

Royal & Sun Alliance

10 November 2005

Nine Months Results to 30 September 2005

Strong Group results for the nine months

- Operating result of £488m(1) - up £247m on nine months 2004(2)
- Profit after tax of £378m (2004(2): £8m) - 2005 includes £126m positive impact from changes to UK pension scheme
- Net written premiums of £4.1bn (2004(2): £3.7bn)
- Ongoing business(3) combined operating ratio (COR) of 93.1% (2004(2): 94.2%)
- Group COR of 96.7% (2004(2): 101.9%)
- Underlying return on equity for the Core Group of 19.2%(5) (2004(2): 16.0%)

Delivering against our strategic objectives

- Sub 100 CORs from all Core regions
- Targeted profitable growth and building a pipeline for the future; including acquisition of Chile's number one insurer
- Operational improvement programme has delivered £223m of annualised savings
- Sale of Nonstandard Auto completed - US RBC ratio now 2.3 times

	9 Months 2005	9 Months 2004 (2)	Mov
Revenue			
Net written premiums	£4,138m	£3,689m	
Combined ratios			
- Ongoing business(3)	93.1%	94.2%	
- Overall	96.7%	101.9%	
Operating result(1)	£488m	£241m	
Profit after tax(1)	£378m	£8m	
Operating earnings per share for Core Group(4)	9.6p	7.7p	
Earnings per share - Basic	11.5p	(0.9)p	
Balance sheet	30 September 2005	31 December 2004 (2)	
Shareholders' funds	£2,647m	£2,321m	
Net asset value per share (pre IAS 19)	98p	95p	
Net asset value per share (post IAS 19)	87p	76p	

Andy Haste, Group Chief Executive of Royal & Sun Alliance Insurance Group plc, commented:

'It's been a very good nine months for the Group with strong performances from each of our Core businesses and further progress in derisking the US. We're delivering against our strategic objectives of sustainable financial performance, selective profitable growth and driving operational excellence. I am confident that with the strength of the Core Group, our focus on execution and our disciplined underwriting we can continue to deliver sustainable profitable performance.'

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Important Disclaimer

This document contains forward-looking statements as defined in the US Private Securities Litigation Reform Act of 1995. It contains forward-looking statements

and information relating to the Company's financial condition, results of operations, business, strategy and plans, and general industry outlook (including trends in results, prices, volumes, operations, margins, overall market conditions, risk management and exchange rates) based on currently available information. These statements are often, but not always, made through the use of words or phrases such as 'aim', 'anticipate', 'believe', 'continue', 'could', 'estimate', 'expect', 'intend', 'may', 'plan', 'seek', 'should' or 'will' or the negative of these terms or similar expressions. The specific forward-looking statements cover, among other matters, our strategy and operational objectives; financial results; restructuring plans, our expense savings, completion of disposals, losses related to the US financial enhancement products, reduction in the Group's US exposures, impact of disposals on the Group's financial position, capital and solvency requirements in the UK, regulatory position in the US, effect of litigation on the Company's financial position, US pro forma RBC ratios, projections of losses resulting from catastrophic storms, the projected Core Group combined ratio for 2005, delays in claims notifications for asbestos and environmental claims and adverse claims development on long tail business and court judgments. Actual future results and trends could differ materially from those set forth in such statements due to various factors. Such factors include general economic conditions, including in particular economic conditions in the United Kingdom; political and social conditions; the frequency, severity and development of insured loss events, including catastrophes and man made disasters; the availability and pricing of, and ability to collect on, reinsurance; the ability to exclude and to reinsure the risk of loss from terrorism; mortality and morbidity experience and trends; policy renewal and lapse rates; fluctuations in interest and inflation rates; returns on and fluctuations in the value of the Company's investment portfolios; corporate bankruptcies; fluctuations in foreign currency exchange rates; the ability of our subsidiaries to pay dividends; a downgrade in the Company's financial strength or claims paying or other credit ratings; adverse changes in laws and regulations; adverse outcomes in judicial decisions and rulings and general competitive factors, and other risks and uncertainties, including those detailed in the Company's filings with the US Securities and Exchange Commission and the UK Listing Authority. The Company undertakes no obligation to update or

revise any of the forward-looking statements publicly, whether as a result of new information, future events or otherwise, save in respect of any requirement under applicable law or regulation.

(1) For a reconciliation of operating result on a management basis to profit after tax see consolidated income statement on management basis.

(2) All prior period comparatives are unaudited by the independent auditors, and restated in accordance with the new accounting policies.

(3) Ongoing business in 2004 includes UK, Scandinavia and International businesses with the exception of France and Financial Solutions, Inwards Reinsurance and DMI in the UK. Ongoing business in 2005 is as 2004 but also excludes Japan.

(4) Operating earnings per share is calculated on the Core Group operating result after interest, related tax and minority interests in relation to the weighted average number of shares in the period (excluding those held in ESOP trusts).

(5) Underlying return on equity is based on annualised profit attributable to ordinary shareholders excluding reorganisation costs, profits on disposal, discontinued life business and the benefit from changes to the scheme design of the two main UK defined pension schemes. The underlying return is expressed in relation to opening shareholders' funds.

CEO REVIEW

It has been a strong nine months for the Group, with continued good performances from each of our Core businesses and further progress in derisking the US. Net written premiums increased by £449m to £4.1bn, reflecting the recapture of the Munich Re quota share and selective profitable growth in the Core Group. The ongoing combined operating ratio (COR) of 93.1% is 1.1 points better than last year (94.2%). The total COR for the Group is 96.7%, an improvement of over five

points on 2004 (101.9%). The operating result of £488m is more than double last year and includes realised gains of £72m (2004: £71m). Profit after tax is £378m (2004: £8m) and includes the benefit from changes to the scheme design of the two main UK defined benefit pension schemes of £126m and the disposal of our Japanese business.

At the beginning of November, Bridget McIntyre started as UK Chief Executive and was appointed to the main Board.

Business Performance

Set out below are the combined operating ratios of our main businesses:

	9 Months 2005	9 Months 2004*	Movemen
	%	%	Point
UK Personal	96.5	96.2	(0.
UK Commercial	91.2	96.3	5.

UK Total	92.9	96.0	3.
Scandinavia	93.3	94.5	1.
International	95.1	97.0	1.

Core Group	93.6	95.7	2.
Group	96.7	101.9	5.

Ongoing	93.1	94.2	1.

The Core Group has delivered a combined of 93.6% compared with 95.7% in 2004. These results have been achieved against the background of a mixed ratings environment and after absorbing adverse weather costs including floods in UK and India, storms in Scandinavia and Canada, and hurricanes Katrina and Emily as

well as the continuing investment in the operational improvement programme. In October, we announced that our preliminary estimate of Katrina was £25m and we have now revised down this estimate to £14m. Hurricane Wilma occurred in October and our early view is that it will impact the fourth quarter result by £10m.

Our ability to sustain our performance clearly demonstrates the strength of our well balanced portfolio and the continued benefit of the actions we are taking in underwriting, pricing, claims and expense management. The positive impact of the operational improvement programme along with our prudent reserving policy is evident in the continuing emergence of current and prior year underwriting profits. We have continued to strengthen the Group's reserves with the nine month reserves being stronger than at the half year and 2004 year end.

The increase in net written premiums of 12% included the benefit of the timing difference relating to the Munich Re portfolio transfer which reduced net written premiums in 2004 by £157m and will reverse in the fourth quarter. Excluding the timing difference, underlying growth was 7% for the Core Group and reflects the recapture of the Munich Re quota share and, as at the half year, targeted growth in Scandinavia, Canada, Latin America and MORE TH>N.

We continue to build a pipeline for the future with the acquisitions of Cruz del Sur in Chile making us the number one in that market and the Morgex Insurance Group in Canada. We have further strengthened our Danish bancassurance proposition, won new affinity deals in UK Personal intermediated and are progressing the bancassurance pilot with Swedbank in Sweden.

We have made further progress in derisking the US business through reductions in claims, expenses and headcount. As announced last week, the sale of Nonstandard Auto has completed, increasing the US RBC ratio to 2.3 times. We reached a legal settlement with Wilmington Trust, one of the three remaining plaintiffs in the Student Finance litigation. This was settled at no impact to the income statement. Our objective is to bring certainty and finality to the US exposure and the execution of this is complex, will take time and will not be a totally smooth ride.

Summary

These results demonstrate the progress the Group is making against its strategic objectives. The strong performance we are driving across the business has delivered an underlying return on equity for the Core Group of 19.2% (nine months 2004: 16.0%). As we see it today, we would expect to beat our outlook of a combined ratio of 96% - 97% for the Core Group for the full year 2005.

Andy Haste, Group CEO
Royal & Sun Alliance Insurance Group plc

*All prior period comparatives are unaudited and restated in accordance with the new accounting policies

OPERATIONS REVIEW

Accounting Basis

We have successfully completed the transition from UK GAAP to the anticipated International Financial Reporting Standards (IFRS). Certain standards followed by the Group have yet to be endorsed by the European Union. The nine months 2005 result and 2004 comparatives have been prepared in accordance with the new accounting policies which we intend to adopt in preparation of the annual financial statements. The 2004 operating result has also been adjusted to reflect the reclassification of our life businesses, which are now reported as a discontinued operation.

Operating Result

The table below presents the key financials analysed between the Core Group (UK, Scandinavia and International) and the US operation.

	Core Group		US		Group	
	9 Months 2005	9 Months 2004*	9 Months 2005	9 Months 2004*	9 Months 2005	9 Months 2004*
Insurance result (£m)	611	464	(32)	(174)	579	579
Operating result (£m)	533	417	(45)	(176)	488	488
Profit after tax (£m)	450	213	(72)	(205)	378	378
Shareholders' funds (£bn)	2.3	1.8	0.3	0.6	2.6	2.6
Operating EPS (pence)	9.6	7.7	-	-	-	-
Basic EPS (pence)	-	-	-	-	11.5	11.5

Core Group

The Core Group underwriting result was £195m (nine months 2004: £136m) and comprises £97m for the current year and £98m for the prior year.

UK

The UK produced strong operating results with an overall combined ratio of 92.9% (2004: 96.0%). The underwriting profit was £111m, an improvement of 66% on the same period last year (2004: £67m). The UK market remains competitive. In Personal we are achieving low single digit rating increases and in Commercial rates are off about 5%, but we have successfully targeted profitable new business and driven improved retention. Net written premiums were £2.0bn, up 4% on prior year (2004: £1.9bn), with UK Personal up 6% and UK Commercial up 4%.

