

Annual Report and Accounts 2003



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Welcome to
Scottish Mutual International plc

Executive Chairman

Philip J McDuell

Executive Directors

Peter L Towers BA FIA
Tracy A Mair BA CA
Anthony D Haynes BA ACA

Non-Executive Directors

Niall D O'Carroll
Michael G Moloney FCIS MSC (Mgt) AIIMR

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 Abbey National plc.

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 2003.

Principal activities

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

During the year the company 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 Abbey National plc.

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 plc, Abbey National Financial and Investment Services Hong Kong plc and Abbey National Financial and Investment Services Ireland plc, all of which are wholly-owned subsidiaries of Abbey National plc.

Review of business

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

Dividends

No dividend was paid during the year (2002: £nil).

Directors and Secretary

The Directors and Secretary of the Company at 31 December 2003 are listed on page 2. Martin De Forest-Brown retired from the Board on 26 May 2003. Andrew Whyte retired from the Board on 12 December 2003. Anthony D Haynes was appointed to the Board on 12 December 2003. Philip J McDuell was appointed to the Board on 7 July 2003.

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 2003.

The beneficial interests of Directors holding office at the end of the financial year in the ordinary shares of 10 pence each in Abbey National plc are shown below:

	Shares		Options	
	at 31/12/03	at 31/12/02 (or date of appointment)	at 31/12/03	at 31/12/02 (or date of appointment)
Tracy A Mair	1,244	1,244	6,100	2,879
Peter L Towers	-	-	7,836	7,836
Niall D O'Carroll	3,100	3,100	-	-
Philip J McDuell	-	-	93,388	93,388
Anthony D Haynes	12,094	12,094	6,142	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 2003.

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 2001 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.


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, continue in office in accordance with section 160 of the Companies Act, 1963.

On behalf of the Board
17 February 2004



Philip J McDuell
Executive Chairman



Anthony D Haynes
Executive Director

Profit and Loss Accounts

for the year ended 31 December 2003

Notes	2003 £000	2002 £000
Technical account - long term business		
2(a) Earned premiums, net of reinsurance		
Gross premiums written	145,290	789,074
Outward reinsurance premiums	(4,901)	(69,182)
	140,389	719,892
Other income		
3 Investment income	54,218	33,612
3 Unrealised gains on investments	36,826	-
	91,044	33,612
Total income	231,433	753,504
4 Claims incurred, net of reinsurance		
Gross claims paid	107,617	78,152
Outward reinsurance claims	(22,090)	-
15 Change in provision for claims, gross and net	1,533	(203)
Net of reinsurance	87,060	77,949
15 Change in other technical provisions, net of reinsurance		
Long term business provision, net of reinsurance		
- gross amount	158,075	647,212
- reinsurers' share	(42,976)	(61,647)
- net of reinsurance	115,099	585,565
Technical provision for linked business, net of reinsurance		
- gross amount	(3,652)	(35,956)
- reinsurers' share	(6,849)	(8,791)
- net of reinsurance	(10,501)	(44,747)
Other expenditure		
5 Net operating expenses	25,945	71,763
3 Investment expenses and charges	2,386	55,357
3 Unrealised losses on investments	-	90,863
9 Tax attributable to the long term business	(4,581)	567
14 Transfer to the fund for future appropriations	15,506	-
	39,256	218,550
Total expenditure	230,914	837,317
Sub-total (balance on the technical account - long term business)	519	(83,813)

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

Profit and Loss Accounts

for the year ended 31 December 2003

Notes	2003 £000	2002 £000
Non-technical account		
Balance on the technical account - long term business		
	519	(83,813)
Tax attributable to balance on long term business technical account	(5,973)	(370)
8 Operating (loss)/profit on ordinary activities before tax	(5,454)	(84,183)
9 Tax on (loss)/profit on ordinary activities	5,973	370
Profit/(loss) for the financial year	519	(83,813)
Dividends	-	-
Retained profit/(loss) for the financial year	519	(83,813)

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
17 February 2004



Philip J McDuell
Executive Chairman



Anthony D Haynes
Executive Director

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

Balance Sheets

as at 31 December 2003

Notes	2003 £000	2002 £000
Assets		
Investments		
10	822,286	577,665
11	371,222	380,695
15	913,888	870,912
	18,107	11,258
	931,995	882,170
Debtors		
	2,882	467
	3,744	-
12	6,904	4,151
	13,530	4,618
Other assets		
	552,214	652,126
Prepayments and accrued income		
	9,221	7,885
	665	493
	9,886	8,378
	2,701,133	2,505,652

