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**HSA Group Limited (Formerly The Hospital  
Saving Association Limited)**

**Report and Financial Statements**

**31 December 2004**



**Deloitte & Touche LLP  
Leeds**

# **HSA Group Limited (Formerly The Hospital Saving Association Limited)**

## **REPORT AND FINANCIAL STATEMENTS 2004**

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# **HSA Group Limited (Formerly The Hospital Saving Association Limited)**

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

### **ACTIVITIES**

The Group operates Healthplans providing cash benefits by means of mutual contributory schemes and a low cost private medical insurance scheme. HSA Group Limited ("the Company" or "HSA") is an insurance company and is regulated by the Financial Services Authority.

### **REVIEW OF ACTIVITIES**

The results for the year are shown in the consolidated profit and loss account on page 5.

### **GOING CONCERN**

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### **FUTURE ACTIVITIES**

The Group will continue to offer, develop and improve the products and services currently offered to its customers.

Part of the Group's strategy is to continue to grow the business, both organically and by acquisition of other healthcare related organisations. Management will continue to enter into discussions on a regular basis with other parties, some of which may lead to an acquisition.

### **RESULTS**

The profit for the year as shown in the financial statements amounted to £17.8 million (2003: £27.5 million).

### **EMPLOYEES**

The Group seeks to provide a healthy and productive work environment for all of its employees and customers, and promotes Equality of Opportunity in the workplace. This incorporates the employment of disabled staff, and should an employee become disabled, continued employment and training will be offered taking into account what is medically and practically in the best interests of the individual. *Our achievements in this area are reflected in our continued inclusion in The Sunday Times list of Top 100 Companies to Work For.*

Regular meetings with employees' representatives are carried out through local Staff Consultative Committees at HSA and LHF, which consist of Management and elected representatives of the staff. Regular communication and briefing meetings held directly with staff members have taken place at numerous times over the year, to inform employees on changes in the Group, its performance and future activities.

### **POLICY AND PRACTICE ON PAYMENT OF CREDITORS**

The Group does not follow any code or standard on payment practice with its suppliers but it is the policy of the organisation to agree terms of payment when orders for goods and services are placed and to pay in accordance with those terms.

### **CHARITABLE DONATIONS**

The Group has continued to support charitable causes through The HSA Charitable Trust by providing the sum of £1,097,000 (2003: £1,092,000) primarily for the purpose of furtherance of medical research by payment of grants and loans to hospitals, clinics, medical schools and research institutions and other charitable associations, to provide and award studentships, scholarships and prizes for nurses, health visitors and similar and also to make hardship payments and grants to persons in relation to sickness and infirmity. The group have supported community initiatives by £187,000 (2003: £208,000) in sponsorship. On acquiring LHF in February 2002, the Group agreed to Fund the LHF Charitable Trust £2,730,000 over the three years following acquisition. No political donations were made during either year.

# HSA Group Limited (Formerly The Hospital Saving Association Limited)

## DIRECTORS' REPORT

### DIRECTORS AND THEIR INTERESTS

The Directors who served throughout the year except as stated were:

Major General B T Pennicott	Non-executive Chairman	
Mr A L R Clark	Non-executive	
Mrs E Johnson	Non-executive	(resigned 7 June 2004)
Mr T Hardy	Non-executive	
Mr P Isdell-Carpenter	Non-executive	(resigned 7 June 2004)
Mrs C G Lemon	Non-executive	
Mr K Richardson	Non-executive	
Mr I F R Much	Non-executive	(appointed 1 January 2005)
Mr K Piggott	Non-executive	(appointed 1 January 2005)
Mr D Benjamin	Chief Executive	
Mr M P B Day	Executive	
Mr C M Harrison	Executive	
Mr I M Maude	Executive	
Mr C D Skinner	Executive	(resigned 31 January 2005)

The Secretary, who served throughout the year, was Mrs R Abdin.

The Company has arranged indemnity insurance on behalf of the Directors and Officers.

### POST BALANCE SHEET EVENTS

On 16 February 2005, HSA completed a transaction to become the sole member of Bristol Contributory Welfare Association (BCWA), which provides private medical insurance to approximately 65,000 customers and has a premium income of approximately £60m per year. The Directors are of the opinion that it is not practical to assess the financial impact of this transaction at this time.

On 23 February 2005, HSA entered into an agreement to merge with Healthsure, a health cash plan based in Manchester. Healthsure has approximately 137,000 customers and a premium income of approximately £20m per year. The completion of this transaction is dependent on the approval of the existing members of Healthsure, and of the FSA, our regulator.

### ECONOMIC AND MONETARY UNION

The Group has undertaken preparatory work to consider the impact on business processes, information technology and taxation, legal and employment issues should the UK decide to participate in the Euro. This will enable the business to respond effectively to both threats and the undoubted opportunities that become available.

The costs for the Group of this preparatory work are not expected to be material.

### AUDITORS

Deloitte & Touche LLP have expressed their willingness to continue in office as the Company's auditor and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors  
and signed on behalf of the Board



Romana Abdin  
Secretary

23/3/ 2005

## **HSA Group Limited (Formerly The Hospital Saving Association Limited)**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HSA Group Limited (Formerly The Hospital Saving Association Limited)**

We have audited the financial statements of HSA Group Limited for the year ended 31 December 2004 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of accounting policies and the related notes 1 to 19. 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 auditors' 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, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 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 and other members of the group is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

### **Basis of opinion**

We conducted our audit in accordance with United Kingdom auditing standards 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 circumstances of the company and group, 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 of the state of affairs of the company and the group as at 31 December 2004 and the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche LLP*

