

Fund performance announcement 2006

Scottish Mutual International has announced bonus rates, effective from 1 March 2006, for with profits units held in its SMI Dublin With Profits Fund¹. This fund has three separate currency funds: Euro, US \$, and £ Sterling. The HK\$ fund has been amalgamated with the US \$ fund from the end March 2006.

Final Bonus (also known as Terminal Bonus) rates have been declared as follows:

Final Bonus rates - SMI Dublin With Profits

(applies to the Guaranteed With Profit Bond, the Controlled Capital Plan, Complete Investment Portfolio, Investment Bond, Universal Capital Account, Inheritance Plan and Dublin With Profit Redemption Bond).

Euro	US \$	£ Sterling	Hong Kong \$
6% for policies written from July 2002 to end 2003	9% for policies written from July 2002 to end 2003	6% for policies written from July 2002 to end 2003	Transferred to the US \$ fund at the end March 2006
0% for policies written prior to July 2002	6% for policies written from September 2001 to June 2002	0% for policies written prior to July 2002	
	0% for policies written prior to September 2001		

Final Bonus is sensitive to market conditions and may be withdrawn without notice. SMI currently reviews the scales of Final Bonus at least twice a year, although it reserves the right to review them more frequently should there be a material alteration in the economic conditions.

The **Annual Bonus** rates are also declared as follows, and are guaranteed for a period of 1 year from the effective date of declaration. The Annual Bonus rates will be reflected by a daily increase in the unit price:

Annual Bonus rates - SMI Dublin With Profits

Euro	US \$	£ Sterling	Hong Kong \$
2%	2%	2.5%	2%

A **Market Value Reduction (MVR)**, to reflect current performance and in common with other life offices, will continue to apply to withdrawals² from With Profits funds.

The level of MVR depends upon a number of factors including the period of investment and the returns obtained on the underlying assets during that period. MVRs are applied in order to try to ensure that those policyholders who take money out of a With Profits fund, particularly after a short period of time, receive a fair asset share and do not disadvantage the policyholders who remain invested. MVR scales are checked more frequently than Final Bonus rates, typically once a month, although monthly reviews do not necessarily lead to monthly changes in the scale.

The Annual MVR Free Allowance for policies invested in the SMI Dublin With Profits Fund via a fund-link is currently the same as the annual bonus rate, based on a percentage of the value of units held at the start of the bond year.

MVRs and any policy value quotations based upon them are not guaranteed and are subject to fluctuation in either direction at any time without prior warning dependent upon a number of factors, notably stock market conditions and the volumes and amounts of surrenders received or expected. Upon receipt of a surrender request for a large case the level of MVR will be reviewed on an individual basis to ensure the value is fair. MVRs vary according to the fund in which it is invested, the period of investment and the fund currency.

- 1 SMI closed to new with profits business in April 2003 and only incremental business, where eligible, is accepted after this date.
- 2 Not applicable to MVR free allowances or withdrawals on the MVR free date in accordance with the contractual provisions.

Your Questions Answered

Q1 Does this update affect me?

You should read this brochure carefully if you are an investor in the SMI Dublin With Profits Fund.

Contracts investing in the SMI Dublin With Profits Fund include the Guaranteed With Profits Bond (and Controlled Capital Plan), the Dublin With Profit Redemption Bond and policyholders invested in the SMI Dublin With Profits Fund via a fund-link.

Each year we provide an update on the performance of the With Profits fund and how this affects our customers. Building on the performance of the previous year, we are pleased to report that we have seen further strong growth in the Dublin With Profits Fund in 2005.

This means that the majority of our customers will have seen an increase in the underlying value of their investment over the last year, and that the fund has been able to recover further from the decline in the stock market seen between 2000 and 2003.

With Profits Funds

Q2 What is the value of the SMI Dublin With Profits Fund

The SMI Dublin With Profits Fund is valued at £0.9 billion as at 31/12/2005.

Q3 What has the SMI Dublin With Profits Fund returned from 1 January 2005 to 31 December 2005?

Details of the fund's performance and bonus history from January 2000 to December 2005 are available on our website (www.smi.ie) – however the returns for 2005 are as below:

SMI Dublin With Profits Fund

£: 11.5%

€: 13.25%

\$: 4.25%

HK\$: 2.75%

Q4 How is this return used to the benefit of investors?

We use annual and final bonuses and MVRs as the mechanisms to translate the fund's investment returns for the benefit of our investors.

When deciding bonuses, we calculate an 'asset share'. This is the total of the amount invested into the fund and the actual rates of return earned, after allowing for charges and expenses, and any withholding tax. In a sense, this can be viewed as the investors' 'fair share' of the with profits fund. We do this calculation for groups of policies rather than every single policy.

There are two types of bonus we can declare – annual and final bonuses. Declaring a high annual bonus on the fund can in some cases allocate available funds unfairly between different groups of customers. This is an important point which is explained further later on.

Q5 How is the fund currently invested?

The fund is invested in the major equity and fixed interest markets around the world. The split of the assets represent the total for the fund at 28 February 2006:

SMI Dublin With Profits Fund

Equity: 44%

Property: 0%

Fixed Interest/Cash: 56%

Q6 How was the fund invested 12 months ago?

These splits represent the total With Profits fund as at 28 February 2005:

SMI Dublin With Profits Fund

Equity 40%

Property 0%

Fixed Interest/Cash 60%

Q7 What changes have been made to the way the fund is invested over the last year?

Our investment decisions are made with a view to balancing risk and reward. When judging the proportions invested in each type of asset and market, such as shares or bonds, we must take into consideration the nature and type of investors in the fund, the extent of any guarantees and the outstanding term of the policies.

