

Annual Report and Accounts 2004



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Welcome to Scottish Mutual International plc

Directors and Other Information

Executive Directors

John N Finnegan FCCA
Anthony D Haynes BA ACA

Company Secretary

Goodbody Secretarial Limited
25-28 North Wall Quay
IFSC
Dublin 1
Republic of Ireland

Auditors

Deloitte & Touche
Deloitte & Touche House
Earlsfort Terrace
Dublin 2
Republic of Ireland

Scottish Mutual International plc is a proprietary company owned by Banco Santander Central Hispano S.A.

Registered office

25-28 North Wall Quay
IFSC
Dublin 1
Republic of Ireland

Registered in Ireland No. 242244

The Directors present their report and the audited accounts for the year ended 31 December 2004.

Principal activities

Scottish Mutual International plc (SMI) transacts individual life assurance business.

The Company is closed to new business. The operations of the Company now principally involve the receipt of incremental premiums and processing of claims arising on in-force policies and the collection of related amounts due from reinsurers.

The Company is a wholly-owned subsidiary of Banco Santander Central Hispano S.A.

During the period, investment management and certain business administration services were provided to SMI by Abbey National Asset Managers Limited, Abbey National Financial and Investment Services plc, Abbey National Financial and Investment Services Isle of Man Limited, Abbey National Financial and Investment Services (Hong Kong) Limited and Abbey National Financial and Investment Services Ireland plc, all of which are wholly-owned subsidiaries of Banco Santander Central Hispano S.A.

Review of business

The results for the year are set out on pages 4 and 5.

Dividends

No dividend was paid during the year (2003: £nil).

Directors and Secretary

The Directors and Secretary of the Company at 31 December 2004 are listed on page 2. John N Finnegan was appointed to the Board on 17 February 2004 and Tracy A Mair resigned from the Board on the same date. Peter L Towers resigned from the Board on 20 April 2004. Niall D O'Carroll and Michael G Moloney resigned from the Board on 12 December 2004. Philip J McDuell resigned from the Board on 21 December 2004. Kerr Luscombe was appointed to the Board on 15 February 2005.

Directors' and Secretary's interests

The Directors and Secretary had no interest in the shares of the Company, at the date of the accounts, 31 December 2004 or at any stage during the year.

The beneficial interests of Directors holding office at the end of the financial year in the ordinary shares of Banco Santander Central Hispano S.A. are shown below:

	Shares		Options	
	at 31/12/04	at 31/12/03 (or date of appointment)	at 31/12/04	at 31/12/03 (or date of appointment)
John N Finnegan	–	1,000	4,652	5,252
Anthony D Haynes	643	12,094	5,367	6,142

Transactions involving Directors

There were no contracts or arrangements of any significance in relation to the business of the Company in which the Directors had any interest, as defined by the Companies Act 1990, at any time during the year ended 31 December 2004.

Statement of Directors' responsibilities

Irish 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 of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;
- state whether applicable accounting standards have been followed.

The Directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and comply with Irish Statute comprising the Companies Acts, 1963 to 2003 and the European Communities (Insurance Undertakings: Accounts) Regulations, 1996. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Proper books of account

The Directors have taken appropriate measures to ensure compliance with Section 202 of the Companies Act 1990. The specific measures taken are the employment of appropriately qualified accounting personnel and the maintenance of computerised accounting systems. The books of account are located at the Company's offices at Styne House, Upper Hatch Street, Dublin 2, Republic of Ireland.

Health and safety

The well being of the Company's employees is safeguarded through strict adherence to health and safety standards in accordance with the requirements of the Safety, Health and Welfare at Work Act, 1989.

Auditors

The Auditors, Deloitte & Touche, Chartered Accountants and Registered Auditors, continue in office in accordance with section 160 of the Companies Act, 1963.