Deloitte & Touche LLP  
Chartered Accountants and Registered Auditors  
Leeds

29 MARCH 2005.

# HSA Group Limited (Formerly The Hospital Saving Association Limited)

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2004

	Note	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
<b>TECHNICAL ACCOUNT - General Business</b>			
<b>Earned premiums</b>			
Gross premiums written		217.6	218.6
Change in the provision for unearned premiums		0.0	(0.2)
<b>Total technical income</b>		<b>217.6</b>	<b>218.4</b>
<b>Claims incurred</b>			
Claims paid – gross amount		(166.9)	(166.2)
Change in the provision of claims		0.9	3.6
<b>Total claims incurred</b>		<b>(166.0)</b>	<b>(162.6)</b>
Net operating expenses before exceptional item and goodwill	1	(45.5)	(39.9)
Exceptional item	3	-	(1.4)
Release of negative goodwill	7	0.1	-
Reversal of previously written off goodwill		-	0.8
Reversal of previously written back negative goodwill		-	(0.9)
<b>Total operating expenses</b>		<b>(45.4)</b>	<b>(41.4)</b>
<b>Total technical charges</b>		<b>(211.4)</b>	<b>(204.0)</b>
<b>Balance on the technical account for general business</b>			
before exceptional item and goodwill		6.1	15.9
Exceptional item		-	(1.4)
Release of negative goodwill		0.1	-
Reversal of previously written off goodwill		-	0.8
Reversal of previously written back negative goodwill		-	(0.9)
<b>Balance on the technical account for general business</b>		<b>6.2</b>	<b>14.4</b>
<b>NON-TECHNICAL ACCOUNT</b>			
Balance on the general business technical account		6.2	14.4
Investment income:			
Income from other investments	4	8.3	7.5
Investment expenses and charges:			
Losses on realisation of investments		(1.2)	(1.4)
Other investment charges and expenses		(0.2)	(0.3)
Unrealised profits on investments		9.3	8.9
Other charges and donations		(1.2)	(1.3)
<b>Profit on ordinary activities before tax</b>		<b>21.2</b>	<b>27.8</b>
Tax charge on profit on ordinary activities	6	(3.4)	(0.3)
<b>Retained profit on ordinary activities after tax for the financial year</b>	12	<b>17.8</b>	<b>27.5</b>

The Group has no recognised gains or losses for the year or the prior year other than those shown above.

The accounting policies on pages 9 to 11 and the notes on pages 12 to 27 form an integral part of these financial statements.

# HSA Group Limited (Formerly The Hospital Saving Association Limited)

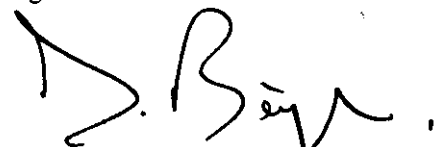
## CONSOLIDATED BALANCE SHEET 31 December 2004

	Note	31 December 2004 £m	31 December 2003 £m
<b>ASSETS</b>			
<b>Intangible assets</b>			
Negative goodwill	7	(2.1)	(2.1)
<b>Investments</b>			
Land and buildings	8	8.5	8.2
Other financial investments	9	162.6	162.5
<b>DEBTORS</b>			
Debtors arising out of direct insurance operations		6.1	7.7
Deferred taxation		0.2	-
<b>Other assets</b>			
Tangible fixed assets	11	10.4	7.7
Cash at bank and in hand		51.0	37.5
<b>PREPAYMENTS AND ACCRUED INCOME</b>			
Accrued interest and rent		1.0	1.0
Other prepayments and accrued income		3.5	1.4
<b>TOTAL ASSETS</b>		<u>241.2</u>	<u>223.9</u>
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Reserves	12	205.1	187.3
<b>Technical provisions</b>			
Provision for unearned premiums		3.2	3.2
Claims outstanding		18.5	19.4
<b>PROVISIONS FOR OTHER RISKS AND CHARGES</b>	14	-	-
<b>Creditors</b>			
Other creditors including tax and social security	15	11.0	9.6
<b>Accruals and deferred income</b>		3.4	4.4
<b>TOTAL LIABILITIES</b>		<u>241.2</u>	<u>223.9</u>

These financial statements were approved by the Board of Directors on

23/3/2005

Signed on behalf of the Board of Directors



Mr D Benjamin, Chief Executive



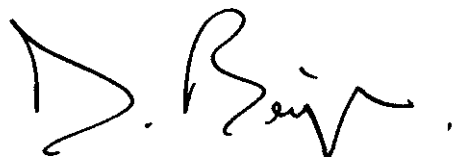
# HSA Group Limited (Formerly The Hospital Saving Association Limited)

## COMPANY BALANCE SHEET 31 December 2004

	Note	31 December 2004 £m	31 December 2003 £m
<b>ASSETS</b>			
<b>Investments</b>			
Land and buildings	8	6.2	5.9
Other financial investments	9	162.6	162.5
Investment in subsidiary undertakings	10	-	-
<b>DEBTORS</b>			
Debtors arising out of direct insurance operations		6.1	7.7
Due from subsidiary undertakings		0.1	-
Deferred taxation		0.2	-
<b>Other assets</b>			
Tangible fixed assets	11	10.4	7.7
Cash at bank		50.8	37.4
<b>PREPAYMENTS AND ACCRUED INCOME</b>			
Accrued interest and rent		1.0	1.0
Other prepayments and accrued income		3.5	1.4
<b>TOTAL ASSETS</b>		<u>240.9</u>	<u>223.6</u>
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Reserves	12	204.8	186.9
<b>Technical provisions</b>			
Provision for unearned premiums		3.2	3.2
Claims outstanding		18.5	19.4
<b>PROVISIONS FOR OTHER RISKS AND CHARGES</b>	14	-	-
<b>Creditors</b>			
Other creditors including tax and social security	15	11.0	9.7
Accruals and deferred income		3.4	4.4
<b>TOTAL LIABILITIES</b>		<u>240.9</u>	<u>223.6</u>

These financial statements were approved by the Board of Directors on  
Signed on behalf of the Board of Directors

23/3/2005.



