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Dear Policyholder

Important announcement to Scottish Mutual International (SMI) With Profits Policyholders invested in the SMI Dublin With Profits Fund.

With Profits Funds

Last year we wrote to your Independent Intermediary to say that the dramatic falls in stock market values meant that reduced annual bonus would be applied to investments in the above With Profits Fund. There has been some recovery in the stock markets since then. However this recovery has not been enough to bring the value of the Fund back to a position where annual bonuses can be retained at the level declared in previous years.

As a result we are declaring reduced annual bonuses of 2.5% (£) and 2% (\$, €, and HK\$) on With Profits Investments invested in the SMI Dublin Fund for 2004. In addition, no terminal bonus is currently payable. These annual bonus rates are guaranteed until 1 March 2005. However please remember future returns depend on future bonus rates, which cannot be forecast or guaranteed.

Over the last two years the percentage of the With Profits Fund invested in equities has been significantly reduced and more placed in fixed interest and cash. This helps reduce the risk of the underlying investments making a loss, however it means that the Fund would benefit by less if stock markets increase faster than interest rate returns. The stock market volatility of recent years and its negative impact on the Fund's assets as well as the risk of future volatility underpins this decision. The long term aim of the Fund is still to produce steady returns with moderate risk.

To help protect returns now and in the future, a Market Value Reduction (also known as a Market Value Adjustment) is likely to be applied on withdrawals from the With Profits Fund. A Market Value Reduction (MVR) adjusts the value of the withdrawal to take into account falls in the stock market as well as other factors and depends on the length of time the investment in the Fund has been held. Please note that this charge is applied to ensure fairness between investors who withdraw and investors who remain in the With Profits Fund. This means that if you surrender your policy outside of any contractual guarantee dates, then in some cases you may get back less than you invested.

Changes to With Profits Fund management

In a significant change to our investment strategy we are changing our approach to the way we manage our Funds. The new strategy involves moving to a multi manager approach and for the With Profits Fund this will include a substantial proportion of index-tracking management. We believe the changes made will have a positive impact on returns achieved by the Funds over time relative to direct investment. The key benefit of a multi manager approach is that experienced fund managers from around the world will be managing the Funds and will be actively selected by us. For further details please see the enclosed "Your Questions Answered" booklet.



Regulatory requirements for With Profits

Although the SMI Dublin With Profits Fund is based and regulated in Dublin, it does have UK resident policyholders. Accordingly and as per the requirements of the Financial Services Authority (FSA) in the UK, SMI will publish by 30 April 2004 the Principles and Practices of Financial Management (PPFM) for the SMI Dublin With Profits Fund. This will set out how we manage the With Profits Fund and include information on such matters as investment strategy, bonus declaration strategy and business risks associated with the Fund. In line with FSA requirements we expect to publish these on our website (www.smi.ie) on 30 April 2004. If you are a UK resident policyholder, you may request a copy by emailing your request to info@smi.ie or by writing to us at the above address.

If you have any queries about your investment or this letter, please refer to the "Your Questions Answered" booklet enclosed, contact your Independent Intermediary or contact us on our Helpline on +353 1 426 0809 or by email to info@smi.ie.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Anthony Haynes".

Anthony Haynes
Managing Director

"Your Questions Answered"

BONUS DECLARATION

Q1 What are the annual bonus changes?

We have declared annual bonus rates for 2004 of either 2% (£) or 2.5% (\$, €, HK\$) on Scottish Mutual International With Profits investments that are invested in the Scottish Mutual International Dublin With Profits Series.

The annual bonus rates apply from 1 March 2004.

No terminal bonuses are appropriate for any policies invested in the SMI Dublin With Profits Series.

Q2 Why have you taken this decision?

This is because the recent stock market recovery has not been enough and has been over too short a time to make up both the shortfall from previous years and the element of smoothing that was applied over this period to allow for the annual bonus rate to be maintained at previous levels.

Our priority is always to protect the long-term interests of all investors in the With Profits Fund and by declaring reduced annual bonus we are doing this.

Q3 What is smoothing?

Investment smoothing is an approach that aims to smooth out some of the peaks and troughs in the stock market to deliver a less volatile flow of investment returns throughout the long-term life of your investment.

Q4 What is likely to happen in the future?

This will depend on a number of factors, including the performance of the assets in the Fund and the returns from equity and bond markets in the future. We will keep you updated on the performance of your policy through your annual statement. Work is underway to assess the final impact of the new UK FSA regulations on "Realistic Reporting" and related matters. This work will be completed and its findings implemented and communicated.

WITH PROFITS FUNDS

Q5 What has your With Profits Fund returned over the last 12 months?

Overall the SMI Dublin With Profits Fund had a positive return last year - specific details of the SMI Dublin With Profits Fund performance and bonus history from January 2000 to December 2003 can be found on our website (www.smi.ie) - see '2004 Bonus Declaration'.

Q6 Your Fund had a positive return last year - why are you paying a reduced bonus?

Overall the previous three years produced a negative return and therefore we are not in a position to maintain the same bonus rates as 2003 or the years preceding that. As mentioned above, our priority is always to protect the long-term interests of all investors in the Fund.

Q7 What is the current asset allocation of the Scottish Mutual International Dublin With Profits Fund?

