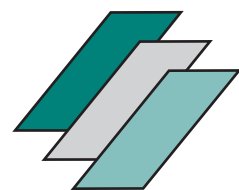


SFHA Pension Scheme Annual Report 2003



the year in review



Chairman's Statement

The year ended 30 September 2003 has been another very difficult year for UK pension schemes. Our scheme is no exception.

The Pensions Minister is quoted as denying that there is a "Pensions Crisis", while, in the real world, pension schemes continue to close and thousands of former scheme members see their financial security and plans for retirement vanish at a stroke, but are still denied the prospect of relief by being excluded from the proposed "Pension Protection Fund."

Many of the pension schemes which remain are showing evidence of the mounting adverse pressures. There are recent reports of a massive increase in the total scheme deficits of registered social landlords in England.

Against this background the results of our own Scheme actuarial valuation as at 30 September 2003 reflect these pressures on the Scheme's finances, but confirm that the situation is fully manageable with appropriate care.

As already announced, the Pension Scheme Committee has embarked on a major review of the Scheme's finances, benefits and structure, to be carried out in two Phases. Phase 1 is already in progress.

To assist communication and consultation with members and employers, the Committee will issue a series of major review reports. The first such report, entitled "Interim Report No.1" accompanies this Annual Report.

The Interim Report gives full details of the valuation results, the issues facing the scheme and Committee proposals to protect the scheme's future.

The Interim Report is unavoidably rather lengthy, but we hope that it will help members and employers to understand the current position and proposed actions.

These actions and Committee policies have been intensively discussed with the Scheme Actuary, who has endorsed the technical content of the Interim Report.

The actuarial valuation indicates that the existing scheme deficit had increased to £37M at 30 September 2003. This was not unexpected, and is considered to be fully manageable.

The Committee has agreed with the Scheme Actuary policies and measures to ensure that the deficit, which is considered reasonable in the circumstances, is kept under strict control.

The main such measure, which the Committee has agreed is unavoidable, is an increase in combined contributions from 18.2% by 2.8% to a new rate of 21.0%, payable from April 2005.

As the attached report indicates, the Committee has taken no decision on how the increase is to be split between employees and employers. This will be decided after full consultation in coming months.

As is also noted in the report, the employee's contribution is effectively reduced by tax relief, while the present employers' contribution of 12.2% is substantially below the average 16% employer contribution to final salary occupational pension schemes indicated by the recent survey by the National Association of Pension Funds.

Given the high quality of our scheme's benefits, even after the proposed increase in contributions the scheme will still be excellent value for money in today's circumstances.

The funding level (the ratio of assets to liabilities) at 80% is considered reasonable, reflecting as it does future liabilities and the continuing effect of stock market volatility.

Other issues, such as the serious pension problems resulting from increasing longevity, the adverse effects of continuing taxation and the Government's proposed Pension Protection Fund levy, are dealt with in the Interim Report.

The UK pensions environment remains hostile, but the Committee and its advisors are fully prepared with firm strategies to maintain the Scheme's viability and future security.

The interim report ends with a section entitled "Actuary's Endorsement" in which we note that the Scheme Actuary has supplied written confirmation that, subject to the Committee implementing its proposed actions, he considers the overall position of the scheme to be viable and satisfactory.

I can therefore end this Chairman's statement on an optimistic note as I look forward to the Scheme's maintaining its continuing progress in the interest of its members.

The Committee has set the context for members and employers to participate in a full and open discussion of the Scheme's future. The Scheme Secretary, as Review Team Leader, will keep everyone informed of plans and proposals.

Meantime, recognising the pressures that the past year has entailed, I express sincere thanks to fellow Committee members, Pensions Trust staff and advisors for their hard work and support throughout the year.

Jim Wilson
Chairman,
SFHA Pension Scheme

Benefits of the Scheme

Your scheme benefits include:

- a pension payable from retirement for the rest of your life, related to your salary at retirement;
- guaranteed pension increases in retirement;
- the option of a tax-free lump sum on retirement as well as a pension;
- partner's and/or children's pensions if you die before or after retirement;
- life assurance if you die whilst contributing to the scheme;
- an immediate pension if you retire due to ill health (in defined circumstances).

