

7 March 2006

RESOLUTION PLC ADOPTS EUROPEAN EMBEDDED VALUE (“EEV”) PRINCIPLES

Following the adoption of EEV Principles proposed by the CFO Forum, Resolution plc (Resolution) has today announced restatement of its embedded value as at 30 June 2005.

- The restatement to EEV:
 - uses “bottom-up” market-consistent methodology in the context of a closed fund business
 - makes full allowance for the market-consistent cost of financial options and guarantees
 - makes explicit allowance for the impact of non-market risks
 - harmonises methodology and assumptions across the Resolution group
- The treatment of the service company, Resolution Management Services, is unchanged, and included in the EEV at the pro-forma IFRS net worth of £33m at 30 June 2005
- The treatment of the asset management business, Britannic Asset Management, is also unchanged, and is included in the EEV at the IFRS net worth of £34m, plus goodwill of £118m at 30 June 2005
- Under the EEV Principles, the embedded value per share at 30 June 2005 reduces from £5.81 to £5.55. This makes no allowance for:
 - the value of targeted merger expense synergies of £20m p.a.
 - the value of targeted merger asset management synergies (estimated at £18m p.a. for first 3 years, reducing thereafter)
 - the benefit of the four-way fund merger completed at the end of 2005

Mike Biggs, Group Finance Director of Resolution plc commented:

“Using market-consistent methodology aligns our financial reporting with the way we appraise acquisitions and manage our business. It is an objective and transparent approach which allows investors to understand better the risks in our business.

On 4 April 2006, together with our statutory preliminary results, we will publish supplementary information which will contain EEV profits for the second half of 2005, together with detailed market-consistent embedded values for each of our life companies.”

Analysts: There will be a presentation at 12.00 p.m. (UK time) today at The London Stock Exchange, 10 Paternoster Square, London, EC4. Slides will be available from 12.00 p.m. (UK time) at www.resolutionplc.com.

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RESOLUTION PLC

EUROPEAN EMBEDDED VALUE RESTATEMENT AT

30 JUNE 2005

7 March 2006

This statement may contain certain “forward-looking statements” with respect to certain of Resolution’s plans and its current goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements containing the words “believes”, “intends”, “expects”, “plans”, “seeks” and “anticipates”, and words of similar meaning, are forward-looking. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Resolution’s control including among other things, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of regulatory authorities, the impact of competition, inflation, and deflation; experience in particular with regard to mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; and the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which Resolution affiliates operate. This may for example result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. As a result Resolution’s actual future financial condition, performance and results may differ materially from the plans, goals, and expectations set forth in Resolution’s forward-looking statements. Resolution undertakes no obligation to update the forward-looking statements contained in this statement or any other forward-looking statements it may make.

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1. INTRODUCTION

The European Embedded Value (EEV) Principles were published in May 2004 by the CFO Forum, a group representing the Chief Financial Officers of major European insurers. The EEV Principles and accompanying Guidance provide a framework intended to improve comparability and transparency in embedded value reporting across Europe.

Resolution plc (Resolution) will adopt the EEV Principles in respect of its financial year ending 31 December 2005 and is restating its pro-forma financial position at 30 June 2005 on this basis.

The purpose of this document is to set out the basis of the restatement of pro-forma financial information at 30 June 2005.

Resolution was formed by the merger of Britannic Group plc (Britannic) and Resolution Life Group Limited (RLG) on 6 September 2005.

The interim financial results at 30 June 2005 for Britannic were prepared in accordance with International Financial Reporting Standards (IFRS) and Achieved Profits methodology. The RLG results were presented on the Modified Statutory Solvency basis.

At 30 June 2005, the pro-forma combined embedded value of £2,099m, calculated on the Achieved Profits basis, gave a value of £5.81 per share based on the number of shares in issue of 361.0 million following the merger. This is before the interim dividend of 6.6 pence per share.

Following the adoption of the EEV Principles at 30 June 2005, the embedded value per share reduced by 4.5% to £5.55.

The key financial information on the EEV basis compared with the previous Achieved Profits embedded value reporting basis at 30 June 2005 is shown in the table below.

Restatement of pro-forma embedded value at 30 June 2005 (£m)			
	Achieved Profits EV	EEV	Change
Adjusted net worth	1,067.4	958.2	-10.2%
Value of in-force	1,031.7	1,046.0	+1.4%
Embedded value	2,099.1	2,004.2	-4.5%
Embedded value per share	£5.81	£5.55	

Notes:

- (1) Under the Achieved Profits and EEV bases, Resolution Management Services and Britannic Asset Management are included on an IFRS basis
- (2) Under the Achieved Profits and EEV bases, the purchased value of in-force within Century's net worth is included within the value of in-force.

