester plc Share Option Schemes.

8. Tax on profit on ordinary activities

Analysis of charge in the year:

	Group 2002 £'000	Group 2001 £'000 Restated
Current tax		
Current tax for the year including group relief payable	(28,813)	(41,333)
Over provision in respect of prior periods	37	(3,351)
Total current tax credit	(28,776)	(44,684)
Deferred taxation (note 15)		
Origination and reversal of timing differences	29,661	43,698
Other deferred tax adjustments	(36)	1,442
Total deferred tax charge	29,625	45,140
Taxation on profit on ordinary activities	849	456

Factors affecting tax charge for the year:

	2002	2001
Profit on ordinary activities before taxation	8,666	9,210
Profit on ordinary activities multiplied by standard rate of Corporation tax in the UK (30% in both years)	2,600	2,763
Taxable lease receipts in excess of capital allowances	(29,661)	(43,698)
Expenses not deductible for tax purposes	(152)	(398)
Utilisation of tax losses	(1,600)	-
Over / (Under) provision in respect of prior periods	37	(3,351)
Total current tax credit	(28,776)	(44,684)

Notes *(continued)*

9. Intangible fixed assets

Group	Positive Goodwill £'000	Negative Goodwill £'000
Cost		
At 1st January 2002	4,665	(1,650)
Additions (note 11)	227	-
At 31st December 2002	4,892	(1,650)
Amortisation		
At 1 January 2002	718	(540)
Charged in Year	490	(911)
As 31st December 2002	1,208	(1,451)
Net book value		
At 31st December 2002	3,684	(199)
At 31st December 2001	3,947	(1,110)

10. Tangible fixed assets

(a) *Group*

	Operating Lease Assets £'000	Leasehold Buildings £'000	Computer & Office Equipment £'000	Motor Vehicles £'000	Total £'000
Cost					
At 1st January 2002	418,966	4,572	11,948	1,121	436,607
Additions	121,011	-	807	354	122,172
Disposals	(56,639)	-	(1,900)	(249)	(58,788)
At 31st December 2002	483,338	4,572	10,855	1,226	499,991
Depreciation					
At 1st January 2002	78,918	750	10,601	462	90,731
Charge for the year	62,376	64	591	274	63,305
Disposals	(26,037)	-	(1,903)	(165)	(28,105)
At 31st December 2002	115,257	814	9,289	571	125,931
Net book value					
At 31st December 2002	368,081	3,758	1,566	655	374,060
At 31st December 2001	340,048	3,822	1,347	659	345,876

Included in the carrying value of operating lease assets are residual values at the end of the current lease terms, which will be recovered through re-letting or sale in the following periods:

	£'000
Within 1 year	29,607
Between 1-2 years	24,335
Between 2-5 years	59,186
Greater than five years	41,653
Total Exposure	154,781

Notes *(continued)*

10. Tangible fixed assets (continued)

(b) ***Company***

	Operating Lease Assets £'000	Leasehold Buildings £'000	Computer & Office Equipment £'000	Motor Vehicles £'000	Total £'000
Cost					
At 1st January 2002	4,879	4,572	11,822	1,027	22,300
Additions	956	-	798	335	2,089
Disposals	(1,204)	-	(1,856)	(240)	(3,300)
At 31st December 2002	4,631	4,572	10,764	1,122	21,089
Depreciation					
At 1st January 2002	2,351	750	10,520	429	14,050
Charge for the year	675	64	588	259	1,586
Disposals	(397)	-	(1,899)	(164)	(2,460)
At 31st December 2002	2,629	814	9,209	524	13,176
Net book value					
At 31st December 2002	2,002	3,758	1,555	598	7,913
At 31st December 2001	2,528	3,822	1,302	598	8,250

Included in the carrying value of operating lease assets are residual values at the end of the current lease terms, which will be recovered through re-letting or sale in the following periods:

	£000
Within 1 year	480
Between 1-2 years	314
Between 2-5 years	270
Total Exposure	1,064

Notes *(continued)*

11. Fixed asset investments

	Cost £'000
(a) Subsidiaries	
Company	
As at 1st January 2002	10,717
Additions	227
Disposals	(1,467)
As at 31st December 2002	9,477