On behalf of the Board
14 March 2005



John N Finnegan
Executive Director



Anthony D Haynes
Executive Director

Profit and Loss Account

for the year ended 31 December 2004

Notes	2004 £000	2003 £000
Technical account - long term business		
2(a) Earned premiums, net of reinsurance		
Gross premiums written	8,077	145,290
Outward reinsurance premiums	240	(4,901)
	8,317	140,389
Other income		
3 Investment income	52,723	54,218
3 Unrealised gains on investments	11,978	36,826
	64,701	91,044
Total income	73,018	231,433
4 Claims incurred, net of reinsurance		
Gross claims paid	342,124	107,617
Outward reinsurance claims	(29,260)	(22,090)
15 Change in provision for claims; gross and net	3,719	1,533
Net of reinsurance	316,583	87,060
15 Change in other technical provisions, net of reinsurance		
Long term business provision, net of reinsurance		
- gross amount	(216,352)	158,075
- reinsurers' share	(1,052)	(42,976)
- net of reinsurance	(217,404)	115,099
Technical provision for linked business, gross and net of reinsurance		
- gross amount	(61,077)	(3,652)
- reinsurers' share	(208)	(6,849)
- net of reinsurance	(61,285)	(10,501)
Other expenditure		
5 Net operating expenses	9,714	25,945
3 Investment expenses and charges	3,018	2,386
9 Tax attributable to the long term business	4,005	(4,581)
14 Transfer to the fund for future appropriations	3,118	15,506
	19,855	39,256
Total expenditure	57,749	230,914
Sub-total (balance on the technical account - long term business)	15,269	519

The notes on pages 8 to 15 form part of these accounts. Auditors' report on page 16.

Profit and Loss Account

for the year ended 31 December 2004

Notes	2004 £000	2003 £000
Non-technical account		
	15,269	519
	15,269	519
9	2,360	(5,973)
8	17,629	(5,454)
9	(2,360)	5,973
	15,269	519
	15,269	519

The Company has no recognised gains and losses other than those included above, therefore, no separate statement of total recognised gains and losses has been presented.

On behalf of the Board
14 March 2005



John N Finnegan
Executive Director



Anthony D Haynes
Executive Director

The notes on pages 8 to 15 form part of these accounts. Auditors' report on page 16.

Balance Sheet

as at 31 December 2004

Notes	2004 £000	2003 £000	
Assets			
Investments			
10	Other financial investments	729,714	822,286
11	Assets held to cover linked liabilities	308,958	371,222
15	Reinsurers' share of technical provisions		
	Long term business provision	914,940	913,888
	Technical provision for linked liabilities	18,315	18,107
		933,255	931,995
Debtors			
	Debtors arising out of direct insurance operations		
	- policyholders	164	2,882
	- reinsurers	887	3,744
12	Other debtors	4,381	6,904
		5,432	13,530
Other assets			
	Cash at bank and in hand	441,942	552,214
Prepayments and accrued income			
	Accrued interest and rent	12,366	9,221
	Other prepayments and accrued income	683	665
		13,049	9,886
	Total assets	2,432,350	2,701,133

The notes on pages 8 to 15 form part of these accounts. Auditors' report on page 16.

Balance Sheet

as at 31 December 2004

Notes	2004 £000	2003 £000
Liabilities		
Capital and reserves		
16	25,079	25,079
22	231,000	231,000
	(137,680)	(152,949)
21	118,399	103,130
14	18,624	15,506
Technical provisions		
	1,938,245	2,154,597
	5,826	2,107
	1,944,071	2,156,704
15	325,356	386,433
Creditors		
17	532	1,091
18	23,624	31,025
19	1,744	7,244
	25,900	39,360
Total liabilities	2,432,350	2,701,133

On behalf of the Board
14 March 2005



John N Finnegan
Executive Director



Anthony D Haynes
Executive Director

The notes on pages 8 to 15 form part of these accounts. Auditors' report on page 16.

Notes to the Accounts

for the year ended 31 December 2004

1. Accounting policies

Basis of presentation

The accounts are prepared on the basis of the accounting policies set out below and have been prepared in accordance with applicable Accounting Standards in the Republic of Ireland, the provisions of the European Communities (Insurance Undertakings: Accounts) Regulations, 1996 and Companies Acts of 1963 to 2003.

The accounts are prepared in accordance with the historical cost convention modified by the valuation 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 November 2003.

Premiums

New business premiums are recognised when the policy liability is set up and the premium becomes due. Reinsurance premiums are charged when they become due.

Investment return

Investment income and expenses includes dividends, interest, 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 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 on assets which are directly connected with the carrying on of long term business are dealt with in the technical account - long term business.

