

**SCOTTISH FRIENDLY
INSURANCE SERVICES LIMITED**

DIRECTORS' REPORT & ACCOUNTS

31 December 2005



Registered Number: SC113007

SCOTTISH FRIENDLY INSURANCE SERVICES LIMITED

DIRECTORS' REPORT

The Directors present their Report and Audited Accounts for the year ended 31 December 2005.

Principal Activity

The principal activity of the Company is carrying on business as agents for the transaction of general branch insurance.

Dividend

The Directors do not recommend the payment of a dividend.

Directors & Directors' Interests

The Directors of the Company and their interests in the Company were as follows:

	Number of Shares	
	As at 31.12.05	As at 01.01.05
F C McBain (Appointed on 1 st January 2006)	-	-
G H Webster (Appointed on 1 st January 2006)	-	-
R G Thomson (Resigned on 31 st December 2005)	1	1
A D Forbes (Resigned on 31 st December 2005)	-	-

The share held by R G Thomson is held beneficially on behalf of Scottish Friendly Assurance Society Limited.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



Colin Saxby
Secretary

14th March 2006

SCOTTISH FRIENDLY INSURANCE SERVICES LIMITED

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.

Under applicable law the directors are also responsible for preparing a Directors' Report that complies with that law.

**INDEPENDENT AUDITORS' REPORT TO THE
MEMBERS OF SCOTTISH FRIENDLY
INSURANCE SERVICES LIMITED**

We have audited the financial statements of Scottish Friendly Insurance Services Limited for the year ended 31 December 2005 which the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement 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 other transactions 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.

Opinion

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 judgments 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.

**INDEPENDENT AUDITORS' REPORT TO THE
MEMBERS OF SCOTTISH FRIENDLY
INSURANCE SERVICES LIMITED (continued)**

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 profit 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
14 March 2006

191 West George Street
Glasgow
G2 2LJ

SCOTTISH FRIENDLY INSURANCE SERVICES LIMITED

PROFIT & LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 £	2004 £
Turnover	2	9,371	45,759
Administrative expenses	3	<u>10,044</u>	<u>45,923</u>
Operating loss		(673)	(164)
Interest receivable		673	164
Result for the financial year before and after tax		<u>Nil</u>	<u>Nil</u>

The company has no recognised gains or losses other than the result for the year.

SCOTTISH FRIENDLY INSURANCE SERVICES LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2005

	Note	2005 £	2004 £
CURRENT ASSETS			
Trade debtors		616	38,768
Cash at bank		<u>29,518</u>	<u>3,110</u>
		<u>30,134</u>	<u>41,878</u>

CREDITORS: Amounts falling due within one year

Amounts due to parent company	7,118	39,478
Amounts due to fellow subsidiary undertaking	21,395	-
Other creditors	<u>1,616</u>	<u>2,395</u>
	<u>30,129</u>	<u>41,873</u>

NET ASSETS	<u>5</u>	<u>5</u>
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CAPITAL AND RESERVES

Called up share capital	4	5	5
Profit and loss account		-	-

SHAREHOLDERS' FUNDS - All equity	<u>5</u>	<u>5</u>
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The Accounts were approved by the Board of Directors on 14th March 2006 :

Director  F C McBain

Director  G H Webster

SCOTTISH FRIENDLY INSURANCE SERVICES LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 £	2004 £
Net cash inflow from operating activities	5	26,034	276
Returns on investments and servicing of finance			
Interest received		<u>673</u>	<u>164</u>
Net cash inflow from returns on investments and servicing of finance		<u>673</u>	<u>164</u>
Increase in cash	6	<u>26,707</u>	<u>440</u>

SCOTTISH FRIENDLY INSURANCE SERVICES LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2005

1. Basis of Preparation

The Accounts are prepared under the historical cost accounting rules and in accordance with applicable accounting standards.

2. Turnover

Turnover comprises commissions received in the United Kingdom.

3. Administrative Expenses

	2005 £	2004 £
Administrative expenses include:		
Directors' emoluments	<u>500</u>	<u>500</u>
Audit fee	<u>1,116</u>	<u>1,116</u>
Management charge by parent undertaking	<u>6,178</u>	<u>39,478</u>

4. Share Capital

Authorised: 100 shares of £1 each	<u>£100</u>	<u>£100</u>
Allotted, called up and fully paid: 5 shares of £1 each	<u>£5</u>	<u>£5</u>

5. Net cash inflow from Operating Activities

	2005 £	2004 £
Operating Loss	(673)	(164)
Decrease/ (Increase) in Debtors	38,152	(13,461)
(Decrease) / Increase in Creditors	<u>(11,445)</u>	<u>13,901</u>
Net cash inflow from operating activities	<u>26,034</u>	<u>276</u>

SCOTTISH FRIENDLY INSURANCE SERVICES LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

6. Reconciliation of net cash flows to movement in Net Funds

	2005 £	2004 £
Increase in cash in year	26,707	440
Net Funds at 1 st January	<u>2,811</u>	<u>2,371</u>
Net Funds at 31 st December	<u>29,518</u>	<u>2,811</u>

7. Analysis of changes in Net Funds

	At 1/1/2005 £	Cash Flows £	At 31/12/2005 £
Cash at bank	<u>2,811</u>	<u>26,707</u>	<u>29,518</u>

8. Ultimate Parent Undertaking

The Company is a wholly owned subsidiary of Scottish Friendly Assurance Society Limited. Copies of those accounts may be obtained from the Secretary, Scottish Friendly Assurance Society Limited, Scottish Friendly House, 16 Blythswood Square, Glasgow G2 4HJ.

9. Related Party

During the year, Scottish Friendly Insurance Services Limited transacted with Scottish Friendly Assurance Society Limited, its ultimate parent company. Amounts owed to Scottish Friendly Assurance Society Limited at 31 December 2005 were £7,118 (2004 - £39,478). Also during the year Scottish Friendly Insurance Services Limited transacted with Scottish Friendly Asset Managers Limited, a fellow subsidiary undertaking. Amounts owed to Scottish Friendly Asset Managers Limited at 31 December 2005 were £21,395 (2004 - £nil).