The financial results at 31 December 2005 for Resolution will be presented on a consolidated IFRS and EEV basis.

The remainder of this document gives detailed information on how Resolution has implemented the EEV Principles, and the impact of moving from the Achieved Profits basis of embedded value reporting.

Section 2 describes the main changes from the previous Achieved Profits methodology, and the impact these changes have on the key financial information.

Section 3 summarises the key EEV results at 30 June 2005.

Section 4 discloses the key sensitivities for Resolution.

Section 5 describes the EEV methodology for Resolution in more detail.

Section 6 outlines the key EEV assumptions at 30 June 2005.

The EEV methodology has been developed through close consultation with Resolution's consulting actuaries, Tillinghast. Their statement on the methodology adopted is reproduced in Section 7.

A letter from our auditors, Ernst & Young, on the procedures they undertook in relation to the EEV restatement is shown in Section 8.

Finally, Section 9 outlines the disclosures expected in respect of the EEV at 31 December 2005.

2. IMPACT OF ADOPTING EEV PRINCIPLES

2.1 Overview

The main impact of adopting the EEV Principles on the embedded value of Resolution arises from the explicit allowances made for the risks within the business. Under the Achieved Profits basis, all risks were allowed for implicitly in the overall risk discount rate adopted.

In implementing the EEV Principles, Resolution has adopted a “bottom-up” market-consistent approach. In principle, each cash flow is valued using a discount rate that allows for the financial risks within that cash flow. In practice we have calculated the market-consistent embedded value allowing for the cost of options and guarantees, the cost of holding required capital and the impact of non-market risks. We then derive risk discount rates that, when input into the traditional embedded value models, produce the same result as the market-consistent embedded value.

The derived risk discount rates vary by both product type and life company, and are shown in section 3.4.

The key impacts of moving from the Achieved Profits basis to a market-consistent approach are summarised below.

2.2 Intrinsic burn-through costs in PALAL

An explicit allowance of £83.7m has been made for the “intrinsic burn-through” cost in Phoenix & London Assurance Limited (PALAL).

At 30 June 2005, the intrinsic burn-through cost under the Achieved Profits methodology was taken to be the deficit on the realistic balance sheet for PALAL of £50.2m.

Under the market-consistent methodology adopted, the market-consistent cost of options and guarantees within PALAL and an allowance for non-market risks (as described further in section 2.7) has resulted in this intrinsic burn-through cost being increased by £33.5m to £83.7m.

This cost is equivalent to the accumulated value of a loan of £79m made to the PALAL long term business fund in early 2004. The repayment of any part of this loan from PALAL is subordinate to the ability of the fund to treat customers fairly under principles agreed with the FSA, and also subject to non-objection from the FSA.

The intrinsic burn-through costs have been derived from the results of the stochastic models and scenario testing which indicate that it is appropriate to assume that none of the £79m loan plus accumulated interest will be repaid.

This allowance applies only to PALAL; none of the other shareholder-owned with-profits funds have an intrinsic burn-through cost.

2.3 Tax on distribution of non-profit funds' surplus assets

In adopting the EEV Principles, we have made full allowance for the market-consistent value of tax which would become payable on the transfer of surplus assets out of the non-profit funds. This allowance reflects the projected pace of release of surplus from the non-profit funds that is not required to cover the burn-through costs in the with-profits funds.

Under the Achieved Profits methodology, tax was allowed for in the Britannic results to the extent that distributions were expected to be made to shareholders in the foreseeable future. There was no tax allowed for in relation to the surplus arising in the RLG Modified Statutory Solvency Basis accounts.

At 30 June 2005, the adjusted net worth includes an additional tax provision of £71.5m, compared with the previously reported Achieved Profits basis.

2.4 Pension scheme surplus

The adjusted net worth of Resolution Management Services has increased by £15.6m compared with the Achieved Profits value of £17.1m reported in the interims at 30 June 2005 due to the impact of recognising within net assets, the shareholder interests in the surplus arising in the former Britannic pension scheme, and a small deficit in the RLG scheme.

2.5 Value of debt and minority interests

Debt and minority interests have been valued on a market-consistent basis. As all the debt and preference shares at 30 June 2005 were unquoted, the market-consistent value has been determined on a discounted cash flow basis, taking into account the known interest rates, and assumed terms to repayment.

The impact of this approach is to increase the value of debt by £20.3m, from £695.0m under the Achieved Profits basis to £715.3m on a market-consistent basis.

2.6 Valuation of in-force business

Within the market-consistent embedded value, the value of in-force business (VIF) is calculated using the "certainty equivalent" approach where the assumed future investment returns and the risk discount rate are both set equal to the risk-free rate.

