



With Profits Update 2007

Your Questions Answered

Aimed at intermediaries and investment professionals

How does this With Profits announcement impact my clients?

Q1 What contracts are affected by this update?
A Any contracts invested in the SMI With Profits funds ('the Funds') – either the Series 1 Fund which is reinvested into the Scottish Mutual Assurance With Profits Fund under OLAB rules or the SMI Dublin With Profits Fund.

Contracts investing in the SMI With Profits Series 1 Fund include the International With Profit Investment Bond, International With Profit Redemption Bond, and SMI VIP Plan.

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

Q2 What is the fund performance announcement for 2006?
A We continue to manage our bonus policy according to the principles that we have explained in recent years and have published in our Principles and Practices of Financial Management. The fairest way of sharing out the available assets and investment earnings in the Funds is to continue the practice of reviewing Final Bonuses and MVRs, where appropriate, rather than increasing Annual Bonuses.

Q3 When will you be contacting my clients?
A During May we will be writing to all SMI With Profits policyholders. We will give them details of the annual bonus and an update on the Fund returns for 2006. Copies of sample policyholder letters will be available on our website www.smi.ie from mid May 2007. Annual plan statements will continue to be issued on the policy anniversary which will detail the current nominal value of the investment (i.e. any potential Final Bonus or MVR will not be included).

With Profits Funds

Q4 What is the value of each of the With Profits funds now?
A The Scottish Mutual Assurance With Profits Fund is valued at £6.4 billion as at 31/12/2006 while the SMI Dublin With Profits Fund is valued at £0.6 billion as at 31/12/2006.

Q5 What have your With Profits funds returned from 1 January 2006 to 31 December 2006?
A Details of the Funds' performance and bonus history from January 2000 to December 2006 will be available shortly on our website (www.smi.ie) – however the returns for 2006 are as below:

SMI Series 1 With Profits Fund

£: 6.2%

€: 7.5%

\$: 9.5%

SMI Dublin With Profits Fund

£: 6.3%

€: 6.6%

\$: 9.2%

Q6 How is this return used to the benefit of policyholders?

A We use the addition of annual and final bonuses and MVRs as the ways of fairly distributing any Fund investment returns.

When deciding bonuses, we calculate an 'asset share'. The asset share for a policy is based on the contributions paid into the Fund for that policy and the actual rates of return earned, after the deduction of charges and expenses, and any withholding tax. This can be viewed as the policy's 'fair share' of the Fund. We complete this calculation for examples of typical policies rather than for every single policy.

Q7 What changes have been made over the last year to the way the Funds are invested?

A 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, bonds, property or cash) various factors are considered. These include the nature and type of policies in the Funds, the extent of any guarantees and the outstanding term of the policies.

During the course of last year there were changes affecting the Funds. Over the year cash balances reduced with more invested in shares and bonds. Following the sale to Resolution we are in the process of transferring many of the investment functions to Resolution Asset Managers, our in-house team.

We believe that the current split of the Funds is necessary and provides for a sensible approach to risk. We periodically review the asset split of the Funds but will only take a higher level of risk (e.g. by increasing our equity content) if we feel we can balance this with a higher level of reward.

Q8 What is the current asset allocation of each fund?

A These approximate splits represent the total With Profits funds at 31 December 2006:

SMI Series 1 With Profits Fund		SMI Dublin With Profits Fund	
Equity	41%	Equity	46%
Property	0%	Property	0%
Fixed Interest	46%	Fixed Interest	40%
Cash	13%	Cash	14%

Annual Bonus

Q9 What's happening?

A Investment performance in the Funds is already reflected in the current scale of final bonus. We are therefore declaring 0% bonus for the SMI With Profits Series 1 Fund (which is reassured into the Scottish Mutual Assurance With Profits Fund), and for the SMI Dublin With Profits Fund we have declared annual bonus rates of either 2% or 2.5% (depending on the fund currency) with effect from 1 March 2007.