Mr D Benjamin, Chief Executive

# HSA Group Limited (Formerly The Hospital Saving Association Limited)

## CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2004

		Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Net cash inflow from operating activities	16a	10.6	13.7
Taxation		(0.2)	0.9
Capital Expenditure			
Payments to acquire tangible fixed assets		(4.4)	(0.8)
Receipts from sales of fixed assets		-	0.2
Net cash inflow		<u>6.0</u>	<u>14.0</u>
Cash flows were invested as follows:			
Increase in cash holdings		13.5	13.9
Net investments			
Purchase of ordinary shares		7.6	6.0
Purchase of debt securities and other fixed income securities		3.9	19.3
Sales of shares and other variable yield securities		(13.3)	(5.2)
Sale of debt securities and other fixed income securities		(5.7)	(17.4)
Deposits with credit institutions		-	(2.6)
Investment of net cash flows		<u>6.0</u>	<u>14.0</u>

## **STATEMENT OF ACCOUNTING POLICIES**

**Year ended 31 December 2004**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

### **Introduction**

The financial statements conform to applicable standards and have been prepared under the historical cost convention, modified by the revaluation of certain assets as described below.

The Group's financial statements have been prepared in compliance with Section 255A of, and Schedule 9A to, the Companies Act 1985. These financial statements conform with the Association of British Insurers' ("ABI") Statement of Recommended Practice on Accounting for Insurance Business ("SORP") issued November 2003.

The balance sheet of the Company has been prepared in accordance with the provisions of the Companies Act applicable to companies generally. As permitted by Section 230 of the Companies Act, the profit and loss account of the Company is not presented as part of these financial statements.

### **Basis of consolidation**

The Group's financial statements include the results and balance sheets of the Company and its subsidiary undertakings. The results of subsidiary undertakings acquired or sold during the year are included in the consolidated results from the date of acquisition or up to the date of disposal. On acquisition of a subsidiary undertaking, all of the assets and liabilities at the date of acquisition are recorded at their fair values reflecting their condition at that date.

### **Goodwill**

Goodwill arising on consolidation or acquisition is capitalised in the balance sheet at cost and amortised through the profit and loss account on a straight line basis over its expected useful economic life. Provision is made for any impairment. The gain or loss on subsequent disposal of a subsidiary will take account of any attributable unamortised goodwill. Any amortisation or impairment charge is recorded within 'Net operating expenses'. Negative goodwill is transferred to the Profit & Loss account to the extent that it is represented by monetary assets, in the period expected to benefit. To the extent negative goodwill is represented by non-monetary assets it is transferred to the Profit & Loss account as and when they are recovered through depreciation or sale.

### **Valuation of investments**

Investments are shown in the balance sheets as follows:

*Land and buildings occupied by the Group are valued on an existing use basis and with vacant possession. Full valuations are made annually by independent, professional qualified valuers. The profit or loss on revaluation is taken to 'Unrealised gains or losses on investments'. Buildings occupied by the Group are depreciated on a straight line basis at 2% per annum.*

Unlisted investments are valued by the directors, having regard to their likely realisable value.

Listed and other quoted investments are carried at mid-market value at the balance sheet date.

In the Company balance sheet, shares in and loans to Group undertakings are stated at current value.

All fixed assets and goodwill are reviewed for impairment on an annual basis, using the FRS 11 methodology. Where impairment is present, the assets are revalued and the adjustment taken to 'Realised losses on investments' in the year in which the impairment occurred.

### **Foreign currencies**

Assets and liabilities held in foreign countries at the balance sheet date are expressed in sterling at rates ruling on that date. Income and expenditure denominated in foreign currencies are translated at rates ruling at the date on which the transaction occurs. All resulting exchange gains and losses are included within that part of the profit and loss account in which the underlying transaction is reported.

### **Premiums**

The Group accounts for its insurance business predominantly on a monthly basis. Claims are only payable where customers continue to pay premiums. Premiums are recognised as written on a receivable basis with an adjustment for any unearned element.

**STATEMENT OF ACCOUNTING POLICIES (continued)**

**Year ended 31 December 2004**

**Unearned premiums**

Earned premiums represent gross premiums written after adjusting for changes in unearned premiums. The provision for unearned premium is calculated separately for each insurance contract.

**Pension costs**

The costs of providing defined benefit pensions are charged to the profit and loss account on a consistent basis over the service lives of the employees. Such costs are charged by reference to actuarial valuations. Variations from such regular costs are spread over the remaining service lives of current employees in the scheme up to their normal retirement or dates of earlier withdrawal. The costs of providing defined contribution pensions are charged to the profit and loss account as they arise.

**Investment income**

Investment income includes dividends, interest, rents, gains and losses on the realisation of investments and unrealised gains and losses. Income from fixed interest securities together with interest, rents and associated expenses are accounted for in the year in which they accrue. Dividends are included in the profit and loss account when the securities are listed as ex-dividend. Realised gains and losses on investments are calculated as the difference between the net sale proceeds and original cost. Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their original cost, or if they have been previously valued, that valuation at the last balance sheet date. The movement in unrealised gains and losses recognised in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current year.

**Claims**

Claims incurred comprises claims notified and settled during the year or awaiting settlement at the year end, an estimate for claims incurred but not yet notified and an allowance to cover expenses in connection with the settlement of the claims incurred. The provision for outstanding claims at the year end is based on previous claims history and current expectations. Any over or under provision is adjusted as part of claims incurred in the following year. Claims incurred and the provision for outstanding claims includes direct, and an allocation of indirect, expenses connected with the settlement of claims. The allocation of indirect expenses is performed in a manner that fairly reflects the running of the business. Claims outstanding represent the ultimate cost of settling all claims (including direct and indirect claims settlement costs) which have occurred up to the balance sheet date, together with the provision for claims incurred but not yet reported.

**Acquisition costs**

All costs of acquiring new business together with the associated initial processing costs are accounted for as acquisition costs in the Profit and Loss account in the year in which they were incurred. Similarly, the costs of monitoring existing business and the general running of the Group are treated as administration expenses.

