

Personal Assurance Plc

Financial statements

For the year ended 31 December 2006

Grant Thornton 



Company No. : 1832067

Company information

Company registration number :	1832067
Registered office :	John Ormond House 899 Silbury Boulevard Central Milton Keynes MK9 3XL
Directors :	C W T Johnston K W Rooney Dr J P Barber H Harrison R Pease S Donald C Curling R Green
Secretary :	Dr J P Barber
Bankers :	The Co-operative Bank Plc 1 Birmingham Corporate Banking Centre PO Box 82 118-120 Colmore Row Birmingham B3 3BA
Solicitors :	Howes Percival Solicitors 252 Upper Third Street Grafton Gate East Milton Keynes MK9 1DZ
Auditors :	Grant Thornton UK LLP Registered Auditors Chartered Accountants Grant Thornton House 202 Silbury Boulevard Milton Keynes MK9 1LW

Index to the financial statements

Report of the directors	3 - 5
Report of the independent auditors	6 - 7
Principal accounting policies	8 - 9
Profit and loss account	10
Balance sheet	11 - 12
Notes to the financial statements	13 - 19

Report of the Directors

The directors present their report together with the audited financial statements for the year ended 31 December 2006

Principal activity

The company is principally engaged in transacting short-term health insurance business in the U K

Results and dividends

There has been approximately a 2% improvement in annual premium income to £15,933,000 (2005 £15,638,000). The company continues to maintain high liquidity with over 68% of total assets held as cash deposits and government fixed interest securities. At 31 December 2006 the total number of policies in force was 225,156 (2005 239,373) with a total annualised premium value of £16,279,000 (2005 £16,521,000).

As stated in the company's annual return to the Financial Services Authority the capital resources requirement at 31 December 2006 was £2,884,000 (2005 £2,809,000). Capital resources available to cover general insurance business capital resources requirement were £7,600,000 (2005 £7,508,000).

The profit for the year, before taxation of £1,645,000 (2005 £1,633,000) amount to £5,473,000 (2005 £5,400,000). During the year ordinary dividends of £6,109,000 were paid, with £2,281,000 deducted from reserves.

Directors

The present membership of the Board is set out below. All directors served throughout the year with the exception of H Harrison who was appointed as a director on 25 April 2006. No director held any shares in the company at any time during the year.

The interests of the directors and their families (including transactions committed to before the year end and shares held in the all employee share ownership plan) in the shares of the parent company at 1 January 2006 (or date of appointment if later) and at 31 December 2006 as recorded in the register maintained by the parent company in accordance with the provisions of the Companies Act 1985, were as follows:

	Ordinary shares of 5p each in Personal Group Holdings plc	
	At 31 December 2006	At 1 January 2006 or date of appointment if later
C W T Johnston (Chairman)	15,476,393	15,456,393
K W Rooney (Chief Executive)	75,651	72,724
J P Barber	299,811	298,997
H Harrison	253	-
R P Pease	77,717	76,903
C J Curling (Non-executive)	11,593	10,878
S M Donald (Non-executive)	6,607	5,793
R M Green (Non-executive)	21,932	21,154

On 27 April 2004 the Remuneration Committee of Personal Group Holdings Plc approved the award of options to purchase shares in Personal Group Holdings Plc as follows

	Number of Shares	Exercise price price per share	Earliest exercisable date
K W Rooney	69,704	186 5	27 April 2007
J P Barber	53,618	186 5	27 April 2007
R P Pease	6,675	186 5	27 April 2007
R P Pease	9,360	187 5	7 May 2007

During the year certain directors and officers were covered by third party indemnity insurance

Statement of directors' responsibilities

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 financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). 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,
- 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 the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware

- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Financial instruments

The financial risk management objectives of the company are to manage financial risks to a level acceptable to the board and to ensure that cash resources are always available to pay all liabilities as and when they fall due.

The company does not have any exposure to foreign currencies and does not use any derivatives or hedging to manage any of its liabilities.

The company is an insurance company regulated by the Financial Services Authority (FSA). The FSA requires that all insurance companies maintain a minimum solvency margin. In order to achieve this the company maintains the vast majority of its assets in UK government fixed interest securities and short term fixed interest deposits with several leading UK financial institutions.

Payment of creditors

It is the company's policy to pay all suppliers within the terms agreed at the time the order is made, subject to the satisfactory completion of the order by the supplier. The company had no trade creditors at the year end.

