Annual Report and Accounts 2005

Scottish Mutual International

Part of the Abbey National Group

Contents

Welcome to Scottish Mutual International plc

Directors and Other Information

Directors

John N Finnegan FCCA
Niall F Gallagher MA
Anthony D Haynes BA ACA
Kerr Luscombe BSC FFA

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 2005.

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 year, 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 5 and 6.

Since closing to new business in April 2003, the Company has been involved in organising an orderly wind-down of its activities. Therefore most of the activity has been in the processing of claims and the management of the remaining assets. The only premiums received are in respect of contractual top-ups and renewal annual premiums.

The recovery in world stockmarkets during the period resulted in a significant increase in policy asset share, leading to a reduction in the cost of policy guarantees. This, along with a reduction in operating expenses and tax charge also resulted in a significant increase in the profit for the year.

While the value of claims reduced in the year, the volume of claims increased. This is not unexpected given that we are not open to new business and are therefore unable to offer alternative investments to our policyholders. In this regard, a significant volume of portfolio bond policies was lost as a result of our inability to offer product to new customers of a large IFA.

At the start of 2005, the company completed the implementation of a hedging programme designed to underpin policy guarantees. This should provide greater stability going forward and also give greater security to all with-profit policy holders.

One of the Key Performance Indicators of the company is the solvency ratio. The company exceeds the solvency guidelines as laid down by the Financial Regulator, and in the absence of unforeseen events, all projections suggest that the position will continuously improve. This issue, in conjunction with the hedging programme already referred to, provides significant security to our policyholders.

The most significant risk outside the control of the Directors relates to the reassured asset with Scottish Mutual Assurance plc (SMA). While we have taken significant comfort from the hedging programme put in place within SMA, we do not control the SMA reassurance assets. In legal terms, reassured policies do not rank pari-passu with other policyholders in the event of a liquidation, so the level of security they enjoy is less. Notwithstanding that, the Directors have no reason to have concerns over the ability of SMA to fulfil its obligations to these policyholders.

We also draw your attention to note 23, FRS 27 Group capital statement, which describes in greater detail the risks faced and the methods involved in controlling them.

Claims will obviously continue to be a significant feature of the results over the next few years, but are expected to then reduce considerably beyond 2009 as the guaranteed business goes off the books.

Dividends

No dividend was paid during the year (2004: £nil).

Directors and Secretary

The Directors and Secretary of the Company at 31 December 2005 are listed on page 2. Kerr Luscombe was appointed to the Board on 15 February 2005 and Niall F Gallagher was appointed to the Board on 27 September 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 2005 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 31/12/05	at 31/12/04 (or date of appointment)	**at 31/12/05**	at 31/12/04 (or date of appointment)
John N Finnegan	-	-	4,652	4,652
Anthony D Haynes	743	643	5,367	5,367
Kerr Luscombe	7,372	7,372	33,163	5,517
Niall F Gallagher	-	-	-	-

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 2005.

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 2005 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.

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

15 March 2006

John N Finnegan
Executive Director

Niall F Gallagher
Executive Director

Profit and Loss Account

for the year ended 31 December 2005

Notes		2005 £000	2004 £000
	Technical account - long term business		
2(a)	**Earned premiums, net of reinsurance**		
	Gross premiums written	**6,428**	8,077
	Outward reinsurance premiums	**(1,161)**	240
		5,267	8,317
	Other income		
3	Investment income	**9,613**	52,723
3	Unrealised gains on investments	**114,144**	11,978
		123,757	64,701
	Total income	**129,024**	73,018
4	**Claims incurred, net of reinsurance**		
	Gross claims paid	**293,176**	342,124
	Outward reinsurance claims	**(41,102)**	(29,260)
15	Change in provision for claims; gross and net	**(3,333)**	3,719
	Net of reinsurance	**248,741**	316,583
15	**Change in other technical provisions, net of reinsurance**		
	Long term business provision, net of reinsurance		
	- gross amount	**(175,897)**	(216,352)
	- reinsurers' share	**23,434**	(1,052)
	- net of reinsurance	**(152,463)**	(217,404)
	Technical provision for linked business, gross and net of reinsurance		
	- gross amount	**(34,043)**	(61,077)
	- reinsurers' share	**(1,659)**	(208)
	- net of reinsurance	**(35,702)**	(61,285)
	Other expenditure		
5	Net operating expenses	**7,752**	9,918
3	Investment expenses and charges	**2,266**	3,018
9	Tax attributable to the long term business	**(2,188)**	4,005
14	Transfer to the fund for future appropriations	**12,029**	3,118
		19,859	20,059
	Total expenditure	**80,435**	57,953
	Sub-total (balance on the technical account - long term business)	**48,589**	15,065