The two key changes compared with the Achieved Profits VIF are:

- a) a lower future investment return assumption, which results in a reduction in VIF of £160.2m; and
- b) a lower risk discount rate, which increases the VIF by £204.0m.

Thus, the net effect of moving to a market-consistent basis is to increase the VIF by £43.8m.

2.7 Allowance for the cost of financial options and guarantees

Under both the Achieved Profits and market-consistent EEV bases, the intrinsic cost of financial options and guarantees is included within the VIF, based on the assumed future investment returns.

Under the market-consistent EEV basis, the intrinsic cost of financial options and guarantees increases for two reasons:

- a) the assumed future investment return in the certainty equivalent value of in-force business is equal to the risk-free rate, which is lower than the assumed rate in the Achieved Profits basis, leading to guarantees being more "in the money"; and

- b) the risk discount rate is lower under the EEV basis, leading to a higher cost compared with the Achieved Profits basis.

In addition, full allowance has been made for the time value of the cost of financial options and guarantees using market-consistent stochastic models calibrated to market prices at 30 June 2005.

Within the time value of financial options and guarantees, allowance has also been made for the impact of non-market risk where asymmetries in the shareholder interest in the with-profits funds mean that best estimate assumptions do not fully reflect the impact of extreme events.

The market-consistent cost of the time value of financial options and guarantees is £20.5m: £3.6m arising from market risks, and £16.9m from non-market risks.

2.8 Allowance for non-market risk on non-profit business

The EEV assumptions are based on best estimates of future experience. However, in practice there are asymmetries in the value of in-force business where the best estimate assumptions do not fully reflect the impact of extreme events.

The methodology used to determine the appropriate allowance for non-market risk is based on the analysis undertaken as part of the development of Resolution's Individual Capital Assessments (ICAs).

The non-market risks considered include: longevity, mortality, persistency, and operational risk.

This approach has resulted in Resolution making an explicit additional allowance of £64.4m for the impact of non-market risk on the VIF of the non-profit business.

2.9 Cost of required capital

The required capital for each company (as set out in Annex 1) has been defined as the greater of:

- a) the minimum amount of capital required to meet the FSA capital adequacy requirements, and
- b) the capital required under Resolution's published capital management policy, and
- c) the commitments made to credit rating agencies.

The cost of capital under a market-consistent embedded value is the difference between the market value of the required capital and the market-consistent value of the future release of capital, allowing for the impact of tax and investment expenses.

The cost of capital is £63.1m lower on a market-consistent basis compared with the Achieved Profits approach.

2.10 DSS premiums

Under the EEV Guidance, the value of in-force business should include an appropriate allowance for the value of “renewals”; where the definition of renewals includes recurrent single premium contracts where the level of premium is pre-defined and reasonably predictable.

This guidance represents a change in treatment for the DSS rebate business within the former Britannic companies, and results in an increase of £25.4m in the VIF compared with the Achieved Profits approach.

2.11 Cost of group required capital

Resolution holds capital at the group level in order to meet the commitments made to credit rating agencies. Under EEV, we have included this capital in our definition of required capital and have allowed for the frictional costs of holding this capital. At 30 June 2005, this cost was £7.0m.

2.12 Harmonisation

Following the merger of the Britannic and RLG companies, the Achieved Profits bases were reviewed for consistency. As a result, certain economic assumptions and methodology were updated to ensure consistency in the treatment of the life companies within Resolution.

The overall impact was to reduce the Achieved Profits VIF by £34.2m, as shown in the table below:

Key changes to EV at 30 June 2005 arising from harmonisation process (£m)	
Increased cost of capital in RLG	(24.2)
Harmonisation of risk discount rate	(5.7)
Other harmonisation changes	(4.3)
Total impact on EV	(34.2)

2.13 Other

In addition to the harmonisation of bases and methodology across the Resolution group, there were some minor model developments, and restatement of results which resulted in a small increase in the opening Achieved Profits Adjusted Net Worth of £0.5m and an increase in the VIF of £8.1m.

3. EEV RESULTS AT 30 JUNE 2005

3.1 EEV at 30 June 2005

The pro-forma Achieved Profits embedded value, and the restated value on the EEV basis at 30 June 2005 are shown in the table below.

Comparison of Achieved Profits EV to EEV at 30 June 2005 (£m)			
	Achieved Profits EV	EEV	Change
Adjusted net worth	1,067.4	958.2	-10.2%
Value of in-force	1,031.7	1,046.0	+1.4%
Embedded value	2,099.1	2,004.2	-4.5%
Embedded value per share	£5.81	£5.55	

Notes:

- (1) Under the Achieved Profits and EEV bases, Resolution Management Services and Britannic Asset Management are included on an IFRS basis
- (2) Under the Achieved Profits and EEV bases, the purchased value of in-force within Century's net worth is included within the value of in-force.