Charitable donations

Donations to charitable organisations amounted to £80,000 (2005 £126,000)

Auditors

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD



J P Barber
Director & Company Secretary

13 March 2007

Report of the independent auditors to the members of Personal Assurance Plc

We have audited the financial statements of Personal Assurance Plc for the year ended 31 December 2006 which comprise the principal accounting policies, the profit and loss account, the balance sheet, and notes 1 to 18. 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

The directors' responsibilities for preparing the Directors' Report and financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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.

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 United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
MILTON KEYNES

13 March 2007

Principal accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention except that investments are revalued at market value annually. They are prepared in accordance with accounting standards, to the extent that they are applicable to insurance companies, the provisions of Section 255 and Schedule 9A of the Companies Act 1985 and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005, as amended in December 2006, (the "ABI SORP")

The principal accounting policies of the company have remained unchanged from the previous year and are set out below

Basis of accounting

The annual basis of accounting is used

Premium recognition

Premium income is recognised on a receivable basis. Provision for unearned premiums is calculated to carry forward on a daily basis the proportion of premiums written in the current year relating to cover provided in the following year. Written premiums exclude insurance premium tax

Deferred acquisition expenses

A proportion of underwriting expenses regarded as acquisition expenses is deferred to a subsequent accounting period to match the deferral to a subsequent accounting period of the proportion of the written premiums to which the acquisition expenses relate. The deferral of acquisition expenses is calculated by applying the ratio of unearned premiums to written premiums

Claims recognition

The provision for claims outstanding comprises the estimated cost of claims incurred but not settled at the balance sheet date, whether reported or not. Provision is made at the end of an accounting period for claims handling expenses to cover the anticipated costs of negotiating and settling claims which have occurred, whether notified or not, by that date. The provision includes the anticipated costs of the general claims administration relating to such claims. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and are disclosed separately if material

Investment income and expenses

Dividends and interest income are recognised on an accruals basis, as are investment expenses

Investment return, comprising investment income and realised and unrealised investment gains and losses, and investment expenses are included within the non-technical account

Realised investment gains and losses are calculated as the difference between net proceeds on disposal and their purchase price

Investments

Investments are stated at mid-market value at the balance sheet date

Unrealised investment gains and losses are calculated as the difference between the valuation at the balance sheet date and their valuation at the last balance sheet date or purchase price, if acquired during the year. Unrealised investment gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years which have been realised during the year and are reported as realised gains and losses in the current profit and loss account.

Tangible fixed assets and depreciation

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful lives. The rates generally applicable are

Computer equipment	2 – 4 years
Furniture, fixtures and fittings	5 – 10 years

Foreign currencies

Transactions in foreign currencies are translated at the average monthly exchange rate ruling during the month that includes the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. All exchange differences are dealt with through the profit and loss account.

Contribution to pension funds

Executive and group personal pension schemes

Pension costs charged against profits represent the amount of the contributions payable to the schemes in respect of the accounting period.

Financial Services Compensation Scheme Levy

Provision is made at the balance sheet date for any levy declared after that date but before the completion of the financial statements. Provision is also made if it is also more likely than not that a levy will be raised based on premium income which has already been recognised in the financial statements and of which a reasonable estimate can be made.

Deferred tax

The taxation charge in the non-technical account is based on the taxable profits for the year.

Deferred tax is recognised on all timing differences where the transactions or events that give the company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured on an undiscounted basis using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Profit and loss account

	Note	2006 £'000	2005 £'000
TECHNICAL ACCOUNT - GENERAL BUSINESS			
Gross premiums written		15,933	15,638
Change in the provision for unearned premiums		20	(191)
Earned premiums		15,953	15,447
Claims incurred	1	(2,967)	(2,942)
Net operating expenses	2	(7,892)	(7,562)
Balance on the technical account for general business		5,094	4,943
NON-TECHNICAL ACCOUNT - GENERAL BUSINESS			
Balance on the technical account for general business		5,094	4,943
Net investment return	4	459	583
Other charges – charitable donations		(80)	(126)
Profit on ordinary activities before tax	5	5,473	5,400
Tax on profit on ordinary activities	6	(1,645)	(1,633)
Profit for the financial year	10	3,828	3,767

There were no recognised gains or losses other than the profit for the financial year. All operations are considered to be continuing.

The accompanying accounting policies and notes form part of these financial statements.