**Taxation**

In line with the majority of the healthcare industry, the company was taxed as a mutual insurance company in previous years, being liable to taxation only on investment income and capital gains. The mutual status of the industry was reviewed by the Inland Revenue with the consequence that the company was taxed as a non-mutual general insurance company with effect from 1 August 2001. The company is therefore liable to taxation on its profit or loss on ordinary activities.

**Deferred taxation**

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding contract to dispose of these assets. Deferred tax is not provided on unremitted earnings where there is no binding commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

## **HSA Group Limited (Formerly The Hospital Saving Association Limited)**

### **STATEMENT OF ACCOUNTING POLICIES (continued)**

**Year ended 31 December 2004**

#### **Tangible Fixed Assets**

Tangible assets are capitalised and depreciated on a straight line basis over their estimated useful lives as follows:

Motor vehicles	- 4 years
Computer equipment	- 2 to 4 years
Fixtures, fittings and office equipment	- 4 to 10 years
Leased assets	- over the term of the lease

#### **Leases**

Assets held under finance leases are capitalised at the fair value of the asset at the inception of the lease with an equivalent liability shown under creditors. Finance charges are allocated to accounting periods over the life of each lease using the straight line method. Payments in respect of operating leases are charged to the profit and loss account over the term of the lease.

#### **Earned premiums**

Gross premiums written by destination are not materially different to those by origin.

Premiums written are shown after deduction of Insurance Premium Tax of £10,511,566 (2003: £9,838,748).

In the opinion of the directors, the Group has only one class of business, the provision of healthcare insurance, materially all within the United Kingdom, but also in the Republic of Ireland and Gibraltar.

# HSA Group Limited (Formerly The Hospital Saving Association Limited)

## NOTES TO THE ACCOUNTS

Year ended 31 December 2004

### 1. NET OPERATING EXPENSES

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Acquisition costs	19,516	17,458
Administration expenses	25,957	22,424
	<u>45,473</u>	<u>39,882</u>
Profit on ordinary activities before taxation is after charging:		
Depreciation of fixed assets		
- owned	1,866	1,936
- held under finance leases	-	19
Operating leases – motor car rentals	591	582
Financial Services Compensation Scheme levy (see note 12)	883	-
Exceptional item (see note 3)	-	1,395
Reversal of previously written off goodwill	-	(795)
Reversal of previously written back negative goodwill	-	900
Amortisation of negative goodwill	(50)	(50)
(Profit) / loss on sale of fixed assets	(10)	3
	<u></u>	<u></u>

The remuneration of the auditors, Deloitte & Touche LLP, as set out below:

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
<b>Audit services</b>		
- statutory audit	98	100
Further assurance services		
- accounting advice unrelated to audit	7	-
- due diligence work	12	-
Tax services		
- tax compliance	68	-
- advisory	56	-
Other services	-	87
	<u>241</u>	<u>187</u>

### 2. STAFF COSTS

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
<b>Staff costs comprise the following:</b>		
Wages and salaries	17,951	15,126
Social security costs	1,846	1,572
Other pension costs (see note 5)	808	768
Training, recruitment and other staff costs	2,355	2,104
Total staff costs	<u>22,960</u>	<u>19,570</u>

# HSA Group Limited (Formerly The Hospital Saving Association Limited)

## NOTES TO THE ACCOUNTS

Year ended 31 December 2004

### 2. STAFF COSTS (continued)

There was a further charge for pension costs of £nil (2003 £1,395,000) as explained in note 3.

The average number of employees during the year was as follows:

	No.	No.
Operations	492	379
Finance and other administrative services	225	204
	<u>717</u>	<u>583</u>

### Directors' Remuneration

#### Policy

HSA recognises the importance of the Board of Directors in setting the values and direction of the Company. In order to attract and retain Directors with the required skills and experience, the Company must be competitive in the rewards offered to its Directors. All rewards are set by the Remuneration Committee of Non-Executive Directors of the Board, after comparison with market data received from external consultants.

#### Non-Executive Directors

The role of the Non-Executive Directors is to provide challenge and advice, and to oversee the performance of the Company. As such, we regard it as inappropriate that they should be financially incentivised on the results of the Company. Each Non-Executive Director is paid a fee, with further allowances paid to those who take on extra roles, such as chairing one of the Board sub-committees.

The Non-Executive Directors are not employees of the company, and are appointed to three-year terms, renewable by re-election for a further 2 periods of three years each. It is normal Company policy to rotate the Non-Executive Directors in order that they retain their independence and objectivity.

#### Executive Directors

The role of the Executive Directors is to run the company on a day-to-day basis, and as such, we regard it as essential that they are incentivised to meet the business goals of the Company. It is our belief that the Executive Directors can only succeed as a team, and that therefore they should be rewarded as a team. Below the Chief Executive, each Director shares the same level of rewards which are split into:

- Salary and benefits in kind – which are contractual as an employee of the company, and are set competitively against market norms.
- Annual bonus – the level of which is decided based on the overall business objectives for the year, and paid at the same monetary level for each Director.
- Long Term Incentive Plan – based on the achievement of business goals over a rolling three-year period, details of which are provided below. This element of the reward is designed to incentivise the Executive team to take decisions in the long term interest of the business, as well as retaining their skills in the absence of a share option scheme.

In addition, the Executive Directors are all members of an Occupational Defined Contribution Pensions Scheme.

The Executive Directors have rolling service contracts. Other than by termination under the terms of the contract, they continue until the date of retirement. The notice periods of these contracts are 12 months in the case of the Chief Executive, and 6 months in the case of each of the other Executives.