3.2 Adjusted net worth

The pro-forma adjusted net worth of Resolution at 30 June 2005 on an Achieved Profits basis was £1,067.4m¹, which reflected the net worth of Britannic on an IFRS basis, and RLG on a Modified Statutory Solvency Basis.

Following the application of IFRS to the fully merged group, and making further adjustments as described in section 2, the adjusted net worth on an EEV basis at 30 June 2005 was £958.2m. A reconciliation of the adjusted net worth under the Achieved Profits and EEV bases is shown in the table below:

Reconciliation of Achieved Profits and EEV Adjusted Net Worth at 30 June 2005 (£m)	
Achieved Profits Adjusted Net Worth at 30 June 2005	1,067.4
Intrinsic burn-through cost on PALAL	(33.5)
Tax on non-profit funds surplus assets	(71.5)
Pension scheme surplus	15.6
Value of debt and minority interests	(20.3)
Other adjustments	0.5
EEV Adjusted Net Worth at 30 June 2005	958.2

¹ after a reclassification of £40m in respect of Century purchased value of in-force from net worth to value of in-force

3.3 Value of in-force

The reconciliation of the value of in-force business ("VIF") under the Achieved Profits and EEV bases at 30 June 2005 is shown in the table below.

Reconciliation of Achieved Profits and EEV VIF at 30 June 2005 (£m)	
Achieved Profits VIF at 30 June 2005²	1,031.7
Impact of moving to certainty equivalent approach	43.8
Time value cost of options & guarantees: market risk	(3.6)
Time value cost of options & guarantees: non-market risk	(16.9)
Allowance for non-market risk on non-profit business	(64.4)
Change in cost of capital	63.1
Capitalise DSS premiums	25.4
Cost of group required capital	(7.0)
Harmonisation of embedded value bases	(34.2)
Other adjustments	8.1
Market-consistent VIF at 30 June 2005	1,046.0

These elements are described in more detail in section 2.

² after a reclassification of £40m in respect of Century purchased value of in-force from net worth to value of in-force

3.4 Derived risk discount rates by product group

Having calculated the market-consistent embedded value at 30 June 2005, the implied risk discount rates by product group were derived, as shown in the table below:

Derived Risk Discount Rates by Product Group at 30 June 2005						
	WP Funds			Annuities	Unit-Linked	Other Non-Profit
	BA	PLP	PALAL			
Risk free rate	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%
Impact of:						
Bottom-up market risk	2.3%	2.0%	1.2%	3.9%	1.9%	0.5%
Cost of options						
- market risks	0.1%					
- non-market risks	0.5%	0.2%				
Other non-market risk				0.4%	1.3%	0.8%
Risk discount rate	7.2%	6.5%	5.5%	8.6%	7.5%	5.6%
EEV VIF (£m)	214.7	134.4	4.7	72.7	193.2	417.8

The VIF for the with-profits funds excludes the with-profits business of Century, Cornhill and Swiss Life (combined VIF of £15.5m). Total VIF excludes group cost of capital of £7m.

The EEV VIF shown in the table above comprises the certainty equivalent present value of future profits less the cost of options and guarantees, the allowance for non-market risks and the cost of required capital.

3.5 Components of Market-Consistent Embedded Value at 30 June 2005

Components of Market-Consistent Embedded Value at 30 June 2005 (£m)									
	Net worth	Intrinsic burn-through cost	Goodwill	Adjusted net worth	Certainty equivalent VIF	Time value of options & guarantees	Allowance for non-market risks	Cost of required capital	Total MCEV
Life Division									
Britannic Assurance	416.0			416.0	270.0	(16.0)	(5.2)	(10.1)	654.7
Britannic Retirement Solutions	40.1			40.1	22.4	0.0	(5.0)	(7.6)	49.9
Britannic Unit Linked Assurance	25.0			25.0	3.9	0.0	(1.5)	0.0	27.4
Century Life	6.9			6.9	59.8	(2.7)	(7.4)	(5.1)	51.5
Cornhill portfolio	0.0			0.0	199.7	0.0	(9.3)	(3.2)	187.2
Phoenix Life & Pensions	56.3			56.3	140.9	(1.8)	0.0	(4.6)	190.8
Phoenix & London Insurance	317.1	(83.7)		233.4	37.9	0.0	0.0	(33.2)	238.1
Bradford Insurance (*)	10.8			10.8	0.0	0.0	0.0	0.0	10.8
Phoenix Assurance (*)	205.0			205.0	211.0	0.0	(10.3)	(9.4)	396.3
RSA Linked Insurances (*)	95.5			95.5	152.4	0.0	(20.6)	(8.4)	218.9
Swiss Life UK (*)	167.7			167.7	129.1	0.0	(5.1)	(7.6)	284.1
Total Life Division	1,340.4	(83.7)	0.0	1,256.7	1,227.1	(20.5)	(64.4)	(89.2)	2,309.7
RMS	32.7			32.7					32.7
BAM	33.7		117.5	151.2					151.2
Group & Holding Companies									
Net assets	232.9			232.9				(7.0)	225.9
External debt (RLG)	(482.5)			(482.5)					(482.5)
External debt (Britannic)	(116.0)			(116.0)					(116.0)
RLG preference shares	(116.8)			(116.8)					(116.8)
Total Group & Holding Cos	(482.4)	0.0	0.0	(482.4)	0.0	0.0	0.0	(7.0)	(489.4)
TOTAL EEV	924.4	(83.7)	117.5	958.2	1,227.1	(20.5)	(64.4)	(96.2)	2,004.2