Acquisition costs and deferred acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. Deferred acquisition costs comprise the costs of acquiring insurance policies which are incurred during a financial year but relate to a subsequent financial year.

Deferred acquisition costs are amortised at a rate based on the pattern of anticipated margins in respect of the related policies. Acquisition costs are not deferred to the extent that available future margins are not expected to cover them. An implicit deferred acquisition cost asset has been accounted for within the long term business provision and the technical provision for linked liabilities.

Claims

Claims payable on maturity are recognised when the claim becomes due for payment and on death are accounted for on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within the long term business provision or the provision for linked liabilities. Reinsurance recoveries are credited to match the relevant gross amounts.

Claims payable reflect the cost of all claims arising during the year, including bonuses allocated.

Commissions

Acquisition commissions are included in acquisition costs in the technical account - long term business as incurred. Renewal commissions are included in administrative expenses as incurred.

Pension costs

Pension contributions payable are charged to the technical account - long term business in the period in which they are incurred.

Investments

All investments, including those classified under assets held to cover linked liabilities, are stated at their current value as described below.

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.

Shares in undertakings for collective investment in transferable securities or unit trusts have been valued at their realisable value which, in the case of those managed by Scottish Mutual International Fund Managers Limited and Scottish Mutual Investment Managers Limited (which are wholly-owned subsidiaries of Banco Santander Central Hispano S.A.), is taken to equate to the quoted price.

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.

Other unlisted investments are valued by the directors on a prudent basis with regard to their likely realisable values.

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. 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.

Life assurance provision

The life assurance provision is computed by the Company's Appointed Actuary, who is a Fellow of the Institute of Actuaries, having due regard to the actuarial principles laid down in the European Communities (Life Assurance) Framework Regulations, 1994.

The long term business provision includes the non-unit liabilities in respect of unit-linked business. The technical provision for linked liabilities is based on the market value of the related assets. Within the long term business provision, an explicit provision is made for vested bonuses. No provision is made for future reversionary or terminal bonuses.

Foreign currencies

Assets and liabilities held in foreign currencies are translated to Sterling at the rates of exchange ruling at the Balance Sheet date. Called up share capital and fixed assets are translated at the historical rate ruling at the date of issue or acquisition. Income and expenditure denominated in foreign currencies are translated at the appropriate rates prevailing during the year.

Derivatives

Derivative instruments are only purchased to assist the Company in achieving its overall investment strategy. 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.

Taxation

Corporation tax is recognised on taxable profits at the relevant rate. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Deferred tax is not recognised on permanent differences.

Deferred tax assets are recognised to the extent that they are regarded as recoverable. Deferred tax is deemed recoverable where, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.

2. Segmental information

New business premiums a) Premiums written

	2004			2003		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
<i>Analysed by class of business</i>						
Ordinary Business						
Property-linked contracts						
- periodic premium	2,733	-	2,733	3,279	-	3,279
- single premium	1,797	-	1,797	130,827	-	130,827
- reinsurance receivable/(payable)	-	240	240	-	(4,901)	(4,901)
	4,530	240	4,770	134,106	(4,901)	129,205
Pension Business						
Property-linked contracts						
- periodic premium	2,617	-	2,617	6,614	-	6,614
- single premium	930	-	930	4,570	-	4,570
	3,547	-	3,547	11,184	-	11,184
Total premiums written	8,077	240	8,317	145,290	(4,901)	140,389
					2004 £000	2003 £000
<i>Analysed by geographic area gross of reinsurance</i>						
United Kingdom					2,584	30,264
Europe (excluding the United Kingdom)					5,462	86,001
Outside Europe					31	29,025
					8,077	145,290
					2004 £000	2003 £000
<i>The reinsurance balance in respect of all outwards reinsurance is as follows:</i>						
Outward reinsurance claims					(29,500)	(17,189)
Reinsurers' share of change in technical provisions					(1,260)	(49,825)
					(30,760)	(67,014)

All new business premiums represent incremental premiums. There was no inward external reinsurance business in 2003 or 2004. Premiums which are invested in With-Profit units are classified as property-linked. The amounts shown above for reinsurance premiums include £nil (2003: £nil) in respect of Unit liabilities of property-linked contracts invested in With-Profit units which are reinsured with Scottish Mutual Assurance plc. Reinsurance premiums also include £239,932 (2003: £4,901,489) of premiums reassured from Scottish Provident Limited. The nature of the reinsurance contracts is that premiums cannot be analysed between the originating periodic and single premium contracts and the amounts shown are net of management charges receivable and claims.