# HSA Group Limited (Formerly The Hospital Saving Association Limited)

## NOTES TO THE ACCOUNTS

Year ended 31 December 2004

### 2. STAFF COSTS (continued)

#### Pay and benefits in the year

The following amounts are paid or payable to the Directors for their service during the year:

	Salary £	Bonus £	Benefit in Kind £	Total 2004 £	Total 2003 £
<b>Executive Directors</b>					
Mr D Benjamin	284,790	88,560	18,756	392,106	380,371
Mr MPB Day	184,350	52,800	15,000	252,150	238,147
Mr CM Harrison	184,350	52,800	15,000	252,150	246,982
Mr IM Maude	179,288	52,800	15,000	247,088	242,055
Mr CD Skinner	184,350	52,800	16,122	253,272	238,023
Total	<u>1,017,128</u>	<u>299,760</u>	<u>79,878</u>	<u>1,396,766</u>	<u>1,345,578</u>
<b>Non-executive Directors</b>					
Major General BT Pennicott	92,976	-	15,000	107,976	70,088
Mr ALR Clark	41,072	-	-	41,072	27,072
Mrs E Johnson	14,374	-	-	14,374	11,154
Mr T Hardy	36,000	-	-	36,000	23,000
Mr P Isdell-Carpenter	16,272	-	-	16,272	23,440
Mrs CG Lemon	45,761	-	-	45,761	32,335
Mr K Richardson	34,000	-	-	34,000	20,000
Mr J Elliot	-	-	-	-	18,000
Mr P Bell	-	-	-	-	6,000
Mr B Sutherland	-	-	-	-	12,867
Total	<u>280,455</u>	<u>-</u>	<u>15,000</u>	<u>295,455</u>	<u>243,956</u>

#### Long Term Incentive Plan (LTIP)

All of the Executive Directors participate in an LTIP, which effectively provides an incentive payment based on the business performance over a three-year period. This scheme was introduced in 2001, and therefore the first payments became available at the end of 2003. The payment value is calculated as follows:

- The initial allocation is based on 15% of the Director's salary at the 1 January each year.
- At the beginning of each year, the Board agrees its key objectives, both financial and non-financial.
- At the end of each year, the Remuneration Committee agrees the extent to which these objectives have been met, and assigns the appropriate rating based on this level of success.
- The rating dictates an uplift in value to the original notional sum, which is carried forward, and is adjusted in a similar manner over the following 2 years.

All amounts are payable in cash, since the company has no shares.



# HSA Group Limited (Formerly The Hospital Saving Association Limited)

## NOTES TO THE ACCOUNTS

Year ended 31 December 2004

### 2. STAFF COSTS (CONTINUED)

At the end of 2004, the following benefits had accrued in respect of the 2002, 2003 and 2004 schemes:

	Notional value at 31 December 2004 £	Notional value at 31 December 2003 £
Mr D Benjamin	208,830	183,215
Mr MPB Day	140,732	124,495
Mr CM Harrison	140,732	124,495
Mr IM Maude	140,732	124,495
Mr CD Skinner	140,732	124,495
Total	<u>771,758</u>	<u>681,195</u>

Under the 2002 scheme, which matured at the end of 2004, the following amounts became payable:

	Payable at 31 December 2004 £	Payable at 31 December 2003 £
Mr D Benjamin	96,702	77,081
Mr MPB Day	65,274	52,854
Mr CM Harrison	65,274	52,854
Mr IM Maude	65,274	52,854
Mr CD Skinner	65,274	52,854
Total	<u>357,798</u>	<u>288,497</u>

### Pension Contributions

During the year, the following pension contributions were paid by the Company on behalf of the Directors:

	2004 £	2003 £
Mr D Benjamin	20,250	19,710
Mr MPB Day	20,250	19,710
Mr CM Harrison	20,250	19,710
Mr IM Maude	25,312	24,637
Mr CD Skinner	20,250	19,710
Total	<u>106,312</u>	<u>103,477</u>

### 3. EXCEPTIONAL ITEM

#### 2003

#### Pension Scheme Funding - HSA Division

Following the decision to close the defined benefit scheme during 2001, the Company made a provision of £7.0 million to meet the shortfall between the then current value of the scheme's assets and the benefits that had accrued to members. A further Exceptional Item of £1.8m was accrued in 2002 as the expected transfer values and costs exceeded the provision by this amount. During 2003, all liabilities were finally discharged with an additional exceptional payment of £1.4m being made. All employees who wish to be a member of a pension scheme, now belong to the Group's defined contribution scheme administered by NPI.

# HSA Group Limited (Formerly The Hospital Saving Association Limited)

## NOTES TO THE ACCOUNTS

Year ended 31 December 2004

### 4. INCOME FROM OTHER INVESTMENTS

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Income from listed investments	2,106	1,769
Income from Government securities	4,504	4,736
Bank and other interest	1,662	1,004
Currency exchange gain	18	-
	<u>8,290</u>	<u>7,509</u>

### 5. PENSION SCHEME

HSA had two defined benefit schemes, "Leeds Hospital Fund Pension Scheme" and "Manor House Friendly Society Pension Scheme". During the year the Leeds Hospital Fund Pension Scheme has been closed and the Manor House Friendly Society Pension Scheme is in the process of being wound up. The assets of the scheme are held separately from those of the Group, being invested with insurance companies. Contributions to the schemes are charged to the Profit and Loss account over employees' working lives with the Group. The pension costs of the Group for the year were £808,000 (2003: £768,000).

#### Regular Pension Cost SSAP 24

The Manor House scheme is subject to triennial valuations by independent actuaries, the last valuation being carried out as at 31 December 2001 using the attained age. The principal assumptions used were that investment return to exceed salary growth by 2.75% per annum and that Pension payments would increase by 2.25% per annum.

At the last actuarial valuation date the market value of the assets was £16,684,000 and this valuation was sufficient to cover 101% of the benefits which had accrued to members, after allowing for future increases in earnings.

#### FRS 17

The Group adopted the transitional disclosure of FRS 17. The full requirements of FRS 17 will not be applicable until the year ended 31 December 2005. Therefore the disclosures that are presented below are those which would be in place had the standard been adopted in full.

The following disclosures have been made under the transitional provisions of that Standard.