(*) Merged into Phoenix Life Limited at 31 December 2005

4. SENSITIVITIES

The table below summarises the key sensitivities to the EEV:

EEV Sensitivities at 30 June 2005		
	Change in EEV (£m)	%Change
Base EEV at 30 June 2005	2,004.2	
100 basis point increase in risk discount rates	(149.9)	-7.5%
100 basis point increase in equity and property returns	n/a	n/a
100 basis point decrease in risk-free rates	(18.4)	-0.9%
10% reduction in market values of equity and property assets	(85.9)	-4.3%
10% proportionate decrease in lapse rates and PUP rates	(1.2)	-0.1%
10% proportionate increase in lapse rates and PUP rates	(0.4)	0.0%
5% proportionate decrease in mortality and morbidity (annuity)	(24.0)	-1.2%
5% proportionate decrease in mortality and morbidity (assurance)	22.6	1.1%
Decrease in required capital to statutory minimum	15.0	0.7%

100 basis point increase in risk discount rate

This sensitivity has been shown to facilitate comparison between companies. The reduction in EEV of £150m arises from increasing the risk discount rates derived in section 3.4 by 1%.

100 basis point increase in equity and property returns

There is no impact on the EEV of an increase in equity or property returns because under a market-consistent valuation, all assets are assumed to earn the risk-free rate of return.

100 basis point decrease in risk-free rates

A decrease in risk-free rates has minimal impact on the value of in-force business. The key impact is that the intrinsic cost of options and guarantees will increase due to the lower assumed future investment returns. This cost is offset to some extent by the upward revaluation of the fixed interest assets.

10% reduction in market values of equity and property assets

A 10% immediate reduction in the market values of equity and property assets leads to a reduction in the net worth of £86m.

10% proportionate decrease in lapse rates and PUP rates

A decrease in lapse and paid-up (PUP) rates across all product lines and companies results in a marginal reduction in the EEV.

10% proportionate increase in lapse rates and PUP rates

Similarly, an increase in lapse and PUP rates across all product lines and companies leave the EEV virtually unchanged.

5% proportionate decrease in mortality and morbidity (annuity)

A 5% decrease in the base mortality rates for annuity and morbidity business would cause a £24m reduction in the EEV.

5% proportionate decrease in mortality and morbidity (assurance)

A 5% decrease in the base mortality rates for assurance and morbidity business would cause a £23m increase in the EEV

Decrease in required capital to statutory minimum

Altering the definition of required capital to the capital required to meet the statutory minimum capital requirements would reduce the cost of capital by £15m.

5. EEV METHODOLOGY

5.1 Market-consistent approach

For the purposes of EEV reporting, Resolution has adopted a market-consistent methodology. Within a market-consistent embedded value (“MCEV”) framework, assets and liabilities are valued in line with market prices and consistently with each other.

- In principle, each cash flow is valued using the discount rate consistent with that applied to such a cash flow in the capital markets. Thus the value of assets is the market value of assets and the value of liabilities is the value of comparable asset cash flows.

The MCEV consists of the following components:

- Free surplus allocated to the covered business;
- Required capital, less the market-consistent cost of holding required capital; and
- Market-consistent VIF less the market-consistent cost of financial options and guarantees.

5.2 Covered business

The covered business includes the Life Insurance companies within Resolution:

Britannic Companies	RLG Companies
Britannic Assurance	Phoenix Life & Pensions
Alba Life	Phoenix & London Assurance
Britannic Unit Linked Assurance	Phoenix Assurance
Britannic Retirement Solutions	Royal & Sun Alliance Linked Insurances
Cornhill portfolio	Swiss Life (UK)
Century Life	Bradford Insurance

The definition of covered business excludes RMS and BAM for the reasons described below.