The notes on pages 9 to 18 form part of these accounts.

Profit and Loss Account

for the year ended 31 December 2005

Notes		2005 £000	2004 £000
	Non-technical account		
	Balance on the technical account - long term business	**48,589**	15,065
9	Tax attributable to balance on long term business technical account	**(2,531)**	2,360
8	**Operating profit on ordinary activities before tax**	**46,058**	17,425
9	Tax on profit on ordinary activities	**2,531**	(2,360)
	Profit for the financial year	**48,589**	15,065
	Dividends	**–**	–
	Retained profit for the financial year	**48,589**	15,065

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.

Approved by the Board of Directors on 15 March 2006 and signed on their behalf by:

John N Finnegan
Executive Director

Niall F Gallagher
Executive Director

The notes on pages 9 to 18 form part of these accounts.

Notes		2005 £000	2004 £000
	Assets		
	Investments		
10	Other financial investments	**808,824**	729,714
11	**Assets held to cover linked liabilities**	**272,903**	308,958
15	**Reinsurers' share of technical provisions**		
	Long term business provision	**891,506**	914,940
	Technical provision for linked liabilities	**19,974**	18,315
		911,480	933,255
	Debtors		
	Debtors arising out of direct insurance operations		
	- policyholders	**202**	164
	- reinsurers	**884**	887
12	Other debtors	**10,346**	4,381
		11,432	5,432
	Other assets		
	Cash at bank and in hand	**281,155**	441,942
	Prepayments and accrued income		
	Accrued interest and rent	**3,328**	12,366
	Other prepayments and accrued income	**678**	683
		4,006	13,049
	Total assets	**2,289,800**	2,432,350

The notes on pages 9 to 18 form part of these accounts.

Balance Sheet
as at 31 December 2005

Notes		2005 £000	2004 £000
	Liabilities		
	Capital and reserves		
16	Called up share capital	**25,079**	25,079
22	Capital contribution reserve	**231,000**	231,000
	Profit and loss account	**(89,460)**	(138,049)
21	Shareholders' funds attributable to equity interests	**166,619**	118,030
14	**Fund for future appropriations**	**30,653**	18,624
15	**Technical provisions**		
	Long term business provision	**1,762,348**	1,938,245
	Claims outstanding	**2,493**	5,826
		1,764,841	1,944,071
15	**Technical provision for linked liabilities**	**291,313**	325,356
	Creditors		
17	Creditors arising out of direct insurance operations - policyholders	**674**	532
18	Amounts owed to credit institutions	**30,632**	23,624
19	Other creditors including taxation and social security	**5,068**	2,113
		36,374	26,269
	Total liabilities	**2,289,800**	2,432,350

Approved by the Board of Directors on 15 March 2006 and signed on their behalf by:

John N Finnegan
Executive Director

Niall F Gallagher
Executive Director

The notes on pages 9 to 18 form part of these accounts.

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 2005.

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 surplus assets over policyholder guarantees in with-profit 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.