Notes to the Accounts

for the year ended 31 December 2004

b) Gross new annualised periodic premiums

	2004 £000	2003 £000
Ordinary business		
- property-linked contracts	199	324
Pension business		
- property-linked contracts	28	2,350
Total gross new annualised periodic premiums	227	2,674

c) Bonuses

Claims and the change in other technical provisions include bonuses paid and bonuses declared but not paid, respectively.

The charge incurred for bonuses in respect of the current year is as follows:

	2004 £000	2003 £000
Linked contracts: bonus added to With-Profit unit values	26,044	50,983

Included in the above amounts are bonuses of £Nil (2003: £7,338,843) which relate to With-Profit units which are fully reassured to Scottish Mutual Assurance plc.

3. Investment activity account

	Technical account - long term business	
	2004 £000	2003 £000
Investment income		
Income from listed investments	22,678	20,733
Income from other investments	19,886	22,777
Realised gains on investments	10,159	10,708
	52,723	54,218
Investment expenses and charges		
Investment management expenses		
- Management fee to Abbey National Asset Managers Limited	(1,065)	(597)
- Bank interest payable	(1,443)	(1,370)
- Other investment expenses	(510)	(419)
	(3,018)	(2,386)
Unrealised gains on investments	11,978	36,826
Net investment return	61,683	88,658

Income from other investments includes £1,995,975 (2003: £1,543,613) of interest earned on deposits placed with Banco Santander Central Hispano S.A. or subsidiaries thereof. Bank interest payable includes £1,345,980 (2003: £1,259,089) of interest payable to Abbey National Treasury Services Investments Limited.

4. Claims incurred

	2004			2003		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Claims paid	341,944	(29,260)	312,684	107,566	(22,090)	85,476
Claims handling expenses	180	-	180	51	-	51
	342,124	(29,260)	312,864	107,617	(22,090)	85,527
Change in outstanding claims	3,719	-	3,719	1,533	-	1,533
Claims incurred	345,843	(29,260)	316,583	109,150	(22,090)	87,060
Claims incurred, excluding handling expenses, analysed by type of benefit						
- Death claims	8,016			5,482		
- Surrenders	337,647			103,617		
	345,663			109,099		

The amounts shown above for reinsurance claims includes £29,260,175 (2003: £22,089,514) received in respect of unit liabilities of property-linked contracts invested in With-Profits units which were reinsured with Scottish Mutual Assurance Plc. The nature of the reinsurance contract is that the amount payable/receivable is based on net unit movements. As such premiums and claims cannot be separately identified, the amount disclosed above is net of premiums and management charges.

5. Net operating expenses

	2004 £000	2003 £000
Technical account		
- Acquisition costs	993	17,414
- Administrative expenses	8,721	8,531
Net operating expenses	9,714	25,945

The total commission accounted for during the year in respect of direct insurance was £4,034,083 (2003: £12,264,229). Certain administration services are provided to the Company by companies within the Abbey National Group. Charges by those companies respectively included in the operating results are detailed below:

	2004 £000	2003 £000
Abbey National Financial and Investment Services plc	2,185	2,628
Abbey National Financial and Investment Services Ireland plc	3,507	10,268
Abbey National Financial and Investment Services (Hong Kong) Limited	28	214
Abbey National Financial and Investment Services Isle of Man Limited	135	615

6. Employee information

The average number of persons (including Directors) employed by the Company during the year was:

By activity	2004 Number	2003 Number
Administration	4	5
Sales	-	9
	4	14

Staff costs for above persons were:

	2004 £000	2003 £000
Wages and salaries	480	1,013
Social security costs	26	120
Pension costs	70	117
	576	1,250

In addition to the above £537,733 (2003: 1,080,334) was paid in the year in respect of severance payments.