This split represents the Scottish Mutual International Dublin With Profits Fund at 31 December 2003:

SMI Dublin With Profits Fund	
Equity	32%
Fixed Interest / Cash	68%

Over the last two years the percentage of the With Profits Fund invested in equities has been significantly reduced and more placed in fixed interest and cash. This helps reduce the risk of the underlying investments making a loss, however, it means that the Fund would benefit by less if stock markets increase faster than interest rate returns. The stock market volatility of recent years and its negative impact on the Fund's assets as well as the risk of future volatility underpins this decision. The long term aim of the Fund is still to produce steady returns with moderate risk.

Q8 Why do some contracts have Guarantees and others do not?

Whether or not you have a Guarantee depends on which contract you bought, when it was bought and whether this was an option that was available at that time.

Q9 Why do you apply Market Value Reductions?

We apply Market Value Reductions to try and be fair to policyholders who stay in the Fund as well as those who leave. This also safeguards the long-term viability of the Fund and ensures appropriate pay-outs to policyholders who cash-in their policies.

Q10 What prospect does the With Profits Fund have of eliminating MVRs given the current asset split?

The split of assets within the Fund will remain under review, but the equity proportion is unlikely to revert to the previous high levels for the foreseeable future. As we have outlined, following an extensive strategic review, Abbey decided in January of this year that the best interests of its clients would be served by moving to the 'multi manager' model which has already proved extremely successful within other areas of the Abbey Group. Abbey National Asset Managers (ANAM) retains overall responsibility for investment management and it will continue to pursue a controlled risk strategy with regard to the With Profits Fund. The equity proportion of the With Profits Fund will be managed through a combination of the multi manager approach and index tracking. It should also be noted that the reduction in equities over the previous few years has protected the Fund against greater losses.

Q11 Why do all policyholders not have the chance to switch to new funds?

Policyholders invested in the With Profits Fund by way of a fund choice (as opposed to a With Profits Bond) have the opportunity to switch into other funds as a normal feature of their contract. An MVR may however apply and the suitability of any move should be discussed with your Independent Intermediary. Policyholders invested in a With Profits Bond should also note that the majority of these policies have guaranteed benefits at certain dates.

Q12 When will Principles and Practices of Financial Management (PPFM) be available?

In line with the UK Financial Services Authority requirements the PPFMs will be available for UK resident policyholders from 30 April 2004. If you are a UK resident policyholder, you may request a copy by emailing your request to info@smi.ie, by writing to us at our Head Office or by accessing our website at www.smi.ie. These reports will provide information on how the With Profits Fund is managed.

CHANGES TO FUND MANAGEMENT

Q13 What is the change to Fund management?

From January 2004, in conjunction with ANAM, we began the process to move the fund management of the majority of Scottish Mutual International fixed interest and equity based funds to external fund managers. Our role will be to select and monitor these external managers. Initially the majority of our funds are passing to State Street Global Advisors, experienced global fund managers, who are working with us during this change.

Part of this change will be the move to a multi manager approach which means:

- we select a number of managers from around the world
- we look for a sound track record, with a proper awareness of risk
- we set the target and monitor the funds managers' performance

Q14 What does this mean for the With Profits Fund?

The With Profits Fund will be managed using a combination of the multi manager approach and index tracking, as we believe this will have a positive impact on the fund over time relative to direct investment.

Q15 Why change to a multi manager approach?

As part of our commitment to offer you the best of what's available in the market for each type of investment we have been reviewing the management of our investment funds. Analysis has shown that better returns have been achieved by spreading the investment amongst a number of fund managers who are experienced in their fields. However please remember that past performance may not be repeated in the future.

Q16 How does this benefit me?

The key benefit of a multi manager approach is that experienced fund managers from around the world will manage the funds and they will be actively selected and monitored by us. This approach also means we can remain truly impartial, looking after your best interests at all times. For example, if a manager doesn't meet our expectations or we find someone better we will replace them with no disruption to you.

FURTHER QUESTIONS

Q17 How committed is Abbey to standing over contractual guarantees of policies invested in the With Profits Funds?

It is for SMI, not Abbey, to honour the contractual guarantees which are a feature of many With Profits policies. The company is required by the Irish Financial Services Regulatory Authority to reserve adequate funds to meet its obligations, including guarantees, to policyholders. The reason why SMI has adopted a conservative approach in terms of reducing the annual bonus rates is to ensure that the cost of guarantees does not become too great a burden on the Fund. At the same time, MVRs are particularly intended to protect the Fund against policyholders surrendering early and taking more than their fair share of the value of the Fund. The PPFMs referred to above set out in greater detail the companies' fund management strategies. We will look to ensure that the With Profits Funds are managed effectively and ensure that all contractual guarantees are met.

Q18 How will the guarantees be met if markets continue to perform badly?

Irish solvency regulations require SMI to reserve adequate funds to cover the product guarantees. In addition, many of the guarantees have been hedged thus reducing the burden on the Fund.

Q19 Are there any implications for policyholders taking regular or periodic withdrawals?

If you are taking regular or periodic withdrawals you may wish to discuss the impact of continuing to do so with your Independent Intermediary, as there is a stronger likelihood that your final cash in value will be less than your original investment. You should also note that any MVR free withdrawal allowance is also reduced in line with the bonus rate.

Q20 What happens if I've got more questions?

Please speak to your Independent Intermediary, alternatively call our helpline on +353 1 426 0809 any time between 9.00am and 5.00 pm Monday - Friday, or email us at info@smi.ie.

Future bonuses depend on future profits earned as well as other factors and cannot be guaranteed.

Past performance is not a guide to future performance.