In accordance with FRS27, 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 derivatives including exchange traded contracts, forward foreign exchange contracts and Over The Counter 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

	2005			2004		
Analysed by class of business	**Gross £000**	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
Ordinary Business						
Property-linked contracts						
- periodic premium	**2,109**	**–**	**2,109**	2,733	–	2,733
- single premium	**1,404**	**–**	**1,404**	1,797	–	1,797
- reassurance (payable)/receivable	**–**	**(1,161)**	**(1,161)**	–	240	240
	3,513	**(1,161)**	**2,352**	4,530	240	4,770
Pension Business						
Property-linked contracts						
- periodic premium	**2,928**	**–**	**2,928**	2,617	–	2,617
- single premium	**(13)**	**–**	**(13)**	930	–	930
	2,915	**–**	**2,915**	3,547	–	3,547
Total premiums written	**6,428**	**(1,161)**	**5,267**	8,077	240	8,317

Analysed by geographic area gross of reinsurance	**2005 £000**	2004 £000
United Kingdom	**1,689**	2,584
Europe (excluding the United Kingdom)	**4,739**	5,462
Outside Europe	**–**	31
	6,428	8,077

The reinsurance balance in respect of all outwards reinsurance is as follows:	**2005 £000**	2004 £000
Outward reinsurance claims	**(39,941)**	(29,500)
Reinsurers' share of change in technical provisions	**8,781**	(1,260)
	(31,160)	(30,760)

All new business premiums represent incremental premiums. There was no inward external reinsurance business in 2004 or 2005. Premiums which are invested in With-Profit units are classified as property-linked. Reassurance premiums also include £1,043,921 (2004: £239,932) of premiums reassured to 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.

b) Gross new annualised periodic premiums

	2005 £000	2004 £000
Ordinary business		
- property-linked contracts	**121**	199
Pension business		
- property-linked contracts	**28**	28
Total gross new annualised periodic premiums	**149**	227

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:

	2005 £000	2004 £000
Linked contracts: bonus added to With-Profit unit values	**20,574**	26,044

3. Investment activity account

	Technical account - long term business 2005 £000	2004 £000
Investment income		
Income from listed investments	**2,810**	22,678
Income from other investments	**22,103**	19,886
Realised (losses)/gains on investments	**(15,300)**	10,159
	9,613	52,723
Investment expenses and charges		
Investment management expenses		
- Management fee to Abbey National Asset Managers Limited	**(340)**	(1,065)
- Bank interest payable	**(1,783)**	(1,443)
- Other investment expenses	**(143)**	(510)
	(2,266)	(3,018)
Unrealised gains on investments	**114,144**	11,978
Net investment return	**121,491**	61,683

Income from other investments includes £1,577,578 (2004: £1,995,975) of interest earned on deposits placed with Banco Santander Central Hispano S.A. or subsidiaries thereof. Bank interest payable includes £1,672,208 (2004: £1,345,980) of interest payable to Abbey National Treasury Services plc.

4. Claims incurred

	Gross 2005 £000	Reinsurance 2005 £000	Net 2005 £000	Gross 2004 £000	Reinsurance 2004 £000	Net 2004 £000
Claims paid	**293,043**	**(41,102)**	**251,941**	341,944	(29,260)	312,684
Claims handling expenses	**133**	**–**	**133**	180	–	180
	293,176	**(41,102)**	**252,074**	342,124	(29,260)	312,864
Change in outstanding claims	**(3,333)**	**–**	**(3,333)**	3,719	–	3,719
Claims incurred	**289,843**	**(41,102)**	**248,741**	345,843	(29,260)	316,583
Claims incurred, excluding handling expenses, analysed by type of benefit						
- Death claims	**7,399**			8,016		
- Surrenders	**282,311**			337,647		
	289,710			345,663		

The amounts shown above for reassurance claims includes £41,102,172 (2004: £29,260,175) 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

	2005 £000	2004 £000
Technical account		
- Acquisition costs	**503**	993
- Administrative expenses	**7,249**	8,925
Net operating expenses	**7,752**	9,918

The total commission accounted for during the year in respect of direct insurance was £2,835,638 (2004: £4,034,083). 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:

