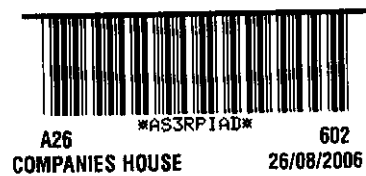


esure Services Limited

Directors' report and financial statements

**For the year ended
31 December 2005**



esure Services Limited

Company information

Directors	P J Wood P J Graham A P Whitehouse P A Hodgkinson (resigned 07/09/2005) C Batabyal (appointed 01/08/2005) J S Edwards (appointed 13/09/2005)
Secretary	S M MacDonald
Company number	2135610
Registered office	The Observatory Reigate Surrey RH2 0SG
Auditors	KPMG Audit Plc Chartered Accountants & Registered Auditor London

esure Services Limited

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esure Services Limited

**Directors' report
For the year ended 31 December 2005**

The directors present their report and the financial statements for the year ended 31 December 2005.

Principal activities and review of business

The company is principally engaged as a service provider for other members of the esure group of companies and members of the First Alternative group of companies.

On 1 January 2005 the company acquired the business of First Alternative Insurance Services Limited for £1.

Results and dividends

The loss for the year, after taxation, amounted to £2,000 (2004 - Loss £51,000) .

The directors do not recommend the payment of a dividend.

Directors

The directors who served during the year were:

P J Wood

P J Graham

A P Whitehouse

P A Hodgkinson (resigned 07/09/2005)

C Batabyal (appointed 01/08/2005)

J S Edwards (appointed 13/09/2005)

None of the directors who held office at the end of the financial year had any disclosable interests in the shares of the company. The interests of P J Wood and P J Graham in the shares of esure Holdings Limited are disclosed in the directors' report of that company. The interests of A P Whitehouse and C Batabyal in the shares of esure Holdings Limited are disclosed in the directors' report of esure Insurance Limited.

Certain directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Auditors

Pursuant to a shareholders' resolution, the company is not obliged to reappoint its auditors annually and KPMG Audit Plc will therefore continue in office.

By order of the board



Sue MacDonald
Company Secretary
22 February 2006

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of esure Services Limited

We have audited the financial statements of esure Services Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 2, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

22 February 2006

esure Services Limited

**Profit and loss account
For the year ended 31 December 2005**

	Note	2005 £000	2004 £000
Turnover	1, 2	135,758	106,671
Administrative expenses		(136,489)	(107,163)
Other operating income	3	578	707
Operating (loss)/profit	4	(153)	215
Interest receivable	7	376	55
Interest payable	8	(90)	-
Profit on ordinary activities before taxation		133	270
Tax on profit on ordinary activities	9	(135)	(321)
Loss on ordinary activities after taxation		(2)	(51)

All amounts relate to continuing operations.

There were no recognised gains and losses for 2005 or 2004 other than those included in the profit and loss account.

The notes on pages 6 to 12 form part of these financial statements.

esure Services Limited

Balance sheet
As at 31 December 2005

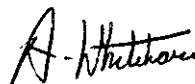
	Note	£000	2005 £000	£000	2004 £000
Fixed assets					
Tangible fixed assets	10		9,719		12,431
Current assets					
Debtors	11	17,419		21,510	
Cash at bank and in hand		5,290		5,028	
		<u>22,709</u>		<u>26,538</u>	
Creditors: amounts falling due within one year	12	(30,791)		(37,330)	
Net current liabilities			<u>(8,082)</u>		<u>(10,792)</u>
Total assets less current liabilities			1,637		1,639
Creditors: amounts falling due after more than one year	13		(1,500)		(1,500)
Net assets			<u>137</u>		<u>139</u>
Capital and reserves					
Called up share capital	15		500		500
Profit and loss account	16		(363)		(361)
Shareholders' funds - all equity	17		<u>137</u>		<u>139</u>

The notes on pages 6 to 12 form part of these financial statements

The financial statements were approved by the board on 22 February 2006 and signed on its behalf.



P J Graham
Director



A P Whitehouse
Director

**Notes to the financial statements
For the year ended 31 December 2005**

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements except as indicated below.

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

As the company is a wholly owned subsidiary of esure Holdings Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of esure Holdings Limited, within which this company is included, can be obtained from the address given in note 20.

1.2 Cash flow

The financial statements do not include a cash flow statement because the company is exempt from the requirement to prepare such a statement under the Financial Reporting Standard No. 1 (revised). The cash flows of the company are included in the consolidated group cash flow statements of esure Holdings Limited.

1.3 Turnover

Turnover comprises the invoiced value of goods and services supplied by the company, exclusive of Value Added Tax and trade discounts.

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Fixtures and fittings	-	3 to 8 years	straight line
Office equipment	-	3 years	straight line
Computer equipment	-	3 to 5 years	straight line

1.5 Deferred taxation

Provision is made in full for all taxation deferred in respect of timing differences that have originated but not reversed by the balance sheet date, except for gains on disposal of fixed assets which will be rolled over into replacement assets. No provision is made for taxation on permanent differences.

Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered.

1.6 Pensions

The company is a participating employer in both a defined contribution pension scheme and a defined benefit pension scheme, based upon final pensionable pay, operated by Halifax plc. The assets of the schemes are held separately from those of the company in independently administered funds.

In respect of the defined contribution scheme the amount charged against profits represents the contributions payable to the scheme in respect of the current accounting year.

For the defined benefit scheme, because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits' the scheme has been accounted for, in these financial statements, as if the scheme was a defined contribution scheme. As a result the amount charged against profits represents the contributions payable to the scheme in respect of the current accounting year.

esure Services Limited

**Notes to the financial statements
For the year ended 31 December 2005**

2. Turnover

The whole of the turnover is attributable to management fees received and receivable from within the United Kingdom.

3. Other operating income

	2005	2004
	£000	£000
Government grants received	<u>578</u>	<u>707</u>

4. Operating (loss)/profit

The operating (loss)/profit is stated after charging:

	2005	2004
	£000	£000
Depreciation of tangible fixed assets:		
- owned by the company	4,142	4,926
Auditors' remuneration	36	17
Auditors' remuneration - non-audit	-	24
	<u>4,178</u>	<u>5,067</u>

Auditors' remuneration - non-audit relates to consultancy fees in connection with regulatory change.

5. Staff costs

Staff costs were as follows:

	2005	2004
	£000	£000
Wages and salaries	37,119	30,597
Social security costs	3,562	2,940
Other pension costs	1,013	798
	<u>41,694</u>	<u>34,335</u>

The average monthly number of employees, including directors, during the year was 1,378 (2004 - 1,258).

6. Directors' remuneration

During the year retirement benefits were accruing to 3 directors (2004 - 2) in respect of defined benefit pension schemes.

Although the directors are employed and paid by the company, their emoluments are in respect of their duties as directors of esure Insurance Limited and First Alternative Insurance Company Limited. Therefore their remuneration is disclosed in the financial statements of those companies and their interests in shares in the ultimate parent undertaking, esure Holdings Limited, in the directors' report of that company.

esure Services Limited

**Notes to the financial statements
For the year ended 31 December 2005**

7. Interest receivable

	2005	2004
	£000	£000
Interest receivable from group companies	246	-
Other interest receivable	130	55
	<u>376</u>	<u>55</u>

8. Interest payable

	2005	2004
	£000	£000
On loans from group undertakings	90	-
	<u>90</u>	<u>-</u>

9. Taxation

	2005	2004
	£000	£000
Analysis of tax charge in year		
Current tax (see note below)		
UK corporation tax charge on profits of the year	229	789
Adjustments in respect of prior periods	51	88
Total current tax	<u>280</u>	<u>877</u>
Deferred tax		
Origination and reversal of timing differences	(145)	(556)
Total deferred tax (see note 14)	<u>(145)</u>	<u>(556)</u>
Tax on profit on ordinary activities	<u>135</u>	<u>321</u>

Factors affecting tax charge for year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK applicable to the company (30%). The differences are explained below:

	2005	2004
	£000	£000
Profit on ordinary activities before tax	133	270
Profit on ordinary activities multiplied by the relevant standard rate of corporation tax in the UK of 30% (2004 - 30%)	40	81
Effects of:		
Expenses not deductible for tax purposes	134	337
Capital allowances for period in excess of depreciation	55	371
Adjustments to tax charge in respect of prior periods	51	88
Current tax charge for year (see note above)	<u>280</u>	<u>877</u>

There were no factors that may affect future tax charges.

esure Services Limited

Notes to the financial statements
For the year ended 31 December 2005

10. Tangible fixed assets

	Furniture, fittings and equipment £000
Cost	
At 1 January 2005	25,142
Additions	1,430
At 31 December 2005	26,572
Depreciation	
At 1 January 2005	12,711
Charge for the year	4,142
At 31 December 2005	16,853
Net book value	
At 31 December 2005	9,719
At 31 December 2004	12,431

11. Debtors

	2005 £000	2004 £000
Due within one year		
Amounts owed by group undertakings	12,683	8,879
Other debtors	3,879	11,919
Prepayments and accrued income	5	5
Deferred tax asset (see note 14)	852	707
	17,419	21,510

12. Creditors:
Amounts falling due within one year

	2005 £000	2004 £000
Amounts owed to group undertakings	148	57
Corporation tax	229	789
Other creditors	14,407	20,719
Accruals	16,007	15,765
	30,791	37,330

esure Services Limited

**Notes to the financial statements
For the year ended 31 December 2005**

13. Creditors:
Amounts falling due after more than one year

	2005	2004
	£000	£000
Subordinated loan from group undertaking	1,500	1,500
	<u>1,500</u>	<u>1,500</u>

The subordinated loan is repayable at two years notice and interest is payable at 6% per annum.

