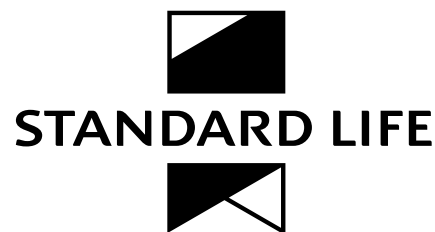


The Mortgage Endowment Promise



MORTGAGE ENDOWMENTS

The Standard Life Mortgage Endowment Promise was made in response to concerns about mortgage endowments and their ability to repay their associated loans.

In 2000, it became clear to us that endowment reviews were causing concern for both IFAs and policyholders. We listened carefully to the concerns and felt it was appropriate to do what we could to provide some reassurance to policyholders. On 28th September 2000, we made the Endowment Promise.

The Standard Life Mortgage Endowment Promise

Between October 2000 and March 2001, we carried out reviews of all mortgage endowments. All policies invested in the Managed and/or with profits funds, which at that time required a rate of return greater than 6% p.a. to reach the target amount, qualified for a top-up under the Promise. These are commonly known as "amber" or "red" reviews. Any policy which required a rate of return of 6% p.a. or less ("green" reviews) did not qualify for a top-up.

The Promise gave qualifying cases the possibility of an additional payment from Standard Life to help meet their targeted maturity values, or to help reduce their shortfall at maturity.

The maximum amount of the additional payment is the difference between the targeted amount and the projected value of the plan on the first review after September 2000, assuming 6% annual growth. This is demonstrated in the examples shown on page 2.

As a result of the Endowment Promise, all eligible policies were then "on target" at 6% p.a., at the time of the first review after September 2000.

The Promise is subject to the growth in Standard Life's capital being enough to allow us to set aside regular provisions to meet any possible shortfalls. Standard Life is financially strong and the Company is confident that future investment earnings will be sufficient to provide some support.

Policies not eligible for an Endowment Promise top-up

Policies which were already "green" at the time of their first review after September 2000, and so not eligible for a top-up, do not become eligible at any time in the future, even if they subsequently require a rate of return higher than 6% p.a.

The following examples illustrate how the Promise works:

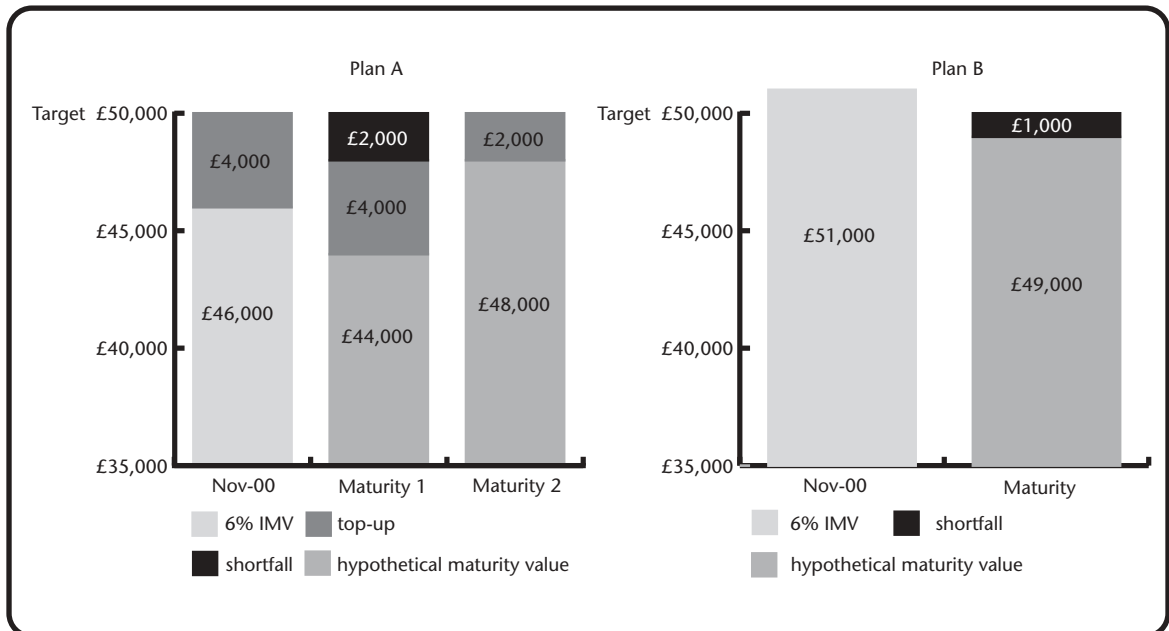
Plan A: Target amount £50,000

The first review after 28 September 2000 was in November 2000. At that time, the Projected Maturity Value at 6% p.a. was £46,000. Therefore, if the average growth rate from November 2000 to maturity was 6% p.a., the plan would need an additional £4,000 to meet the target amount. The maximum top-up amount under the Promise is £4,000 if all conditions of the Promise are met. This is illustrated in the diagram below.