Commercial

Net written premiums were £1,364m, up £49m on 2004. UK Commercial delivered a COR of 91.2%, an improvement of 5.1 points on 2004. Commercial property delivered a COR of 87.5%, and Commercial motor improved by almost six points to 88.7%. Commercial casualty achieved a COR of 96.6%, an improvement of 9.1 points on 2004. The underwriting profit was £92m, almost double 2004, reflecting

actions taken to enhance claims handling, better risk selection and improved business retention across all segments.

We continue to target new business opportunities achieving around £170m of profitable new business in the nine months and have grown policy numbers in marine, risk solutions and property investors. Retention is strong, up 4% on 2004 to 85%. The commercial market remains mixed, but we are maintaining underwriting discipline and our focus on achieving technical price.

Personal

Net written premiums for UK Personal were £639m, up £34m on prior year. The underwriting profit was £19m (2004: £18m), and the COR of 96.5% was broadly in line with 2004.

MORE TH>N achieved a COR of 94.5% (2004: 96.0%) and its expense ratio has reduced to 24.9%. Web sales are growing strongly and now account for around 50% of its motor new business sales following improvements made to its web proposition. In the intermediated business, we have signed three new broker panels and two affinity deals in the third quarter.

Scandinavia

In Scandinavia, net written premiums were £1,044m, an improvement of 9% compared with 2004 (£959m). The underwriting result improved by £10m to £53m. These strong results reflect management actions taken to improve claims handling and the benefits of the low cost operating platform. The COR of 93.3% was an improvement of 1.2 points on 2004.

Commercial net written premiums were £503m, up 10% on 2004, and the COR improved by over four points to 85.5%. Denmark delivered 17% growth in net written premiums and achieved a COR of 92.9% (2004: 94.6%). Sweden achieved a combined of 76.4% reflecting the benefits of improved risk selection and disciplined underwriting.

In Personal, the COR was 100.1%. Net written premiums increased by £41m to £541m, with Denmark up 8% and Sweden up 7%. We continue to build distribution. In Denmark, we have entered into two more bank assurance agreements and increased agents. In Sweden we have signed a deal with Peugeot and are progressing the bancassurance pilot with Swedbank.

We are the number one insurer in Latvia and Lithuania and continue to drive growth. Net written premiums of £63m are up 21% on 2004 and the combined was 94.0%.

International

International net written premiums were £955m, up 11% on prior year (2004: £862m). The underwriting result was £46m, up 39% (2004: £33m) and the COR improved by almost two points to 95.1%. All regions delivered a sub 100 COR performance, despite the weather events in Latin America and Canada.

In Canada the COR of 94.0% was an improvement of three points on 2004. The underwriting profit was £22m (2004: £12m), reflecting the continued delivery of the operational improvement programme. Net written premiums were £422m, an increase of 18% on 2004 driven by continued double digit growth from Johnsons, which represents over one third of the Canadian business, and favourable exchange movements. Across Canada we are developing a strong platform for future growth. We have appointed 46 new brokers in the quarter, 107 for the year to date and in July acquired the ING marine book. Johnsons has signed new affinity deals giving access to another potential 600,000 customers and last month announced the acquisition of Morgex which doubles market share in Alberta.

In Latin America net written premiums were £171m, up 41% on prior year, reflecting strong sales in Brazil, Chile and Mexico. In October we announced the acquisition of Cruz del Sur in Chile, making us market leader, and La Republica in Argentina. The COR of 99.9% is after weather costs, including the impact of hurricane Emily in Mexico. We anticipate the fourth quarter result will include

a £10m charge representing our initial view of the impact of hurricane Wilma.

Europe achieved a COR of 95.4% compared with 98.3% in 2004. Asia and Middle East continued to perform strongly, generating a 5.2 point improvement in the COR to 88.9%.

US

We continue to make good progress in stabilising the US business and reducing the Group's exposure. Last week we announced the completion of the Nonstandard Auto sale which generated a gain of around \$130m on an IFRS basis and increased the RBC ratio to 2.3 times. We continue to drive down expenses and headcount now stands at under 1,000. In 2005 we have shut down 47 operating systems and reduced open claims by 29%; since the end of 2003 open claims have reduced by over 67,000. As a result of these actions, net claims reserves as at 30 September are down by around \$850m from the start of the year to \$3.8bn (\$3.6bn excluding Nonstandard Auto).

We also announced last week that we have reached a legal settlement with Wilmington Trust, one of the three remaining plaintiffs in the Student Finance case. This has no impact on the income statement and reduces our risk by a further \$15m. Our overall exposure to the US business is reducing, but risk has not been removed in its entirety. We continue to work to resolve the challenges remaining in the US.

Investment Result

The investment result of £494m was up £97m on the same period in 2004. Investment income of £462m was up £70m on prior year. Realised gains were £72m (2004: £71m). The increase in the investment income primarily reflects the return on the proceeds arising from the disposal of the life businesses and the debt issue in the second half of 2004, and a 0.2% improvement in the average yield on the portfolio to 4.0%.

The fixed interest portfolio continues to be concentrated on high quality short dated bonds. Holdings of bonds rated AA or above stood at over 80% of total bond exposure while holdings in non investment grade bonds represented less than 1%.

As at 30 September 2005 unrealised gains in the balance sheet were £641m (30 June 2005: £649m).

	9 Months 2005	9 M
	Investment result	Inves r
	£m	
Land & buildings	11	
Equities	47	
Bonds	338	
Cash and cash equivalents	49	
Other	17	

Investment income	462	
Realised gains	72	
Unrealised gains, impairment and foreign exchange	1	
Unwind of discount	(41)	

Investment result	494	

Other Activities Result

The analysis of the other activities result is as follows:

	9 Months 2005	9 Months 2004*	12 Mon 20
	£m	£m	

Non-insurance activities	(1)	(4)
Non-insurance derivatives	5	48
Associates	1	11
Central expenses	(60)	(63)
Investment expenses and charges	(36)	(41)

Other activities	(91)	(49)

The result from other activities for the nine months was a charge of £91m (2004: £49m). The increase reflects lower associate income following the sale of Mutual & Federal (South Africa) in Q2 2004, which delivered an £8m profit, while the 2004 result also included a £48m positive contribution from the movement in the non-insurance derivatives under IAS 39; we have since exited the majority of these contracts and the net impact in 2005 is a benefit of £5m. Central expenses of £60m include costs associated with regulatory projects. For the nine months this was £11m.

RATING MOVEMENTS

Rate movements achieved for risks renewing in September 2005 versus comparable risks renewing in September 2004 were as follows:

	Personal		Motor	Commercial		Property
	Motor	Household		Liability		
	%	%	%	%	%	
UK	4	4	(5)	(7)	(5)	
Canada	(1)	3	(4)	1	(5)	
Scandinavia	7	5	3	5	0	

MANAGEMENT BASIS OF REPORTING

The following analysis on pages 8 to 18 has been prepared on a non statutory basis as management believe that this is the most appropriate method of assessing the financial performance of the Group. Financial information on a statutory basis is included on pages 25 to 35.

CONSOLIDATED INCOME STATEMENT

MANAGEMENT BASIS

	9 Months 2005 £m	9 Months 2004* £m	12 Mont 200 £
Net written premiums	4,138	3,689	5,08
Underwriting result	85	(107)	(27)
Investment income	462	392	55
Realised gains	72	71	11
Unrealised gains/(losses), impairments and foreign exchange	1	(21)	(
Unwind of discount	(41)	(45)	(7
Investment result	494	397	59
Insurance result	579	290	31
Other activities	(91)	(49)	(5
Operating result	488	241	25
Total interest costs	(82)	(63)	(8
Amortisation	(12)	(15)	(2
Reorganisation costs	(53)	(67)	(11
Impact of change in pension scheme design	180	-	
Profit/(loss) on disposals	62	(101)	(10

Discontinued life	-	105	10
Profit before tax	583	100	2
Taxation	(205)	(92)	(11)
Profit/(loss) after tax	378	8	(9)
Earnings per share attributable to the ordinary shareholders of the Company during the period:			
Basic	11.5p	(0.9)p	(5.0)
Diluted	11.4p	(0.9)p	(5.0)

SUMMARY CONSOLIDATED BALANCE SHEET

MANAGEMENT BASIS

	30 September 2005 £m	30 September 2004* £m	31 De
Assets			
Goodwill and intangible assets	397	291	
Property and equipment	403	425	
Investment property	422	401	
Investment in associated undertakings	27	29	
Equity securities	1,640	1,603	
Debt and fixed income securities	11,366	9,504	1
Other	350	344	
Total investments	13,805	11,881	1
Reinsurers' share of insurance contract liabilities	4,206	4,182	
Insurance and reinsurance debtors	2,507	2,646	

Other debtors and other assets	1,206	1,526	
Cash and cash equivalents	1,516	3,397	
Assets associated with continuing business	24,040	24,348	2
Assets associated with discontinued business**	319	6,078	
Total assets	24,359	30,426	2
Equity, reserves and liabilities			
Equity and reserves			
Shareholders' funds	2,647	2,439	
Minority interests	385	354	
Total equity and reserves	3,032	2,793	
Loan capital	1,060	1,055	
Total equity, reserves and loan capital	4,092	3,848	
Liabilities			
Insurance contract liabilities	16,929	17,204	1
Insurance and reinsurance liabilities	506	754	
Borrowings	290	401	
Provisions and other liabilities	2,384	2,613	
Liabilities associated with continuing business	20,109	20,972	2
Liabilities associated with discontinued business**	158	5,606	
Total liabilities	20,267	26,578	2
Total equity, reserves and liabilities	24,359	30,426	2

These consolidated condensed financial statements have been approved for issue by the Board of Directors on 9 November 2005.

**Assets and liabilities associated with discontinued business in 2005 relate to our Rothschilds holding and Nonstandard Auto.

MOVEMENT IN NET ASSETS

	Total Shareholders' Funds	Minority Interest	Loan Capital	Net A
	£m	£m	£m	
Restated opening balance*	2,321	368	1,051	
Profit after tax	338	40	-	
Exchange gains/(losses)	42	(12)	9	
Fair value gains/(losses) net of tax	47	(2)	-	
Pension fund actuarial gains net of tax	27	-	-	
New share issue	5	-	-	
Share options	7	-	-	
2004 final dividend	(86)	(9)	-	
2005 interim dividend	(49)	-	-	
Preference dividend	(5)	-	-	
Closing balance	2,647	385	1,060	

Pension Fund Deficit

The table below provides a reconciliation of the Group pension fund deficit from 1 January 2005 to 30 September 2005.