14. Deferred taxation

	2005	2004
	£000	£000
At 1 January	(707)	(151)
Released during the year	(145)	(556)
	<u>(852)</u>	<u>(707)</u>
At 31 December	(852)	(707)
	<u>(852)</u>	<u>(707)</u>

The deferred tax asset is made up as follows:

	2005	2004
	£000	£000
Accelerated capital allowances	(852)	(707)
	<u>(852)</u>	<u>(707)</u>
	<u>(852)</u>	<u>(707)</u>

There were no amounts not provided.

15. Share capital

	2005	2004
	£000	£000
Authorised, allotted, called up and fully paid		
500,000 Ordinary shares of £1 each	500	500
	<u>500</u>	<u>500</u>

16. Reserves

Profit and loss account	£000
At 1 January 2005	(361)
Loss retained for the year	(2)
	<u>(363)</u>
At 31 December 2005	(363)
	<u>(363)</u>

esure Services Limited

**Notes to the financial statements
For the year ended 31 December 2005**

17. Reconciliation of movement in shareholders' funds

	2005 £000	2004 £000
Loss for the year	(2)	(51)
Shares issued during the year	-	500
	<u>(2)</u>	<u>449</u>
Opening shareholders' funds	139	(310)
Closing shareholders' funds	<u>137</u>	<u>139</u>

18. Capital commitments

At 31 December 2005 the company had capital commitments as follows:

	2005 £000	2004 £000
Contracted for but not provided in these financial statements	<u>701</u>	<u>-</u>

19. Pension commitments

The company is a participating employer in both a defined contribution pension scheme and a defined benefit pension scheme, based upon final pensionable pay, operated by Halifax plc. 14 (2004 - 15) employees participate in the defined benefit scheme, the Halifax Retirement Fund (HRF), 468 (2004 - 398) employees participate in the defined contribution scheme,

Because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits' the HRF has been accounted for, in these financial statements, as if the scheme was a defined contribution scheme. The current deficit net of deferred taxation on the HRF at 31 December 2005, valued on an IAS 19 basis, is £499m (2004 - £568m).

The pension cost charge for the period represents contributions payable by the company to both pension schemes and amounted to £795,000 (2004 - £590,000) for the defined contribution scheme and £218,000 (2004 - £208,000) for the defined benefit scheme. There were no outstanding or prepaid contributions for either scheme at either the beginning or end of the financial year.

The latest full actuarial valuation was carried out at 31 March 2003 and was updated for IAS 19 purposes to 2004 and 2005 by a qualified independent actuary.

esure Services Limited

Notes to the financial statements For the year ended 31 December 2005

20. Ultimate parent undertaking and related party disclosures

The company is a wholly owned subsidiary undertaking of esure Holdings Limited, a company incorporated in Great Britain and the results of the company will be included within the consolidated financial statements of esure Holdings Limited. The registered office of esure Holdings Limited is The Observatory, Reigate, Surrey RH2 0SG.

The ultimate parent company, while not controlled by, is ultimately majority owned by HBOS plc, a company incorporated in Scotland. The results of the esure group will be included within those of HBOS plc on the basis of a joint venture relationship with a participating interest.

During the year HBOS plc supplied certain management services to the esure group in respect of IT and payroll services. Fees payable to HBOS plc for these services amounted to £2,422,000 (2004 - £1,676,000) of which £502,000 (2004 - £1,660,000) remained due at 31 December 2005.

St Andrews Insurance plc, a subsidiary of HBOS plc, underwrites travel, insurance on behalf of the esure group. Commissions receivable from St Andrews Insurance plc amounted to £521,000 (2004 - £264,000) of which £nil (2004 - £nil) remained due at 31 December 2005.,

Bank of Scotland, a subsidiary of HBOS plc, issues personal loans on behalf of the esure group. Commissions receivable from Bank of Scotland amounted to £71,000 (2004 - £nil) of which £nil (2004 - £nil) remained due at 31 December 2005.

As noted above, employees of the company are offered membership of pension schemes operated by Halifax plc. Administration costs associated with participation by employees of the company will be recharged to the company on a cost basis.

The esure group of companies shares certain services with the First Alternative group of companies. Their ultimate parent company, First Alternative Holdings Limited, while not controlled by, is ultimately majority owned by HBOS plc. During the year the company supplied certain IT, management and other services under a management agreement to First Alternative Insurance Company Limited, a wholly owned subsidiary undertaking of First Alternative Holdings Limited. Fees payable by First Alternative Insurance Company Limited for those services amounted to £35,347,000 of which £2,735,000 remained due at 31 December 2005. During the previous year the management agreement was with First Alternative Services Limited, a wholly owned subsidiary undertaking of First Alternative Holdings Limited. Fees payable by First Alternative Insurance Services Limited for those services amounted to £13,326,000 of which £10,874,000 remained due at 31 December 2004.