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RESOLUTION'S PRO-FORMA EMBEDDED VALUE CONFIRMED AT £947M AT 31 DECEMBER 2004

Following the completion of its acquisition of Swiss Life (UK) Group plc ("Swiss Life UK"), Resolution Life Group ("Resolution"), the holding group for the largest consolidator of closed UK life insurance funds announces its pro-forma embedded value as at 31 December 2004.

The pro-forma embedded value of Resolution as at 31 December 2004 was £947m after allowing for the £550m of external debt and £100m of Resolution preference shares held by Royal & Sun Alliance Insurance Group plc ("RSA"). The calculation of the embedded value has been reviewed by the Tillinghast business of Towers Perrin ("Tillinghast"). A detailed breakdown of the embedded value and the assumptions underlying it is set out in the appendix.

Clive Cowdery, CEO of Resolution, said "Since its formation, Resolution has met its core objectives of delivering attractive solutions to vendors of closed life insurance funds, of protecting and enhancing the position of policyholders in its underlying life insurance companies, and of delivering value for its shareholders.

The embedded value reflects the cost of Resolution's customer initiatives, including its customer-friendly approach to With-Profits Bond 10th anniversary guarantees and contracting policyholders back into the Second State Pension.

Resolution's shareholders have benefited from the operating and financial synergies arising from the combination of the business it initially acquired from RSA with that of Swiss Life UK and the 2004 pro-forma embedded value of £947m demonstrates the significant value that has been created for Resolution's backers, who have invested £480m of ordinary equity in the company since its formation in 2004".

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Notes to Editors

Pro-forma calculation of embedded value

The acquisition of Swiss Life UK did not complete until 31 March 2005, but the risk and economic benefit in respect of the Swiss Life UK business transferred to Resolution before the end of 2004. The embedded value has therefore been calculated on a pro-forma basis as if the Swiss Life UK acquisition had completed on 31 December 2004.

Background on Resolution

Resolution was formed in 2004 for the sole purpose of buying and running closed UK life insurance funds. Acting as an industry utility, Resolution aims to offer a market-based solution to the uncertainties facing savers in closed life insurance funds, based on aligning the interests of savers, owners of closed funds and long-term investors. It is backed by institutional investors who have a long-term investment approach, which is suited to an orderly run-off of closed life insurance books. There are some 20 closed UK life insurance funds with assets in excess of £150 billion and Resolution is currently analysing further acquisition opportunities from amongst these funds.

Resolution's Board members are:

- Sir Brian Williamson, Chairman
- Sir David Cooksey, Non-executive Director
- David Woods, Non-executive Director
- Derek Scott, Non-executive Director
- Clive Cowdery, Chief Executive Officer
- Mike Biggs, Chief Financial Officer
- Ian Maidens, Group Chief Actuary
- Brendan Meehan, Chief Operating Officer

APPENDIX – RESOLUTION LIFE GROUP LIMITED

DETAILED ANALYSIS OF EMBEDDED VALUE ON A PRO-FORMA BASIS AS AT 31 DECEMBER 2004

1. Components of embedded value at 31 December 2004 (£m)

	Net Worth £m	Value of In Force Business £m	Cost of Capital £m	Total Embedded Value £m
Life Companies				
Phoenix Life & Pensions Ltd ("PLP")	49	143	-2	190
Phoenix & London Assurance Ltd ("PALAL")	238	49	-75	212
Royal & Sun Alliance Linked Insurances Ltd ("RSALI")	6	145	-10	141
Phoenix Assurance Ltd ("Phoenix")	309	183	-12	480
Bradford Insurance Ltd ("Bradford")	11	-	-	11
Swiss Life (UK) plc ("Swiss Life UK")	187	110	-11	286
Total Life Company Embedded Value	799	630	-110	1,320
Holding Companies				
Total Holding Companies	277	0	0	277
Total Gross Embedded Value of Resolution (excl debt)	1,076	630	-110	1,597
less external debt	-550	-	-	-550
less preference shares held by RSA	-100	-	-	-100
TOTAL NET EMBEDDED VALUE OF RESOLUTION	426	630	-110	947

2. Methodology and basis of preparation

The embedded value of Resolution at 31 December 2004 has been prepared using embedded value methodology similar to, but not fully compliant with, the achieved profits guidance published by the Association of British Insurers (ABI) in December 2001. In particular, no allowance has been made for any tax that might be payable on the transfer of surplus assets out of the non-participating fund of Phoenix.