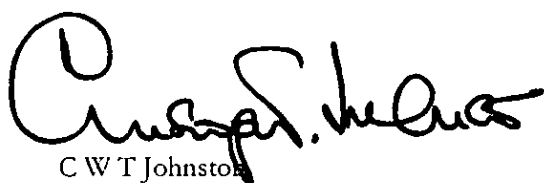
Balance sheet

	Note	2006 £'000	2005 £'000
Assets			
Investments			
Other financial investments	7	3,506	3,437
Debtors			
Debtors arising out of direct insurance operations		1,383	1,501
Other debtors due within one year		1	10
Deferred tax	13	-	3
Amounts due from group undertakings		1,803	4,149
		<u>3,187</u>	<u>5,663</u>
Other assets			
Tangible fixed assets	8	6	1
Cash at bank and in hand		5,382	5,230
		<u>5,388</u>	<u>5,231</u>
Prepayments and accrued income			
Accrued interest and rent		47	48
Deferred acquisition costs		68	75
Other prepayments and accrued income		6	19
		<u>121</u>	<u>142</u>
Total assets		<u><u>12,202</u></u>	<u><u>14,473</u></u>

The accompanying accounting policies and notes form part of these financial statements.

	Note	2006 £'000	2005 £'000
Liabilities			
Capital and reserves			
Called up share capital	9	1,528	1,528
Profit and loss account	10	7,975	10,256
Shareholders' funds	11	<u>9,503</u>	<u>11,784</u>
Technical provisions			
Provision for unearned premiums		397	417
Claims outstanding	14	895	982
		<u>1,292</u>	<u>1,399</u>
Creditors			
Current taxation		942	805
Other creditors including other taxation and social security		234	249
		<u>1,176</u>	<u>1,054</u>
Provision for liabilities	12	10	-
Accruals and deferred income		221	236
Total liabilities		<u><u>12,202</u></u>	<u><u>14,473</u></u>

The financial statements were approved by the Board on 13 March 2007


C W T Johnston



J P Barber

The accompanying accounting policies and notes form part of these financial statements.

Notes to the financial statements

1 Claims incurred

	2006 £'000	2005 £'000
Claims paid	2,733	2,696
Claims handling expenses paid	321	369
	<u>3,054</u>	<u>3,065</u>
Decrease in claims provision	(79)	(118)
Decrease in provision for claims handling costs	(8)	(5)
	<u>(87)</u>	<u>(123)</u>
Total	<u>2,967</u>	<u>2,942</u>

2 Net operating expenses

	2006 £'000	2005 £'000
Acquisition costs	4,322	4,457
Decrease/(increase) in deferred acquisition costs	7	(56)
Incurrd acquisition costs	<u>4,329</u>	<u>4,401</u>
Administration expenses	3,563	3,161
	<u>7,892</u>	<u>7,562</u>

Total commission incurred during the year in respect of direct insurance was £6,835,000
(2005 £6,880,000)

3 Directors and employees

	2006 £'000	2005 £'000
Staff costs (excluding non-executive directors' fees) during the year were as follows		
Wages and salaries	959	711
Social security	121	91
Other pension costs	35	24
	<u>1,115</u>	<u>826</u>

During the year one director waived emoluments to the value of £50,000 (2005 £19,000)

The average number of employees (including non-executive directors) employed by the company was 5
(2005 4) all of whom were administration employees

Remuneration in respect of directors was as follows

	2006 £'000	2005 £'000
Emoluments	1,045	782
Pension contributions to executive and group personal pension schemes	<u>41</u>	<u>29</u>

During the year 5 directors (2005 4 directors) participated in executive and group personal pension schemes

The amounts set out above include remuneration in respect of the highest paid director as follows

	2006 £'000	2005 £'000
Emoluments	683	712
Pension contributions to an executive personal pension scheme	<u>24</u>	<u>24</u>

4 Net investment return

	2006 £'000	2005 £'000
Realised investment gains		
Income from listed investments	10	11
Income from cash on deposit and fixed interest securities	<u>374</u>	<u>461</u>
	384	472
Realised gains	<u>55</u>	<u>20</u>
	439	492
Unrealised investment gains/(losses)		
On investments held at end of year	59	104
On investments realised during the year	<u>(16)</u>	<u>23</u>
	43	127
Investment expenses and charges		
Investment management expenses	(6)	(5)
Realised losses	<u>(17)</u>	<u>(31)</u>
	(23)	(36)
Net investment return	<u>459</u>	<u>583</u>

5 Profit on ordinary activities before tax

	2006 £'000	2005 £'000
Profit on ordinary activities before tax is stated after		
Auditors' remuneration (inclusive of non-recoverable VAT),		
Audit services	20	20
Non-audit services*	100	1
Depreciation	<u>2</u>	<u>-</u>

*Auditors remuneration for non-audit services incurred in the year relates substantially to assistance with the preparation of the company's Individual Capital Adequacy submission to the Financial Services Authority