	Core Group		US	To
	UK	Other		

	£m	£m	£m	
Pension fund as at 1 January 2005	(370)	(23)	(151)	(
Market movement, exchange and other	45	(6)	(12)	
Scheme design	126	-	-	
Deficit funding	60	-	26	

As at 30 September 2005	(139)	(29)	(137)	(

Regulatory Capital Position

The primary regulatory capital positions for the Group are set out below:

As at	30 September 2005 Requirement £bn	30 September 2005 Surplus £bn	31 Decem 20 Surpl £ 0 1
Insurance Groups Directive (Group)	1.6	0.9	0
Solvency 1 (RSAI plc)	1.6	1.6	1

The improvement in the Insurance Groups Directive (IGD) surplus from £0.6bn at 31 December 2004 to £0.9bn at 30 September 2005 is mainly attributable to the favourable result for the period offset by dividend payments. At 30 June 2005 the surplus was £0.7bn.

The Group has developed its Internal Capital Assessment (ICA) model. This provides the Group with a sophisticated risk based approach to determining the amount of capital needed based upon a detailed analysis of the Group's underlying risks. The Group has submitted its ICA assessment to the FSA and is finalising its discussions with them.

In addition to determining the Group's overall capital requirement, output from the ICA model is integrated within the business processes and used to enhance

the basis for allocating capital and pricing risk.

Net Asset Value per Share

The net asset value per share at 30 September 2005 pre IAS 19 is 98p and post IAS 19 is 87p (30 June 2005: pre IAS 19 is 98p and post IAS 19 is 79p). At 4 November 2005 the net asset value per share pre IAS 19 was estimated at 96p. The net asset value per share pre IAS 19 for 30 September is based on total shareholders' funds of £2,647m, with a £305m adjustment for the pension deficit, and £125m for preference shares. The adjusted value is expressed in relation to the number of shares in issue at the nine months excluding those held in the ESOP trusts (2,893,815,605).

Operating EPS for Core Group

The operating earnings per share for the Core Group for the nine months ended 30 September 2005 is 9.6p compared with 7.7p at 30 September 2004. Operating earnings per share is calculated on the Core Group operating result after interest, related tax, preference dividend and minority interests of £279m in relation to the weighted average number of shares for the period excluding those held in ESOP trusts (2,894,875,646).

FURTHER INFORMATION

The full text of the above is available to the public at 1 Leadenhall Street, London EC3V 1PP. The text is also available on line at

www.royalsunalliance.com

A live audiocast of the conference call, including the question and answer session, will be broadcast on the website at 9.30am today and an indexed version will be available shortly after the close of the meeting. Copies of the slides presented during the conference call will be available on the site from 8.30am today.

The year end results 2005 will be announced on 9 March 2006.

CONSOLIDATED INCOME STATEMENT ANALYSED BETWEEN CORE GROUP AND US OPERATION

NINE MONTHS TO 30 SEPTEMBER

	Core Group £m	2005 US £m	Group £m	Core Group £m	2005 US £m
Net written premiums	4,008	130	4,138	3,592	
Underwriting result	195	(110)	85	136	(2)
Investment income	374	88	462	313	
Realised gains	66	6	72	64	
Unrealised gains/(losses), impairments & foreign exchange	1	-	1	(18)	
Unwind of discount	(25)	(16)	(41)	(31)	(1)
Investment result	416	78	494	328	
Insurance result	611	(32)	579	464	(1)
Other activities	(78)	(13)	(91)	(47)	
Operating result	533	(45)	488	417	(1)
Total interest costs	(82)	-	(82)	(63)	
Amortisation	(8)	(4)	(12)	(9)	
Reorganisation costs	(31)	(22)	(53)	(44)	(1)
Profit on change of pension scheme design	180	-	180	-	
Profit/(loss) on disposals	62	-	62	(100)	
Discontinued life	-	-	-	105	

Profit/(loss) before tax	654	(71)	583	306	(2
Taxation	(204)	(1)	(205)	(93)	

Profit/(loss) after tax	450	(72)	378	213	(2

SUMMARY CASHFLOW STATEMENT

NINE MONTHS TO 30 SEPTEMBER

	Core Group	2005 US £m	Group £m	Core Group £m	20
Net cashflows from operating activities	587	(648)	(61)	217	(5
Net cashflows from financing activities	(147)	12	(135)	12	1

Net cashflows from operating activities after financing activities	440	(636)	(196)	229	(3
Net cashflows from investing activities	(590)	457	(133)	207	(8

Net (decrease)/increase in cash and cash equivalents	(150)	(179)	(329)	436	(1,1
Cash and cash equivalents at the beginning of the period	1,523	341	1,864	2,645	1,6
Effect of exchange rate changes on cash and cash equivalents	26	22	48	(13)	(

Cash and cash equivalents	1,399	184	1,583	3,068	4
Add: bank overdrafts	3	-	3	17	
Less: discontinued operations	-	(70)	(70)	(106)	

Cash and cash equivalents at the end of the period	1,402	114	1,516	2,979	4

REGIONAL ANALYSIS OF GENERAL INSURANCE OPERATIONS

NINE MONTHS TO 30 SEPTEMBER

	Underwriting Result		Investment Result		Net Writ
	2005	2004*	2005	2004*	2005
	£m	£m	£m	£m	£m
United Kingdom	111	67	228	184	2,003
Scandinavia	53	43	86	62	1,044
International	46	33	102	82	955
Group Re	(15)	(7)	-	-	6
Core Group	195	136	416	328	4,008
United States	(110)	(243)	78	69	130
Less: Quota Share Portfolio Transfer					4,138
Total Group					-
					4,138

Total Group	85	(107)	494	397	579
			Operating Ratio		
	Claims	2005 Expenses	Combined	Claims	2004* Expenses
	%	%	%	%	%
United Kingdom	61.5	31.4	92.9	65.9	30.1
Scandinavia	74.7	18.6	93.3	76.6	17.9
International	62.3	32.8	95.1	64.6	32.4
Core Group	65.3	28.3	93.6	68.3	27.4
United States	109.9	65.0	174.9	108.6	89.4
Total Group	67.1	29.6	96.7	72.5	29.4

REGIONAL ANALYSIS OF GENERAL INSURANCE OPERATIONS

NINE MONTHS TO 30 SEPTEMBER 2005

	Underwriting Result			Operating Ratio Current Year
	Current Year	Prior Year	Total	
	£m	£m	£m	%
United Kingdom	33	78	111	97.1
Scandinavia	44	9	53	94.2
International	20	26	46	98.0
Group Re	-	(15)	(15)	-
Core Group	97	98	195	96.3

REGIONAL ANALYSIS OF ONGOING GENERAL INSURANCE OPERATIONS

NINE MONTHS TO 30 SEPTEMBER

	Claims %	2005 Expenses %	Operating Ratio		2004* Expenses %
			Combined %	Claims %	
United Kingdom	60.4	31.1	91.5	63.8	29.5
Scandinavia	74.7	18.6	93.3	76.6	17.9
International	62.6	32.6	95.2	64.2	31.8
-----	-----	-----	-----	-----	-----
Ongoing	64.9	28.2	93.1	67.2	27.0
Discontinued	197.6	146.0	343.6	86.7	(48.7)
-----	-----	-----	-----	-----	-----
Core Group	65.3	28.3	93.6	68.3	27.4
United States **	109.9	65.0	174.9	108.6	89.4
-----	-----	-----	-----	-----	-----
Total Group	67.1	29.6	96.7	72.5	29.4
-----	-----	-----	-----	-----	-----

UNITED KINGDOM GENERAL INSURANCE OPERATIONS

NINE MONTHS TO 30 SEPTEMBER

	Net Written Premiums		Underwriting Result		Operating R
	2005 £m	2004* £m	2005 £m	2004* £m	2005 %
Personal					
Household	289	289	29	29	92.7
Motor	319	295	(10)	(8)	102.2
Other	31	21	-	(3)	92.0

Total UK Personal	639	605	19	18	96.5
Commercial					
Property	546	593	74	90	87.5
Casualty	243	252	11	(15)	96.6
Motor	467	374	29	19	88.7
Other	108	96	(22)	(45)	117.4
Total UK Commercial	1,364	1,315	92	49	91.2
Total UK	2,003	1,920	111	67	92.9
	Underwriting Result		Investment Result		Insurance Re
	2005	2004*	2005	2004*	2005
	£m	£m	£m	£m	£m
Personal	19	18	56	48	75
Commercial	92	49	172	136	264
Total UK	111	67	228	184	339

SCANDINAVIAN GENERAL INSURANCE OPERATIONS

NINE MONTHS TO 30 SEPTEMBER

	Net Written Premiums		Underwriting Result		Operating Rat	
	2005	2004*	2005	2004*	2005	20
	£m	£m	£m	£m	%	
Personal						
Denmark	167	154	2	4	96.8	9
Sweden	332	309	(8)	(2)	102.0	10
Other	42	37	1	1	92.4	9

Total Personal	541	500	(5)	3	100.1	9
Commercial						
Denmark	245	209	12	9	92.9	9
Sweden	229	224	47	30	76.4	8
Other	29	26	(1)	1	99.8	9
Total Commercial	503	459	58	40	85.5	8
Total						
Denmark	412	363	14	13	94.4	9
Sweden	561	533	39	28	91.9	9
Other	71	63	-	2	95.6	9
Total Scandinavia	1,044	959	53	43	93.3	9
Underwriting Result						
	2005	2004*				
	£m	£m				
Personal	(5)	3	48	35	43	2
Commercial	58	40	38	27	96	
Total Scandinavia	53	43	86	62	139	
Investment Result						
	2005	2004*				
	£m	£m				
Denmark	14	13	29	22	43	
Sweden	39	28	54	38	93	
Other	-	2	3	2	3	
Total Scandinavia	53	43	86	62	139	
Insurance Res						