Resolution Management Services (RMS)

Under the EEV Guidance, productivity gains should not be recognised until they have been achieved. This treatment is inconsistent with the cost profile of closed business, where continual cost reductions are required to maintain unit costs as the business runs off. Thus, the EEV Guidance does not allow the true economic value of RMS to be reflected.

The profits from RMS will emerge on an IFRS basis, but the expected profits have not been capitalised within the EEV for Resolution.

Additionally, the expense synergies identified as arising from the merger will not be recognised until they have been achieved.

Thus, only the net worth of RMS of £33m has been included in the EEV at 30 June 2005.

Britannic Asset Management (BAM)

Similar to the treatment of RMS, at 30 June 2005, the EEV for BAM is unchanged from the approach adopted under the Achieved Profits basis, and has been taken as the sum of:

- net assets (on an IFRS basis) of £33.7m, and
- goodwill of £117.5m

At 30 June 2005, the assets under management were principally derived from the Britannic life companies, together with third party business. The asset management of the RLG Life companies is expected to be transferred to BAM during the first half of 2006.

5.3 Free surplus and required capital

The EEV Principles require capital allocated to the covered business to be split between required capital, where future distributions to shareholders are restricted, and free surplus.

The required capital for each company has been defined as the greater of:

- a) the minimum amount of capital required to meet the FSA capital adequacy requirements, consisting of the greater of Pillar 1 and Pillar 2 capital requirements, where the Pillar 2 capital requirements allow for any Individual Capital Guidance received from the FSA; and
- b) the capital required under Resolution's capital management policy (as set out in Annex 1); and
- c) the commitments made to credit rating agencies.

5.4 Cost of capital

The EEV Principles require companies to make an allowance for the cost of capital, consistent with the definition of required capital. The cost of capital is defined as the difference between the market value of the required capital and the present value of future releases allowing for future investment return on that capital. The market-consistent cost of capital allows for investment expenses and the cost of taxation.

5.5 Value of in-force (VIF)

The approach adopted to calculate the market-consistent VIF combines deterministic and stochastic models. Deterministic techniques have been used to value 'non-option cash flows', that is cash flows whose values vary linearly with market movements. Stochastic techniques have been used to value cash flows with asymmetric pay-offs (e.g. investment guarantees).

For the deterministic approach, the calculation of the VIF involves valuing cash flows using a discount rate which reflects the risk inherent in each cash flow. In practice, it is not necessary to discount each cash flow at a different rate. The same results can be achieved by projecting and discounting all cash flows at the risk free rate under the 'certainty equivalent approach'.

The market-consistent VIF is calculated under the certainty equivalent approach by using existing embedded value models and projecting and discounting all cash flows at risk free rates.

For the stochastic approach, the MCEV calculation involves the use of stochastic models developed for the purposes of realistic balance sheet reporting.

5.6 Cost of financial options and guarantees

The EEV Principles require companies to make an explicit allowance for the time value of financial options and guarantees.

Resolution has calculated the market-consistent cost of financial options and guarantees using market-consistent stochastic models calibrated to the market prices of financial instruments at 30 June 2005. The stochastic models allow for the impact of management actions and the hedging strategies which were in place at 30 June 2005.

5.7 Allowance for non-market risk

Resolution has made explicit allowances for the impact of non-market risk:

- a) Within the time value of financial options and guarantees in the with-profits funds, allowance has also been made for the impact of non-market risk where asymmetries in the shareholder interest mean that best estimate assumptions do not fully reflect the impact of extreme events.
- b) Similarly, within the VIF of the non-profit business, an explicit allowance has been made for the impact of non-market risk.

The methodology used to determine the appropriate allowance for non-market risk is based on the analysis undertaken as part of the development of Resolution's ICAs.

The table below summarises how each item of risk has been explicitly considered within the EEV for Resolution:

Type of risk	EEV methodology
Market-related risks	Allowed for explicitly in EEV calculations
Non-market risks related to with-profits business (including non-profit business within with-profits funds)	Allowed for in calculation of options and guarantees
Non-market risks related to non-profit business which are asymmetrical relative to shareholders impact	Allowed for in calculation of non-market risk
Non-market risks related to non-profit business which are symmetrical relative to shareholders impact	Within best estimate assumption

5.8 Value of new business

There is no value attributed to future new business.

5.9 Treatment of debt

The cost of debt and preference shares at 30 June 2005 has been calculated on a market-consistent basis, as summarised in the table below. All debt and preference shares at 30 June 2005 were unquoted, so the market-consistent value has been determined on a discounted cash flow basis, taking into account the known interest rates, and assumed terms to repayment.

