

Scottish Provident Ireland – Intermediary Questions and Answers

30 March 2006

Bonus Declaration

1 What are the annual bonus rates for 2005 (Traditional With Profits) and for 2006 (Unitised With Profits)?

We have decided to maintain the zero bonus declaration for Scottish Provident Limited ('SPL') With Profits policies (issued before 1 August 2001), with the exception of our Pensions Unitised With Profits Fund – Series 1 – where a guarantee of 4% applies to units purchased before 1 October 1999.

We have also maintained an annual bonus of 2.25% for policies written after 1 August 2001, which are invested in Scottish Mutual International's With Profits Fund.

For SPL policies, the Unitised With Profits rates apply from 29 March 2006. The traditional rates apply yearly in arrears therefore the bonus year declaration is for 2005. The final bonus rates for SPL, some examples of which are set out below, are effective from 10 April 2006.

For policies invested in the SMI Fund, the rates have been effective since 1 March 2006.

2 What are the Final Bonus Changes?

Scottish Provident Limited

We have increased our final bonus rates on a wide range of policies and durations and in other cases have re-introduced them. For example:

- Final bonuses now apply to **all** durations of Scottish Provident life policies.
- SPL Traditional Regular Premium Pensions starting between 1998 and 2002 now get a final bonus (at March 2005 final bonus was nil). For those commencement years where a final bonus was already being paid, the rate has been increased. The range of final bonus (excluding 0%) is now 5% to 65% (at March 2005 it ranged from 2% to 57%).
- SPL Traditional Single Premium Pensions that started in 2002 or later now get a final bonus (at March 2005 final bonus was nil). For those commencement years where a final bonus was already being paid, the rates have mainly been increased. The range of final bonus (excluding 0%) is now 4% to 371% (at March 2005 it ranged from 6% to 160%).

- SPL UWP life and pension contracts all now receive a final bonus. The range is 5% to 59% (at March 2005 the range was 0% to 40%).
- SPL traditional endowments starting in 1997 or earlier have all received increases in the rate of final bonus in comparison to March 2005. The range of the final bonus is now 2% to 140% (at March 2005 ranged from 2% to 115%).

The new final bonus scales apply from 29 March 2006 for unitised contracts and from 10 April 2006 for traditional With Profit contracts.

Scottish Mutual International (SMI)

The following final bonus rates now apply for single premium investments:

- Units purchased between 1 August 2001 to 30 June 2002 - 0%
- Units purchased between 1 July 2002 to 31 December 2003 - 6%
- Units purchased between 1 January 2004 to present - 0%

For policies invested in the SMI With Profits Fund, the rates have been effective since 1 March 2006.

Full details of the final bonus scales applicable to all Scottish Provident products can be found at www.scotprov.ie. Final bonus may be varied or withdrawn at any time without notice.

3 What is likely to happen to bonus rates in the future?

This will depend on a number of factors, including the performance of equity and bond markets in the future. The majority of your clients receive an annual communication from us which will keep them updated on the performance of their policy. Now that we have removed MVRs, our strategy continues to be to improve final bonus rather than using annual bonus to provide policyholders with their share of our investment returns.

4 Why is it fairer to look at improving final bonus rates before applying an annual bonus?

Many policyholders have asset shares below their guaranteed values. This has happened because the stockmarket, as measured by the FTSE 100 index, lost about 50% of its value from the beginning of 2000 to March 2003. An annual bonus continued to be paid on the funds during this period in an attempt to 'smooth out' these losses. However, these consecutive years of losses had not been experienced since the 1940s and so was particularly unusual, resulting in the declaration of zero bonuses from 2003 onwards and the introduction of MVRs.

We are committed to paying contractual guaranteed benefits. Paying an annual bonus can disproportionately benefit those policyholders whose guaranteed benefits exceed the asset share, as opposed to those whose asset share exceed the guaranteed benefits. By paying a final bonus we do not increase the guaranteed benefits and so this will be fairest to all groups of policyholders.

5 Why have you taken the decision not to apply an annual bonus rate?

Paying annual bonus at this point could disproportionately benefit both maturing policyholders and policyholders with guarantees as opposed to policyholders who remain invested in the funds without guarantees. Our priority is always to protect the long-term interests of all investors in the With Profits funds and to treat them all fairly and by declaring no annual bonus we are doing this. This aims to ensure the long term stability of the funds.

6 What is likely to happen next?

We expect to continue with the policy of using any available investment return to increase final bonus rather than restarting annual bonus. It is currently not possible to prescribe when annual bonuses will be reintroduced, as it depends on investment returns in the future.