Details of the principal subsidiaries, which are all registered in England and Wales, are as follows:

	Note	Trade	Financial year end
Sovereign Business Finance Limited	(i)	Lessors	30th September
Sovereign Commercial Limited	(i)	Lessors	30th June
Sovereign Corporate Limited	(i)	Lessors	31st March
Sovereign Financial Services (Manchester) Ltd	(i)	Lessors	31st December
Sovereign Financial Products Ltd	(i)	Lessors	30th June
Sovereign Equipment Finance Ltd	(i)	Lessors	31st March
Sovereign Leasing Ltd	(i)	Lessors	30th September
Hansar Finance Limited	(i)	Lessors	31st December
Sovereign Finance (Remarketing & Logistics) Limited	(i)	Retail	30th June
Sovereign Asset Finance Limited	(i)	Lessors	29th March
Sovereign Leasing (Northern) Ltd	(i)	Lessors	31st December
Sovereign Ltd	(i)	Lessors	30th September
Sovereign Investment Ltd	(i)	Lessors	30th June

Note
(i) 100% of ordinary shares owned

As permitted under section 231 of the Companies Act 1985, details of the company's dormant subsidiaries are not given.

(b) Additional consideration

During the year additional consideration of £227,000 was incurred relating to the acquisition of the share capital of Hansar Finance Limited.

Notes *(continued)*

11. Fixed asset investments *(continued)*

(c) Sale of subsidiary undertaking

On 28th March 2002 the group sold its 100% interest in the ordinary share capital of S L Corporate Leasing Ltd. The loss of S L Corporate Leasing Ltd up to the date of disposal was £2,142,892, and the profit for its last financial period to 27th March 2002 (11 months and 27 days) was £314,465.

Net assets disposed of and the related sale proceeds were as follows:

	£'000
Current Assets	71,804
Creditors	(49,108)
Provisions for Liabilities and Charges	(21,338)
Net Assets	1,358
Profit on sale	5,550
Sale Proceeds (net of Costs)	6,908
Satisfied by :	
Cash	6,908

12. Debtors

(a) Amounts falling due within one year

	2002		2001	
	Group £'000	Company £'000	Group £'000 Restated	Company £'000 Restated
Net investment in finance agreements (note 13)	358,341	245,611	262,039	203,782
Other debtors	3,243	9,035	3,500	3,013
VAT	4,169	5,297	5,753	5,118
Prepayments and accrued income	1,035	468	769	240
	366,788	260,411	272,061	212,153

Included within net investment in finance agreements are residual values, which will be recovered through re-letting or sale, are as follows:

	Group £'000	Company £'000
Within 1 year	5,790	442
Between 1-2 years	6,874	237
Between 2-5 years	11,217	27
Greater than five years	4,084	-
Total Exposure	27,965	706

Notes *(continued)*

12. Debtors *(continued)*

The presentation in the 2001 comparatives has been adjusted to reflect the fact that operating lease prepaid rentals have been reclassified within accruals and deferred income as management deem this treatment to be more appropriate. The impact is to increase both the net investment in finance agreements and accruals and deferred income by £12,203,000. There is no impact on the profit and loss account for the current or prior year.

In addition the presentation in the 2001 comparatives has been adjusted to reflect the fact that the amounts owed by Group undertakings have been netted off amounts owed to Group undertakings. The impact has been to reduce intercompany debtors by £22,412,000, intercompany creditors by £1,281,000 and accruals and deferred income by £21,131,000 for Group and both intercomapny debtors and creditors by £1,212,000 for Company. There is no impact on the profit and loss account for the current or prior year.

