

**Q&A on The Sunday Times Article
26 November 2006**

1. I've seen the article in The Sunday Times. How can I get advice about what I should do with my policy?

You should seek advice from an Independent Financial Adviser (IFA). If you do not have one, you can find an IFA in your area by visiting www.unbiased.co.uk or telephone their consumer hotline on 0800 085 3250, or if calling from outside the UK +44 117 971 1177.

2. How do I complain about my policy?

You can take any complaint up with us. If you are not happy to do this, then you can contact the Financial Ombudsman's Service. We would be happy to provide you with the appropriate contact details.

3. How can Resolution justify taking huge profits when the performance for policyholders has been so poor?

Not all the performance has been poor. Half of our 25 year endowment payouts are above average. The payouts on with-profits policies reflect their performance over their entire policy term. Policies maturing now will have had around 24 years of performance under previous owners and only 1 to 1.5 years under Resolution. This is not long enough for us to improve performance materially.

4. Has Resolution changed its investment policy, lowering the risk profile of its portfolios, in order to release capital for shareholders?

No. Resolution has not changed the investment policy to reduce the exposure to risky investments and release capital in any of the funds it has acquired. In a number of cases the proportion invested in shares (the Equity Backing Ratio (EBR)) has been increased. In one company Resolution has increased the EBR from 10% to 60% in another we are gradually increasing the base EBR from 50% to 70% within the investment policy implemented by the previous owner.

5. How has Resolution taken so much capital out of the business?

The majority, about £1.3bn, was money that belonged to Abbey National (Abbey) shareholders. It did not belong to, and had never been a part of, the with-profit funds. Abbey national could have extracted this capital itself over time and sold us a smaller company but in order to complete the transaction in the desired timescale did not to so.

The capital policies we have established for the Abbey companies are stronger than those applied by the previous owners, and the FSA were consulted and did not object to the policies. The capital that was extracted was not needed to support the with-profits funds. We continue to retain approximately £850m of capital in the Abbey life companies, substantially in excess of the approximately £350m which Abbey agreed should be retained in the companies in 2004.

The other capital referred to in the article is the dividends that have been paid by Resolution life companies, amounting to only around £360m. These have been paid from companies with total assets of around £35bn and over a two year period. No dividends have been paid by Alba Life or Phoenix & London Assurance, indeed as mentioned above Resolution has made a capital injection of £65m to Phoenix & London Assurance and has provided a further £165m of capital support to the company by way of loan. Resolution has also put in place a capital support loan with Alba Life, but this has not yet been required.

6. Why won't Resolution scrap all exit penalties?

Exit charges in with-profits funds are applied solely to ensure that surrendering policyholders do not leave with more than their fair share of the assets of the fund at the expense of other policyholders. To scrap exit charges would disadvantage staying policyholders unfairly.

7. How have Resolution's shareholders made so much money and has this been at the expense of policyholders?

Resolution shareholders have made money because they acquired companies from vendors at relatively low prices and the stock market has subsequently reassessed the value of life companies generally. For example Resolution acquired the RSA companies for £850m compared to an embedded value of around £1,300m. Resolution is now a listed company and its market cap is consistent with a value of around 110% of embedded value. That means the companies acquired for £850m are now valued by the stockmarket at around £1,430m. Resolution shareholders have effectively made money by buying companies at low costs during a market downturn.

Resolution has not increased the proportion of profits it takes from any of the with-profits funds it owns compared to previous owners.

8. What tangible benefits has Resolution given to policyholders to date?

- Around 600,000 policyholders have seen the EBR of their funds increased materially.
- All policyholders have had the risk of increased expenses in the future transferred from policyholders to shareholders.
- Surrender values have been increased for around 500,000 policies.
- Around 800,000 policies have seen their policy payouts increase significantly (doubling in the Swiss Life fund and increased by around 14% in the Britannic industrial branch fund).