Maturity

If at maturity, the average growth rate has been 6% p.a. or less since November 2000, we would top-up the policy by £4,000, if all Promise conditions are met. For example, if the maturity value (before top-up) was £44,000, the total maturity value would be £48,000 (£44,000 + £4,000). Plan A would therefore have a £2,000 shortfall (see Maturity 1).

If the average growth rate has been more than 6% p.a. then the maximum top-up would not be paid. If, for example, the policy matured with a value of £48,000, the most we would top it up by would be £2,000 to meet the targeted amount (see Maturity 2). If the maturity value was greater than £50,000, no top-up is necessary and no top-up would be made.



Plan B: Target amount £50,000

The first review after 28 September 2000 was in November 2000. At that time, the Projected Maturity Value at 6% p.a. was £51,000. As the Projected Maturity Value was above the target amount, Plan B is not eligible for a top-up.

Maturity

If at maturity, the average growth rate has been less than 6% p.a. since November 2000 and the maturity value is say, £49,000, Plan B would have a £1,000 shortfall. No top-up is made.

This example and the Plan A, Maturity 1 example illustrate how an average growth rate of less than 6% p.a. affects all contracts – whether they are eligible for a top-up or not.

Notes

The above scenarios are provided simply to explain how the Promise works. They are not intended to illustrate the projected value of any specific plan or to provide an indication of possible shortfalls, or surpluses. How the Promise works depends on the specific circumstances of each plan.

Eligibility

Contracts covered by our Promise

- Minimum Cost (MC) Plan – including MC100; Standing Loan (SL) Plan; Low Cost (LC) Plan
- Homeplan
- Versatile Investment Plans (VIPs) marketed and sold as mortgage endowments between 1 July 1989 and 16 October 1991.

NB: The Promise does not apply to Pension or PEP mortgages.

Terms and Conditions for the Promise to apply

The following conditions must be met for the Promise to apply:

- all premiums must be paid in full up until the maturity date of the plan
- for Homeplan and mortgage-related VIPs, the existing funds as well as future premiums must be invested ONLY in With Profits or Managed Funds (or a mixture of both).

Where the Promise does not apply

The Promise does not apply if any of the following have taken place between 28th September 2000 and the maturity of the plan:

- the premium amount is reduced (except where the policy is altered from joint life to single life)
- the plan term is altered
- the plan is partially or fully surrendered or made paid-up (including where the Early Maturity Option is exercised)
- the plan is absolutely assigned to a third party (except in the case of divorce) eg sold as a traded endowment policy.

If, between October 2000 and March 2001, when we carried out the reviews, the plan was then on target at 6% p.a., it does not qualify for a top-up at any time, even if the required rate of return in the future becomes greater than 6% p.a.

Questions and Answers

1. How does the February 2003 bonus declaration affect the Endowment Promise?

- The amount promised varies from policy to policy. The terms of the Promise are unaffected by these changes.
- Some policies maturing in the near future will not have earned 6% a year since the Promise was made. It is currently our intention that these policies will receive the maximum top-up that they were informed of. However, despite the top-up, they may not meet their target amounts.
- The Promise is subject to the future growth in Standard Life's capital being enough to allow us to set aside regular provisions to meet any possible shortfalls. The top-up provided by the Promise may be reduced or may not apply if the growth in capital is not sufficient.

2. Some of my clients' policies were off target in October 2000 and they are eligible for a top-up. How can you say it is fair that my clients who were on target in October 2000 will receive nothing even though they are now off target?

- The Promise was made on 28th September 2000 and at that time put all mortgage endowment policies in a similar position with regard to their ability to reach their target amount. Those not receiving a top-up did not need one at that time. It is not a case of us being unfair to them.

3. When you launched the Promise you said it would cost close to nothing if annual returns on the fund were 8% and with 6% returns a very small percentage of the fund would have to be set aside each year. Given that the returns on the fund since the Promise was launched have been much less than this, surely the cost of the Promise is now very significant. Does this not impact the financial strength of the company?

- When we made the Promise we made it clear that it was conditional. The Promise is subject to the future growth in Standard Life's capital being enough to allow us to set aside regular provisions to meet any possible shortfalls. The top-up provided by the Promise may be reduced or may not apply if the growth in capital is not sufficient.

4. Do you still expect to achieve future growth of 6% p.a.?

- It is still our view that, for most customers, this is a reasonable long-term rate to use in financial planning.

Help available from Standard Life

Your clients may have questions about their plan and about Standard Life. Technical help about the plan review, the Promise or any other feature of the plan is always available through your usual Standard Life contact.

The Standard Life Assurance Company* is a mutual company registered in Scotland (no SZ4) Head Office Standard Life House 30 Lothian Road Edinburgh EH1 2DH Tel (0131) 225 2552 *Standard Life may record and monitor telephone calls to help improve customer service.*

The Standard Life group includes Standard Life Pension Funds Limited* SLTM Limited* Standard Life Investments (Mutual Funds) Limited*

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