	2005 £000	2004 £000
Abbey National Financial and Investment Services plc	**1,769**	2,185
Abbey National Financial and Investment Services Ireland plc	**2,741**	3,507
Abbey National Financial and Investment Services (Hong Kong) Limited	**79**	28
Abbey National Financial and Investment Services Isle of Man Limited	**2**	135

6. Employee information

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

By activity	2005 Number	2004 Number
Administration	**2**	4

Staff costs for above persons were:

	2005 £000	2004 £000
Wages and salaries	**288**	480
Social security costs	**16**	26
Pension costs	**51**	70
	355	576

In addition to the above £Nil (2004: £537,733) was paid in the year in respect of severance payments.

7. Directors' emoluments

	2005 £000	2004 £000
For services as Director		
- Fees/salaries	**304**	360
- Other emoluments (including pension contributions and benefits in kind)	**51**	110
	355	470

8. Profit on ordinary activities before tax

	2005 £000	2004 £000
Profit on ordinary activities before tax is stated after:		
Auditors' remuneration	**39**	37

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

9. Tax charge

	2005 £000	2004 £000
Tax on technical account - long term business		
Group relief - current year	**(2,916)**	(151)
Irrecoverable withholding tax	**343**	1,645
Hong Kong subsidiary tax charge	**1,189**	-
Deferred tax (credit)/charge	**(804)**	2,511
	(2,188)	4,005
Tax on profit on ordinary activities - non technical account		
Tax attributable to balance on the technical account:		
Long term business	**(2,531)**	2,360
	(2,531)	2,360

No corporation tax charge arose on the trading result in the current year due to the utilisation of tax losses brought forward. 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	
	2005 £000	2004 £000	2005 £000	2004 £000
Shares and other variable-yield securities and units in Unit Trusts	**427,112**	368,117	**384,266**	392,848
Debt securities and other fixed income securities	**381,712**	361,597	**391,742**	359,722
	808,824	729,714	**776,008**	752,570

All Debt Securities are listed on a recognised investment exchange.

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

	2005 £000	2004 £000
- Listed Investments	**29,486**	271,889
- Unit Trusts	**397,626**	83,542
- Unlisted Investments	–	12,686
	427,112	368,117

Included here is £6,237 (2004: £32,301,927) which is invested in an undertaking for collective investment in transferable securities which is managed by Scottish Mutual International Fund Managers Limited. £74,713,764 (2004: £51,236,430) is invested in Unit Trusts which are managed by Scottish Mutual Investment Managers Limited. £1,180,312 (2004: £12,677,247) is invested in an Investment Company which is managed by Abbey National Asset Managers Limited.

At 31 December 2005, the Company entered option contracts, with nominal value totalling £509,592,380, with Abbey National Treasury Services plc. Under these contracts, at specified dates, the Company could require Abbey National Treasury Services plc 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 2005 the value of the options purchased was £29,474,333 (2004: £23,123,715). As security for the maturity proceeds of these derivatives, Abbey National Treasury Services plc has lent the Company sums amounting to £30,631,618 (2004: £23,623,715). Such liabilities are included in amounts owed to credit institutions (see note 18).

11. Assets held to cover linked liabilities

	Current value		Historical cost	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Assets held to cover linked liabilities	**272,903**	308,958	**243,819**	283,322

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 £8,277,052 (2004: £75,175,274) of monies on deposit with Banco Santander Central Hispano S.A. or subsidiaries thereof. £100,403,421 (2004: £125,533,271) is invested in an undertaking for collective investment in transferable securities which is managed by Scottish Mutual International Fund Managers Limited. £5,674,916 (2004: £4,708,411) is invested in Unit Trusts which are managed by Scottish Mutual Investment Managers Limited.

12. Other debtors

	2005	2004
	£000	£000
Investments sold for subsequent settlement	**52**	935
Due from fellow subsidiary undertakings	**3,230**	151
Management charges	**163**	9
Deferred tax asset	**4,090**	3,286
Sundry debtors group relief	**2,811**	–
	10,346	4,381

Details of the deferred tax asset of £4,090,141 (2004: £3,285,804) are given in note 13.

