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Resolution Opens “Window” On R&SA Bonds

Customer-friendly Approach To With-Profits Bond 10th Anniversary Guarantees

Resolution, the consolidator of closed life funds, has announced its intention to give its recently acquired R&SA customers holding bonds invested in its with-profits funds (“R&SA Bonds”), transparency and flexibility in exercising their 10-year guarantees. This will include a three-month window after the spot guarantee date during which the guarantee will continue to apply to encashments. This announcement comes some 6 weeks after acquiring R&SA’s UK life business and is an early indication of Resolution’s approach to treating customers fairly.

Today’s decision means that:

- ❑ All holders of R&SA Bonds will receive specific reminders of the guarantee on their policies in each annual mailing as well as much more information about their policy, starting immediately and continuing with 2005 mailings.
- ❑ The value of the guarantee will be made progressively available during the 10th year; and
- ❑ Customers will have an extended 3-month window after the guarantee date during which to surrender their policy and benefit from the guarantee.

This affects up to 80,000 customers holding R&SA Bonds on which guarantees apply from 2006 and onwards.

With Profits Bonds

With Profits Bonds were one of the most popular savings products in the 1990s, many providing valuable guarantees. To ensure that life funds were not damaged by an excessive number of early exits in the event that inadequate profits were earned to cover the cost of these guarantees, the facility to impose market value reductions (MVRs) was built into the products. Many of these bonds were marketed with the option to exercise the guarantee **without** an MVR, at the 10th anniversary.

Guarantees on With Profits Bonds

If strictly applied, the guarantee on many With-Profits Bonds only applies to withdrawals made on the date of the 10th policy anniversary and is immediately lost thereafter. If information about the guarantee is not supplied at the right time, it will be left to the customer to remember to surrender his investment on the correct date, potentially resulting in the benefit of a valuable guarantee being lost, to the detriment of the customer’s interests.

The Resolution Approach to R&SA Bonds

Starting immediately, all customers holding R&SA Bonds will receive reminders of the guarantee on their policy in their annual mailing. Resolution is also providing tables from which policyholders can find the current MVRs or terminal bonuses which apply to their policies, the current mix of assets underlying their policies and the guaranteed minimum future annual return implied by the size of their guarantees, relative to their surrender values today.

This will provide customers with the information they need to decide whether to keep their policies in force until the guarantee date.

Guarantees will also be phased in during the 10th year of the policy to allow flexibility for policyholders who wish to encash their policies before the 10th anniversary. Flexibility will be further increased by the decision to allow a 'window' of three months following the 10th anniversary during which the guarantee will continue to apply to all encashment requests.

Resolution believes that this combination of improved policyholder communications and a flexible approach to the application of guarantees should ensure customers have ample time to make the decision as to whether to encash their R&SA Bonds and benefit from the valuable guarantees these policies provide.

Clive Cowdery, Chief Executive Officer of Resolution, said: "Resolution is founded on the belief that customers in closed life funds, deserve at least the level of information and flexibility available to policyholders within life funds which are continuing to accept new business."

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Notes to the Editor

About Resolution

Resolution was formed to buy and run off closed UK life funds and represents an injection of new capital into the financial sector. Acting as an industry utility, Resolution aims to offer a private sector response to the growing number of closed life funds, balancing the needs of: current owners of closed funds, who wish to release capital for their core businesses; policyholders, who want stability and guidance over policy options; investors, seeking a stable long-term return as the funds mature. Resolution intends to make further acquisitions and expects to seek a public listing to fund growth in the medium term. Resolution is backed by institutional investors, including pension funds, life assurance funds, and investment trusts and

funds. This group has a long-term approach, which is suited to an orderly run-off of closed books.

Market Background

The life insurance industry expanded rapidly during the 1970s and 1980s, driven by rising equity markets and government encouragement of private pension and savings provision. In the late 1990s, equity market volatility and regulatory developments put pressure on the sector's profitability, and a large number of industry players stopped writing new business.

Despite the fact these companies are closed to new business, they will take decades to run off as the underlying policies mature or lapse, requiring significant continued operational and financial management. These closed life insurance companies are often not core to their current owners, many of which are therefore investigating their disposal. Resolution estimates that more than 20 life companies will be closed by 2005 and that many will be sold over the next three years. Resolution estimates that these companies comprise a total of more than £150 billion in assets, freezing in excess of £15 billion of financial sector capital.