INTERNATIONAL GENERAL INSURANCE OPERATIONS

NINE MONTHS TO 30 SEPTEMBER

	Net Written Premiums		Underwriting Result		Operating Ratio	
	2005 £m	2004* £m	2005 £m	2004* £m	2005 %	2004 %
Personal						
Canada	319	265	14	10	94.8	96.6
Europe	173	165	13	8	93.0	95.4
LAC	77	54	(1)	1	99.5	98.3
Asia & Middle East	24	44	4	5	83.4	89.2
Total Personal	593	528	30	24	94.4	95.9
Commercial						
Canada	103	93	8	2	91.8	97.1
Europe	106	111	5	(1)	100.0	102.8
LAC	94	67	-	7	100.1	95.3
Asia & Middle East	59	63	3	1	91.7	98.4
Total Commercial	362	334	16	9	96.3	99.0
Total						
Canada	422	358	22	12	94.0	97.0
Europe	279	276	18	7	95.4	98.3
LAC	171	121	(1)	8	99.9	96.1
Asia & Middle East	83	107	7	6	88.9	94.1
Total International	955	862	46	33	95.1	97.0
	Underwriting Result		Investment Result		Insurance Result	
	2005	2004*	2005	2004*	2005	2004
	£m	£m	£m	£m	£m	£m
Personal	30	24	48	40	78	64

Commercial	16	9	54	42	70	51
Total International	46	33	102	82	148	115
Canada	22	12	58	46	80	58
Europe	18	7	32	26	50	33
LAC	(1)	8	5	4	4	12
Asia & Middle East	7	6	7	6	14	12
Total International	46	33	102	82	148	115

INVESTMENT RESULT BY REGION

NINE MONTHS TO 30 SEPTEMBER 2005

Investment Result	UK £m	Scandinavia £m	International £m	Core £m	US £m
Regional investment income	207	81	86	374	88
Realised gains	36	14	16	66	6
Unrealised gains / impairments	1	-	-	1	-
Unwind of discount	(16)	(9)	-	(25)	(16)
Investment result	228	86	102	416	78

The investment result is reported on an actual basis for the Core Group and US operation. For the Core Group, the investment income is then allocated to the regions based on technical reserves, working capital and the local regulatory capital requirements. Realised gains, unrealised gains and impairment losses are

allocated with reference to the above amounts. The unwind of discount is attributed on an actual basis.

EXCHANGE RATES

£/local currency	9 Months 2005		9 Months 2004		12 Months 2004	
	Average	Closing	Average	Closing	Average	Closing
US Dollar	1.84	1.77	1.82	1.81	1.83	1.92
Canadian Dollar	2.25	2.05	2.42	2.29	2.38	2.30
Danish Kroner	10.88	10.95	11.06	10.84	10.96	10.51

ESTIMATION TECHNIQUES, UNCERTAINTIES AND CONTINGENCIES

Introduction

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks.

The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies. The uncertainty in the financial statements principally arises in respect of the insurance liabilities of the company.

The insurance liabilities include the provision for unearned premiums and unexpired risks and the provision for outstanding claims. Unearned premiums and unexpired risks represent the amount of income set aside by the company to cover the cost of claims that may arise during the unexpired period of risk of insurance policies in force at the balance sheet date. Outstanding claims represents the company's estimate of the cost of settlement of claims that have occurred by the balance sheet date but have not yet been finally settled.

In addition to the inherent uncertainty of having to make provision for future

events, there is also considerable uncertainty as regards the eventual outcome of the claims that have occurred by the balance sheet date but remain unsettled. This includes claims that may have occurred but have not yet been notified to the company and those that are not yet apparent to the insured.

As a consequence of this uncertainty, the insurance company needs to apply sophisticated estimation techniques to determine the appropriate provisions.

Estimation techniques

In general business, claims and unexpired risks provisions are determined based upon previous claims experience, knowledge of events and the terms and conditions of the relevant policies and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical claims payment trends. The approach also includes the consideration of the development of loss payment trends, the levels of unpaid claims, legislative changes, judicial decisions and economic conditions.

The Group employs a variety of statistical techniques and a number of different bases to determine these provisions. These include methods based upon the following:

- the development of previously settled claims, where payments to date are extrapolated for each prior year;
- estimates based upon a projection of claims numbers and average cost;
- notified claims development, where notified claims to date for each year are extrapolated based upon observed development of earlier years; and
- expected loss ratios.

In addition, the Group uses other methods such as the Bornhuetter-Ferguson method, which combines features of the above methods. The Group also uses

bespoke methods for specialist classes of business.

Large claims impacting each relevant business class are generally assessed separately, being measured either at the face value of the loss adjusters' estimates or projected separately in order to allow for the future development of large claims.

Where possible the Group adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The Group's estimates of losses and loss expenses are reached after a review of several commonly accepted actuarial projection methodologies. In selecting its best estimate, the Group considers the appropriateness of each method to the individual circumstances of the reserve class and underwriting year. The projections given by various methods include (but are not limited to) incurred development methodologies, paid development methods, paid Bornhuetter-Ferguson methods, incurred Bornhuetter-Ferguson methods and loss ratio methods. This process is designed to select the most appropriate best estimate.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

The general business claims provisions are subject to close scrutiny both within our business units and at Group Corporate Centre. In addition, for major classes where the risks and uncertainties inherent in the provisions are greatest, regular and ad hoc detailed reviews are undertaken by advisers who are able to draw upon their specialist expertise and a broader knowledge of current industry trends in claims development. As an example, the Group's exposure to asbestos and environmental pollution is examined at least triennially on this basis. The results of these reviews are considered when establishing the appropriate levels of provisions for outstanding claims and unexpired periods of risk.

It should be emphasised that the estimation techniques for the determination of

general insurance business liabilities involve obtaining corroborative evidence from as wide a range of sources as possible and combining these to form the overall estimate. This technique means that the estimate is inevitably deterministic rather than stochastic. A stochastic valuation approach, whereby a range of possible outcomes is estimated and probabilities assigned thereto, is only possible in a limited number of situations.

The pension assets and pension and post retirement liabilities are calculated in accordance with International Accounting Standard 19 (IAS 19). The assets, liabilities, and income statement charge, calculated in accordance with IAS 19, are sensitive to the assumptions made, including inflation, interest rate, investment return and mortality.

Uncertainties and contingencies

The uncertainty arising under insurance contracts may be characterised under a number of specific headings, such as:

- uncertainty as to whether an event has occurred which would give rise to a policyholder suffering an insured loss;
- uncertainty as to the extent of policy coverage and limits applicable;
- uncertainty as to the amount of insured loss suffered by a policyholder as a result of the event occurring; and
- uncertainty over the timing of a settlement to a policyholder for a loss suffered.

The degree of uncertainty will vary by policy class according to the characteristics of the insured risks and the cost of a claim will be determined by the actual loss suffered by the policyholder.

There may be significant reporting lags between the occurrence of the insured

event and the time it is actually reported to the Group. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude and timing of the settlement of the claim. There are many factors that will determine the level of uncertainty such as inflation, inconsistent judicial interpretations and court judgments that broaden policy coverage beyond the intent of the original insurance, legislative changes and claims handling procedures.

The establishment of insurance liabilities is an inherently uncertain process and, as a consequence of this uncertainty, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates. The Group seeks to provide appropriate levels of claims provision and provision for unexpired risks taking the known facts and experience into account. However, by their nature the quantification of the provisions must remain very uncertain. Currently we analyse our underwriting results between current and prior accident years each quarter and annually we will publish loss development tables starting with the 2005 year end.

The Group evaluates the concentration of exposures to individual and cumulative insurance risk and establishes its reinsurance policy to reduce such exposure to levels acceptable to the Group.

Asbestos and environmental claims

The estimation of the provisions for the ultimate cost of claims for asbestos and environmental pollution is subject to a range of uncertainties that is generally greater than those encountered for other classes of insurance business. As a result it is not possible to determine the future development of asbestos and environmental claims with the same degree of reliability as with other types of claims, particularly in periods when theories of law are in flux. Consequently, traditional techniques for estimating claims provisions cannot wholly be relied upon and the Group employs specialised techniques to determine provisions using the extensive knowledge of both internal asbestos and environmental pollution experts and external legal and professional advisors.

Factors contributing to this higher degree of uncertainty include:

- plaintiffs' expanding theories of liability, compounded by inconsistent court decisions and judicial interpretations;
- a few large claims, accompanied by a very large number of small claims or claims made with no subsequent payment, often driven by intensive advertising by lawyers seeking claimants;
- the tendency for speculative, inflated and/or unsupported claims to be made to insurers, with the aim of securing a settlement on advantageous terms;
- the long delay in reporting claims and exposures, since the onset of illness and disability arising from exposure to harmful conditions may only become apparent many years later (for example, cases of mesothelioma can have a latent period of up to 40 years);
- inadequate development patterns;
- difficult issues of allocation of responsibility among potentially responsible parties and insurers;
- complex technical issues that may give rise to delays in notification arising from unresolved legal issues on policy coverage and the identity of the insureds;
- the tendency for social trends and factors to influence jury verdicts; and
- developments pertaining to the Group's ability to recover reinsurance for claims of this nature.

Further information on specific developments in the US in relation to asbestos and environmental claims is discussed below.

Representations and warranties

In the course of disposal of businesses the Group provides representations and warranties to counterparties in contracts in connection with various transactions and may also provide indemnifications that protect the counterparties to the contracts in the event that certain liabilities arise (covering such matters as tax, property, environmental issues, etc). While such representations, warranties and indemnities are essential components of many contractual relationships, they do not represent the underlying purpose for the transaction. These clauses are customary in such contracts and may from time to time lead to us receiving claims from counterparties.

Financial enhancement products

In the UK and US the Group has exposures to financial enhancement products, which provide surety to banks, lending institutions and credit facilities that insure principal and interest repayment on debt securities. The Group no longer writes such business; however, the nature of such contracts is normally that the Group is on risk for more than one year and therefore liabilities remain for an extended period. Further information on financial enhancement products in the US is discussed below.

Litigation, mediation and arbitration

The Group, in common with the insurance industry in general, is subject to litigation, mediation and arbitration, and regulatory and other sectoral inquiries in the normal course of its business. The directors do not believe that any current mediation, arbitration, regulatory or sectoral inquiries and pending or threatened litigation or dispute, as outlined elsewhere in this note, will have a material adverse effect on the Group's financial position, although there can be no assurance that losses resulting from any pending mediation, arbitration, regulatory inquiries and threatened litigation or dispute will not materially affect the Group's financial position or cash flows for any period.

Further information on US litigation is discussed below.