Valuation of Debt and Preference Shares at 30 June 2005 (£m)		
	Face value	Market-consistent value
Britannic senior debt	115.0	116.0
RLG senior debt	480.0	482.5
RLG preference shares	100.0	116.8
Total	695.0	715.3

5.10 Agency costs

No allowance has been made for agency costs, which represent the premium required by investors for giving up direct control of their capital to their "agents", in this case, the management of Resolution. Any allowance for agency costs will necessarily be subjective, and it is not appropriate to make such allowance for the purposes of financial reporting.

6. EEV ASSUMPTIONS

6.1 Economic assumptions

MCEV

The gilt yield at 30 June 2005 was 4.2% (defined as the annualised return on the FTSE UK 15 year gilt index). The risk free yield curve at the valuation date was defined as the annually compounded UK nominal spot curve plus 10 basis points.

Thus, the risk-free rate at 30 June 2005 was assumed to be 4.3%.

EEV

The assumed investment returns (before tax) by asset class are shown in the table below:

Investment Returns by Asset Class at 30 June 2005			
	Income	Gains	Total return
Gilts	4.2%		4.2%
Other Fixed Interest	4.7%		4.7%
Index Linked Gilts	2.1%	1.7%	3.8%
Equities – UK	3.1%	3.6%	6.7%
Equities – Overseas	2.0%	4.7%	6.7%
Property	6.7%		6.7%

6.2 Risk discount rates

The derived risk discount rates by product group and company are given below:

Derived Risk Discount Rates by Product Group at 30 June 2005						
	WP Funds			Annuities	Unit-Linked	Other Non-Profit
	BA	PLP	PALAL			
Risk free rate	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%
Impact of:						
Bottom-up market risk	2.3%	2.0%	1.2%	3.9%	1.9%	0.5%
Cost of options						
- market risks	0.1%					
- non-market risks	0.5%	0.2%				
Other non-market risk				0.4%	1.3%	0.8%
Risk discount rate	7.2%	6.5%	5.5%	8.6%	7.5%	5.6%

6.3 Expenses

The projected per policy expenses are based on the existing management services agreements with RMS, adjusted to allow for costs incurred directly by the life companies (eg regulatory fees).

The projected investment expenses are based on the fees agreed with BAM (or external fund managers where appropriate), allowing for the current and projected future asset mix.

Corporate expenses have not been capitalised, and will be included within the incurred expenses for RMS in each year as they arise.

6.4 Other assumptions

All other assumptions reflect the best estimate of future experience, and are reviewed regularly in light of emerging data on both industry and company-specific experience.

7. TILLINGHAST SUPPORT

The EEV methodology adopted by Resolution has been developed through close consultation with Resolution's consulting actuaries, Tillinghast, who have made the following statement:

"We have worked closely with Resolution plc to develop their European Embedded Value methodology and are satisfied that the approach used is robust and is based on market-consistent principles."

8. ERNST & YOUNG PROCEDURES

Dear Sirs

PRO-FORMA EUROPEAN EMBEDDED VALUE (EEV) INFORMATION AT 30 JUNE 2005

You have engaged us to perform an audit of the European Embedded Value balance sheet of Resolution plc at 31 December 2005 and our opinion in respect of that balance sheet will be included in the Supplementary Information to be published with the 2005 Report and Accounts.

You have engaged us to perform certain procedures in respect of the restated pro-forma European Embedded Value information as at 30 June 2005 and those procedures are the subject of this report. Due to the fact that we have not performed an audit or review of the balance sheet at 30 June 2005 of either Britannic Group plc or Resolution Life Group Ltd prepared under IFRS or on an embedded value basis, these procedures do not constitute an audit or review made in accordance with International Standards on Auditing or International Standards on Review Engagements.

In accordance with our engagement letter dated 22 November 2005 we have undertaken the procedures described below in connection with the market announcement (RNS) to be issued by Resolution plc entitled "Resolution plc adopts European Embedded Value ("EEV") Principles" on 7 March 2006 ("the pro-forma EEV information").

Responsibility

The Directors are responsible for the preparation of the pro-forma EEV information, for the contents of the market announcement and for the development and operation of the models used to compute EEVs.

It is our responsibility to perform the procedures set out below in respect of the pro-forma EEV information and to report the results of those procedures to you.

Scope of work

We have performed the procedures detailed below. Our work was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements.

- A comparison of the European Embedded Value methodology applied by Resolution plc with the EEV principles and guidance set out by the CFO Forum;
- A review of the economic and operating assumptions applied for consistency with the EEV principles and guidance published by the CFO Forum;
- Checking on a sample basis that the models used to compute the EEV reflect the stated methodology;
- Checking on a sample basis that the disclosed economic and operating assumptions have been applied in the models used to compute the EEV;
- Agreeing the pro-forma EEV balance sheet at 30 June 2005 to the output from the models; and

- Agreeing items in the reconciliation between EEV net worth at 30 June 2005 and IFRS net assets at that date to underlying accounting records or, in the case of the Britannic Group plc IFRS net assets at that date, to the unaudited Interim Statement.