13. Deferred taxation asset

	2005	2004
	£000	£000
At 1 January - asset	**3,286**	5,797
Transfer to/(from) the technical account	**804**	(2,511)
At 31 December - asset	**4,090**	3,286

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:

	2005		2004	
	Provided	**Unprovided**	Provided	Unprovided
	£000	**£000**	£000	£000
Unutilised tax losses	**4,090**	**2,948**	1,424	4,162
Originating and reversing timing differences	**–**	**–**	1,862	2,286
Net assets	**4,090**	**2,948**	3,286	6,448

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

	2005	2004
	£000	£000
Balance at 1 January	**18,624**	15,506
Movement from the long term business technical account	**12,029**	3,118
Balance at 31 January	**30,653**	18,624

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.

15. Technical provisions

	Technical provision for linked liabilities £000	Long term business provision £000	Claims outstanding £000
Gross amount			
Balance at 1 January 2005	**325,356**	**1,938,245**	**5,826**
Movement to the long term business technical account	**(34,043)**	**(175,897)**	**(3,333)**
Balance at 31 December 2005	**291,313**	**1,762,348**	**2,493**
Reinsurers' share			
Balance at 1 January 2005	**18,315**	**914,940**	**–**
Movement to/(from) the long term business technical account	**1,659**	**(23,434)**	**–**
Balance at 31 December 2005	**19,974**	**891,506**	**–**
Net technical provisions			
Balance at 1 January 2005	**307,041**	**1,023,305**	**5,826**
Movement to the long term business technical account	**(35,702)**	**(152,463)**	**(3,333)**
Balance at 31 December 2005	**271,339**	**870,842**	**2,493**

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

	Mortality table	Rate of interest % 2005	Rate of interest % 2004
Life policies	AM80 ultimate for males and AF80 ultimate for females	**4.15**	4.63

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

	2005 £000	2004 £000
Authorised		
44,500,000 Ordinary Shares of £1 each (2004: 44,500,000)	**44,500**	44,500
30,000 Ordinary Shares of €1.25 each (2004: 30,000)	**31**	31
Allotted, called up and fully paid		
25,048,000 Ordinary Shares of £1 each (2004: 25,048,000)	**25,048**	25,048
30,000 Ordinary Shares of €1.25 each (2004: 30,000)	**31**	31
	25,079	25,079

17. Creditors arising out of direct insurance operations

	2005 £000	2004 £000
Amounts falling due within one year	**674**	532

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 £30,631,618 (2004: £23,623,715) advanced by Abbey National Treasury Services plc. Interest is payable on the amounts owed to Abbey National Treasury Services plc based on the 3 month libor rate posted on the quarterly revaluation date.

19. Other creditors including taxation and social security

	2005 £000	2004 £000
Due to fellow subsidiary undertakings	**133**	884
Taxation and social security	**39**	69
Outstanding commission	**297**	622
Other creditors	**4,599**	538
	5,068	2,113

20. Employee Pension Scheme

As at 31 December 2005, the Company had two employees, both of whom are members of different Group defined benefit pension schemes. As these schemes have both deferred any other active members, it is not possible to attribute the Company's share of the underlying assets and liabilities. Additionally, Mr Anthony D Haynes was an employee until September 2005 and is a member of a larger Group pension scheme, again making it impossible to attribute a share of the underlying assets and liabilities. The pension cost charged in respect of these employees to the Profit and Loss account in the year was £51,287 (2004:£69,680).