(b) Amounts falling due after more than one year

	2002		2001	
	Group £'000	Company £'000	Group £'000	Company £'000
Net investment in finance agreements (note 13)	1,752,139	696,334	1,524,298	559,593

13. Finance agreements

(a) Net investment in finance agreements

	2002		2001	
	Group £'000	Company £'000	Group £'000 Restated	Company £'000 Restated
Due within one year	358,341	245,611	262,039	203,782
Due after more than one year	1,752,139	696,334	1,524,298	559,593
	2,110,480	941,945	1,786,337	763,375

(b) Net investment in hire purchase agreements

	2002		2001	
	Group £'000	Company £'000	Group £'000	Company £'000
Included in the totals in (a) above	475,861	443,603	458,162	438,701

(c) Total advances during the year

	2002		2001	
	Group £'000	Company £'000	Group £'000	Company £'000
Cost of assets acquired during the period for the purpose of finance lease and hire purchase agreements	504,018	235,062	487,622	264,213
Cost of assets acquired during the period for the purpose of hiring under operating lease (note 10)	119,409	956	168,200	1,335
Loan advances	242,516	242,516	236,995	219,559
	865,943	478,534	892,817	485,107

Notes *(continued)*

14. Creditors

(a) Amounts falling due within one year

	2002		2001	
	Group £'000	Company £'000	Group £'000 Restated	Company £'000 Restated
Bank loans and overdrafts	207	-	4,446	3,631
Obligations under finance leases	508	281	776	346
Trade creditors	16,818	12,675	13,450	15,962
Other creditors	1,799	983	2,884	1
Amounts owed to Group undertakings	2,191,780	901,578	1,851,736	709,148
Tax and social security costs	392	391	836	835
Accruals and deferred income	20,969	7,743	21,291	12,228
	2,232,473	923,651	1,895,419	742,151

The presentation in the 2001 comparatives has been adjusted to reflect the fact that operating lease prepaid rentals have been reclassified within accruals and deferred income as management deem this treatment to be more appropriate. The impact is to increase both the net investment in finance agreements and accruals and deferred income by £12,203,000. There is no impact on the profit and loss account for the current or prior year.

In addition the presentation in the 2001 comparatives has been adjusted to reflect the fact that the amounts owed by Group undertakings have been netted off amounts owed to Group undertakings. The impact has been to reduce intercompany debtors by £22,412,000, intercompany creditors by £1,281,000 and accruals and deferred income by £21,131,000 for Group and both intercomapny debtors and creditors by £1,212,000 for Company. There is no impact on the profit and loss account for the current or prior year.

(b) Amounts falling due after more than one year

	2002		2001	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank loans and overdrafts	47	-	254	-
Obligations under finance leases	406	225	784	348
Other creditors	-	1,489	-	-
Accruals and deferred income	-	-	2,000	2,000
	453	1,714	3,038	2,348

(c) Notes

The bank loan is wholly repayable within two years.

The amounts owed to group undertakings for interest rate products bear commercial rates of interest. These amounts are unsecured.

Included within other creditors is £1,885,100 loan notes arising from the acquisition of Hansar Finance Limited in 2000. The loan notes are unsecured and bear interest at LIBOR. Interest is payable quarterly in arrears. The principal can be fully or partly redeemed as follows; £288,450 on 1 June 2001; £414,986 on 15 September 2002; and £1,181,664 on 15 Nov 2003.

Obligations under finance leases relate to back to back lease agreements. These leases are wholly repayable within five years and are repayable by instalments.

Notes *(continued)*

15. Provisions for liabilities and charges

The movements in deferred taxation are as follows:-	Group 2002 £'000	Group 2001 £'000 Restated
As at 1st January 2002	165,775	124,719
Deferred taxation asset acquired with subsidiaries	-	(4,084)
Deferred taxation liability disposed with subsidiaries	(21,338)	-
Deferred taxation charged in the year (note 8)	29,661	43,698
Prior year under provision	(36)	1,442
As at 31st December 2002	174,062	165,775

Provision for deferred taxation in the Group and Company accounts consists of the following amounts:-

	Group Liability		Company (Asset)	
	2002 £'000	2001 £'000 Restated	2002 £'000	2001 £'000 Restated
Accelerated capital allowances	177,534	170,058	(8,943)	(6,777)
Short term differences	(3,472)	(4,283)	(2,062)	(2,546)
	174,062	165,775	(11,005)	(9,323)

16. Share capital

	2002		2001	
	No. ('000)	£'000	No. ('000)	£'000
Authorised:				
Ordinary Shares of 10p each	1,192,216	119,222	1,192,216	119,222
Allotted, called up, and fully paid:				
Ordinary Shares of 10p each	206,565	20,657	206,565	20,657