Full actuarial valuations have been carried out as noted above and updated to 31 December 2004 by a qualified independent actuary for the remaining scheme. The major assumptions used by the actuary were (in normal terms):

	At 31 December 2004	At 31 December 2003	At 31 December 2002
Rate of increased in salaries	N/A	4.4%	3.9%
Pension increases	5.0%	5.0%	5.0%
Liability discount rate	4.5%	5.4%	5.3%
Inflation assumption	3.0%	2.9%	2.4%

# HSA Group Limited (Formerly The Hospital Saving Association Limited)

## NOTES TO THE ACCOUNTS

Year ended 31 December 2004

### 5. PENSION SCHEME (continued)

The assets and liabilities of the remaining defined benefit scheme with the expected rates of return on Scheme's assets are shown below:

	Expected rate of return period commencing 31 December 2004	Value at 31 December 2003 £'000
Equitable Life with profits insurance policy		-
Equities and properties		-
Annuity policies	4.5%	14,121
Cash/bonds		-
Total		14,121
	Expected rate of return Year commencing 31 December 2003	Value at 31 December 2003 £'000
Equitable Life with profits insurance policy	7%	-
Equities and properties	7%	-
Annuity policies	5%	15,053
Cash/bonds	5%	25
Total		15,078
	Expected rate of return year commencing 31 December 2002	Value at 31 December 2002 £'000
Equitable Life with profits insurance policy	7%	-
Equities and properties	7%	11,490
Annuity policies	5%	11,427
Cash/bonds	5%	2,692
Total		25,609

# HSA Group Limited (Formerly The Hospital Saving Association Limited)

## NOTES TO THE ACCOUNTS Year ended 31 December 2004

### 5. PENSION SCHEME (continued)

The funding position was as follows:

	At 31 December 2004 £'000	At 31 December 2003 £'000
Total market value of assets	14,121	15,078
Present value of Scheme liabilities	(14,022)	(15,720)
Surplus / (deficit) in the Scheme	99	(642)
Related deferred tax asset	-	193
Net pension asset / (liability)	99	(449)

Analysis of amount chargeable to operating profit:

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Current service cost	4	156
Past service cost	-	-
Curtailment (gain)	-	(219)
Total operating charge / (credit)	4	(63)

Analysis of the amount to be credited to other finance income:

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Expected return on pension scheme assets	624	458
Interest on pension scheme liabilities	(614)	(1,009)
Net return	10	(551)

Analysis of the amount recognisable in statement of total recognised gains and losses (STRGL):

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Actual return less expected return on pension scheme assets	738	(2,105)
Experience gains and losses arising on scheme liabilities	(533)	(727)
Changes in assumptions underlying present value of scheme liabilities	-	(646)
Actuarial surplus / (loss) recognised in STRGL	205	(3,478)

# HSA Group Limited (Formerly The Hospital Saving Association Limited)

## NOTES TO THE ACCOUNTS

Year ended 31 December 2004

### 5. PENSION SCHEME (continued)

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
<b>Movement in deficit during the year:</b>		
(Deficit) in Scheme at beginning of the year	(642)	(6,866)
Closure of scheme during the year	530	-
(Deficit) in remaining Scheme at beginning of the year	(112)	(6,866)
Current service cost	(4)	(156)
Contributions	-	10,190
Past service costs	-	-
Curtailment gain	-	219
Other finance income	10	(551)
Actuarial surplus / (loss)	205	(3,478)
Surplus / (deficit) in Scheme at the end of the year	99	(642)
<b>History of experience gains and losses:</b>		
	Year ending 31 December 2004	Year ending 31 December 2003
Difference between expected and actuarial return on Scheme assets:		
Amount	738	(2,105)
Percentage of Scheme assets	5.2%	(8.2%)
Experience gains and losses on Scheme liabilities		
Amount	(533)	(727)
Percentage of present value of Scheme liabilities	(3.8%)	(2.2%)
Total amount recognised in statement of total recognised gains and losses		
Amount	(718)	(3,478)
Percentage of present value of Scheme liabilities	(5.1%)	(10.7%)

The liabilities have been assessed in relation to the actual cost of buying out liabilities with an insurer via annuity policies, rather than by direct reference to yields on corporate bonds.

Had the Group adopted FRS17 early the Group profit and loss reserves would have been stated as follows:

	31 December 2004 £'000	31 December 2003 £'000
Profit and loss reserve in financial statements at the year end	205,053	187,255
Surplus / (deficit) in relation to the defined benefit schemes	99	(642)
Deficit already reflected in the financial statements	-	642
Related deferred tax liability	-	-
Profit and loss reserve as adjusted	205,152	187,255

# HSA Group Limited (Formerly The Hospital Saving Association Limited)

## NOTES TO THE ACCOUNTS

Year ended 31 December 2004

### 6. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
United Kingdom Corporation Tax at 30% (2003 : 30%)	3,704	-
Adjustment in respect of prior year	(119)	312
Total current taxation	3,585	312
Current year-deferred taxation credit	(222)	-
Tax on profit on ordinary activities	3,363	312

The corporation tax credit for the year is lower than the standard rate of corporation tax in the UK (30%) on the accounting profit.

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Profit before taxation	21,161	27,833
Tax charge or credit on profit at UK rate of 30% (2003 : 30%)	6,349	8,349
Non-taxable dividends from UK equities	(589)	(531)
Capital allowances in excess of depreciation	(301)	-
Other timing differences	523	-
Other expenses not tax effected	88	(52)
Adjustment in respect of prior years	(119)	312
(Decrease) in tax losses carried forward	-	(8,227)
Unprovided deferred tax movement	(2,366)	461
Total current taxation charge	3,585	312

### 7. INTANGIBLE ASSETS

	£'000
Negative goodwill	
At 1 January 2004	(2,100)
Amortisation of negative goodwill	50
Net book value at 31 December 2004	(2,050)
Net book value at 31 December 2003	(2,100)