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

A We have reviewed the policy of concentrating on final bonuses, before reintroducing or increasing annual bonuses. We continue to believe that this is the best and fairest way for all our policyholders to benefit from the returns of the Funds.

Paying annual bonus could disproportionately benefit both maturing policyholders and policyholders with guarantees as opposed to policyholders who remain invested in the Funds without guarantees. This is particularly the case for the Series 1 Fund, where there are MVR free guarantees, as opposed to the Dublin Fund where guarantees are based on a minimum percentage return.

Q11	What is likely to happen in the future?
A	This will depend on a number of factors, including the performance of equity and bond markets in the future. However, our approach continues to be to use regular reviews of final bonus rather than annual bonus, to provide policyholders with their fair share of the investment returns.
Q12	What effect will the zero annual bonus rate on the Series 1 Fund have on policyholders taking withdrawals?
A	Policyholders who want to take withdrawals can do so but should take your advice as this will erode their capital and an MVR may be applied on any amount taken as a withdrawal.
Q13	What about contracts invested in the SMI Dublin With Profits Fund where withdrawals are being taken?
A	That will depend on the type of contract and the product terms and conditions. For example, MVRs (and Final Bonus) 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.

Market Value Reductions (MVRs)

Q14	What is a MVR?
A	A MVR is a reduction in the amount a policyholder would get back if units in a with profits policy are cancelled. Its not a fixed amount and is worked out separately for each policy. If deducted, it may mean a policyholder could get less back than was originally invested.

MVRs are designed to ensure that policyholders leaving the Fund only take their fair share. In other words, when any policyholder takes units from the Fund, we need to make sure the value they get is a fair reflection of the Fund's performance over the time they were invested in it. If we did not apply MVRs it would mean that those policyholders who remain invested in the Fund would see the value of their investment reduced by those leaving early. MVRs may be reviewed at any time.

Q15	When is a MVR applied?
A	A MVR may be applied when a policyholder takes money out of their 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 any particular policy type.

Q16	How do you work out a MVR?
A	The level to be deducted will depend on a number of factors including: <ul style="list-style-type: none"> • Which Fund and currency the policyholder is invested in • How long a policyholder has been invested in the Fund • What investment market conditions have been like over that time • What bonuses, if any, have been declared • The actual return of the Fund • The benefits payable under the policy • Any relevant tax and charges

Please remember that MVR-free guarantees, or absolute guarantees, still apply where appropriate. Individual policy MVR rates or surrender illustrations are available on request to info@smi.ie.

Final Bonus

Q17 What is a Final Bonus?

A A final bonus is an amount that is paid over and above any benefits already accrued. It is not a fixed amount and varies with size, type and age of the policy. It is included within your policy benefits, but 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 policyholders leaving the Fund get their fair share. In other words when policyholders take any benefits from the fund, we need to make sure the amount they get back is a fair reflection of the performance of the Fund over the time they were invested in it.

Applying final bonuses allows us to target those policyholders who have been invested during a period of growth, rather than paying or increasing annual bonuses, which would apply to every policyholder.

We last reviewed final bonuses in November 2006 and will review them again in June 2007.

Please remember that past performance is not an indication of future performance and the value of investments can fall as well as rise.

Q18 How much Final Bonus may I get?

A A final bonus may be paid when benefits are taken. The amount payable will depend on a number of factors including the Fund and the currency the policyholder is invested in, the actual return of the Fund since the date the policyholder invested taking into account any bonuses added as well as any relevant tax and charges, and investment market conditions over that time.

Final bonus is sensitive to financial market conditions and other factors, and may be varied or withdrawn without notice and is not guaranteed.

Further Information

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

A The following PPFMs are available

- SMI Dublin With Profits Fund
- SMI With Profits Series 1 Fund

If you would like a copy download 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 funds' exposure to business risks, and fund charges and expenses.

Q20 Who should I contact if I have further queries?

A Please email us at info@smi.ie or contact our helpline on +353 1 804 4000 (10:00 to 16:00 local time).