

Dear Intermediary,

Scottish Mutual International (SMI) With Profits Update 2006

I am writing to update you on the performance of the Scottish Mutual International With Profits funds and what this means for your customers invested in these funds. This is part of our commitment to providing you with the information you need to advise and support these customers.

Fund performance continues to be strong

I am pleased to say the changes we made to our fund strategy that we told you about in July 2004 continue to have a positive impact on the investment values of the majority of our customers.

2005 was a year when both equity and bond markets delivered sound returns. We retained a target Equity Backing Ratio (EBR) of 40% and increased our equity exposure in the Series 1 sterling sub-fund by disposing of our commercial property holdings. As a result of our prudent asset mix and sensible approach to risk, the funds continued to perform well in 2005. The gross investment return for the Series 1 Fund was up to 12.5% and up to 13.2% for the Dublin Fund, depending on the currency sub-funds. A summary of the returns for each of the currency sub-funds is detailed in the attached 'Questions & Answers' leaflet.

Positive Returns for Investors

In line with our strategy we have once again declared a zero bonus for 2006 in respect of the Series 1 Fund and a bonus rate of either 2.5% or 2% for the Dublin Fund, depending on the fund currency. However, the strong returns have allowed us to do a number of things:

- Final Bonus – we reintroduced final bonus in October 2005 for a number of policies, and have now announced increased final bonus rates and extended the dates at which final bonus applies, as detailed in the attached fund performance announcement.
- Market Value Reductions – we have reduced MVRs on all with profits policies since April 2005, and have updated the illustrative MVR rates table six times in that period. Individual 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 that period.

Consistency of Approach

We will continue with our goal of concentrating on improvements to final bonus and MVRs to reflect positive investment returns when they arise. As you know this allows us to protect the long-term interests of all investors in the funds and to continue to treat all policyholder groups fairly.

Keeping Your Clients Informed

Starting in April, we will be writing to all Scottish Mutual International With Profits policyholders with details of this update and how it affects them. Remember that some With Profits investors have valuable guarantees but these guarantees will be lost where policies are surrendered early or at a time when a MVR is being charged.

Enclosed you will find a Questions and Answers leaflet with more details of performance and bonuses. Further With Profits information, including the Principles and Practices of Financial Management (PPFMs) for each of the SMI With Profits funds, is available on our website at www.smi.ie.

If you have any further queries, please contact our helpline on +353 1 804 4000 or email info@smi.ie.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Niall Gallagher', written in a cursive style.

Niall Gallagher
Managing Director

Fund performance announcement 2006

Scottish Mutual International has announced bonus rates, effective from 1 March 2006, for with profits units held in its With Profits Series 1 Fund and SMI Dublin With Profits Fund. Each fund has three separate currency funds: Euro, US \$, and £ Sterling, while the latter fund also has HK\$ (although this will be 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

With Profits Series 1

(applies to International With Profit Investment Bond, International With Profit Redemption Bond and SMI VIP Plan). The SMI With Profits Series 1 Fund is reassured into the Scottish Mutual Assurance With Profits Fund.

Euro	US\$	£ Sterling
15% for policies written from July 2002 to December 2002	18% for policies written from July 2002 to December 2002	21% for policies written from July 2002 to December 2002
5% for policies written from January to June 2002	12% for policies written from January 2002 to June 2002	14% for policies written from January 2002 to June 2002
0% for policies written prior to January 2002	4% for policies written from July 2001 to December 2001	7% for policies written from July 2001 to December 2001
	0% for policies written prior to July 2001	2% for policies written from January 2001 to June 2001
		0% for policies written prior to January 2001

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 ¹	9% for policies written from July 2002 to end 2003	6% for policies written from July 2002 to end 2003	Transferring to the US \$ fund from 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

¹ SMI closed to new with profits business in April 2003 and only incremental business, where eligible, is accepted after this date.

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 (where non zero) will be reflected by a daily increase in the unit price:

Annual Bonus rates

With Profits Series 1

Euro	US \$	£ Sterling
0%	0%	0%

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 Charge Free Withdrawal Allowance on policies invested in the SMI With Profit Series 1 Fund will remain at 0% from the next policy anniversary.

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

² Not applicable to MVR free allowances or withdrawals on the MVR free date in accordance with the contractual provisions.