



3 November 2006

PROPOSALS AFFECTING LIFE INSURERS' RESERVING AND CAPITAL REQUIREMENTS

Resolution plc is studying the proposals affecting life insurers' reserving and capital requirements contained within Consultation Paper 06/16 issued by the FSA on 18 September 2006. It is anticipated that these proposals, subject to consultation, will come into force on 31 December 2006 and that they are likely to have the effect of reducing the level of capital and mathematical reserves that affected firms will be required to hold.

The proposals are complex and their materiality to Resolution at this stage is unclear. Resolution has therefore decided not to proceed at this time with an issue of Tier 2 hybrid capital in relation to the acquisition of the UK and offshore life businesses of Abbey National plc. Resolution has refinanced the £380 million outstanding balance of the bridging finance taken out to finance that acquisition with a term loan facility provided by HSBC Bank plc, JP Morgan plc and Lehman Brothers International (Europe).

In connection with the acquisition, Resolution stated that it had expected, prior to 31 December 2006, to make a proposal to the holders of the Scottish Mutual Assurance Limited (SMA) subordinated debt to replace those bonds with alternative bonds issued by Resolution plc itself on substantially the same terms as the SMA bonds. For the reasons set out above, Resolution has decided to defer making such a proposal until 2007. It remains Resolution's expectation that such a proposal will be made to SMA bondholders.

A further update on the Tier 2 hybrid issue and the SMA bonds will be given in conjunction with Resolution's preliminary results on 3 April 2007.

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