Notes *(continued)*

17. Reconciliation of movements in shareholders' funds

	2002 Group £'000	2002 Company £'000	2001 Group £'000 Restated	2001 Company £'000 Restated
Opening shareholders' funds at 1 January 2002				
As previously reported	79,880	54,546	67,708	56,053
Prior year adjustment	1,807	1,831	5,225	4,994
Opening shareholders' funds as restated	81,687	56,377	72,933	61,047
Profit/ (Loss) for the year	7,817	3,406	8,754	(4.670)
Closing shareholders' funds at 31 December 2002	89,504	59,783	81,687	56,377

As permitted by section 230 of the Companies Act 1985 the profit and loss account for the company is not presented as part of these financial statements. Profit on ordinary activities after tax dealt with in the accounts of the company is £3,406,000 (2001 :Loss of £4,670,000 (restated)).

18. Obligations under operating leases

Annual commitments due in the next financial year under non-cancellable operating leases are as follows:

	Group	
	2002 Buildings £'000	2001 Buildings £'000
Operating leases which expire:		
Between two and five years	18	18

The company has no obligations under operating leases.

19. Contingent liability

Discussions are currently taking place with the Inland Revenue regarding the utilisation of certain tax allowances in respect of one specific transaction undertaken in 1997. This transaction subsequently resulted in reduced corporation tax paid of approximately £30m. Legal advice has been obtained, and it is not considered that any additional tax liability should arise from these discussions. However, if any additional liability were to arise, there are indemnities and legal rights, which should enable recoveries from third parties. Therefore no provision is necessary.

Notes *(continued)*

20. Pensions

Sovereign Finance plc is a participating employer of the Alliance & Leicester Pension Scheme. The Scheme comprises a funded defined benefit section which became closed to new entrants on 31 March 1998, and a defined contribution section, which new employees joining the company on or after 1 April 1998 are eligible to join. It is not reasonably practicable to identify Sovereign's share of the underlying assets and liabilities of the defined benefit section of the Scheme and accordingly the company will account for the Scheme as a defined contribution Scheme in accordance with paragraph 9 (b) of FRS 17. Company contributions are charged against profits for the period to which they relate.

The company contributions payable during the year to the defined contribution section were £0.4m (2001: £0.4m). There were no unpaid contributions at 31 December 2002.

Full disclosure under SSAP 24 and FRS 17 regarding the Alliance & Leicester Pension Scheme can be found in the group report and accounts for Alliance & Leicester plc. An actuarial valuation of the scheme was carried out at 31 March 2002 and updated by an independent qualified actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme as at 31 December 2002.

The financial assumptions used to calculate scheme liabilities under FRS 17 are:

	2002	**2001**
Valuation method	Projected unit	Projected unit
Inflation assumption	2.35%	2.50%
Salaries rate of increase	4.35%	4.25%
Pensions rate of increase	2.35%	2.50%
Discount rate for scheme liabilities	5.50%	5.90%

The fair value of assets and present value of liabilities in the scheme were:

	2002	**2001**
Total market value of assets	627.8	709.8
Present value of scheme liabilities	(924.3)	(768.9)
Deficit in Scheme	(296.5)	(59.1)
Post-retirement medical benefits liability	(22.0)	(20.2)
Total retirement benefits liability	(318.5)	(79.3)
Related deferred tax asset	95.6	23.8
Net retirement benefits liability	(222.9)	(55.5)

It has been agreed with the trustees that the contribution rate for the group for 2003 will be 17.5% of pensionable salaries plus an additional £1.5m per month.

21. Ultimate parent company and parent undertaking of larger Group

The company is a subsidiary undertaking of Sovereign Holdings plc which is incorporated in England and Wales. The ultimate parent undertaking and controlling entity is Alliance & Leicester plc, also incorporated in England and Wales.

The largest and smallest Group in which the results of the company are consolidated is the Alliance & Leicester plc group; these accounts may be obtained from the company's registered office at Carlton Park, Narborough, Leicester, LE19 OAL.

As permitted by paragraph 3(c) of FRS 8, no disclosure is made of transactions with members of the Alliance & Leicester plc group.