

PRIME HEALTH LIMITED
REPORT AND ACCOUNTS
FOR THE YEAR ENDED 15 NOVEMBER 1997
(Registered Number: 2123483 England)



Prime Health Limited

Contents

	Page
Directors and Officers	2
Chairman's Statement	3
Managing Director's Report	4
Report by the Directors	6
Statement of Directors' Responsibilities	8
Report of the Auditors	9
Profit and Loss Account	10
Note of Historical Cost Profits and Losses	11
Balance Sheet	12
Notes to the Accounts	14

Prime Health Limited

Directors and Officers

Chairman

A.S. Bell, FFA FPMI DLitt

Directors

P.J. Dalby, FCII *

S.P. Gaskin, ACII *

M.A. Hall, DMS MBA *

I.C. Lumsden, MA FFA

J. Stretton, BA FFA

Secretary

T.R. Bailey, BA ACA

Registered Office

Wey House

Farnham Road

Guildford

Surrey

GU1 4XS

Auditors

Price Waterhouse

10 Bricket Road

St Albans

Herts

AL1 3JX

* Executive Director

Prime Health Limited

Chairman's Statement

I am pleased to report that the Company continued to grow strongly in 1997, with total business in force rising from £102.4 million to £116.3 million at 15 November 1997. This represents an excellent achievement during a period in which competition continued to be intense and the Government withdrew tax relief on premiums for those aged 60 or over. The withdrawal of this relief has meant a steep rise in the cost of private medical insurance for this group of policyholders and a consequent increase in our lapse rates.

Staff

I would like to thank our staff most sincerely for their application and commitment over the year. The introduction of new computer technology, which started in 1997 and will continue in 1998, and the development of improved working practices place an additional burden on everyone involved and bring new challenges as well as benefits. I am grateful for the enthusiasm and effectiveness which our staff have shown in coping with these challenges.

Board

I would like to thank and congratulate Peter Dalby and Sean Gaskin for their commitment and leadership over the year and to welcome Mike Hall and thank him for his contribution since he joined the Board on 12 May 1997.

Stephen Evans and Richard Roche resigned as Executive Directors on 26 August 1997 and they leave with our thanks for their service.

Future

We intend to continue to concentrate on the same key factors as before, namely the provision of first class products in line with the needs of our customers and the giving of the very best possible service. In this way I am confident we will continue to compete successfully and to increase further our market share.



A.S. Bell
Chairman
February 1998

Prime Health Limited

Managing Director's Report

I am pleased to report that despite the market continuing to remain flat our total premiums in force increased to £118 million by the calendar year end. This means we have doubled our size since our acquisition by Standard Life in 1994.

This growth is particularly satisfying bearing in mind the continued highly competitive nature of the market and the inevitable increase in the numbers of people giving up their insurance following removal of tax relief. Although this had been widely predicted it was nonetheless disappointing that the Government was not persuaded by the industry's argument that the removal of tax relief will inevitably place an additional burden on the public sector. We estimate that up to 150,000 people in the over 60's age category will have given up their medical insurance largely due to the significant premium increases resulting from the loss of tax relief.

During 1997 we have completely reorganised our intermediary sales division so as to maximise our sales potential through this increasingly important sales channel. All IFA's apart from those who specialise in private medical insurance will in future be serviced through Standard Life's own IFA sales channel. We look forward to significantly increased sales in 1998 from opening up PMI to IFA's through this substantial and highly respected sales channel.

Product Strategy

Last year I stated that we strongly support the recommendation in the OFT Report for Insurers to ensure all products are clear and simple so that customers are fully aware of the cover they have purchased.

We have completed two important initiatives which we believe ensures that Prime Health is meeting the spirit of the key proposals on PMI in the OFT report.

Our marketing material now uniquely offers applicants the choice of either accepting our moratorium clause on pre-existing medical conditions or the alternative of being individually assessed through completion of a health statement.

A striking illustration of the attention we pay to ensuring we provide complete customer satisfaction is that in 1997 only 14 cases were referred to the Insurance Ombudsman relating to our moratorium clause and all the cases were found in our favour.

We have also completed the reorganisation of our product range. Instead of marketing 5 alternative plans separately we have introduced our complete range of plan options within one brochure. Another innovation we have introduced to the market is that anyone selecting an option which provides less cover than the core product is asked to sign a Customer Declaration which clearly sets out which benefits have been deleted.