Reinsurance

The Group is exposed to disputes on, and defects in, contracts with its reinsurers and the possibility of default by its reinsurers. The Group is also exposed to the credit risk assumed in fronting arrangements. In selecting the reinsurers with whom we do business our strategy is to seek reinsurers with the best combination of credit rating, price and capacity. We publish internally a list of authorised reinsurers who pass our selection process and which our operations may use for new transactions.

The Group monitors the financial strength of its reinsurers, including those to whom risks are no longer ceded. Allowance is made in the financial position for non recoverability due to reinsurer default by requiring operations to provide, in line with Group standards, having regard to companies on the Group's 'Watch List'. The 'Watch List' is the list of companies whom the directors believe will not be able to pay amounts due to the Group in full.

Changes in foreign exchange rates may impact our results

We publish our consolidated financial statements in pounds sterling. Therefore, fluctuations in exchange rates used to translate other currencies, particularly other European currencies and the US dollar, into pounds sterling will impact our reported consolidated financial condition, results of operations and cash flows from period to period. These fluctuations in exchange rates will also impact the pound sterling value of our investments and the return on our investments.

Income and expenses for each income statement item are translated at average exchange rates. Balance sheet assets and liabilities are translated at the closing exchange rates at the balance sheet date.

Investment risk

The Group is exposed to credit risk on its invested assets. Credit risk includes the non performance of contractual payment obligations on invested assets and adverse changes in the credit worthiness of invested assets including exposures to issuers or counterparties for bonds, equities, deposits and derivatives. Our insurance investment portfolios are concentrated in listed securities. We use derivative financial instruments to reduce our exposure to adverse fluctuations in interest rates, foreign exchange rates and equity markets. We have strict controls over the use of derivative instruments.

Rating agencies

The ability of the Group to write certain types of general insurance business is dependent on the maintenance of the appropriate credit ratings from the rating agencies. The Group has the objective of maintaining single 'A' ratings. At the present time the ratings are 'A-' from S&P and 'A-' from AM Best. Any worsening in the ratings would have an adverse impact on the ability of the Group to write certain types of general insurance business.

Regulatory environment

The regulatory environment is subject to significant change in many of the jurisdictions in which we operate. We continue to monitor the developments and react accordingly. In the UK, the Financial Services Authority (FSA) has brought into force its Integrated Prudential Sourcebook (PRU) in relation to insurers. This contains prudential rules and guidance for insurers implementing a range of capital measures, including the EU Insurance Groups Directive (IGD) as amended by the Financial Groups Directive, the Enhanced Capital Requirement (ECR) and the Individual Capital Assessment (ICA). The introduction of PRU has removed considerable uncertainty for determining the solvency requirements of UK insurance companies and groups and the Group is currently finalising agreement with the FSA on its ICA. The directors are confident that the Group will continue to meet all future regulatory capital requirements.

US Operations

In addition to the disclosures above there are a number of specific risks and issues pertaining to our US Operations as follows:

Asbestos and environmental claims

In respect of asbestos and environmental claims the position in the US is particularly problematic, as plaintiffs have expanded their focus to defendants beyond the 'traditional' asbestos manufacturers and distributors. This has arisen as a consequence of the increase in the number of insureds seeking bankruptcy protection because of asbestos related litigation and the exhaustion of their policy limits. Plaintiffs, supported by lawyers remunerated on a contingent fee basis, are now seeking to draw in a wide cross section of defendants who previously only had peripheral or secondary involvement in asbestos litigation. This may include companies which have distributed or incorporated asbestos containing parts in their products or operated premises where asbestos was present. There are also increasing signs of attempts to reopen and reclassify into other insurance coverages previously settled claims, and the filing of claims under the non aggregate premises or operations section of general liability policies. There are also indications that plaintiffs may seek damages by asserting that insurers had a duty to protect the public from the dangers of asbestos.

Added to this, there is also the possibility of federal legislation that would address asbestos related problems. Senate Bill 852, an amended version of Senate Bill 2290 (Fairness in Asbestos Injury Resolution or 'FAIR' Act), was introduced in April 2005 by Senate Judiciary Committee Chair Arlen Specter. The amended bill includes establishing a privately financed trust fund to provide payments to individuals with asbestos related illnesses and removal of asbestos claims from the tort litigation system for the duration of the fund. The proposed bill would remove pending and future cases from the judicial system and place these cases and claims into a no fault trust fund to be administered by the US Department of Labor. It would establish medical criteria to ensure that only

people who showed signs of asbestos related illnesses would be entitled to payments from the trust.

Prospects for the passage of some form of asbestos reform are higher than they have been in recent years but there are concerns that the bill contains several loopholes which would allow cases to revert to the tort system at various points of the trust fund's life. This would undermine the certainty and finality that insurers and manufacturers/defendants seek.

Against this background and in common with the industry generally, the Group in the US receives notifications and approaches from, and on behalf of, insureds who previously had peripheral or secondary involvement in asbestos litigation indicating that they may be seeking coverage under Group policies. Given the uncertainties outlined above as to the potential of loss suffered, the availability of coverage and the often long delay in reporting these issues it is difficult to predict the outcome of these notifications and approaches. The greatest difficulty is with estimating whether the Group has any liability as many of these are discharged at no cost to the Group or have been settled below the quantum sought, although there can be no certainty that this will always be the case. It is clear that there is unlikely to be any firm direction in case law or legislation which would allow for these issues to be resolved satisfactorily in the near term and no likelihood of the plaintiffs' bar in the US easing its aggressive stance with litigation. Management, therefore, expect that these notifications and approaches will continue to be received for some time to come. One such approach received during 2004 from General Motors Corporation is now the subject of ongoing litigation.

Financial enhancement products

Within the financial enhancement portfolio of Financial Structures Limited, a subsidiary of the US Group, are a variety of financial enhancement product exposures including collateralised debt obligations (CDO), credit enhancement and residual value insurance contracts. These products are no longer written.

During the first quarter 2005 we terminated a number of these contracts for a net pre tax gain of \$7m. The fair value of the remaining two contracts was a liability of \$162m at 30 September 2005, representing a \$5m increase since 31 December 2004.

Litigation

As discussed above, the Group is subject to litigation, mediation and arbitration, and regulatory and other sectoral inquiries in the normal course of its business. This is particularly so in respect of its US Operation where there are a number of ongoing litigations. The status of two major US litigations is as follows:

Student Finance Corporation

In early 2002, issues arose in connection with a series of credit risk insurance policies covering loans made to students in various post secondary trade schools, primarily truck driving schools. The original loan portfolio had a face value of approximately \$501m. In mid July 2002, Royal Indemnity Company, a US subsidiary, filed lawsuits in Texas state court, seeking among other things rescission of these policies in response to a systematic pattern of alleged fraud, misrepresentation and cover up by various parties, which among other things concealed the default rate of the loans. Since Royal Indemnity's lawsuits seek rescission of these policies, all the Group's financial accounting entries associated with the transactions have been reversed. The ultimate outcome of the suits is uncertain.

The foregoing rescission actions gave rise to other related lawsuits filed in Delaware by MBIA Insurance Corporation (MBIA) and various banks, seeking to enforce the Royal Indemnity credit risk insurance policies. Plaintiffs in the Delaware actions included Wells Fargo Bank Minnesota, NA ('Wells Fargo'), in its capacity as trustee of a number of securitisations that were collateralised by student loans, and MBIA which insured the obligations issued through these securitisations. These actions were heard in US District Court, District of

Delaware. Plaintiffs in the Delaware actions moved for summary judgement. The Court granted summary judgement to MBIA and Wells Fargo on 30 September 2003. Royal Indemnity appealed each of these judgements.

On 4 October 2005 the Court of Appeal upheld the District Court's ruling that Royal Indemnity waived its right to rescind its policy obligations based on Student Finance Corporation's fraud and that the policies remain in force. The Court, however, concluded that Royal Indemnity has raised a triable issue as to whether all of the losses claimed by the beneficiaries were covered under those policies. As a result, the Court overturned the summary judgement and returned the case to the District Court to determine coverage and whether the policies cover all of the losses claimed. Royal Indemnity has filed a petition for a rehearing of its appeal.

Calculated through 30 September 2005, the total amount awarded by the foregoing summary judgements was approximately \$384m. In April 2005 and October 2005, respectively, PNC Bank and Wilmington Trust, plaintiffs in the Delaware actions, agreed to discontinue their parts of the legal action following agreed settlements.

The ultimate outcome of these lawsuits is necessarily uncertain. In the event Royal Indemnity's lawsuits do not result in complete rescission of all applicable policies, any loss on the loan portfolio will be reduced to the extent of reinsurance available to Royal Indemnity, recoveries from the original borrowers on the defaulted loans, and reserves, if any. Any losses may be further offset by recoveries from other third parties. To that end, Royal Indemnity is actively pursuing recovery actions against certain trucking school entities and professional advisers. However, there can be no assurance that the outcome of these lawsuits, the availability of reinsurance recoveries, the extent and amount of recoveries from the borrower under the respective loan programmes and/or reserves, if any, among other factors, will be resolved in favour of Royal Indemnity.

Based on current knowledge of the circumstances, legal advice received and the

range of other actions available to the Group to manage any insurance exposure, the directors believe that the resolution of the legal proceedings in respect of these credit risk insurance policies will not have a material adverse effect on the Group's financial position.

World Trade Center

The estimated cost of the insurance losses associated with the terrorist action of 11 September 2001 is a gross loss in excess of £1bn, reduced to £280m net of reinsurance. This was an unprecedented event, which still has unresolved issues in respect of both the gross loss and consequent extent of the reinsurance recoveries. The loss estimate has been prepared on the basis of the information currently available as to the magnitude of the claims, including business interruption losses. The final cost may be different from the current estimate due to the uncertainty associated with ongoing appeals and the valuation and allocation process which is currently underway in respect of the Twin Towers complex. Appraisal hearings are scheduled to continue until July 2006. Nevertheless, the directors believe their estimate of the gross and net loss is appropriate based on the information available to them and that there will be no material adverse effect on the Group's financial position.

Restructuring Plans

Our US restructuring plans are complex and are subject to particular risks. Although we have reduced the number of lead regulatory states, our US subsidiaries are subject to government regulation in their states of domicile and also in each of the jurisdictions in which they are licensed or authorised to do business. In the US, the conduct of insurance business is regulated at the state level and not by the federal government. We have been engaged in constructive dialogue on our restructuring plans with the US regulators in a number of jurisdictions applying differing insurance regulations and in May 2005 were advised by the domiciliary states that our RBC plans had been approved.

