

Your Questions Answered

BONUS DECLARATION

Q1 What are the annual bonus rates for 2005?

We have decided to maintain the 0% bonus for the SMI With Profits Series 1 Fund (which is reassured into the Scottish Mutual Assurance With Profits Fund). 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 2005.

Q2 Why have you taken the decision not to increase bonus rates?

This is because the recent stock market recovery has not been enough to make up both the shortfall from previous years and the element of smoothing that was applied over this period to allow for any bonus to be paid. Our priority is always to protect the long term interests of all investors in the With Profits funds and by declaring no or low annual bonus rates at the current time we are doing this. Paying annual bonus on the Series 1 Fund could, at this point, disproportionately benefit policyholders with guarantees dependant on accumulated bonus as opposed to policyholders who remain invested in the funds without such guarantees, or where the guarantees are based on minimum percentage return.

Q3 Why are you paying a bonus on the SMI Dublin With Profits Fund and not on the Series 1 Fund?

The SMA With Profits Fund, into which the Series 1 Fund is invested, has been running for decades and contains a large number of policies with guarantees dependant upon accumulated bonuses. These guarantees, in current market conditions (gradual recovery after a sustained low) have an inevitable impact on bonus rates. The SMI policies reassured into this fund are similar in that the majority of them have MVR free guarantees which become more valuable as annual bonuses are added. The Dublin Fund on the other hand has been in existence for a shorter length of time and does not have to support the same type of guarantees as the SMA With Profits Fund. It has accordingly been felt appropriate to retain bonus rates on this Fund.

Q4 What are the Terminal Bonus changes?

No terminal bonuses are appropriate for any policies, in any of the SMI With Profits series.

Q5 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. Our strategy continues to be to improve MVRs and reintroduce terminal bonus before declaring or increasing annual bonuses.

Q6 Have your Market Value Reduction (MVR) rates been reviewed?

Since July 2004 we have reviewed MVRs on three separate occasions, which has resulted in improvements in MVR rates for the majority of policyholders. 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 the period.

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

Q7 Why do you apply MVRs?

MVRs are applied to make sure that those who cash in don't receive more than their fair share of the With Profits fund. This makes sure that those policyholders who remain in the fund aren't disadvantaged by people cashing in early.

The level of MVR depends on:

- How long the customer has been invested in the fund
- What the investment market conditions have been like over that time
- What bonuses have been declared
- The actual return on the fund
- The benefits payable under the customers policy

WITH PROFITS FUNDS

Q8 What is the value of each With Profits fund now?

The Scottish Mutual Assurance Fund is valued at £8.4 billion as at 31/12/2004 while the SMI Dublin With Profits Fund is valued at £1.0 billion as at 31/12/2004.

Q9 What have your With Profits funds returned from 1 January 2004 to 31 December 2004?

Details of the funds' performance and bonus history from January 2000 to December 2004 will be available shortly on our website (www.smi.ie) - however the returns for 2004 are as below:

SMI Series 1 With Profits Fund	SMI Dublin With Profits Fund
£: 10%	£: 7%
€: 10%	€: 6%
\$: 7%	\$: 7%
	HK\$: 8%

Q10 Your funds had positive returns last year - why are you not paying a bonus on both?

Our priority is always to protect the long-term interests of all investors in the fund. The positive return last year has been insufficient to offset the negative or very low returns earned in previous years. Policyholders leaving the fund will receive their fair share of returns through improved MVRs or the reintroduction of terminal bonus.

Q11 What has happened to the interest earned on policyholders investments from April 2004 to March 2005?

The interest and dividends earned (after tax and charges) have remained in the fund and are contributing to lower MVRs and will contribute to future policyholder payments.

Q12 Given you have not paid any return on policyholders money in the SMI With Profits Series I Fund in the last 3 years, how can you still justify large MVRs on surrender?