IT Development

During 1997 we have commenced a major redevelopment of our systems both to ensure that these will be fully year 2000 compliant and also to offer even greater flexibility in our product range whilst providing industry leading service standards to our customers.

This investment will amount to £20 million over the next two years and to help support this major expenditure Standard Life have injected a further £10 million into the Company.

Prime Health Limited

Managing Director's Report (continued)

Staff

The difficulties posed by current trading conditions, particularly the loss of tax relief have placed a considerable burden on our staff. At the same time extra demands have been placed upon them by the introduction of new technology and the conversion to multi skilled teams capable of handling all aspects of a customer's requirements.

I would like to thank them for the splendid way they have responded to these challenges which have helped to ensure we continue to offer the very highest service standards to our customers.

PMI Market

1997 has proved to be a highly competitive year with the market continuing to remain flat. We are, however, confident that with the improvement to our products and systems which are outlined we will be ideally placed to ensure we can offer the highly competitive products and service necessary to compete in the current market place.



P.J. Dalby
Managing Director
February 1998

Prime Health Limited

Report by the Directors

The directors present their Report and the Accounts for the year ended 15 November 1997.

Principal activity and business review

The principal activity of the Company is the undertaking of general insurance business in the United Kingdom, and the provision and administration of medical and other health insurance products.

In 1997 the Company continued to grow strongly. The amount of the Company's portfolio increased from £102.4 million to £116.3 million, although this growth was less than forecast due to the abolition in July of tax relief on over 60's individual business which has resulted in an increase in lapse rates on that business.

The loss for the year was £7.4 million, including one-off expenses of £4.0 million. These expenses consisted of redundancy costs, including a provision in respect of the planned closure of the Company's offices in Stockport in 1999, expenditure on a potential new office site in Guildford which was abandoned because of delays in obtaining the necessary planning permission, and investment in new computer systems. The underlying trading result improved over 1996 and the Directors remain confident that the business the Company has written will generate long term profits.

The Directors intend to continue to invest in 1998 in new computer systems, and in order to support this expenditure as well as the Company's growth plans its parent, The Standard Life Assurance Company, subscribed for an additional 10 million ordinary shares of £1 each at par on 10 November 1997. The consideration for the shares was satisfied by the transfer to the Company of £10.0 million of government stock.

Results and transfers to reserves

The results for the year are set out on pages 10 and 11.

Directors

The names of the current directors are listed on page 2.

Mr M.A. Hall was appointed as a director on 12 May 1997. Mr S.L. Evans and Mr R.J. Roche resigned on 26 August 1997.

The appointment of directors is not subject to retirement by rotation. None of the directors has a beneficial interest in the shares of the company, which is a wholly owned subsidiary of The Standard Life Assurance Company.

Supplier payment policy

It is the Company's policy to negotiate payment terms with principal suppliers and to pay in accordance with the terms agreed. For other suppliers, where goods and services have been supplied to specification, payment is made in accordance with the terms offered by the supplier.

Prime Health Limited

Report by the Directors (continued)

Charitable and political donations

During the year the Company made donations for charitable purposes of £496. No contributions were made for political purposes.

Employees

The Company is committed to an equal opportunities policy. The sole criterion for selection or promotion is the suitability of any applicant for the job regardless of ethnic origin, religion, sex, marital status or disablement. The Company will continue to employ, arrange for retraining, or retire on disability pension, any member of staff who becomes disabled, as may be appropriate.

Employee Involvement

The Company keeps staff informed of progress and policies through line management channels, training courses, conferences and an Internal Communication Programme, which covers various house publications and briefing seminars with staff. In addition, staff representatives are elected to the Staff Consultative Committee which meets four times a year with management to discuss formally matters of general staff concern.

Auditors

The auditors Price Waterhouse, Chartered Accountants, are willing to continue in office.

On behalf of the Board of Directors.

T.R. Bailey

T.R. Bailey
Secretary
Guildford
25 February 1998

Prime Health Limited

Statement of Directors' Responsibilities

Company law requires the directors to prepare accounts for each financial year which 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 those accounts, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- d. prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that the accounts comply with the above requirements.

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 accounts 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.

Prime Health Limited

Report of the Auditors to the members of Prime Health Limited

We have audited the accounts on pages 10 to 19 which have been prepared in accordance with the accounting policies set out on pages 14 and 15.