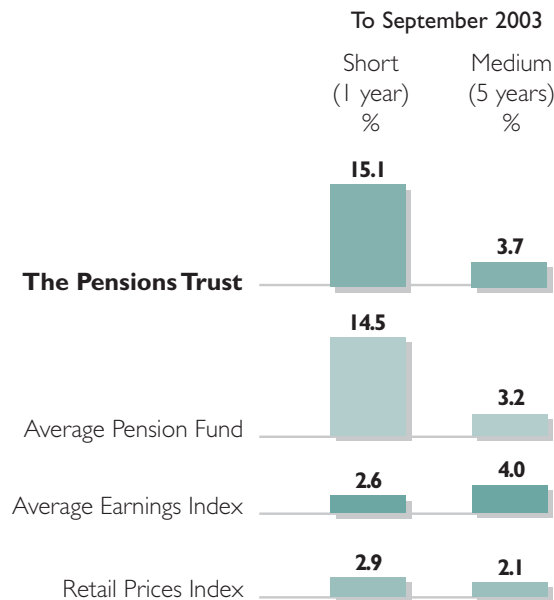


Membership Growth

Total membership continues to increase steadily and showed growth of 7% between 2002 and 2003. Total membership at 30 September 2003 was 5,885.

In view of current media concern about pension scheme closures, it should be noted that the indicated total membership of 5,885 includes only 21 employers who no longer offer membership to new employees – mainly as a result of mergers or transfers.

Annualised Investment Returns



Investment Results

The one-year performance was above benchmark.

Performance over the medium-term compares favourably with the average pension fund. The Pensions Committee continues to monitor investment performance.

Fund Statement For the year ended 30 September 2003

	2003	2002
	£'000s	£'000s
Contributions paid by members and employers	13,460	12,266
Group and individual transfers in	2,070	1,882
Total money in	15,530	14,148
Benefits paid (pensions and lump sums)	(2,419)	(2,514)
Payments to leavers	(730)	(606)
Administrative costs	(527)	(574)
Specific expenses allocated	(44)	(80)
Total money out	(3,720)	(3,774)
Net new money available for investment	11,810	10,374
Return on investments		
Investment income (after management expenses)	1,767	1,703
Change in market value of investments	15,687	(17,153)
Net returns on investments	17,454	(15,450)
Net increase/(decrease) in the fund during the year	29,264	(5,076)
Fund summary		
At the beginning of the scheme year	113,988	119,064
At the end of the scheme year	143,252	113,988

The SFHA Pension Scheme is a part of The Pensions Trust and this statement summarises the transactions of the Scheme and its proportionate share of expenses, investment returns and investments. The figures shown in the statement have been extracted from the audited accounts of The Pensions Trust, which were approved at a meeting of the Trustee on 16 December 2003.

This summary report is not intended to be a formal financial statement according with the terms of the SORP (Statement of Recommended Practice) for Pension Schemes. The full Report & Accounts of the Trust and the Scheme are available on request.

Caring for your Scheme

Your Committee (as at 30 September 2003)

The Committee meets at least four times a year to monitor the Scheme. It has responsibility for the successful management and operation of the Scheme in the interests of all members.

The Committee is made up of:

- Three individuals elected by members
- Three individuals elected by employers
- Up to three co-opted members

The Committee members currently are:

Jim Wilson (Chair) – Member nominated
Malcolm MacDonald (Deputy Chair)
– Member nominated
Alison Massie – Member nominated
Jim Michael – Employer nominated
David Molyneaux – Employer nominated
Ann Scott – Employer nominated
Christine Murphy – Co-opted member
Alistair Miller – Co-opted member

The Scheme Secretary is Susan Wardlaw, who is based in The Pensions Trust's Edinburgh office.

Professional Advisers & Bankers

Actuarial Consultants

Watson Wyatt LLP
(to 30 September 2003)

HSBC Actuaries and Consultants Ltd
(from 1 October 2003)

Scheme Actuary

Peter Lofthouse of Watson Wyatt LLP
(to 30 September 2003)

Steven Robinson of HSBC Actuaries
and Consultants Ltd
(from 1 October 2003)

Auditors

KPMG LLP

Solicitors

Mayer, Brown, Rowe & Maw LLP

McGrigor Donald

Bankers

The Royal Bank of Scotland plc

Investment Managers

Legal & General Investment
Management Ltd

Fidelity Pensions Management Ltd

Barclays Global Investors Ltd

Capital International Ltd

Henderson Global Investors Ltd

Property Investment Managers

CB Richard Ellis Investors Ltd

Investment Consultants

Watson Wyatt Investment Consulting

Mercer Human Resource Consulting Ltd

Custodians

The Northern Trust Company
(inc Illinois)

Mayer, Brown, Rowe & Maw LLP
(for property deeds)

Measurement of Investment Performance

The Northern Trust Company
(inc Illinois)

The WM Company Ltd

Custody Consultants

Chatham Partners

Pension Consultants

SBJ Benefit Consultants Ltd



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