Results of procedures

In respect of the procedures listed above:

- The European Embedded Value methodology applied by Resolution plc is consistent with the EEV principles and guidance set out by the CFO Forum except for the exclusion of RMS and the asset management business from covered business as described in note 5.2 to the pro-forma EEV information;
- The economic and operating assumptions are consistent with the EEV guidance published by the CFO Forum;
- The models used to compute the EEV reflect the stated methodology and assumptions;
- The pro-forma balance sheet is consistent with the output from the models; and
- Items included in the reconciliation between EEV net worth at 30 June 2005 and IFRS net assets at that date are in agreement with underlying accounting records and, in the case of the Britannic Group plc IFRS net assets at that date, the unaudited Interim Statement.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the pro-forma EEV information.

Had we performed additional procedures or had we performed an audit or review of the pro-forma EEV information in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

This report relates only to the items specified above and does not extend to any financial statements of Resolution plc, taken as a whole. Our report is prepared solely for the purpose set out in the third paragraph of this report and for your information and is not to be used for any other purpose. Ernst & Young LLP only accepts responsibility to the addressees of this report on the basis of the engagement letter and assumes no responsibility whatsoever in respect of or arising out of or in connection with the contents of this report to parties other than yourselves. If other parties choose to rely, in any way, on the contents of this report, they do so entirely at their own risk.

Yours faithfully

9. FULL YEAR DISCLOSURES

The 2005 preliminary results will be published on 4 April 2006. At 31 December 2005, IFRS profits will be presented on an “acquisition basis”, reflecting the full year profits of Britannic and the post-acquisition profits of RLG. In addition, pro-forma IFRS results for the second half of 2005 will also be provided.

The supplementary financial information provided will be on a market-consistent EEV basis at 31 December 2005 including:

- The same methodology adopted at 30 June 2005, as described in this restatement
- A detailed breakdown of the underlying MCEV by life company
- Full allowance for the impact of the 2005 Fund Merger

In addition, the supplementary financial information will include a full analysis of the EEV profits for the second half of 2005 on a pro-forma basis assuming that the merger of Britannic and RLG had completed on 30 June 2005. The expected format for this disclosure is shown below:

Expected Format for Analysis of Resolution EEV Profits for Second Half of 2005 (£m)			
	Adjusted net worth	Value of in-force	Total
Expected return on existing business			
<ul style="list-style-type: none"> ■ Expected return on value of in-force ■ Transfer to net worth 			
Expected return on shareholders' net worth			
Expected EEV profit before tax			
Operating experience variances			
Operating assumption changes			
EEV operating profit before tax			
Non-recurring items			
Economic experience variances			
Effect of economic assumption changes			
EEV profit before tax			
Attributed tax charge			
EEV profit after tax			

ANNEX 1 – CAPITAL MANAGEMENT POLICY

A1. Non-profit or unit-linked companies

The Group's current capital management policy for companies which write primarily non-profit or unit-linked business is to maintain sufficient capital within each company:

- to cover at least the greater of 125% of its Pillar 1 capital requirements and 110% of its Pillar 2 Internal Capital Assessment ("ICA") capital requirement, as adjusted by any Individual Capital Guidance ("ICG") provided by the FSA; and
- within the shareholders' fund and/or as surplus assets within the non-profit sub fund to cover at least the greater of 100% of its Pillar 1 capital requirements and 100% of the Pillar 2 ICA capital requirement, as adjusted by any ICG, in relation to business written in the non-profit fund(s).

A2. With-profits companies – PLP & PALAL

For the two larger with-profits companies acquired from Royal & Sun Alliance Insurance Group plc (Phoenix Life & Pensions Limited and Phoenix & London Assurance Limited), the Group has undertaken to maintain sufficient capital within each company:

- to cover its Pillar 1 capital requirements by a margin of at least £50million; and
- to cover its Pillar 2 ICA capital requirements, as adjusted by any ICG, by a margin of at least £50 million.

A3. With-profits companies – Britannic Assurance

As Britannic Assurance plc was the initial company in the Group, no specific capital management policy has been agreed with the FSA in respect of this company. The historical capital management policy for the Britannic Group prior to the Merger was to hold surplus capital at the Britannic Assurance plc level.

The assumed required capital for Britannic Assurance has been defined as the maximum of:

- 100% of its Pillar 1 capital requirement; and,
- 125% of its Pillar 2 ICA capital requirement, as adjusted by any ICG