Respective responsibilities of directors and auditors

As described on page 8 the Company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the Company's affairs as at 15 November 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Price Waterhouse
Chartered Accountants and Registered Auditors
St Albans
25 February 1998

Prime Health Limited

Profit and Loss Account for the year ended 15 November 1997

Technical Account - General Business

		1997	1996
	Notes	£'000	£'000
Earned premiums, net of reinsurance			
Gross premiums written	2	115,479	101,898
Outward reinsurance premiums		(22,035)	(21,579)
		<hr/>	<hr/>
		93,444	80,319
Change in the provision for unearned premiums - gross amount		(5,466)	(12,006)
- reinsurers' share		(41)	464
		<hr/>	<hr/>
		87,937	68,777
		<hr/>	<hr/>
Claims incurred, net of reinsurance			
Claims paid - gross amount		77,292	63,879
- reinsurers' share		(17,843)	(16,689)
		<hr/>	<hr/>
		59,449	47,190
		<hr/>	<hr/>
Change in the provision for claims - gross amount		5,509	1,748
- reinsurers' share		(1,160)	295
		<hr/>	<hr/>
		4,349	2,043
		<hr/>	<hr/>
		63,798	49,233
		<hr/>	<hr/>
Net operating expenses	3	34,650	29,849
		<hr/>	<hr/>
Balance on the technical account for general business		(10,511)	(10,305)
		<hr/>	<hr/>

All of the amounts above are in respect of continuing operations.

The accounting policies and notes on pages 14 to 19 form an integral part of these accounts.

Prime Health Limited

Profit and Loss Account for the year ended 15 November 1997

Non-Technical Account

		1997	1996
	Notes	£'000	£'000
Balance on the general business technical account		(10,511)	(10,305)
Investment income	4	2,810	1,871
Unrealised profit on investments	4	251	95
Other income		24	586
Loss on ordinary activities before tax		(7,426)	(7,753)
Tax on loss on ordinary activities		-	-
Loss for the year	12	(7,426)	(7,753)

All of the amounts above are in respect of continuing operations.

The Company has no recognised gains or losses other than the loss for the year.

The accounting policies and notes on pages 14 to 19 form an integral part of these accounts.

Note of Historical Cost Profits and Losses for the year ended 15 November 1997

		1997	1996
	Notes	£'000	£'000
Reported loss on ordinary activities before tax		(7,426)	(7,753)
Unrealised gains recognised in the year	4	(251)	(95)
Historical cost loss on ordinary activities before tax		(7,677)	(7,848)
Historical cost loss for the year after tax		(7,677)	(7,848)

Prime Health Limited

Balance Sheet as at 15 November 1997

		1997	1996
	Notes	£'000	£'000
ASSETS			
Investments	9	35,625	25,609
Reinsurers' share of technical provisions			
Provision for unearned premiums		11,121	11,162
Claims outstanding		3,917	2,757
		<u>15,038</u>	<u>13,919</u>
Debtors			
Debtors arising out of direct insurance operations			
- policyholders		43,146	39,284
Other debtors		663	365
		<u>43,809</u>	<u>39,649</u>
Other assets			
Tangible assets	10	3,219	2,749
Cash at bank and in hand		13,030	11,042
		<u>16,249</u>	<u>13,791</u>
Prepayments and accrued income			
Accrued interest and rent		499	566
Deferred acquisition costs		7,508	8,675
Other prepayments and accrued income		711	596
		<u>8,718</u>	<u>9,837</u>
TOTAL ASSETS		<u>119,439</u>	<u>102,805</u>

Prime Health Limited

Balance Sheet as at 15 November 1997

		1997	1996
	Notes	£'000	£'000
LIABILITIES			
Capital and reserves			
Called up share capital	11	50,000	40,000
Profit and loss account	12	(17,867)	(10,441)
Shareholder's funds - equity interests		<u>32,133</u>	<u>29,559</u>
Technical provisions			
Provision for unearned premiums		57,788	52,322
Claims outstanding	13	<u>16,402</u>	<u>10,843</u>
		<u>74,190</u>	<u>63,165</u>
Provisions for other risks and charges			
Provision for pensions and similar obligations		81	125
Policyholders Protection Board levy provision		826	654
Other provisions	16	<u>1,000</u>	<u>-</u>
		<u>1,907</u>	<u>779</u>
Creditors			
Creditors arising out of direct insurance operations		6,286	5,093
Other creditors including taxation and social security	14	<u>3,778</u>	<u>2,967</u>
		<u>10,064</u>	<u>8,060</u>
Accruals and deferred income		<u>1,145</u>	<u>1,242</u>
TOTAL LIABILITIES		<u><u>119,439</u></u>	<u><u>102,805</u></u>

On behalf of the Board of Directors.