Year end US filings were submitted showing a consolidated US regulatory capital

and surplus position at 31 December 2004 of approximately 1.8 times the NAIC ratio. The consolidated US regulatory capital and surplus position at 30 September 2005 was \$833m, which is estimated to be 1.8 times the NAIC ratio. Following the completion of the disposal of the Nonstandard Auto business the NAIC ratio increased to 2.3 times.

Our objective is to reduce or eliminate the Group's exposures in relation to our US business and we continue to review all options.

Statutory Information

Condensed income statement

Summary consolidated balance sheet - statutory basis

Summary statement of recognised income and expense

Summary cashflow statement

Explanatory notes

CONDENSED INCOME STATEMENT

STATUTORY BASIS

	9 Months 2005 £m	9 Months 2004* £m	12 M
Continuing operations			
Net written premiums	4,138	3,689	

Income			
Net earned premiums	4,086	4,426	

Net investment return	494	397	
Other operating income	65	91	
	<hr/>	<hr/>	<hr/>
Total income	4,645	4,914	
Expenses			
	<hr/>	<hr/>	<hr/>
Net claims and benefits	(2,730)	(3,214)	(
Underwriting and policy acquisition costs	(1,321)	(1,362)	(
Other operating expenses	(172)	(189)	
Profit on change of pension scheme design	180	-	
	<hr/>	<hr/>	<hr/>
Total expenses	(4,043)	(4,765)	(
	<hr/>	<hr/>	<hr/>
Results of operating activities	602	149	
Finance costs	(82)	(63)	
Profit/(loss) on disposals	62	(6)	
Net share of profit after tax of associates	1	8	
	<hr/>	<hr/>	<hr/>
Profit before tax on continuing operations	583	88	
Income tax expense	(205)	(60)	
	<hr/>	<hr/>	<hr/>
Profit/(loss) for the period from continuing operations	378	28	
	<hr/>	<hr/>	<hr/>
Discontinued operations			
Loss for the period from discontinued operations	-	(20)	
	<hr/>	<hr/>	<hr/>
Profit/(loss) for the period	378	8	
	<hr/>	<hr/>	<hr/>
Attributable to:			
Equity holders of the Company	338	(21)	
Minority interests	40	29	
	<hr/>	<hr/>	<hr/>

Profit/(loss) for the period	378	8	

Earnings per share attributable to the ordinary shareholders of the Company during the period			
Basic	11.5p	(0.9)p	(
Diluted	11.4p	(0.9)p	(
Earnings per share attributable to the ordinary shareholders of the Company during the period continuing operations			
Basic	11.5p	(0.2)p	(
Diluted	11.4p	(0.2)p	(

Discontinued operations for the nine months to 30 September 2004 and year to 31 December 2004 relate to life businesses.

The attached notes are an integral part of these interim consolidated financial statements.

SUMMARY CONSOLIDATED BALANCE SHEET

STATUTORY BASIS

	30 September 2005 £m	30 September 2004* £m	31 Decem 20
ASSETS			
Goodwill and intangible assets	397	291	2
Property, plant and equipment	403	425	4
Investment property	422	401	4
Investments in associated undertakings	27	29	
Financial assets			
	-----	-----	-----
Equity securities	1,640	1,603	1,6
Debt and fixed income securities	11,366	9,504	11,1

Other	383	377	3
Total financial assets	13,389	11,484	13,1
Reinsurers' share of insurance contract liabilities	4,206	4,182	4,4
Insurance and reinsurance debtors	2,507	2,646	2,6
Deferred acquisition costs	465	469	4
Other debtors and other assets	708	1,024	7
Cash and cash equivalents	1,516	3,397	1,8
	24,040	24,348	24,6
Non-current assets and operations held for sale	319	6,078	
Total assets	24,359	30,426	24,6
EQUITY, RESERVES AND LIABILITIES			
Equity and reserves			
Share capital	1,667	1,645	1,6
Reserves	980	794	6
Shareholders' funds	2,647	2,439	2,3
Equity minority interests in subsidiary undertakings	385	354	3
Total equity and reserves	3,032	2,793	2,6
Liabilities			
Financial liabilities			
Loan capital	1,060	1,055	1,0
Borrowings	290	401	3
Other	128	161	1
Total financial liabilities	1,478	1,617	1,5

Insurance contract liabilities	16,929	17,204	17,2
Insurance and reinsurance liabilities	506	754	7
Provisions and other liabilities	2,256	2,452	2,3

Liabilities of operations held for sale	21,169	22,027	21,9
	158	5,606	

Total liabilities	21,327	27,633	22,0

Total equity, reserves and liabilities	24,359	30,426	24,6

The attached notes are an integral part of these interim consolidated financial statements.

These consolidated interim condensed financial statements have been approved for issue by the Board of Directors on 9 November 2005.

SUMMARY STATEMENT OF RECOGNISED INCOME AND EXPENSE

	9 Months 2005 £m	9 Months 2004* £m	12
Profit/(loss) for the period	378	8	
Exchange gains/(losses)	30	(5)	
Fair value gains/(losses) net of tax	45	(71)	
Pension fund actuarial gains/(losses) net of tax	27	45	

Net gains/(losses) not recognised in income statement	102	(31)	

Total recognised income/(expense) for the period	480	(23)	

SUMMARY CASHFLOW STATEMENT

	9 Months 2005 £m
Net cashflows from operating activities	(61)
Net cashflows from investing activities	(133)
Net cashflows from financing activities	(135)
<hr/>	
Net decrease in cash and cash equivalents	(329)
Cash and cash equivalents at the beginning of the period	1,864
Effect of exchange rate changes on cash and cash equivalents	48
<hr/>	
Cash and cash equivalents at the end of the period	1,583
<hr/>	
	9 Months 2005 £m
Cash and cash equivalents (includes bank overdrafts for the purposes of the cashflow statement)	1,583
Add: bank overdrafts	3
Less: operations held for sale	(70)
<hr/>	
Cash and cash equivalents	1,516
<hr/>	

The attached notes are an integral part of these interim consolidated financial statements.

EXPLANATORY NOTES

1. ACCOUNTING POLICIES

Adoption of International Financial Reporting Standards

In common with other European listed companies, the Group is required to prepare its consolidated financial statements for the year ending 31 December 2005 in accordance with the International Financial Reporting Standards (IFRS) endorsed by the European Union. These interim consolidated condensed financial statements have been prepared in accordance with the accounting policies that are anticipated to be used in preparation of the annual financial statements. New accounting policies have been summarised below. There is a possibility that the directors may determine that some changes are necessary when preparing the full annual financial statements for the first time in accordance with the accounting standards adopted for use in the European Union. The IFRS standards and IFRIC interpretations that will be applicable and adopted for use in the European Union at December 2005 are not known with certainty at the time of preparing this interim financial information.

The Group has accordingly restated its previously reported 2004 consolidated results and financial position. The effects of the adoption of new accounting policies which materially affected the financial statements of continuing business have been reflected within the 'First time adoption of IFRS' note as set out below. The restated comparative information has not been audited.

Basis of preparation

The consolidated interim condensed financial statements are prepared under the historical cost convention as modified by the revaluation of available for sale investment securities, investment property, Group occupied property, financial assets and financial liabilities held for trading and all derivative contracts.

Translation of foreign currencies

The results and financial position of all Group entities are translated from

their functional currency into sterling as follows:

- assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (which represents a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates); and
- all resulting exchange differences are recognised as a component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill arising on the acquisition of a foreign entity is treated as an asset of the foreign entity and translated at the closing exchange rate.

Transactions denominated in foreign currencies are translated at the prevailing rate at the date of the transaction and the resulting differences are included within the income statement.

Goodwill and intangible assets

Goodwill, being the difference between the cost of a business acquisition and the acquirer's interest in the net fair value of the identifiable assets and liabilities acquired, is initially capitalised in the balance sheet at cost and is subsequently recognised at cost less accumulated impairment losses. The cost of the acquisition is the amount of cash paid and the fair value of other purchase consideration given together with associated expenses. Goodwill is subject to an impairment review at least annually. If there are indications of impairment, the recoverable amount is determined. Where the carrying amount is

more than the recoverable amount, an impairment is recognised.

When calculating the goodwill arising on an acquisition, claims provisions are discounted to present value. Immediately following the acquisition, the claims reserves are valued at full nominal value. This increase in liabilities is matched by the recognition of an 'intangible asset arising from acquired claims provisions', representing the present value of future investment income implicit in the claims discount. The intangible asset is amortised over the expected run off period and is tested in the context of the liability adequacy test of insurance liabilities where the balances of intangible assets associated with insurance contracts is deducted from the carrying amount of the insurance liabilities.

Expenditure that increases the future economic benefits arising from computer software in excess of its standard of performance assessed immediately before the expenditure was made, is recognised as an intangible asset and amortised using the straight line method over 3 to 5 years.

Property, plant and equipment

Property, plant and equipment comprise Group occupied land and buildings, fixtures, fittings and equipment (including computer hardware and motor vehicles). These assets are depreciated over periods not exceeding their estimated useful life after taking into account residual values.

Group occupied property is stated at fair value, less subsequent depreciation for buildings. All other assets are stated at depreciated cost. Fair value movements are recorded in equity.

Fair value is based on current prices in an active market for similar property in the same location and condition and subject to similar contractual terms of ownership. Valuations are performed by external professionally qualified valuation surveyors on at least an annual basis, with reference to current market conditions.

An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Product classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event (other than a change in a financial variable) adversely affects the policyholder. Any contracts not meeting the definition of an insurance contract under IFRS are classified as investment contracts or derivative contracts, as appropriate.

Financial assets

On initial recognition of a financial asset, it is categorised as an available for sale financial asset. On subsequent measurement, investments are measured at fair value with changes in fair value recognised in equity. Where the cumulative changes recognised in equity represent an unrealised loss the individual asset or group of assets is reviewed to test whether an indication of impairment exists.

Securities whose fair values are readily determined and where the decline in the market price is not temporary in nature, the unrealised loss charged to equity is reclassified to realised losses for the year.

If the fair value of a previously impaired debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed and the reversal recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement.

Investment income is recognised in the income statement. Dividends on equity investments are recognised on the date at which the investment is priced 'ex

dividend'. Interest income is recognised using the effective interest method. Unrealised gains and losses on available for sale investments are recognised directly in equity, except for impairment losses and foreign exchange gains and losses on monetary items (which are recognised in the income statement). On derecognition of an investment, the cumulative gain or loss previously recognised in equity is recognised in the income statement.