The large surrender MVRs are as a result of the losses incurred in the years from 2000 to 2003. With improving conditions we are now reducing MVRs, but are not yet able to reduce or remove all of them. If we were to pay more on surrender than has been earned it would adversely affect returns for those policyholders who do not exit.

Q13 Are you still taking your charges?

Any bonuses on the With Profit Series 1 Fund are declared net of charges; the charges which cover administration of the fund remain unchanged. The charges on the SMI Dublin With Profits Fund are related to the bonus rate and have therefore reduced in line with the reductions in bonus declared in recent years.

Q14 Why can't Santander inject some capital into the fund and share some of the profits with policyholders?

Abbey did inject capital into the SMI Series 1 Fund as part of the review in July 2004. Santander believes Abbey made a fair settlement and has no plans to alter the terms of that settlement. Abbey has also made more capital available for the SMI Dublin With Profits Fund as referred to in Abbeyes annual statement. This was part of the restructure of this fund along similar lines to the review of the Series 1 in July 2004.

Q15 What is the current asset allocation of each fund?

These approximate splits represent the total With Profits Funds at 28 February 2005:

SMI Series 1 With Profits Fund	SMI Dublin With Profits Fund
Equity 32%	Equity 40%
Property 9%	Property 0%
Fixed Interest/Cash 59%	Fixed Interest/ Cash 60%

Q16 What was the asset allocation of the fund 12 months ago?

These approximate splits represent the total With Profits Funds as at 28 February 2004:

SMI Series 1 With Profits Fund	SMI Dublin With Profits Fund
Equity 28%	Equity 32%
Property 8%	Property 0%
Fixed Interest/Cash 64%	Fixed Interest/ Cash 68%

Q17 With the current low equity backing ratio, how do you expect the fund to perform?

As you can see from above, we have increased the equity backing ratio in the last twelve months. The equity target remains 40% (including property for the sterling sub-fund of the SMI Series 1), the aim being to maintain low risk and achieve the long-term aim of the fund, which is to produce steady returns. A higher equity content would also expose the fund to higher risk, and we have struck a balance on our assessment of the funds' capacity to bear this potential risk.

Q18 What is the long-term plan for the With Profits funds?

The funds are currently closed to new business. The long-term plan is to share the available assets fairly amongst the existing policyholders.

Q19 How often do you review the position?

MVRs are reviewed monthly with changes normally applying every 2 to 3 months if the change is sufficient to move MVRs. MVRs may be reviewed more frequently in line with market fluctuations. Bonuses are reviewed at least twice a year.

HOW DOES THIS IMPACT MY CLIENTS

Q20 What contracts are affected by the nil annual bonus rate?

Any contracts invested in the SMI With Profits Series 1 Fund:

- International With Profit Investment Bond (Channel Islands, Belgium & Spain)
- International With Profit Redemption Bond
- SMI VIP Plan (Greece)
- SMI VIP Plan (Germany)
- SMI VIP Plan (Austria)

Contracts investing in the SMI Dublin With Profits Fund include the Guaranteed With Profits Bond (and Controlled Capital Plan) and policyholders invested in the SMI Dublin With Profits Fund via a fund-link continue to receive an annual bonus rate of either 2.5% or 2% as outlined above.

Q21 What effect will the zero annual bonus rate on the Series 1 Fund have on bond clients taking withdrawals?

Policyholders who want to take withdrawals can do so but should take your advice as this will erode their capital and an MVR is likely to be applied on any amount taken as withdrawal.

Q22 What about contracts invested in the SMI Dublin With Profits Fund where withdrawals are being taken?

That will depend on the type of contract and the product terms and conditions. For example, MVRs 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 2005.

Q23 When will you be contacting my clients?

From April 2005 we will be mailing your clients who are invested in the SMI With Profits funds with details of the Bonus Declaration.

NEXT STEPS

Q24 I would like a copy of Principles and Practices of Financial Management (PPFM)

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.

Q25 Who should I contact if I have further queries?

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