A.S. Bell
 Chairman
 Guildford
 25 February 1998

The accounting policies and notes on pages 14 to 19 form an integral part of these accounts.

Prime Health Limited

Notes to the Accounts

1. Accounting policies

(a) Basis of presentation

The accounts have been prepared in accordance with the provisions of Section 255 and Schedule 9A to the Companies Act 1985, which cover the disclosures applicable to insurance companies, and in accordance with applicable accounting standards and with the Association of British Insurers' Guidance on Accounting for Insurance Business.

(b) Technical account

Premiums due on monthly paid policies, together with the related commission, are accounted for on an annual premium income basis.

Unearned premiums represent that proportion of premiums accounted for in periods up to the accounting date which is attributable to subsequent periods.

Commission is deferred on the same basis as unearned premiums and is dealt with in the revenue account within acquisition costs and in the balance sheet within deferred acquisition costs.

Costs, other than commission, attributable to the acquisition and processing of new and renewal business have been deferred on the same basis as commission.

The deferral of expenses is reviewed annually by the directors and any provision for recoverability is reviewed in the context of the unexpired risk provision. No unexpired risk provision was considered necessary in 1997.

Outstanding claims represent claims and associated handling expenses arising from incidents prior to the balance sheet date, but not settled at that date and include provision for the probable cost of claims incurred, but not reported by that date.

(c) Investment income and investments

Investment income consists of interest on deposits and fixed interest securities and is accounted for on an accruals basis. Realised gains and losses on investments are calculated as the difference between net sales proceeds and their original cost. Both realised and unrealised gains and losses are taken to the non-technical account. Listed investments are included in the balance sheet at mid-market value.

(d) Pension costs

The Company operates a defined benefit scheme.

Pensions costs are included in administration expenses in such a way as to spread the cost of pensions over the employees' and directors' working lives with the Company (see note 15).

Prime Health Limited

Notes to the Accounts (continued)

1 Accounting policies (continued)

(e) Tangible assets

Tangible assets are stated at cost less depreciation calculated on a straight line basis at rates anticipated to write off the assets over their estimated useful lives. The depreciation rates used are:

Computer equipment	33.3%
Fixtures and fittings	20.0%
Motor vehicles	25.0%

2 Segmental analysis

There is only one business segment, that of accident and health general insurance. The business and net assets of the Company are located in the United Kingdom.

3 Net operating expenses

	1997 £'000	1996 £'000
Acquisition costs	17,612	20,909
Change in deferred acquisition costs	1,167	(831)
Administration expenses	19,393	13,192
Policyholders Protection Board levy	216	211
Reinsurance commission	(3,738)	(3,632)
	<u>34,650</u>	<u>29,849</u>

Administration expenses for 1997 include £1.7 million paid or provided for in respect of redundancy and office closure costs, £0.7 million in respect of a potential new office site and £1.6 million on new computer systems.

4 Investment return summary

	1997 £'000	1996 £'000
Investment income:		
Income from other investments - listed	1,826	756
- deposits	984	1,115
	<u>2,810</u>	<u>1,871</u>
Unrealised profit on investments	251	95
Total investment return	<u>3,061</u>	<u>1,966</u>

Prime Health Limited

Notes to the Accounts (continued)

5 Staff costs

	1997 £'000	1996 £'000
Wages and salaries	9,704	8,499
Social security costs	787	655
Other pension costs	1,154	861
	<u>11,645</u>	<u>10,015</u>

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

	1997 No.	1996 No.
Administration	279	256
Claims	41	32
Sales and marketing	150	144
	<u>470</u>	<u>432</u>

6 Auditors' remuneration

The remuneration and expenses of the auditors for the audit of the accounts was £27,000 (1996: £24,000). Their remuneration in respect of other work was £6,000 (1996: £6,000).

7 Commissions

Total commissions accounted for by the Company during the year, excluding payments to employees, amounted to £8,453,000 (1996: £7,892,000).

8 Directors' emoluments

	1997 £'000	1996 £'000
Fees to non-executive directors	-	-
Other emoluments	501	492
Compensation for loss of office	85	100
	<u>586</u>	<u>592</u>

Retirement benefits are accruing to three directors under a defined benefit scheme operated by the parent undertaking. Contributions in respect of non-executive directors of the company are met by the parent undertaking.

The emoluments of the highest paid director (excluding pension contributions) were £183,000 (1996: £170,000).

