

Saunderson House Limited

Crystallisation of Terminal Bonuses

in Standard Life's With Profits Pension Fund

The factors suggesting that there is now an increased risk of terminal bonuses being reduced are as follows:

1. Standard Life's free assets have fallen from £8.5bn to £3.3bn in the 12 months to 15 November 2001, largely due to a 10% fall in With Profits fund assets caused by the decline in stockmarkets.
2. Since Standard Life's year end, we estimate there to have been a further decline of some 6% in the With Profits fund value, which may have caused free assets to fall by a further £2.4bn, to £0.9 bn.
3. Standard Life is virtually alone in not having made any significant cuts in terminal bonuses despite falling stockmarkets. There is a clear opportunity to exit the With Profits fund at a price we believe to be above "asset share".
4. Standard Life is currently placing £1bn of subordinated debt to provide a capital injection to the With Profits fund. This can provide an immediate benefit to the free asset ratio but at the expense of future surpluses within the fund, which may reduce terminal bonuses in future.
5. The main concern of those who have not yet crystallised terminal bonuses has been a possible reduction in prospective demutualisation bonuses. Demutualisation has been made more difficult by the recent changes to Standard Life's articles and the Company has re-affirmed its commitment to mutuality.

Our October 2001 note describes how terminal bonuses can be crystallised whilst retaining membership rights, although not necessarily at the same level as prior to any transfer of funds.

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