# HSA Group Limited (Formerly The Hospital Saving Association Limited)

## NOTES TO THE ACCOUNTS

Year ended 31 December 2004

### 8. LAND AND BUILDINGS

	<b>Total £'000</b>	
<b>Group</b>		
<b>Valuation</b>		
At 1 January 2004		8,225
Additions		24
Revaluation adjustment		271
		<u>8,520</u>
At 31 December 2004		<u>8,520</u>
<b>Accumulated depreciation:</b>		
At 1 January 2004		-
Charge for year		204
Revaluation adjustment		(204)
		<u>-</u>
At 31 December 2004		<u>-</u>
<b>Net book value at 31 December 2004</b>		<u>8,520</u>
Net book value at 31 December 2003		<u>8,225</u>
	<b>31 December 2004 £'000</b>	<b>31 December 2003 £'000</b>
<b>Cost</b>	11,025	11,157
Additions	24	-
Less disposal at cost	-	(132)
Accumulated depreciation	(2,743)	(2,539)
	<u>8,306</u>	<u>8,486</u>
Historical cost value		

Land with a market value of £1,267,500 (2003 : £1,525,000) and a cost of £825,000 (2003 : £825,000) included in land and buildings is not depreciated. The freehold properties of the Group in Andover and Leeds were valued as at 31 December 2004 by GVA Grimleys, Chartered Surveyors and International Property Advisers and Savills, International Property Services Group. In accordance with the RICS Appraisal and Valuation Manual these freehold properties have been valued on an existing use basis at figures totalling £8,520,000 (2003 : £8,225,000).

# HSA Group Limited (Formerly The Hospital Saving Association Limited)

## NOTES TO THE ACCOUNTS Year ended 31 December 2004

### 8. LAND AND BUILDINGS (continued)

Company	Total £'000
<b>Valuation</b>	
At 1 January 2004	5,925
Additions	24
Revaluation adjustment	301
	<hr/>
At 31 December 2004	6,250
	<hr/>
<b>Accumulated depreciation</b>	
At 1 January 2004	-
Charge for year	154
Revaluation adjustment	(154)
	<hr/>
At 31 December 2004	-
	<hr/>
<b>Net book value at 31 December 2004</b>	<u>6,250</u>
Net book value at 31 December 2003	<u>5,925</u>

	31 December 2004 £'000	31 December 2003 £'000
<b>Cost</b>	8,525	8,657
Additions	24	-
Less disposal at cost	-	(132)
Accumulated depreciation	(2,609)	(2,455)
	<hr/>	<hr/>
Historical cost value	<u>5,940</u>	<u>6,070</u>

### 9. OTHER FINANCIAL INVESTMENTS

Group and company	Market value at 31 December 2004 £'000	Cost at 31 December 2004 £'0000	Market value at 31 December 2003 £'000	Cost at 31 December 2003 £'000
<b>Listed investments</b>				
Debt and other fixed income securities	105,748	101,463	105,202	103,234
Shares and other variable yield securities and units in unit trusts	56,799	64,462	57,275	71,377
	<hr/>	<hr/>	<hr/>	<hr/>
	162,547	165,925	162,477	174,611
<b>Unlisted equities</b>	27	27	27	27
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>162,574</u>	<u>165,952</u>	<u>162,504</u>	<u>174,638</u>



# HSA Group Limited (Formerly The Hospital Saving Association Limited)

## NOTES TO THE ACCOUNTS Year ended 31 December 2004

### 10. FIXED ASSET INVESTMENTS

The details of investments in the subsidiary undertakings are as follows:

#### Company

Name of Company	Country of Registration	Principal Activity	Class and percentage of shares held
Myhealth Limited	England & Wales	Non-trading	Ordinary shares 100%
Simply health Limited	England & Wales	Dormant	Ordinary shares 100%
Leeds Hospital Fund Limited	England & Wales	Non-trading	Ordinary shares 100%
HSA Services Limited	England & Wales	Provision of insurance brokerage services	Ordinary shares 100%

### 11. TANGIBLE FIXED ASSETS

	Assets in the course of construction £'000	Computers & office equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
<b>Group and company</b>					
Cost:					
At 1 January 2004	-	6,853	7,563	107	14,523
Additions	3,610	147	619	-	4,376
Disposals	-	(878)	(6)	(28)	(912)
At 31 December 2004	3,610	6,122	8,176	78	17,987
Depreciation:					
At 1 January 2004	-	(5,113)	(1,675)	(33)	(6,821)
Charge for year	-	(872)	(768)	(22)	(1,662)
Disposals	-	870	6	25	901
At 31 December 2004	-	(5,115)	(2,437)	(29)	(7,582)
Net book value at 31 December 2004	3,610	1,007	5,739	49	10,405
Net book value at 31 December 2003	-	1,740	5,888	74	7,702

The net book value includes an amount of £nil (2003: £17,975) in respect of photocopiers held under finance leases.

The assets in the course of construction relate to the software for a new core system that is being built for HSA.

# HSA Group Limited (Formerly The Hospital Saving Association Limited)

## NOTES TO THE ACCOUNTS

Year ended 31 December 2004

### 12. CAPITAL AND RESERVES

Group	Profit and loss account £'000
At 1 January 2004	187,255
Group profit for the year	17,798
At 31 December 2004	205,053

Under the Financial Services and Markets Act 2000, HSA may be called upon to pay an amount not exceeding 0.8% of premium income towards the unpaid liabilities of other bodies. In 2004, a call was made for £883,000 (2003: £nil).

Company	Profit and loss account £'000
At 1 January 2004	186,895
Group profit for the year	17,931
At 31 December 2004	204,826

### 13. RETAINED PROFIT FOR THE FINANCIAL YEAR

The Company has taken advantage of Section 230 of the Companies Act 1985 and consequently a profit and loss account for the parent company alone is not presented. The profit on ordinary activities after taxation for the financial year dealt with in the accounts of the parent company is £17,931,000 (2003 :£26,990,000).

### 14. PROVISIONS FOR OTHER RISKS AND CHARGES

Group and Company	£'000
Deferred taxation:	
Opening balance as at 1 January 2004	-
Movement in provision during the year	-
At 31 December 2004	-

Deferred tax assets of £0.2m have been recognised within debtors in relation to accelerated capital allowances and short term timing differences.