The accrued pension at the end of the year for the highest paid director was £61,625 (1996: £52,875)

Prime Health Limited

Notes to the Accounts (continued)

9	Investments			1997	1996
				£'000	£'000
	Debt securities and other fixed income securities, all listed on UK Stock Exchange				
	Market value			35,625	25,609
	Cost			34,648	24,882
10	Tangible assets				
		Computer equipment	Fixtures & fittings	Motor vehicles	Total
	Cost	£'000	£'000	£'000	£'000
	At 16 November 1996	3,535	549	1,136	5,220
	Additions	1,813	179	134	2,126
	Disposals	(144)	(119)	(540)	(803)
	At 15 November 1997	5,204	609	730	6,543
	Depreciation				
	At 16 November 1996	1,923	176	372	2,471
	Charge for year	1,045	126	226	1,397
	Disposals	(133)	(102)	(309)	(544)
	At 15 November 1997	2,835	200	289	3,324
	Net book amount				
	At 15 November 1997	2,369	409	441	3,219
	At 15 November 1996	1,612	373	764	2,749

Prime Health Limited

Notes to the Accounts (continued)

11 Share capital

	1997 £'000	1996 £'000
Authorised, allotted, called up and fully paid		
50,000,000 ordinary shares of £1 each (1996: 40,000,000)	50,000	40,000

10 million ordinary shares of £1 each were issued to The Standard Life Assurance Company at par during the year. The consideration for this was £10.0 million 8.5% government stock, including accrued interest of £234,000.

12 Profit and loss account

	£'000
At 16 November 1996	(10,441)
Loss for the year	(7,426)
At 15 November 1997	(17,867)

13 Claims outstanding

	1997 £'000	1996 £'000
Gross claims outstanding	15,952	10,443
Claims handling provision	450	400
	16,402	10,843

14 Creditors

	1997 £'000	1996 £'000
Other creditors including taxation and social security:		
Amounts owed to parent undertaking	31	99
Trade creditors	1,204	859
Insurance Premium Tax	1,104	716
Other creditors	1,439	1,293
	3,778	2,967

All creditors are payable within a period of five years.

15 Pensions

The parent undertaking operates a pension scheme for its employees and those of its subsidiaries providing benefits based on final pensionable pay. The contributions to the scheme are determined by qualified actuaries employed by the parent undertaking using the projected unit credit method.

The scheme is valued on a triennial basis with the most recent valuation at 15 November 1997. On that date, the market value of the assets held in a separate trustee administered fund was £497.0m. For the purpose of the valuation it was assumed that the investment return would exceed the rate of increase in salaries by 1.5% per annum and would exceed the rate of increase in present and future pensions by 4% per annum.

Prime Health Limited

Notes to the Accounts (continued)

15 Pensions (continued)

The actuarial value of the scheme's assets represented 104.9% of the benefits which had accrued to members, after allowing for expected future increases in earnings and pensions. The actuary recommended future contributions be increased from 14.6% to 16.4% of total pensionable pay.

Pension costs of £1,154,000 (1996: £861,000) were charged in the accounts.

16 Provisions for liabilities and charges

	Pensions £'000	PPB Levy £'000	Office Closure £'000	Total £'000
Beginning of year	125	654	-	779
Charged in profit and loss on ordinary activities	1,154	172	1,000	2,326
Utilised during year	<u>(1,198)</u>	<u>-</u>	<u>-</u>	<u>(1,198)</u>
End of year	<u>81</u>	<u>826</u>	<u>1,000</u>	<u>1,907</u>

17 Reconciliation of movements in shareholder's funds

	1997 £'000	1996 £'000
Opening shareholder's funds	29,559	22,312
Loss for the year	(7,426)	(7,753)
Shares issued during the year	<u>10,000</u>	<u>15,000</u>
Closing shareholder's funds	<u>32,133</u>	<u>29,559</u>

18 Cashflow Statement

A Cashflow Statement has not been provided as the Company has taken advantage of the exemption contained in Financial Reporting Standard 1 (Revised) "Cashflow Statements" as consolidated accounts in which the Company is included are available.

19 Related party transactions

The Company has taken advantage of the exemption under paragraph 3(c) of Financial Reporting Standard 8 from disclosing transactions with other undertakings of the Standard Life Group.

20 Parent undertaking

The Company is a wholly owned subsidiary of The Standard Life Assurance Company.

Copies of the accounts of the parent undertaking can be obtained at 30 Lothian Road, Edinburgh EH1 2DH.