6 Tax on profit on ordinary activities

(a) Analysis of charge in period

	2006 £'000	2005 £'000
Current tax		
UK corporation tax on profits of the period	1,632	1,595
Adjustments in respect of previous periods	<u>-</u>	<u>-</u>
Total current tax (note 6 (b))	1,632	1,595
Deferred tax		
Origination and reversal of timing differences	<u>13</u>	<u>38</u>
Total deferred tax (note 12)	13	38
Tax on profit on ordinary activities	<u><u>1,645</u></u>	<u><u>1,633</u></u>

(b) Factors affecting tax charge for year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK 30% (2005 30%) The differences are explained below

	2006 £'000	2005 £'000
Profit on ordinary activities before tax	<u>5,473</u>	<u>5,400</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	1,642	1,620
Effect of		
Expenses not deductible for tax purposes	2	1
Unrealised investment valuation movements	(12)	(26)
Current tax charge for the year (note 6(a))	<u>1,632</u>	<u>1,595</u>

7 Other financial investments at mid market value

	2006 £'000	2005 £'000
Shares and other variable yield securities and units in unit trusts listed on UK exchanges	517	454
Government fixed interest securities	<u>2,989</u>	<u>2,983</u>
	<u>3,506</u>	<u>3,437</u>
Historical cost	<u>3,470</u>	<u>3,446</u>

8 Tangible fixed assets

	Computer equipment £'000	Furniture, fixtures & fittings £'000	Total £'000
Cost			
At 1 January 2006	3	1	4
Intra group transfers	1	-	1
Additions	6	-	6
Disposals	(1)	(1)	(2)
At 31 December 2006	<u>9</u>	<u>-</u>	<u>9</u>
Depreciation			
At 1 January 2006	2	1	3
Intra group transfers	-	-	-
Provided in the year	2	-	2
Disposals	(1)	(1)	(2)
At 31 December 2006	<u>3</u>	<u>-</u>	<u>3</u>
Net book value at 31 December 2006	<u>6</u>	<u>-</u>	<u>6</u>
Net book value at 31 December 2005	<u>1</u>	<u>-</u>	<u>1</u>

9 Share capital

	2006 £'000	2005 £'000
Authorised		
10,000,000 ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
Allotted, called up and fully paid		
1,527,397 ordinary shares of £1 each	<u>1,528</u>	<u>1,528</u>

10 Profit and loss account

	2006 £'000
At 1 January 2006	10,256
Retained profit for the year	3,828
Dividends paid in year	(6,109)
At 31 December 2006	<u>7,975</u>

11 Reconciliation of movements in shareholders' funds

	2006 £'000	2005 £'000
Profit for the financial year	3,828	3,767
Final dividend paid in year	(6,109)	(3,055)
Net (decrease)/increase in shareholders' funds	<u>(2,281)</u>	712
Shareholders' funds at 1 January 2006	11,784	11,072
Shareholders' funds at 31 December 2006	<u>9,503</u>	<u>11,784</u>

12 Provision for liabilities

	Deferred taxation (note 13) 2006 £'000
At 1 January 2006	(3)
Provided in the year	13
At 31 December 2006	<u>10</u>

13 Deferred taxation

Deferred taxation provided for in the financial statements is set out below

	2006 £'000	2005 £'000
Accelerated capital allowances	-	(1)
Other timing differences – including unrealised capital gains	10	(2)
	<u>10</u>	<u>(3)</u>

14 Claims outstanding

	2006 £'000	2005 £'000
Gross and net	688	788
Provision for claims incurred but not reported	157	136
Claims handling expenses	50	58
	<u>895</u>	<u>982</u>

15 Capital commitments

The company had no capital commitments at 31 December 2006 or 31 December 2005

16 Contingent liabilities

There were no contingent liabilities at 31 December 2006 or 31 December 2005

17 Pensions

Group and executive personal pension schemes

The company operates a group personal pension scheme for the benefit of certain directors and employees. The scheme is administered by Scottish Equitable Plc and the funds are held independent of the company. In addition the company operates an executive personal pension scheme for the benefit of the Chairman. This scheme is administered by Clerical Medical Investment Group Limited and the funds are held independent of the company.

18 Controlling related party

The directors consider that the ultimate parent undertaking of this company is its parent company, Personal Group Holdings plc, a company registered in England and Wales.

C W T Johnston is the company's ultimate controlling related party by virtue of his shareholding in Personal Group Holdings plc.

The only group of undertakings for which group accounts have been drawn up is that headed by Personal Group Holdings plc. Copies of these group accounts may be obtained from the Registered Office.

As a wholly owned subsidiary of Personal Group Holdings plc the company is exempt from the requirements of FRS8 to disclose transactions with other members of the group headed by Personal Group Holdings plc.