The Company has not recognised deferred tax assets relating to tax losses. The net effect of this is £1.3m (2003 £3.0m). These deferred assets have not been recognised because their recovery in the short term is uncertain.

# HSA Group Limited (Formerly The Hospital Saving Association Limited)

## NOTES TO THE ACCOUNTS

Year ended 31 December 2004

### 15. CREDITORS

Group	31 December 2004	31 December 2003
	£'000	£'000
Amounts falling due within one year:		
Corporation tax	3,679	-
Obligations under finance leases	4	17
Other creditors	7,320	9,510
	<u>11,003</u>	<u>9,527</u>
Amounts falling due after more than one year:		
Obligations under finance leases payable within two to five years	-	-
	<u>11,003</u>	<u>9,527</u>
	<u><u>11,003</u></u>	<u><u>9,527</u></u>
Company	31 December 2004	31 December 2003
	£'000	£'000
Amounts falling due within one year:		
Corporation tax	3,679	-
Obligations under finance leases	4	17
Amounts owed to group undertakings	-	402
Other creditors	7,319	9,255
	<u>11,002</u>	<u>9,674</u>
Amounts falling due after more than one year:		
Obligations under finance leases payable within two to five years	-	-
	<u>11,002</u>	<u>9,674</u>
	<u><u>11,002</u></u>	<u><u>9,674</u></u>

# HSA Group Limited (Formerly The Hospital Saving Association Limited)

## NOTES TO THE ACCOUNTS

Year ended 31 December 2004

### 16. NOTES TO THE CASHFLOW STATEMENT

#### (a) Reconciliation of profit on ordinary activities before tax to net cash inflow from operating activities

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Profit on ordinary activities before tax	21,161	27,833
Realised and unrealised (gains) on investments	(7,544)	(7,320)
Decrease in insurance technical provisions	(927)	(3,357)
Depreciation charges	1,866	1,955
(Increase)/decrease in debtors	(752)	660
Increase/(decrease) in creditors	(2,652)	(5,893)
Revaluation of land and buildings	(475)	(180)
Amortisation of negative goodwill	(50)	(50)
(Profit)/loss on sale of fixed assets	(10)	3
<b>Net cash inflow from operating activities</b>	<b>10,617</b>	<b>13,651</b>

#### (b) Movement in opening and closing investments net of financing

Net cash flow for the year	13,491	13,857
(Decrease)/increase in investments	(7,474)	175
<b>Movement arising from cash flows</b>	<b>6,017</b>	<b>14,032</b>
Changes in market values and exchange rate effects	7,544	7,320
<b>Total movement in investments and financing</b>	<b>13,561</b>	<b>21,352</b>
Investments net of financing at start of year	199,981	178,629
<b>Investments net of financing at end of year</b>	<b>213,542</b>	<b>199,981</b>

#### (c) Movements in cash, investments and financing

	1 January 2004 £'000	Cash flows £'000	Changes to market value £'000	At 31 December 2004 £'000
Cash in hand and at bank	37,477	13,491	-	50,968
Shares and other variable yield securities	57,302	(5,703)	5,227	56,826
Debt securities and other fixed income securities	105,202	(1,771)	2,317	105,748
<b>Total</b>	<b>199,981</b>	<b>6,017</b>	<b>7,544</b>	<b>213,542</b>

# HSA Group Limited (Formerly The Hospital Saving Association Limited)

## NOTES TO THE ACCOUNTS

Year ended 31 December 2004

### 17. FINANCIAL COMMITMENTS

	31 December 2004 £'000	31 December 2003 £'000
<b>Group and company</b>		
(a) Capital expenditure:		
Authorised by the Board of Directors up to 31 December 2004 and still outstanding at that date	5,136	8,827
(b) Leasing		
At 31 December 2004 HSA had annual commitments under non-cancellable operating leases for which no provision has been made in the financial statements as follows:		
	31 December 2004 £'000	31 December 2003 £'000
Operating leases which expire:		
Within one year	8	6
Within two to five years	96	686
	104	692

### 18. RELATED PARTY TRANSACTIONS

No member of the Board of Directors had any interest in any contracts with the Group at the end of the year or at any time during the year, except that they are all contributors of HSA as required by the Articles of Association. There were no transactions with any other related parties as defined by Financial Reporting Standard 8 "Related Party Transactions" during the year, except as set out below:

The Group made charitable donations of £1,097,000 (2003: £1,092,000) to The Hospital Saving Association Charitable Trust during the year. As at 31 December 2004 £nil was owed to the HSA Charitable Trust by HSA Limited (2003: £nil).

The Group made charitable donations of £910,200 (2003: £1,137,750) to The Leeds Hospital Fund Charitable Trust during the year. As at 31 December 2004, a balance of £152,100 was owed to the LHF Charitable Trust by HSA Limited (2003: £1,062,000).

A £33,040 (2003: £38,897) charge for management, administration, and recharges was made during the year from HSA Limited to The Convalescent Homes Charity of The Leeds Hospital Fund. All of this balance is included in the debtor balance as at 31 December 2004, (2003: £37,080).

A £17,625 (2003: £17,732) charge for management, administration, and recharges was made during the year from HSA Limited to The Leeds Hospital Fund Charitable Trust. All of this balance is included in the debtor balance as at 31 December 2004, (2003: £17,732).

### 19. POST BALANCE SHEET EVENTS

On 16 February 2005, HSA completed a transaction to become the sole member of Bristol Contributory Welfare Association (BCWA), which provides private medical insurance to approximately 65,000 customers and has a premium income of approximately £60m per year. The Directors are of the opinion that it is not practical to assess the financial impact of this transaction at this time.

On 23 February 2005, HSA entered into an agreement to merge with Healthsure, a health cash plan based in Manchester. Healthsure has approximately 137,000 customers and a premium income of approximately £20m per year. The completion of this transaction is dependent on the approval of the existing members of Healthsure, and of the FSA, our regulator.