Assets received as collateral under stock lending arrangements are recognised together with the related liability to repay the amounts received.

Investment property

Investment property, comprising freehold and leasehold land and buildings, is held for long term rental yields and is not occupied by the Group.

Investment property is recorded at fair value, measured by independent professionally qualified valuers, who hold a recognised and relevant professional qualification and have recent experience in the location and category of the investment property being valued, on an annual basis and by internal valuers for interim periods, with reference to current market conditions. Related unrealised gains and unrealised losses or changes thereof are recognised in investment income.

Derivative financial instruments and hedging

Derivatives are recognised in the balance sheet at fair value. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivatives that are classified as hedges are recorded in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Transactions are classified as hedging transactions when the following conditions for hedge accounting can be met:

- there is a formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge;
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cashflows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship;
- the effectiveness of the hedge can be reliably measured;
- for cashflow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cashflows that could ultimately affect profit or loss;
- the hedge is assessed on an ongoing basis and determined to have been highly effective.

Loan capital is hedged against the net investment in foreign entities. The effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the underlying hedged item is derecognised.

Cash and cash equivalents

Cash and cash equivalents are short term highly liquid investments that are subject to insignificant changes in value and are readily convertible into known amounts of cash. Cash and cash equivalents comprise financial assets with less than three months maturity from the date of acquisition.

Loan capital

Loan capital comprises subordinated bonds which are stated at the consideration received less transaction costs. Subsequently, it is measured at amortised cost using the effective interest rate method.

Employee benefits

Post retirement benefits

Contributions to defined contribution pension plans are charged as they become due.

The amounts charged (or credited where relevant) in the income statement relating to post retirement benefits in respect of defined benefit plans are as follows:

- the current service cost;
- the past service costs for additional benefits granted in the current or earlier periods;
- the interest cost for the period;
- the impact of any curtailments or settlements during the period;
- the expected return on plan assets (where relevant).

The current service cost in respect of defined benefit plans comprises the present value of the additional benefits attributable to employees' services provided during the period.

The present value of defined benefit obligations and the present values of additional benefits accruing during the period are calculated using the accrued benefit method.

Past service costs arise where additional benefits are granted. The cost of providing additional benefits is recognised on a straight line basis over the remaining period of service until such benefits vest. The cost of providing additional benefits that vest on their introduction are recognised immediately.

The calculation of the present value of accrued benefits includes an actuarial assumption of future interest rates which is used to discount the expected ultimate cost of providing the benefits. The discount rate is determined at each balance sheet date by reference to current market yields on high quality corporate bonds identified to match the currency and estimated term of the obligations. The interest cost for the period is calculated by multiplying the discount rate determined at the start of the period by defined benefit obligations during the period.

The change in the present value of the defined benefit obligation and the changes in the fair value of plan assets resulting from any curtailments and settlements of scheme liabilities during the period are recognised in the income statement. Additionally, any previous past service costs related to these liabilities are recognised in the gains or losses on settlement and curtailment.

The expected return on plan assets is calculated using market expectations, at the beginning of the period, of the investment returns on plan assets over the entire life of the related obligations.

Actuarial gains and losses arise from changes to actuarial assumptions when revaluing future benefits and from actual experience in respect of plan liabilities and investment performance of plan assets being different from previous assumptions. Actuarial gains and losses are recognised as a component of equity.

The value recognised in the balance sheet for post retirement plans are calculated as follows:

-- the present value of defined benefit obligation of the plan at the balance

sheet date;

- minus any past service cost not yet recognised;
- minus the fair value at the balance sheet date of the plan assets out of which the obligations are to be settled directly.

Share based compensation

The value of the employee share options and other share based payments is calculated at fair value at the grant date using appropriate and recognised option pricing models.

Vesting conditions, other than market conditions, are not taken into account when estimating the fair value of such awards but are taken into account by adjusting the number of equity instruments included in the ultimate measurement of the transaction amount. The value of the awards are recognised on a systematic basis over the period during which the employment services are provided. The proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Taxation

Taxation in the income statement is based on profits and income for the year as determined in accordance with the relevant tax legislation, together with adjustments to provisions for prior years. UK tax in respect of overseas subsidiaries and principal associated undertakings is recognised as an expense in the year in which the profits arise, except where the remittance of earnings can be controlled and it is possible that remittance will not take place in the foreseeable future, in which case UK tax is based on dividends received.

Deferred tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and the carrying amounts in the financial statements. Deferred tax assets are recognised

to the extent that it is probable that future taxable profits will be available against which these temporary differences can be utilised.

Dividend distribution

Dividends are recognised as a liability when the dividends are approved.

First time adoption of IFRS

The Group's financial statements for the year ended 31 December 2005 will be the first annual financial statements that comply with IFRS. These consolidated interim condensed financial statements have been prepared in accordance with accounting policies that are anticipated to be used in preparation of the annual financial statements.

The Group has applied IFRS 1, First Time Adoption of International Financial Reporting Standards, in preparing these consolidated interim condensed financial statements. The Group's transition date is 1 January 2004 and as such an opening IFRS balance sheet has been prepared at that date. Consequently, 2004 comparative information has been restated under these new accounting standards.

In order to make the transition to IFRS easier, IFRS 1 allows some exemptions from full retrospective application of certain standards. In preparing these consolidated interim financial statements in accordance with IFRS 1, the Group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

The Group has applied the transitional provisions in IFRS 4, Insurance Contracts, which leaves existing accounting policies for insurance contracts unchanged.

The Group has elected to apply the following optional exemptions from full retrospective application:

Business combinations exemption

The Group has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the 1 January 2004 transition date.

Cumulative translation differences exemption

The Group has elected to set the previously accumulated cumulative translation to zero at 1 January 2004. This exemption has been applied to all subsidiaries in accordance with IFRS 1.

Designation of financial assets and financial liabilities exemption

The Group reclassified various securities as available for sale investments with fair value movements recognised in equity.

The Group has applied the following mandatory exceptions from retrospective application:

Derecognition of financial assets and liabilities exception

Financial assets and liabilities derecognised before 1 January 2004 are not rerecognised under IFRS.

Hedge accounting exception

Management has claimed hedge accounting from 1 January 2004 only if the hedge relationship meets all the hedge accounting criteria under IAS 39.

Estimates exception

Estimates under IFRS at 1 January 2004 are consistent with estimates made for the same date under UK GAAP.

2. RECONCILIATIONS BETWEEN IFRS AND UK GAAP

The following reconciliations provide details of the impact of the transition on:

- profit/(loss) for the period ended 30 September 2004 and the year ended 31 December 2004;
- equity at 1 January 2004, 30 September 2004 and 31 December 2004; and
- cashflows for the period ended 30 September 2004.

Explanations of the adjustments are also set out below.

PROFIT/(LOSS) FOR PERIOD ENDED 30 SEPTEMBER 2004 AND THE YEAR ENDED 31 DECEMBER 2004

	Note	Period ended 30 September 2004 £m	Year en 31 Decem 2004
Loss for the period as reported under UK GAAP		(135)	(
Adjusted for:			
Discontinued life	A	14	
Insurance contracts reclassified to financial instruments	B	16	
Investment return	C	39	
Equalisation provisions	D	40	
Internal software costs capitalised	E	15	
Foreign exchange	F	3	
Reversal of amortisation of goodwill	G	9	
Loan capital	H	3	

Deferred tax	I	(2)
Other	L	6
<hr/>		
Profit/(loss) for the period as reported under IFRS		8
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EQUITY AT 1 JANUARY 2004, 30 SEPTEMBER 2004 AND 31 DECEMBER 2004

	Note	1 January 2004 £m	30 September 2004 £m	31 December 2004 £m
Total equity and reserves as reported under UK GAAP		3,332	3,151	
Adjusted for:				
Discontinued life	A	9	(5)	
Insurance contracts reclassified to financial instruments	B	(147)	(133)	
Equalisation provisions	D	319	358	
Internal software costs capitalised	E	18	36	
Reversal of amortisation of goodwill	G	-	9	
Deferred tax	I	34	15	
Pensions	J	(681)	(603)	
Dividends	K	83	(32)	
Other	L	4	(3)	
<hr/>				
Total equity and reserves as reported under IFRS		2,971	2,793	
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Explanations

A. Discontinued life

Adjustments relating to discontinued life operations primarily relate to contracts reclassified as investment contracts, valuation differences taken to funds for future appropriations and mid to bid adjustments. This caused an increase in the life profit of £14m for the nine months to 30 September 2004 and £10m for the year ended 31 December 2004. The impact on equity was to increase shareholder funds by £9m at date of transition (1 January 2004) and decrease by £5m at 30 September 2004. There was no adjustment at 31 December 2004 as the life operations were disposed of during the year. All other adjustments below relate to continuing business.

B. Insurance contracts reclassified to financial instruments

Under IFRS, insurance contracts that do not contain a significant insurance risk are either classified as financial contracts if considered as such or as derivatives. Derivative contracts are marked to market on the balance sheet with the movement in the fair value taken through the income statement. At 31 December 2004 the impact of reclassifying certain contracts previously classified as insurance contracts was to increase pre tax profit for the year by £42m and decrease equity and reserves by £93m pre tax. At 30 September 2004 the impact was to increase pre tax profit for the period by £16m and decrease equity and reserves by £133m pre tax.

C. Investment return

Under UK GAAP, investment income comprises dividend income from equities, income on bonds based on accrued interest, rental income on properties, interest accrued on deposits and realised and unrealised gains and losses on investments.

Under IFRS, investment return comprises dividend income from equities, income from bonds, rental income and unrealised gains from properties, realised gains and losses and impairment charges. Income on bonds is based on the effective interest rate method whereby any discount or premium is amortised over the life of the security. Unrealised movements, other than those relating to investment property, are taken directly to equity. Under IFRS, available for sale

securities are tested for impairment and impairment losses are recognised in the income statement. The impact of the change in treatment of the investment return was to decrease the pre tax profit for the year to 31 December 2004 by £69m and increase the pre tax profit for the nine months to 30 September 2004 by £39m.

D. Equalisation provisions

Under UK GAAP, equalisation provisions are established for future catastrophe and other unusual losses. Under IFRS, such losses are not provided for until incurred. The adjustment reflects the reversal of the equalisation provisions which at 31 December 2004 amounted to £356m and at 30 September 2004 amounted to £358m.

