

# Investment Report 2006 for the Classic Executive Retirement Plan

The Trustees have invested the occupational pension scheme's contributions into a policy with Scottish Provident Ireland. Scottish Provident Ireland is the trading name of Scottish Provident Limited in the Republic of Ireland, which incorporates the business of the Scottish Provident Institution since 1 August 2001. The policy is the Classic Executive Retirement Plan which is a traditional with-profits policy.

The Classic Executive Retirement Plan provides each member with a guaranteed minimum level of pension at their Normal Retirement Age. The guaranteed pension is determined by the amount of contributions payable, the member's age, the member's sex and the member's Normal Retirement Age.

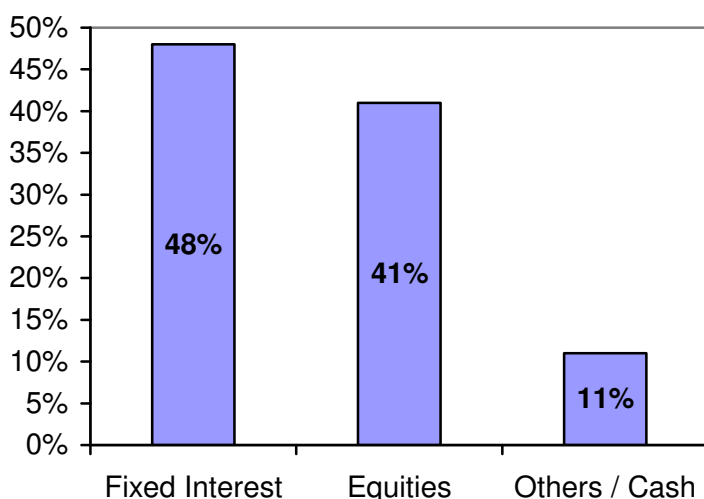
Scottish Provident Ireland's with-profits fund which is part of the with-profits fund of Scottish Provident, known as the SPI Fund, is closed to new business but continues to accept certain incremental investments from occupational pension schemes with existing investments in the SPI Fund.

## The Investment of the SPI Fund

The investment approach of the SPI Fund is to maximise investment growth in the long term at an acceptable level of risk.

The SPI Fund is invested in a range of assets including equities, cash and fixed interest. Total assets in the Irish portion of the SPI fund at 31 December 2006 amounted to €1,191m and the asset mix is shown below.

### SPI Fund Asset split as at 31 December 2006



# Investment Report 2006 for the Classic Executive Retirement Plan

## Changes to the investments over 2006

The investment mix in the fund, excluding the 'fund protection assets', changed over the year as follows:

	Percentage at start of 2006	Percentage at end of 2006	Indicative range
Fixed Interest	49%	48%	35% to 55%
Equities (Euro & Non-Euro)	37%	41%	25% to 45%
Property	0%	0%	0% to 15%
Other (mainly cash)	14%	11%	5% to 20%
	100%	100%	

The SPI Fund's protection assets were put in place in 2004 to protect the fund against a substantial fall in markets. These assets are monitored on a regular basis.

Equities are invested in tracker funds which track the major UK, European and US indices. In this way we reduce risk by achieving a good spread of equity investments both within and across regional markets. Similarly, fixed interest investments are well spread across a range of government and corporate bonds. Fund performance from year to year depends on the performance of the equity and bond markets the fund is invested in.

## Fund performance

For 2006 the gross investment return was 6.3% in the Ireland part of the SPI Fund. The balance of the investment return not required to meet guaranteed benefits is available to increase the surplus in the fund.

Conventional with-profits policyholders are eligible to receive 90% of future surpluses distributed from the SPI Fund. These may be paid in the form of an annual bonus which increases the guaranteed benefit under the policy. An annual bonus cannot be removed once it has been added to a policy provided the policy is maintained to maturity. Part of the surplus may also be paid as terminal bonus at retirement. The amount of terminal bonus is dependent upon investment conditions at retirement.

The amount of bonus to be added is determined by the SPI Fund's Independent Supervisory Committee, having regard to the recommendations of the SPI Fund's With-Profits Actuary. The aim is to declare bonuses fairly amongst all holders of with-profit policies in a manner which provides relatively smooth returns compared to direct investment in equity markets. The Committee are of the view that it would be imprudent to increase the guaranteed benefits in the fund and consequently a zero annual bonus was declared for 2006.

The compound effect of annual and terminal bonuses on Classic Executive Retirement Plan policies which matured in 2006 based on a male retiring at age 65, investing €150 per month over the durations illustrated net of all charges, are as follows:

Policy term:	20 years	10 years
Policy return(p.a.):	8.8%	1.7%