The objective of the embedded value methodology is to recognise profit from contracts of long term insurance as it is earned. The embedded value consists of the following components:

a) Net worth

The net worth represents shareholders net assets held outside of the long-term funds, and the value of free assets within the long-term funds of RSALI, Swiss Life UK and the non-participating fund of Phoenix. The free assets within the long-term funds of Phoenix Life & Pensions Ltd ("PLP", formerly known as Royal & Sun Alliance Life & Pensions Ltd) and Phoenix & London Assurance Ltd ("PALAL", formerly known as Sun Alliance & London Assurance Company Ltd) are included within the value of in-force for these companies.

The presentation differs from that shown in the 2004 accounts because, in addition to the adjustments relating to the acquisition of Swiss Life UK, some items previously shown in the PALAL Net Worth are now included in the Value of In-Force Business.

b) Value of in-force

The value of in-force represents the discounted value of the expected future transfers to shareholders arising from the policies in-force at 31 December 2004. These future transfers are calculated by projecting future cash flows using what the Resolution Board believes to be realistic assumptions for each component of cash flow.

For PLP and PALAL, the gross shareholder transfers are determined as the shareholders' share of the cost of bonus arising from targeting payouts based on the relevant proportion of asset shares (as described in the Principles and Practices of Financial Management for those companies). The net shareholder transfers are calculated by applying a 30% tax rate to those arising from pensions business. The tax on shareholder transfers from life business is charged to the estate in the relevant long-term fund and is not borne directly by shareholders.

c) Cost of capital

The economic value of a life company may be affected by the need to retain solvency capital within that life company to the extent that such capital is deemed to be at risk. The cost of capital each year is the difference between the annual net investment return earned on the assets supporting the Capital Resource Requirement ("CRR") and the risk discount rate applied to those assets. The total cost of capital is the present value of these annual amounts. The cost of capital included in the embedded value assumes a 3% margin between the net investment return and the discount rate, is based on holding capital sufficient to cover 100% of CRR, and assumes solvency rules currently applicable to the business continue to apply in the future.

d) External debt and preference shares

The amount of external debt and preference shares shown represents the face value of the senior bank facilities and the external preference shares as at 31 December 2004.

3. Assumptions

The principal assumptions underlying the calculation of the embedded value at 31 December 2004, reflecting the Resolution Board's opinion of expected future experience, were:

	<u> </u> %
Risk discount rate (after tax)	7.2
Future investment returns (pre-tax):	
■ Gilts	4.6
■ Ordinary shares	7.1
■ Property	<u> </u> 6.6

The assumed future pre-tax gilt return is set by reference to the gross redemption yield on the actual portfolio of gilts held by each life company at 31 December 2004. The return from other fixed interest investments is based on the gross redemption yield of the portfolio of non-gilts, less an allowance for credit risk. The assumed returns on ordinary shares and property are set by reference to the gilt return.

The risk discount rate is derived from the net of tax return on gilts plus a margin of 4.0%.

The embedded value has been calculated on an after tax basis, allowing for the individual tax status of each of the life companies within the Resolution group.

The projected expenses allow for the existing outsourcing arrangements with Unisys Insurance Services Limited, and the escalation of per-policy expenses which allow for the diseconomies of scale expected to apply as the fixed overheads are spread across a diminishing portfolio.

All other assumptions reflect the best estimate of future experience, based on the recent experience for each life company, and the wider industry experience.

Future bonus rates on with-profits business are calculated to be consistent with the financial assumptions set out above, and the Principles and Practices of Financial Management for each of the companies.

4. External review

The preparation of the embedded value has been reviewed by the Tillinghast business of Towers Perrin ("Tillinghast") who have reported to Resolution that, in accordance with their terms of reference, the embedded value has been properly prepared on the basis of the methodology and assumptions adopted. In giving this advice, Tillinghast is acting exclusively for Resolution and no one else and will not be responsible to, nor accept any duty of care to, anyone other than Resolution.

5. Detailed Achieved Profits Balance Sheet for Resolution

	2004
	£m
Assets:	
Intangible assets	-
Investments	25,046
Value of in-force business	521
Other assets	481
Total assets	26,048
Liabilities	-837
Total assets less liabilities	25,212
Less:	
Fund for future appropriations	1,589
Technical provisions	22,576
	24,165
Net assets	1,047
Capital and reserves:	
Ordinary share capital	0
Preference share capital	100
Share premium account	392
Other reserves	0
Other shareholders' reserves	555
Total equity shareholders' funds	1,047
Equity shareholders	947
Non-equity shareholders	100
Equity shareholders' funds	
Present value of in-force business	521
Surplus assets in the Phoenix non-participating fund	164
Other shareholders' reserves	262
Equity shareholders' funds	947

6. Financial statements

The 2004 annual accounts and FSA Returns (in the case of the life companies within the group) for the principal companies in the Resolution group can be downloaded from the Financial Statements section of www.resolutionlifegroup.com