21. Reconciliation of movements in shareholders' funds

	2005 £000	2004 £000
Profit for the financial year (as reported)	**48,589**	15,269
Pension deficit under FRS 17 for 2004	**–**	(204)
Profit for the financial year (as restated)	**48,589**	15,065
Net additions to shareholders' funds	**48,589**	15,065
Opening shareholders' funds	**118,030**	103,130
Pension deficit under FRS 17 for 2003	**–**	(165)
Closing shareholders' funds	**166,619**	118,030

22. Reconciliation of movements in capital contribution reserve

	2005 £000	2004 £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. FRS27 Group capital statement

In December 2004, the Accounting Standards Board ("ASB") issued Financial Reporting Standard ("FRS") 27 on Life Assurance. FRS27 requires life assurance companies to provide detailed disclosures of the liabilities and the financial strength of the business.

Capital Statement

The Capital Statement below sets out a reconciliation between shareholders' funds and regulatory capital:

	2005 £000	2004 £000
Total shareholders' funds	**166,619**	118,030
Adjustments onto a Regulatory Basis		
Inclusion of Fund for future appropriations	**30,653**	18,624
Resilience Reserve	**(3,393)**	(6,917)
Removal of Deferred taxation asset	**(4,090)**	(3,286)
Total Available Capital Resources	**189,789**	126,451

The total available capital is £189,789,000 (2004: £126,451,000). This capital is required to meet risks and regulatory requirements including the required regulatory solvency margin. The company aims to maintain a solvency margin of at least 150% of the regulatory capital requirement. The company has exceeded this target at year end.

Basis of calculating Capital Requirements

The available capital shown above has been determined in accordance with local regulatory requirements and regulations, principally the European Communities (Life Assurance) Framework Regulations 1994.

The key assumptions used in calculating the basic policy reserves:

- Unit linked growth rate: 3.87% per annum
- Unitised With Profit unit growth rate: 3.78% per annum
- Sterling reserve discount rate: 4.15% per annum
- Expense inflation: 3.75% per annum. Expense assumptions vary by products and are based upon the Company's recent experience.

Key Assumptions used in calculating the reserve for the investment guarantees under Unitised With Profits policies are:

- Policy lapse rates representing the Company's best estimate of future lapse experience,
- Risk free rates based upon LIBOR rates,
- Fund asset volatility assumptions in the ranges of 9.523% to 11.284% depending upon the fund currency,
- Correlation between movements in equity and fixed interest values: 50%.

Periodically the Company conducts investigations into its actual experience (for mortality, morbidity, persistency and expenses) against the assumptions used in the reserves. Where applicable the results of the investigation are combined with industry data to give an estimate of the Company's future expected experience. The European Communities (Life Assurance) Framework Regulations 1994, which are regulations under which the reserves are formulated, require that each assumption used in determining the reserves has a margin for conservatism. No guidance is given to the size of the margin that is required and industry standards seem to vary widely. The Company does not use an explicit measure for this margin but will move assumptions infrequently only when it feels that the margin has become too small or too large.

Economic assumptions (discount rate, unit growth and expense inflation) are reviewed each year in the light of movements in interest rates and guidance issued by the Financial Regulator with regards the maximum rates that can be used. If there are changes in interest rates that need to be reflected then all assumptions move together and the difference between each is maintained.

Financial Guarantees and Options

The Company provides investment guarantees in the Unitised With Profits (UWP) fund. In most cases, the guarantees consist of guaranteed minimum values at particular durations or death if earlier. The Company has purchased a hedge asset in order to cover these guarantees, so that, other than in extreme circumstances, the cost of these guaranteed minimum values will not be met by the policyholders. The hedging strategy is dependant upon certain assumptions, which if do not materialise may result in additional costs.

Restrictions on Available Capital Resources

In theory, where surplus capital exists, a transfer may be made to the shareholder, subject to Board approval. The company is legally bound to retain a solvency margin of at least 150% of the minimum solvency margin as calculated under Regulatory guidelines, and is committed in so doing. There are no current plans to return capital to the shareholder. It should be noted that the shareholder has no right to the Fund for future appropriations or the balance of the inherited estate, both of which are included in the overall available capital.

Sensitivity Analysis

Changes in market conditions:

A. Unit-linked liabilities are fully matched by unit-linked assets. As such stock market volatility is matched by changes in liabilities. Non-linked reserves in respect of unit-linked business make provision for a fall in asset values in line with that specified by the Financial Regulator annually.

