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Changes to financial adjustments

While again confirming we are solvent, we are writing to you outlining some very regrettable but necessary increases of around six per cent in the financial adjustment made to the value of policies at surrender or maturity.

The impact of these changes is that from and including 1 July, UK pension policies' surrender values will be reduced by 20 per cent (previously 14 per cent), and maturity values by 10 per cent (previously four per cent). The maturity value reduction for UK life assurance policies will be nine per cent. However, the maturity value of a policy will not be lower than its guaranteed value. Policyholders whose completed documentation for surrenders or maturities has already been received by the Society before 1 July 2002 will have the previous surrender or maturity values applied. (Please note that in order to obtain a maturity value at the previous rate the policy maturity date must be before 1 July 2002.)

We take no pleasure in making these changes, and know they are unwelcome to those deciding to leave the with-profits fund. They are, however, unavoidable. We must prevent over-payment to policyholders who leave, as any shortfall will otherwise fall upon those who remain.

In setting the level of the adjustments we had to take account of a number of factors.

Prudent reserves for likely increased costs

Given that we now have a smaller fund, it is particularly important for us to be prudent in relation to the potential future costs the Society may face from claims and higher than expected levels of administrative expenses demanded by the Society's current activities, and the very high level of policyholder enquiries.

We continue to examine the likely level of these costs in preparing the half-year financial results, which will be sent to policyholders in the autumn. Meanwhile, it is essential that those who leave pay their fair share of these anticipated costs, so not leaving a disproportionate burden for those who remain.

Declines and continuing uncertainty in equity values

Since the start of this year, we have continued to reduce our exposure to equities from 29 per cent to 15 per cent, despite the difficult market conditions. Although we have been successful in reducing the fund's exposure to equity investments to a lower level than many other providers, the value of the fund has inevitably been reduced by the very significant declines in the value of equities during this period.

The recent financial scandals in the US have significantly impacted the markets and the FTSE 100 index, the principal measure of major UK share values, has fallen by 11 per cent since our letter to you dated 15 April. There is continued market uncertainty and many commentators are predicting further volatility in share values.

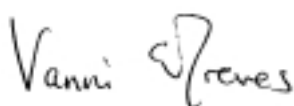
With the reduced level of equities, the majority of the fund's assets are now in more secure fixed interest investments. This reduces the volatility of the fund and strengthens the Society's solvency.

Summary

Given the complex issues your Society continues to face at this time, there is uncertainty regarding costs and a weakened fund as a result of turbulent share values. The setting of the financial adjustments is a result of these factors. Other providers have also had to reduce the amounts that they pay out to protect themselves in the current investment climate.

These are difficult and demanding times for all involved in the provision of pensions and other investments. Policyholders will understand that the Board must take the necessary decisions, however tough, needed to continue to secure the financial stability and solvency of the Society.

Yours sincerely



Vanni Treves
Chairman



Charles Thomson
Chief Executive