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

Balance Sheets

as at 31 December 2003

Notes	2003 £000	2002 £000
Liabilities		
Capital and reserves		
16	25,079	25,079
22	231,000	231,000
	(152,949)	(153,468)
21	103,130	102,611
14	15,506	-
15	2,154,597	1,996,522
	2,107	574
	2,156,704	1,997,096
15	386,433	390,085
Creditors		
17	1,091	9,866
18	31,025	-
19	7,244	5,846
	39,360	15,712
Accruals and deferred income		
	-	148
	2,701,133	2,505,652

On behalf of the Board
17 February 2004



Philip J McDuell
Executive Chairman



Anthony D Haynes
Executive Director

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

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 2001.

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 Ltd and Scottish Mutual Investment Managers Ltd (which are wholly-owned subsidiaries of Abbey National plc), 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

Forward foreign exchange and other derivative instruments are only entered into 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	2003			2002		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Analysed by class of business						
Ordinary Business						
Property-linked contracts						
- periodic premium	3,279	-	3,279	3,477	-	3,477
- single premium	130,827	-	130,827	780,607	-	780,607
- reinsurance payable	-	(4,901)	(4,901)	-	(69,182)	(69,182)
	134,106	(4,901)	129,205	784,084	(69,182)	714,902
Pension Business						
Property-linked contracts						
- periodic premium	6,614	-	6,614	4,990	-	4,990
- single premium	4,570	-	4,570	-	-	-
	11,184	-	11,184	4,990	-	4,990
Total premiums written	145,290	(4,901)	140,389	789,074	(69,182)	719,892
Analysed by geographic area gross of reinsurance						
United Kingdom				30,264		105,993
Europe (excluding the United Kingdom)				86,001		440,392
Outside Europe				29,025		242,689
				145,290		789,074
The reinsurance balance in respect of all outwards reinsurance is as follows:						
Outward reinsurance (claims)/premiums				(17,189)		69,182
Reinsurers' share of change in technical provisions				(49,825)		(70,438)
				(67,014)		(1,256)

All new business premiums represent direct business transacted with individuals. There was no inward reinsurance business in 2002 or 2003. Premiums which are invested in With-Profit units are classified as property-linked. The amounts shown above for reinsurance premiums include Enil (2002: £58,886,051) 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 £4,901,489 (2002: £10,295,488) of premiums reassured to Scottish Provident Ltd. 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. Where claims are higher than premiums, resulting in a net receivable, this amount is disclosed in claims. Single premiums are all classified as new business and include non-recurring increments to existing policies.

b) Gross new annualised periodic premiums

	2003 £000	2002 £000
Ordinary business		
- property-linked contracts	324	1,308
Pension business		
- property-linked contracts	2,350	5,325
Total gross new annualised periodic premiums	2,674	6,633

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:

	2003 £000	2002 £000
Linked contracts: bonus added to with-profit unit values	50,983	73,936

Included in the above amount are bonuses of £7,388,843 (2002: £35,076,997) which relate to With-Profit units which were fully reassured to Scottish Mutual Assurance plc.

3. Investment activity account

	Technical account - long term business	
	2003 £000	2002 £000
Investment income		
Income from listed investments	20,733	16,396
Income from other investments	22,777	17,216
Realised gains on investments	10,708	-
	54,218	33,612
Investment expenses and charges		
Investment management expenses		
- Management fee to Abbey National Asset Managers Ltd	(597)	(351)
- Bank interest payable	(1,370)	-
- Other investment expenses	(419)	(372)
Net losses on realisation of investments	-	(54,634)
	(2,386)	(55,357)
Unrealised gains/(losses) on investments	36,826	(90,863)
Net investment return	88,658	(112,608)

Income from other investments includes £1,543,613 (2002: £2,240,721) of interest earned on deposits placed with Abbey National plc or subsidiaries thereof.

Bank interest payable includes £1,259,089 (2002: £nil) of interest payable to Abbey National Treasury Services PLC.