B. While the assets covering the non-linked liabilities are closely matched, the capital position of the Company is also exposed to changes in interest rates.

C. Movements in the value of UWP assets are not fully matched by liability movements and a fall in equity values or fixed interest yields will reduce the available capital.

Management of Financial and Non–Financial Risks

The main risks and uncertainties identified as facing the Company include:

A. Life Insurance Risk

Maximum benefit amount limits per insured life (which can vary by line of business) are established for life insurance, and reinsurance is purchased for amounts in excess of those limits. The reinsurance is placed with counterparties who meet our security standards. Non financial risks such as morbidity, mortality and lapses are monitored closely and the results are used to inform our claims management and risk reinsurance.

B. Operational Risks

Operational risks can arise as a result of failed or inadequate internal processes or systems, or from external events. Line management of the various business areas have established processes to identify, manage, monitor and report risks identified to senior management.

C. Financial/Liquidity Risk Associated with the Management of the Relative Duration of the Company's Assets and Liabilities (ie Asset Liability Matching)

Liquidity Risk is the risk that the Company will have difficulty raising funds to meet its commitments as and when they fall due. The liquidity needs of the Company are managed through the cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield on assets.

D. Legal Claims that may arise in the conduct of our business

Legal claims are monitored by the Company's legal department, and provision is made for amounts that may become payable in the future, when it is deemed that the risk of failure in defending the Company against the claim is high.

E. Investment and Credit Risk Associated with the Company's Investment Portfolio, Reinsurance Agreements and Other Counter-Party Credit Risk

Interest rate risk is managed by effectively matching portfolio investment with liability characteristics. Credit risk is managed through an emphasis on quality in the investment portfolio and by the maintenance of issuer, industry and geographical diversification standards.

In providing UWP guarantees, the Company's capital position is sensitive to adverse fluctuations in the value of the assets held in the UWP fund. The extent of this risk is controlled by imposing minimum investment terms over which guarantees are provided, restricting the amount of guarantee given to any individual policyholder and controlling the investment mix of the underlying fund. This includes regular monitoring of the hedge asset in place to cover policyholder guarantees and liabilities.

Capital and Risk Management Policies and Objectives

The main objective of our risk management framework is to protect the capital position of the Company, to ensure we continue to meet our financial performance targets and to ensure we comply with legal and regulatory requirements.

To achieve this, the Company has established (i) terms of reference for the Board and management teams, and (ii) a clear organisation structure with documented delegated authorities and responsibilities. The processes and framework are consistent with those applied elsewhere within Banco Santander Central Hispano S.A. Group and are reviewed regularly by both executive management and by group internal audit.

Life Assurance Liabilities

Life Assurance Technical provisions, net of reassurance, are analysed as follows:

	2005 £000	2004 £000
With-Profits Liabilities		
Options and Guarantees	**31,281**	53,000
Other policyholder obligations	**830,546**	953,137
Total With-Profits Liabilities	**861,827**	1,006,137
Unit-Linked	**271,448**	307,060
Non-participating Life Assurance	**8,906**	17,149
Technical Provisions in Balance Sheet	**1,142,181**	1,330,346

24. 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.

25. 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.

26. 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.

27. Reporting Currency

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

28. Approval of accounts

The accounts were approved by the Board of Directors on 15 March 2006.

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 2005 which comprise the Profit and Loss Account, Balance Sheet and related notes 1 to 28. 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 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 Statement of Directors' Responsibilities, the preparation of the financial statements in accordance with applicable law and accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

Our responsibility, as independent auditors, is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2005 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 disclosed 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 read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. Our responsibilities do not extend to other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we 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, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the affairs of the company as at 31 December 2005 and of the profit for the year then ended; and
- have been properly prepared in accordance with the Companies Acts, 1963 to 2005 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 2005 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
15 March 2006

Scottish Mutual International

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