During the course of the last year we increased our equity weightings to take advantage of growing confidence in some markets.

We believe that the current split of the fund is prudent and positions us well to achieve sustainable growth with a sensible approach to risk. We actively manage the asset split of the fund but will only take on a higher level of risk (e.g. by increasing our equity content) if we feel that we can balance this with a higher level of reward.

Remember, past performance is no guide to the future. Future bonus rates are not guaranteed and, in some circumstances, a Market Value Reduction and early cash-in charge may apply.

Final Bonus

Q8 What is a Final Bonus?

A final bonus is an amount that is paid over and above the guaranteed benefits. It's not a fixed amount and varies with size, type and age of the policy. It is not guaranteed so any final bonus figure quoted may be subject to change in the future.

Final bonuses are designed to ensure that those leaving the fund get their fair share. In other words when any customer takes money out of the fund, we need to make sure the amount they get back is a fair reflection of performance over the time they were invested.

Applying final bonuses, rather than higher annual bonuses, allows us to target those customers who have been invested during a period of growth. The final bonus scales are detailed in the fund performance announcement. Final bonus for the SMI Dublin With Profits Fund range from 0% to 9% as of 1 March 2006. Final bonus may be varied or withdrawn at any time without notice.

Annual Bonus

Q9 What's happening?

To reflect the positive performance in the fund, customers are benefiting from their share of the investment returns either through reduced Market Value Reductions or through improved final bonuses. We have continued to declare annual bonus rates of either 2% or 2.5% (depending on the fund currency) with effect from 1 March 2006 for the SMI Dublin With Profits Fund.

Q10 Why have you taken the decision not to increase annual bonus?

Over recent years we have taken a number of actions to improve the performance of the With Profits fund and to ensure that we continue to treat all policyholders fairly. We are pleased to say that these continue to have a positive impact on the value of our customers' investments.

We have also committed to a policy of reducing MVRs and improving final bonuses, before increasing annual bonuses. We continue to believe that this is the best and fairest way for all of our customers to benefit from the returns of the fund.

Q11 What is likely to happen in the future?

This will depend on a number of factors, including the performance of equity and bond markets in the future.

However, our policy continues to be to improve MVRs and final bonus, rather than increasing annual bonus to provide policyholders with their share of investment returns.

Market Value Reductions

Q12 What is a Market Value Reduction?

A MVR is a reduction in the amount you would get back if you fully or partially cashed in your policy. It's not a fixed amount and is worked out for each individual policy. It may mean you could get back less than you originally invested.

MVRs are designed to ensure that those leaving the fund take only their fair share. In other words when any customer takes money out of the fund, we need to make sure the amount they get back is a fair reflection of performance over the time they were invested.

If we did not apply MVRs it would mean that those remaining in the fund would see the value of their investment negatively affected by those cashing in early.

Q13 How do you work out the level of a MVR?

The level of any MVR will depend on a number of factors:

- How long you have been invested in the fund
- What the investment market conditions have been like over that time
- What bonuses have been declared
- The actual return on the fund
- The benefits payable under your policy
- Any relevant tax and charges

Q14 When is a MVR applied?

A MVR may be used if you take money out from your policy, or if there is an Annual MVR-free Allowance, when withdrawals in that policy year exceed the MVR-free Allowance. Please refer to the policy terms and conditions for information specific to your particular policy type.

Q15 Why is it fairer to improve MVRs and apply final bonuses before applying / increasing an annual bonus?

The most appropriate moment when fairness can be judged is when a policyholder leaves the fund and receives a benefit. Our policy of using MVRs and final bonus is to concentrate on achieving fairness for all customers at the point they choose to leave, whenever that is.

Q16 Have your MVR rates been reviewed?

Since April 2005 we have revised the illustrative MVR scales on six separate occasions, which have resulted in improvements in MVR rates for all our policyholders. We also reintroduced final bonus in October 2005.

Individual final bonuses and MVRs depend upon the fund in which the policy is invested, the fund currency, the period of investment, general investment conditions and the performance of the underlying assets within the fund compared to the value of the units purchased and any bonus arising over the period.

Please remember that many policies have valuable guarantees that still apply, where appropriate. Individual policy MVR rates or surrender illustrations are available on request to info@smi.ie.

Q17 What happens if I want to take withdrawals?

That will depend on the type of contract and the product terms and conditions. For example, MVRs are potentially applicable to all withdrawals from the Guaranteed With Profit Bond product, whereas policies invested in the SMI Dublin With Profits Fund via a fund link may withdraw up to the Annual MVR-Free Allowance (which is based on a percentage of the value of units held at the start of the bond year) without imposition of an MVR. The current Annual MVR-Free Allowance is the same as the bonus rate for 2006.

Q18 How often do you review the position?

MVRs are reviewed monthly with changes normally applying every 2 to 3 months if the change is sufficient to move MVRs. MVRs may be reviewed more frequently in line with market fluctuations. Bonuses are reviewed at least twice a year.

Further Information

Q19 I would like a copy of Principles and Practices of Financial Management (PPFM)

If you would like a copy of the PPFM you can download it from www.smi.ie, email us on info@smi.ie or call us on +353 1 8044000 (10:00 to 16:00 local time). The PPFM sets out strategy for management of the With Profits funds including bonuses, smoothing, the fund's exposure to business risks, and fund charges and expenses.

Q20 Who should I contact if I have further queries?

If you would like to speak to someone about the information provided in this brochure, or to discuss any other features of your investment, we recommend that you speak to your financial adviser or intermediary. Alternatively you can email us at info@smi.ie or contact our helpline on +353 1 804 4000 (10:00 to 16:00 local time).

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