E. Internal software costs capitalised

Under UK GAAP, the costs of software development are predominantly expensed as incurred. Under IFRS, these costs are capitalised and amortised over the useful life of the software, normally being three to five years. The impact is an increase of £21m in the pre tax profit for the period to 31 December 2004 and £15m for 30 September 2004, and a pre tax increase of £39m in the equity and reserves at 31 December 2004 and £36m at 30 September 2004.

F. Foreign exchange

Under UK GAAP, income and expenses of foreign entities are translated using the closing exchange rate. Under IFRS, income and expenses are translated at the average rate of exchange.

On debt securities and other interest bearing available for sale investments, the changes in fair value due to foreign exchange movements are recognised in the income statement. The impact of this adjustment is to decrease the pre tax profit for the year ended 31 December 2004 by £32m and increase for the nine months ended 30 September 2004 by £3m.

G. Reversal of amortisation of goodwill

Amortisation of goodwill is not permitted under IFRS. This adjustment of £11m during the year to 31 December 2004 and £9m for the nine months to 30 September 2004 represents the reversal of goodwill under UK GAAP.

H. Loan capital interest

Under UK GAAP, the financial statements reflect an accrual or prepayment for the interest accrued on derivatives hedging loan capital interest. Under IFRS, this accrual or prepayment is reversed and the fair value of the derivative contracts is reflected in the financial statements. At 31 December 2004 the impact was an increase in pre tax profit for the year of £3m and at 30 September 2004 an increase for the nine months of £3m.

I. Deferred tax

Deferred tax is recognised under UK GAAP on timing differences, whereas under IFRS deferred tax is recognised on temporary differences. Further, under UK GAAP, deferred tax balances are discounted whereas under IFRS, no allowance is made for the time value of money in calculating the deferred tax provisions. The adjustments relate to both the change in basis in the calculation of deferred tax and the deferred tax impact of other IFRS adjustments made that affect profit/(loss) for the period. The impact of changes to deferred tax is to decrease profit for the year ended 31 December 2004 by £4m and to increase equity and reserves by £31m at that date and the nine months to 30 September 2004 by £2m and £15m respectively.

J. Pensions

Under UK GAAP, the cost of providing pension benefits is accounted for over the employees' working lives on a systematic basis as advised by qualified actuaries. Under IFRS, the income statement charge comprises the current service cost, past service cost, interest cost, the impact of any curtailment or

settlements in the period and the expected return on plan assets. There was no material impact on profit for the year ended 31 December 2004.

Under UK GAAP, the accrual or prepayment included on the balance sheet represents the difference between the expenses charged in the income statement and the cash paid into the scheme. Under IFRS, the full pension asset or deficit is carried on the balance sheet. The impact of this adjustment at 31 December 2004 is a pre tax decrease in equity and reserves of £759m and at 30 September 2004 a decrease of £603m.

K. Dividends

Under UK GAAP, all dividends relating to an accounting period that are proposed up to the date of the approval of the financial statements by the Board of Directors are accrued in that accounting period. Under IFRS, only dividends approved during the year are accrued. The adjustment reflects the impact of reversing the proposed dividends, which at 31 December 2004 was £86m and at 30 September 2004 was £32m.

L. Other

Other include the impact of adjustments relating to determination of the fair valuation of an asset using bid price (mid market price under UK GAAP) and other miscellaneous adjustments.

3. CASHFLOW RECONCILIATION FOR PERIOD ENDED 30 SEPTEMBER 2004

The Group's consolidated cashflow statements are presented in accordance with IAS 7, Cashflow Statements. The statements present substantially the same information as that required under UK GAAP as required by UK Financial Reporting Standard No.1, as revised, with the exception that the UK GAAP cashflow excludes the cashflows of the Group's life insurance funds. Under IFRS, these cashflows are required to be presented. These are presented as discontinued activities.

Under UK GAAP, the Group's cash comprises cash in bank. Under IFRS, cash and cash equivalents include cash and short term investments with original maturities of three months or less. In addition, under UK GAAP, cash flows are presented for operating activities; returns on investments and servicing of finance; taxation; capital expenditure and financial investment; acquisitions and disposals; equity dividends paid; management of liquid resources and financing. IFRS requires the classification of cashflows as resulting from operating, investing and financing activities. Cashflows from capital expenditure and financial investment, acquisitions and disposals, shown separately under UK GAAP, are included as part of the investing activities under IFRS. The payment of dividends to shareholders is included as a financing activity under IFRS.

4. CHANGES IN SHAREHOLDERS' EQUITY FOR NINE MONTHS TO 30 SEPTEMBER

	2005			2004	
	Total shareholders' funds	Minority interests	Total equity and reserves	Total shareholders' funds	Minor inter
	£m	£m	£m	£m	
Balance at 1 January	2,321	368	2,689	2,616	
Profit/(loss) for the period	338	40	378	(21)	
Exchange gains/(losses)	42	(12)	30	(5)	
Fair value gains/(losses) net of tax	47	(2)	45	(71)	
Pension fund actuarial gains net of tax	27	-	27	45	
New share issue	5	-	5	7	
Share options	7	-	7	3	
Final dividend	(86)	(9)	(95)	(83)	
Interim dividend	(49)	-	(49)	(47)	
Preference dividend	(5)	-	(5)	(5)	
Disposal of subsidiaries	-	-	-	-	

Balance at 30 September	2,647	385	3,032	2,439
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5. EARNINGS PER SHARE

The earnings per share is calculated by reference to the result attributable to the equity shareholders and the weighted average number of shares in issue during the period. On a basic and diluted basis this was 2,894,875,646 and 2,911,197,594 respectively (excluding those held in ESOP trusts). The number of shares in issue at 30 September 2005 was 2,893,815,605 (excluding those held in ESOP trusts).

6. NON CURRENT ASSETS AND OPERATIONS HELD FOR SALE

Non current assets and operations held for sale relate to the Group's holding in Rothschilds Continuations Holdings AG and Nonstandard Auto.

RESULTS FOR 2004

The results for the year ended 31 December 2004 and the balance sheet at that date, which have been included as comparatives in the nine months results, are not statutory accounts. The statutory Group financial statements for the year to 31 December 2004 of Royal & Sun Alliance Insurance Group plc have been delivered to the Registrar of Companies. The independent auditors' report on the Group financial statements for the year ended 31 December 2004 is unqualified and does not contain a statement under Section 237(2) or (3) of the Companies Act 1985. The independent auditors' report draws attention to the presentation of equalisation reserves in the Group financial statements by way of emphasis, without qualifying the report. The accounting treatment of these items in the Group's financial statements is in accordance with the requirements of Schedule 9A to the Companies Act 1985.

The following reconciliations provide a quantification of the effect of the transition to IFRS on both the income statement and balance sheet as at 31 December 2004.

RECONCILIATION FROM UK GAAP TO IFRS INCOME STATEMENT PRESENTED ON A MANAGEMENT BASIS

YEAR ENDING 31 DECEMBER 2004

	UK GAAP	Foreign(1) exchange	Investment(2) income	Other(3)
	£m	£m	£m	£m
Net written premiums	5,206	(88)	-	(36)
-----	-----	-----	-----	-----
Underwriting result	(231)	(27)	-	(19)
Investment result	664	-	(73)	-
-----	-----	-----	-----	-----
Insurance result	433	(27)	(73)	(19)
Discontinued life	94	-	-	(94)
Total other activities	(71)	(3)	(74)	92
-----	-----	-----	-----	-----
Operating result	456	(30)	(147)	(21)
Total interest, goodwill, CER	(141)	-	-	30
Short term investment fluctuations	(78)	-	78	-
Reorganisation costs	(126)	(2)	-	10
Discontinued life	-	-	-	104
Loss on disposal of subsidiaries	(110)	-	-	1
-----	-----	-----	-----	-----
Profit before tax	1	(32)	(69)	124
Taxation	(110)	-	23	(27)
Loss after tax	(109)	(32)	(46)	97
Minority interests	(40)	-	-	(5)
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Loss attributable to shareholders	(149)	(32)	(46)	92

Notes:

(1) The foreign exchange adjustment reflects the change from translating the results of foreign entities at closing rate under UK GAAP to average rate under IFRS.

(2) Investment income adjustments represent the reclassification of investment return and the move from using the Longer Term Investment Return bases to available for sale, which takes the majority of unrealised gains/losses directly to equity.

(3) Other adjustments include the reclassification of certain contracts as derivatives and the movement in the fair value of such contracts reflected in the income statement. It also reflects the reversal of the claims equalisation charge, reversal of amortisation of goodwill and adjustments relating to employee benefits.

RECONCILIATION FROM UK GAAP TO IFRS BALANCE SHEET AS AT 31 DECEMBER 2004
PRESENTED ON A MANAGEMENT BASIS

	UK GAAP	Impact	Reclassification	IFRS
	£m	£m	£m	
Assets				
Goodwill and intangible assets	184	50	56	290
Property and equipment	186	-	264	450
Total investments	15,469	-	(1,888)	13,581
Reinsurers share of insurance contract liabilities	4,153	-	271	4,424
Total other assets	3,975	43	(20)	3,998
Cash and cash equivalents	359	-	1,507	1,866

Non-current assets and operations held for sale	24,326	93	190	24,6
	-	-	81	
Total assets	24,326	93	271	24,6
Equity, reserves and liabilities				
Equity and reserves				
Shareholders' funds	2,672	(351)	-	2,3
Minority interests	367	1	-	3
Total equity and reserves	3,039	(350)	-	2,6
Loan capital	1,051	-	-	1,0
Total equity, reserves and loan capital	4,090	(350)	-	3,7
Liabilities				
Insurance contract liabilities	17,408	(367)	232	17,2
Provisions and other liabilities	2,828	810	(38)	3,6
Liabilities of operations held for sale	20,236	443	194	20,8
	-	-	77	
Total liabilities	20,236	443	271	20,9
Total equity, reserves and liabilities	24,326	93	271	24,6

Notes:

The impact on equity primarily relates to the impact of IAS 19, Employee Benefits, in respect of pensions, the reversal of the claims equalisation provision, capitalisation of software, reversal of amortisation of goodwill and

certain contracts being reclassified as derivatives and marked to market.

The reclassifications comprise certain investments with a duration of less than three months reclassified to cash and cash equivalents, computer software from property and equipment to intangible assets, reclassification of Group owned property from investments to property and equipment and reclassification of assets and liabilities of operations held for sale.