4. Claims incurred

	2003			2002		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Claims paid	107,566	(22,090)	85,476	78,104	-	78,104
Claims handling expenses	51	-	51	48	-	48
	107,617	(22,090)	85,527	78,152	-	78,152
Change in outstanding claims	1,533	-	1,533	(203)	-	(203)
Claims incurred	109,150	(22,090)	87,060	77,949	-	77,949
Claims incurred, excluding handling expenses, analysed by type of benefit						
- Death claims	5,482			5,399		
- Surrenders	103,617			72,502		
	109,099			77,901		

The amounts shown above for reinsurance claims include £22,089,514 (2002: £nil) received in respect of unit liabilities of property-linked contracts invested in With-Profit 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

	2003 £000	2002 £000
Technical account		
- Acquisition costs	17,414	59,948
- Administrative expenses	8,531	11,815
Net operating expenses	25,945	71,763

The total commission accounted for during the year in respect of direct insurance was £12,264,229 (2002: £50,498,172). 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:

	2003 £000	2002 £000
Abbey National Financial and Investment Services plc	2,628	7,502
Abbey National Financial and Investment Services Ireland plc	10,268	12,401
Abbey National Financial and Investment Services Hong Kong plc	214	139
Abbey National Financial and Investment Services Isle of Man plc	615	1,351

6. Employee information

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

By activity	2003 Number	2002 Number
Administration	5	5
Sales	9	27
	14	32

Staff costs for above persons were:

	2003 £000	2002 £000
Wages and salaries	1,013	1,350
Social security costs	120	151
Pension costs	117	208
	1,250	1,709

In addition to the above £1,080,334 was paid in the year in respect of severance payments.

7. Directors' emoluments

	2003 £000	2002 £000
For services as Director		
- Fees/salaries	288	273
- Other emoluments (including pension contributions and benefits in kind)	144	156
	432	429

8. Loss on ordinary activities before tax

	2003 £000	2002 £000
Loss on ordinary activities before tax is stated after:		
Auditors' remuneration (excluding VAT)	34	20

The result for the financial year arises partly from processing of new policies, the acceptance of which, has now been discontinued and partly from the administration of in-force policies.

9. Tax charge

	2003 £000	2002 £000
Tax on technical account - long term business		
Group relief - current year	(151)	(196)
Group relief - prior year	(25)	(174)
Irrecoverable withholding tax	1,392	937
Deferred tax credit	(5,797)	-
	(4,581)	567
Tax on loss on ordinary activities - non technical account		
Tax attributable to balance on the technical account:		
Long term business	(5,973)	(370)
	(5,973)	(370)

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	
	2003 £000	2002 £000	2003 £000	2002 £000
Shares and other variable-yield securities and units in Unit Trusts	438,086	319,460	408,721	403,298
Debt securities and other fixed income securities	384,200	258,205	381,855	242,462
	822,286	577,665	790,576	645,760

All Debt Securities are listed on a recognised investment exchange.

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

	2003 £000	2002 £000
- Listed Investments	313,342	258,879
- Unit Trusts	97,834	60,360
- Unlisted Investments	26,910	221
	438,086	319,460

Included here is £50,994,393 (2002: £46,631,113) which is invested in an undertaking for collective investment in transferable securities which is managed by Scottish Mutual International Fund Managers Ltd. £60,141,221 (2002: £60,359,569) is invested in Unit Trusts which are managed by Scottish Mutual Investment Managers Ltd. £13,071,457 (2002: £nil) is invested in an Investment Company which is managed by Abbey National Asset Managers Ltd.

As at 31 December 2003, the company had entered option contracts, with nominal value totalling £175,238,082, 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 payable by the company for the purchase of these options. As at 31 December 2003 the value of the options purchased was £25,867,488. As security for the maturity proceeds of these derivatives, Abbey National Treasury Services plc has lent to the company sums amounting to £31,024,687 at 31 December 2003. Such liabilities are included in amounts owed to credit institutions (see note 18).

11. Assets held to cover linked liabilities

	Current value		Historical cost	
	2003 £000	2002 £000	2003 £000	2002 £000
Assets held to cover linked liabilities	371,222	380,695	325,960	410,021

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 £61,048,678 (2002: £46,837,316) of monies on deposit with Abbey National plc or subsidiaries thereof. £156,752,223 (2002: £178,450,458) is invested in an undertaking for collective investment in transferable securities which is managed by Scottish Mutual International Fund Managers Ltd. £4,218,792 (2002: £6,057,103) is invested in Unit Trusts which are managed by Scottish Mutual Investment Managers Ltd.

