Various changes will be made to help make the PPFM clearer and easier to understand, including:

- changes in the way things are explained (for example, a fuller explanation of certain calculations);
- changes in some of the terminology used and the addition of a glossary of defined words and phrases;
- re-organisation to the layout and positioning of certain paragraphs for reasons of clarity; and
- the inclusion of a contents page.

4. How can I find out more?

You can visit our website:
scotprov.co.uk/withprofitsupdate.html

You can write to us at:
Scottish Provident Limited,
301 St Vincent Street,
Glasgow,
G2 5HN

5. Important information

This update is intended only to pass on information and should not be read as a recommendation to take any action with regard to a policy. The update is a summary and is not exhaustive. More information is available as outlined above. In particular, policyholders should see the PPFM for further details. If you want to take any action about your policy we recommend that you seek independent financial advice before acting.

None of the contents of this update forms part of, or varies, any policy terms and conditions.

SCMV0023 SEP 05

Scottish Provident Limited is owned by Abbey National plc.

Registered Office:

Abbey National House, 301 St Vincent Street, Glasgow G2 5HN, United Kingdom. Telephone 0141 248 6321. Registered in Scotland no. 133846.

Update: what's new?

Changes to our Principles and Practices of Financial Management

SCOTTISH PROVIDENT

C C H M : P I N G A R T W O R K M E D I A I N F O R M A T I O N

CLIENT >	Abbey	DATE >	06.09.06	COLOURS >BLACK + P281	
CCHM JOB NO >	AY0003	FINISHED SIZE >	A5	PROOF NO 1 ISDN	
FILE NAME >	AY0003 A5 SPL Special Fund Insert	OPERATOR >	Rob		

1. Summary

This update is for policyholders in the SPI Fund (the "Fund") of Scottish Provident Limited. Scottish Provident Limited is a wholly owned subsidiary of Abbey National plc ("Abbey").

As you may recall, we aim to operate the Fund and your policy in accordance with certain Principles and Practices of Financial Management ("PPFM").

This update is to inform you of changes to the PPFM. You do not need to take any action. A copy of our current PPFM is available free of charge, on request from the With Profits Actuary's Department, Abbey National House, 301 St Vincent Street, Glasgow, G2 5HN or on our website.

Policies within the Fund can be split into two broad categories: unitised policies and conventional policies. Some of the changes affect conventional policies more directly than unitised policies. If you do not know which category of policy you have, check your annual statement. If it refers to the number of 'units' in your policy, your policy is unitised. If it does not, you have a conventional policy.

This update refers to changes in very general terms only. Some of the changes may not be applicable to your particular policy. For further information about how we aim to manage your policy, please refer to the PPFM.

2. Changes in practices effective from 30 June 2005

We updated our PPFM on 30 June of this year to reflect the new requirements of our regulator, the Financial Services Authority ("FSA"). The changes, which are summarised below, were fairly minor and only practices (not principles) were altered:

- We added a list of the factors that are likely to be relevant when we are considering setting aside reserves within the Fund to cover matters relevant to your interests and security.
- We have made various amendments to our practices relating to market value reductions ("MVRs"). MVRs are the amount by which the value of the units attached to a unitised policy may be reduced if it is surrendered (cashed in) early. We have included in our practices that MVRs may be applied when there has been, or is expected to be, a high volume of surrenders in relation to the liquidity of the fund. We have deleted our practice of not (in general) imposing small MVRs of less than 5%.

In addition to these changes, we have made a small number of amendments designed to clarify the text of our PPFM (but without changing the underlying practices). We have added some points of information to the practices. For example, we have noted that we have not adopted any particular limit for the size of change in maturity payouts under similar policies from one period to another; we have also noted that Abbey has put in place a £125 million financial support arrangement (for more information on this see the Report to Policyholders for 2004). We have revised some of the technical terms used and also removed or updated references to obsolete legislation and terminology.

3. Changes effective from 31 December 2005 (including changes to principles)

Additional FSA requirements come into force at the end of the year and we intend to make further changes to our PPFM as a result of these.

3.1 Specimen asset share

In order to calculate payouts on many policies, we first calculate the fair share of assets for a specimen policy that has the same material characteristics as policies in your group: this gives us what is known as a specimen asset share. This method is already in use and is referred to in our current PPFM, but we will expand the explanation and revise the terminology.

The PPFM will be amended, as appropriate, to reinforce the importance of specimen asset share as the primary factor in determining any payout that is in addition to any guaranteed amount (for many types of policy).

3.2 New method for valuing conventional policies surrendered early

Specimen asset share is already the primary basis for determining the value of most, but not all, policies that are being surrendered (cashed in) early (i.e. before the maturity date of the policy). We will make changes to the PPFM as appropriate to clarify this. The principles will no longer state that surrenders may be treated less favourably than maturity or death claims. We will make various other changes to principles and practices to clarify how surrender values are calculated.

Following this change, surrender values of conventional policies will be more closely aligned with the fair value of the underlying assets in the Fund. It does not follow from this that all surrender values will change. Some surrender values, particularly those that reflect some of the value of a guarantee of a minimum payment (which might exceed asset share) at maturity, may go down. Some others may increase. There may also be deductions that can be made from surrender values that do not apply in the case of maturity payments (for example, to reflect the additional expenses of processing the surrender). Any guarantee will, of course, still have its full value at maturity.

3.3 New target payout ranges

The new PPFM will contain target ranges for payouts on policies on maturity or early surrender, which will be expressed as percentages of specimen asset share. A target range is not the same as a guarantee, but we will aim to manage the business so that at least 90% of payouts on policies fall within the appropriate target range. The PPFM will be amended to accommodate the new target ranges. The target ranges may differ between different types of policy. Over time, we aim to pay out all the assets in the Fund. Target ranges may not apply to every policy

3.4 Additional changes to the principles

We will make various changes to clarify the way certain principles are recorded in the PPFM, without fundamentally changing their effect so far as your policy is concerned.

- We will make amendments to principles to reflect that, from 31 December 2005, we will be most likely to allocate any surplus in the Fund by building it into specimen asset share calculations, rather than by directly adjusting payouts. The net effect on payouts will be broadly the same.
- The paragraphs in the PPFM dealing with the classification of policies currently appear in bold type, but are not intended to be principles. We will remove the bold typeface to clarify this.

3.5 Additional changes to practices

In addition to the changes to principles noted above, we will also be making a number of changes to our practices, again with effect from 31 December 2005.

Practices relating to the calculation of MVRs will be altered: MVR scales will no longer be set with the aim of showing bias towards longer term policies.