Notes to the Accounts

for the year ended 31 December 2004

7. Directors' emoluments

	2004 £000	2003 £000
For services as Director		
- Fees/salaries	360	288
- Other emoluments (including pension contributions and benefits in kind)	110	144
	470	432

8. Profit/(loss) on ordinary activities before tax

	2004 £000	2003 £000
Profit/(loss) on ordinary activities before tax is stated after:		
Auditors' remuneration	37	34

The results for the financial year arise mainly from the administration of in-force policies.

9. Tax charge

	2004 £000	2003 £000
Tax on technical account - long term business		
Group relief - current year	(151)	(151)
Group relief - prior year	-	(25)
Irrecoverable withholding tax	1,645	1,392
Deferred tax credit	2,511	(5,797)
	4,005	(4,581)
Tax on profit/(loss) on ordinary activities - non technical account		
Tax attributable to balance on the technical account:		
Long term business	2,360	(5,973)
	2,360	(5,973)

No corporation tax charge arose on the trading result in the current year due to the utilisation of tax losses brought forward. The deferred taxation on originating and reversing timing differences will be recovered to the extent that unrealised losses on investments are crystallised and future profits are available for offset with the losses realised. Deferred taxation relating to unutilised tax losses will be recovered to the extent that there are suitable profits arising from international and domestic operations available for offset. The Company's international activity qualifies for an effective corporation tax rate of 10% on qualifying activities under Section 446, Taxes Consolidation Act, 1997 until 31 December 2005. The anticipated standard corporation tax rate on expiration of the licence is 12.5%. The standard rate on all other activities is 12.5% from 1 January 2004.

10. Investments: other financial investments

	Current value		Historical cost	
	2004 £000	2003 £000	2004 £000	2003 £000
Shares and other variable-yield securities and units in Unit Trusts	368,117	438,086	392,848	408,721
Debt securities and other fixed income securities	361,597	384,200	359,722	381,855
	729,714	822,286	752,570	790,576

All Debt Securities are listed on a recognised investment exchange.

Shares and other variable-yield securities and units in Unit Trusts comprises:

	2004 £000	2003 £000
- Listed Investments	271,889	313,342
- Unit Trusts	83,542	97,834
- Unlisted Investments	12,686	26,910
	368,117	438,086

Included here is £32,301,927 (2003: £50,994,393) which is invested in an undertaking for collective investment in transferable securities which is managed by Scottish Mutual International Fund Managers Limited. £51,236,430 (2003: £60,141,221) is invested in Unit Trusts which are managed by Scottish Mutual Investment Managers Limited. £12,677,247 (2003: £13,071,457) is invested in an Investment Company which is managed by Abbey National Asset Managers Limited.

At 31 December 2003, the Company entered option contracts, with nominal value totalling £175,238,082, with Abbey National Treasury Services Investments Limited. Under these contracts, at specified dates, the Company could require Abbey National Treasury Services Investments Limited to pay the value of under-performance of certain indices below defined levels. A premium of £56,482,000 was paid by the Company to purchase these options during the year ended 31 December 2003. As at 31 December 2004 the value of the options purchased was £23,123,715 (2003: 25,867,488). As security for the maturity proceeds of these derivatives, Abbey National Treasury Services Investments Limited has lent the Company sums amounting to £23,623,715 (2003: £31,024,687). Such liabilities are included in amounts owed to credit institutions (see note 18).

11. Assets held to cover linked liabilities

	Current value		Historical cost	
	2004 £000	2003 £000	2004 £000	2003 £000
Assets held to cover linked liabilities	308,958	371,222	283,322	325,960

Assets held to cover linked liabilities comprise of investments, cash at bank, accrued income, investments purchased or sold for subsequent settlement and taxation balances. Included here is £75,175,274 (2003: £61,048,678) of monies on deposit with Banco Santander Central Hispano S.A. or subsidiaries thereof. £125,533,271 (2003: £156,752,223) is invested in an undertaking for collective investment in transferable securities which is managed by Scottish Mutual International Fund Managers Limited. £4,708,411 (2003: £4,218,792) is invested in Unit Trusts which are managed by Scottish Mutual Investment Managers Limited.

12. Other debtors

	2004 £000	2003 £000
Investments sold for subsequent settlement	935	590
Due from fellow subsidiary undertakings	151	110
Management charges	9	325
Deferred tax asset	3,286	5,797
Sundry debtors	-	82
	4,381	6,904

Details of the deferred tax asset of £3,285,804 (2003: £5,797,213) are given in note 13.