12. Other debtors

	2003 £000	2002 £000
Investments sold for subsequent settlement	590	837
Due from fellow subsidiary undertakings	110	970
Management charges	325	2,276
Deferred tax asset	5,797	-
Sundry debtors	82	68
	6,904	4,151

Details of the deferred tax asset of £5,797,213 (2002: £nil) are given in note 13.

13. Deferred taxation asset

	2003 £000
At 1 January 2003 - asset	-
Transfer to the technical account	5,797
At 31 December 2003 - asset	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:

	2003		2002	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Unutilised tax losses	4,246	5,550	-	7,126
Originating and reversing timing differences	1,551	(3,171)	-	9,742
Net asset/(liability)	5,797	2,379	-	16,868

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

	2003 £000
Balance at 1 January 2003	-
Movement from the long term business technical account	15,506
Balance at 31 January 2003	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.

15. Technical provisions

	Technical provision for linked liabilities £000	Long term business provision £000	Claims outstanding £000
Gross amount			
Balance at 1 January 2003	390,085	1,996,522	574
Movement (to)/from the long term business technical account	(3,652)	158,075	1,533
Balance at 31 December 2003	386,433	2,154,597	2,107
Reinsurers' share			
Balance at 1 January 2003	11,258	870,912	-
Movement to the long term business technical account	6,849	42,976	-
Balance at 31 December 2003	18,107	913,888	-
Net technical provisions			
Balance at 1 January 2003	378,827	1,125,610	574
Net movement (to)/from the long term business technical account	(10,501)	115,099	1,533
Balance at 31 December 2003	368,326	1,240,709	2,107

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

Mortality table	Rate of interest %	
	2003	2002
Life policies AM80 ultimate for males and AF80 ultimate for females	3.75	4.00

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

	2003 £000	2002 £000
Authorised		
44,500,000 Ordinary Shares of £1 each (2002: 44,500,000)	44,500	44,500
30,000 Ordinary Shares of €1.25 each (2002: 30,000)	31	31
Allotted, called up and fully paid		
25,048,000 Ordinary Shares of £1 each (2002: 25,048,000)	25,048	25,048
30,000 Ordinary Shares of €1.25 each (2002: 30,000)	31	31
	25,079	25,079

17. Creditors arising out of direct insurance operations

	2003 £000	2002 £000
Amounts falling due within one year	1,091	9,866

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 £31,024,687 (2002: £nil) 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

	2003 £000	2002 £000
Investments purchased for subsequent settlement	31	585
Due to fellow subsidiary undertakings	6,380	2,913
Taxation and social security	17	53
Outstanding commission	770	2,282
Other creditors	46	13
	7,244	5,846

20. Employee Pension Scheme

As at 31 December 2003, 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 15.9% 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 £109,961 (2002: £172,933). The latest valuation for the scheme took place on 31 December 2003 and a surplus of £390,629 (2002: deficit of £897,667) was disclosed. The actuarial valuation method used was the projected Unit Method.

21. Reconciliation of movements in shareholders' funds

	2003 £000	2002 £000
Profit/(Loss) for the financial year	519	(83,813)
Capital Contribution	-	92,000
Net additions to shareholders' funds	519	8,187
Opening shareholders' funds	102,611	94,424
Closing shareholders' funds	103,130	102,611

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

22. Reconciliation of movements in capital contribution reserve

	2003 £000	2002 £000
Opening capital contribution reserve	231,000	139,000
Net additions to the capital contribution reserve	-	92,000
Closing capital contribution reserve	231,000	231,000

23. Immediate and ultimate parent Company

The Company's immediate holding company is Scottish Mutual International Holdings and ultimate parent Company is Abbey National plc which is registered in England. The only Group in which the accounts of Scottish Mutual International plc are consolidated is that headed by Abbey National plc. The accounts of the ultimate parent Company are available to the public and can be obtained from the Secretary, Abbey National House, 2 Triton Square, Regent's Place, London NW1 3AN or www.abbey.com.

24. Related party disclosures

The Company is wholly-owned by Abbey National plc. The Company avails of certain exemptions contained in the Financial Reporting Standard No 8 'Related Party Disclosures' from disclosing details of transactions with Abbey National 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 17 February 2004.

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 2003 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 2001 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 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 of the state of the affairs of the company as at 31 December 2003 and of the result for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2001 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 2003 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

17 February 2004