7 What are the new Market Value Reduction (MVR) rates?

For SPL, MVRs have been eliminated on all contracts since March 2005. For SMI we have now eliminated MVRs on all contracts.

With Profits Funds

8 What is the value of the SPL With Profits Fund now?

The Scottish Provident Fund is valued at GB£4.9 billion as at 31 December 2005.

The Scottish Mutual International With Profits Fund is valued at GB£0.9 billion as at 31 December 2005

9 What has the SPL With Profits Fund returned from 1 January 2005 to 31 December 2005?

The SPL Fund has returned 12.8% before tax and charges.

The SMI With Profits Fund has returned 13.2% before tax and charges.

10 How do you use these returns to the benefit of policyholders?

We use annual and final bonuses (and MVRs when in place) as the mechanisms to translate the above investment returns to the benefits of our investors.

When setting bonuses, we calculate an 'asset share'. This is an accumulation of premiums at the actual rate of return earned on the fund, after allowing for tax, charges and expenses. In a sense, this can be viewed as the investor's 'fair share' of the With Profits fund. This calculation is done for groups of policies rather than every single policy.

11 What has happened to the interest earned on policyholders' investments from January 2005 to December 2005?

The interest and dividends earned have remained in the funds and are contributing to improved terminal bonus scales.

12 How often do you review the position?

MVRs are now reviewed quarterly. Bonuses are reviewed at least twice a year.

13 What is the current asset allocation of the fund?

These splits represent the total with profits funds at 28 February 2006:

	Scottish Provident	Scottish Mutual International
Fixed Interest /Cash	49%	56%
Equity	37%	44%
Property	0%	0%
Other	14%	0%

14 What was the asset allocation of the fund 12 months ago?

These splits represent the total With Profits Funds at 24 February 2005:

	Scottish Provident	Scottish Mutual International
Fixed Interest /Cash	54%	60%
Equity	33%	40%
Property	13%	0%

15 What changes have you made last year to the asset split of the SPL Fund?

We continue with our prudent approach to asset allocation with a focus on achieving sustainable growth coupled with a sensible approach to risk. Whilst we have increased our equity rating in the SPL Fund we also disposed of our commercial property holding in what we viewed as an overvalued market.

16 What is the current equity backing ratio?

The current equity backing ratio is 37%. We believe this is a sensible position to achieve further growth while still adopting a prudent approach to risk.

17 What is the long-term plan for the With Profits Funds?

The funds are currently closed to new business and will be retained and managed by Abbey. The long-term plan is to share the available assets fairly amongst the existing policyholders.

How does this impact my clients?

18 What contracts are affected?

Any with profits contract which is branded 'Scottish Provident Ireland'.

19 How will these changes affect maturing policies?

Policyholders with a policy maturing in March 2006 qualify only for the existing rates and have already been advised in writing of the proceeds of their plan with the latest terminal bonus rates declared in 2005. All maturities from 10 April 2006 onwards will be based on the new final bonus rates.

20 What effect will the zero annual bonus rate have on bond clients taking income?

Policyholders who want to take income can do so, but might want to take advice, as this may erode their capital.

21 When will you be contacting my clients?

From late April 2006 we will be mailing your clients who have a Scottish Provident with profits contract. Copies of sample client letters will be available on the Scottish Provident Ireland website (www.scotprov.ie) in early April 2006.

22 What is the Customer Friendly PPFM which will be enclosed in the policyholder's mailing?

We are sending With Profit policyholders a copy of the new Customer Friendly Principles and Practices of Financial Management (CFPPFMs) appropriate to their fund. In September 2005, we wrote to all With Profits Policyholders, advising them of the changes to the Principles of the Scottish Provident Limited With Profits Fund which came into effect on 1 January 2006. This letter and attachments (copies available on our website: www.scotprov.ie) described changes to the manner in which we calculate surrender values. In this letter, we advised them we would be sending them a copy of the 'Customer Friendly Principle and Practices of Financial Management' of their appropriate With Profits Fund. We hope this document helps policyholders understand the principles of and the manner in which their With Profits Fund is run.

Next Steps

23 I would like a copy of Principles and Practice of Financial Management (PPFM)

Please e-mail us at info@scotprov.ie, or visit our website at www.scotprov.ie

24 What happens if I have more questions?

Visit our website on www.scotprov.ie, e-mail us at info@scotprov.ie

or contact our Helpdesk on 1890 331 331