13. Deferred taxation asset

	2004 £000	2003 £000
At 1 January - asset	5,797	-
Transfer to the technical account	(2,511)	5,797
At 31 December - asset	3,286	5,797

The deferred taxation asset balance is shown within Other debtors in note 12 above. The amounts provided for deferred taxation and the amounts unprovided are as follows:

	2004		2003	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Unutilised tax losses	1,424	4,162	4,246	5,550
Originating and reversing timing differences	1,862	2,286	1,551	(3,171)
Net asset	3,286	6,448	5,797	2,379

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

14. Fund for future appropriations

	2004 £000	2003 £000
Balance at 1 January	15,506	-
Movement from the long term business technical account	3,118	15,506
Balance at 31 January	18,624	15,506

The balance on the Fund for future appropriations account, at a particular date, is calculated at policy level and for policies where the underlying attributable assets exceed the policy liability, represents the surplus within the Company's With Profits Insurance sub-fund, calculated in accordance with the accounting policies disclosed at note 1.

Notes to the Accounts

for the year ended 31 December 2004

15. Technical provisions

	Technical provision for linked liabilities £000	Long term business provision £000	Claims outstanding £000
Gross amount			
Balance at 1 January 2004	386,433	2,154,597	2,107
Movement (to)/from the long term business technical account	(61,077)	(216,352)	3,719
Balance at 31 December 2004	325,356	1,938,245	5,826
Reinsurers' share			
Balance at 1 January 2004	18,107	913,888	-
Movement to the long term business technical account	208	1,052	-
Balance at 31 December 2004	18,315	914,940	-
Net technical provisions			
Balance at 1 January 2004	368,326	1,240,709	2,107
Movement (to)/from the long term business technical account	(61,285)	(217,404)	3,719
Balance at 31 December 2004	307,041	1,023,305	5,826

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

	Rate of interest %	
	2004	2003
Mortality table		

Life policies	AM80 ultimate for males and AF80 ultimate for females	2004	2003
		4.63	3.75

The difference between assets held to cover linked liabilities and the technical provision for linked liabilities arises principally from the Company's policy of creating units in the most efficient manner for the business, which is at regular intervals, but not daily. Created units can, therefore, be higher or lower than the allocated units to policies in issue.

16. Called up share capital

	2004 £000	2003 £000
Authorised		
44,500,000 Ordinary Shares of £1 each (2003: 44,500,000)	44,500	44,500
30,000 Ordinary Shares of €1.25 each (2003: 30,000)	31	31
Allotted, called up and fully paid		
25,048,000 Ordinary Shares of £1 each (2003: 25,048,000)	25,048	25,048
30,000 Ordinary Shares of €1.25 each (2003: 30,000)	31	31
	25,079	25,079

17. Creditors arising out of direct insurance operations

	2004 £000	2003 £000
Amounts falling due within one year	532	1,091

18. Amounts owed to credit institutions

Amounts owed to credit institutions represent sums deposited back to the Company by such institutions in order to reduce the counterparty risk to the Company on particular assets held to back certain policyholder benefits. Included here is £23,623,715 (2003: £31,024,687) advanced by Abbey National Treasury Services Investments Limited. Interest is payable on the amounts owed to Abbey National Treasury Services Investments Limited based on the 3 month libor rate posted on the quarterly revaluation date.

19. Other creditors including taxation and social security

	2004 £000	2003 £000
Investments purchased for subsequent settlement	–	31
Due to fellow subsidiary undertakings	884	6,380
Taxation and social security	69	17
Outstanding commission	622	770
Other creditors	169	46
	1,744	7,244

20. Employee Pension Scheme

As at 31 December 2004, the Company had no remaining employees who were members of the Abbey National Financial and Investment Services Ireland plc (ANFISI) pension scheme operated by the Company. A number of prior employees of SMI are entitled to a deferred pension from this scheme which is a defined benefit scheme. A number of eligible employees of ANFISI plc are also members of the scheme and therefore the Company is unable to identify its share of the underlying assets and liabilities. The scheme is non-contributory and commenced on 1 October 1991. A contribution rate of 15% has been determined by the scheme's actuaries, Watson Wyatt. The pension cost charged to the Profit and Loss account in the year for this scheme was £69,680 (2003: 109,961). The latest valuation for the scheme took place on 31 December 2004 and a deficit of £828,600 (2003: surplus of £390,629) was disclosed. The actuarial valuation method used was the projected Unit Method.

21. Reconciliation of movements in shareholders' funds

	2004 £000	2003 £000
Profit for the financial year	15,269	519
Net additions to shareholders' funds	15,269	519
Opening shareholders' funds	103,130	102,611
Closing shareholders' funds	118,399	103,130

22. Reconciliation of movements in capital contribution reserve

	2004 £000	2003 £000
Opening capital contribution reserve	231,000	231,000
Net additions to the capital contribution reserve	–	–
Closing capital contribution reserve	231,000	231,000

No rights or conditions attach to the Capital Contribution included above, which was received from the parent, Scottish Mutual International Holdings, as an absolute unconditional contribution.

23. Parent undertaking and controlling party

The Company's immediate parent is Scottish Mutual International Holdings.

The Company's results are included in the group accounts of Banco Santander Central Hispano S.A., copies of which may be obtained from Abbey Secretariat, Abbey National House, 2 Triton Square, Regent's Place, London, NW1 3AN.

Up to 12 November 2004, the ultimate parent undertaking and controlling party was Abbey National plc, a Company incorporated in the United Kingdom. From this date, the Company's ultimate parent undertaking and controlling party is Banco Santander Central Hispano S.A., a company incorporated in Spain. Banco Santander Central Hispano S.A. is the parent undertaking of the largest and smallest group of undertakings for which group accounts are drawn up and of which the Company is a member.

24. Related party disclosures

The Company is wholly-owned by Banco Santander Central Hispano S.A.. The Company avails of certain exemptions contained in the Financial Reporting Standard No 8 'Related Party Disclosures' from disclosing details of transactions with Banco Santander Central Hispano S.A. Group entities.

25. Cash flow statement

Under Financial Reporting Standard No 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly-owned subsidiary and the consolidated accounts are publicly available.

26. Reporting Currency

The reporting currency used in these accounts is Sterling denoted by the symbol '£'.

27. Approval of accounts

The accounts were approved by the Board of Directors on 14 March 2005.

Auditors' report

Independent Auditors' report to the members of Scottish Mutual International plc

We have audited the financial statements of Scottish Mutual International plc for the year ended 31 December 2004 which comprise the Profit and Loss Account, Balance Sheet and notes 1 to 27. 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 193 of the Companies Act 1990. 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

The directors are responsible for preparing the Annual Report, including as set out in the Statement of Directors' Responsibilities, the preparation of the financial statements in accordance with applicable Irish law and accounting standards. Our responsibilities, as independent auditors, are established in Ireland by statute, auditing standards as promulgated by the Auditing Practices Board in Ireland and by our profession's ethical guidance.

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 Irish statute comprising the Companies Acts, 1963 to 2003 and the European Communities (Insurance Undertakings: Accounts) Regulations, 1996.

We also report to you whether in our opinion: proper books of account have been kept by the Company; whether, at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Company; and whether the information given in the Directors' report is consistent with the financial statements. In addition, we state whether we have obtained all information and explanations necessary for the purposes of our audit and whether the Company's balance sheet and profit and loss account are in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not given and, where practicable, include such information in our report.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' report. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. Our responsibilities do not extend to other information.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we 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 the affairs of the Company as at 31 December 2004 and of the result for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2003 and the European Communities (Insurance Undertakings: Accounts) Regulations, 1996.

We have obtained all the information and explanations we considered necessary for the purpose of our audit. In our opinion proper books of account have been kept by the Company. The Company's balance sheet and its profit and loss account are in agreement with the books of account. In our opinion the information given in the Directors' report is consistent with the financial statements.

The net assets of the Company, as stated in the balance sheet are more than half the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2004 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the Company.



Deloitte & Touche
Chartered Accountants and Registered Auditors
Dublin

14 March 2005



Styne House
Upper Hatch Street
Dublin 2
Republic of Ireland

Tel: +353-1 804 4000
www.smi.ie