

**Engage Mutual Health
(formerly Provincial Hospital Services Association)**

Directors' report and financial statements

Registered number 515058

Year ended 31 December 2010

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Directors' report

The Directors present their report and financial statements for the year ended 31 December 2010

Principal activity

The principal activity of the company is to underwrite health insurance business. The company is authorised and regulated by the Financial Services Authority.

Acquisition by Engage Health Holdings Limited

The company was limited by Guarantee until 30 September 2010 and was managed by a Voluntary Board of Members. On 30 September 2010 each of these Members resigned and Engage Health Holdings Limited was appointed as the sole corporate member.

Subsequently the company was converted from a company limited by guarantee into an unlimited company with shares. The one issued ordinary share of £1 is owned by Engage Health Holdings Limited.

Engage Health Holdings Limited is part of the Engage Mutual Group. The ultimate parent company is Homeowners Friendly Society Limited (trading as Engage Mutual Assurance). The company name was changed on 20 December 2010 from Provincial Hospital Services Association to Engage Mutual Health.

Business review

The loss on ordinary activities after taxation for the year ended 31 December 2010 amounted to £1,867,848 (£599,703 profit in 2009).

The company made a gross profit of £(£profit in 2009) which represents an improvement. The volatility of the underwriting result is due to the Medicare business line where a small number of high value claims can have a large impact on profitability as was experienced during 2009.

As discussed above the company was acquired by the Engage Mutual Group during 2010. This partnership was the result of a strategic review of the business and is intended to ensure a secure future for the policyholders and staff. During the course of 2011 the directors will continue to review the products offered by the company.

Going Concern

The ultimate parent company of Engage Mutual Health (EMH) is Homeowners Friendly Society Ltd (HFSL). HFSL has prepared a business plan for itself and its subsidiaries and has projected the future working capital requirements of EMH. The Directors of the company have assessed the ability of HFSL to provide any support and have presented the accounts on a going concern basis as the company has sufficient capital for at least a period of twelve months from the date of the signing of the accounts.

Proposed dividend

The directors do not recommend the payment of a dividend for the year (£nil in 2009 as the company had no shareholders).

Policy and practice on payment of creditors

It is the Group's policy to settle invoices within 30 days of receipt, unless otherwise agreed in advance with suppliers.

Post balance sheet events

Details of post balance sheet events are included in note 18.

Directors' report (continued)

Directors

The directors who held office during the year and subsequently were as follows

D Robinson (Chairman) (appointed 30 September 2010)
D G Hargrave (appointed 30 September 2010)
K J D Elliott (appointed 30 September 2010)
A S Haigh (appointed 30 September 2010)
W G Henderson (appointed 30 September 2010, resigned 9 November 2010)
P W Mason (appointed 30 September 2010)
C M McComb (appointed 30 September 2010)

Prior to 30 September 2010 the company was managed by a Board of Management and there were no directors

Political and charitable donations

The company made no political donations and incurred no political expenditure during the year

During 2010 the company resolved to make a substantial charitable donation of £2,000,000. Details of which charity will receive these funds has not yet been decided, however, the intention is to fund health research in an area which is related to the insurance products the company writes

The total charge for charitable donations totals £2,050,000 (2009: £10,000)

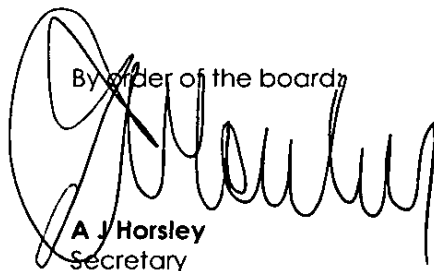
Disclosure of information to auditors

The directors who held office at the date of the approval of this directors' report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Auditor

The directors will place a resolution before a General Meeting to reappoint Deloitte LLP as auditors of the company, at a remuneration to be agreed by the directors

By order of the board

A J Horsley
Secretary

Hornbeam Park Avenue
Harrogate
HG2 8XE

24 March 2011

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Engage Mutual Health

We have audited the financial statements of Engage Mutual Health for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the directors, and
- the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditors' report to the members of engage Mutual Health (continued)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Stephen Williams (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Leeds, United Kingdom
24 March 2011

**Profit and loss account – Technical account
for the year ended 31 December 2010**

	Note	2010 £	2009 £
Continuing operations			
Gross premiums written	2	1,347,678	1,427,768
Change in the gross provision for unearned premium	2	32,677	1,965
Total earned premiums	2	1,380,355	1,429,733
Gross claims paid	3	(1,137,599)	(1,406,032)
Gross change in the provision for claims	3	(477)	(12,841)
Total claims incurred	3	(1,138,076)	(1,418,873)
Gross profit		242,279	10,860
Net Operating Expenses	5	(802,714)	(602,770)
Balance in the technical account		(560,435)	(591,910)

**Profit and loss account – Non-technical account
for the year ended 31 December 2010**

	Note	2010 £	2009 £
Continuing operations			
Balance on the general business technical account		(560,435)	(591,910)
Investment income	8	180,730	129,079
Investment expenses and charges	8	(19,232)	(19,846)
Gains on investments	8	521,471	1,114,469
Charitable Donation		(2,000,050)	(10,000)
(Loss) / profit on ordinary activities before tax		(1,877,516)	621,792
Tax on (loss)/profit on ordinary activities	9	9,668	(22,089)
(Loss) / profit on ordinary activities after tax		(1,867,848)	599,703
Transfer from / (to) unrealised investment reserve	15	799,542	(799,542)
Retained loss		(1,068,306)	(199,839)

There are no recognised gains and losses other than the loss for the year

**Balance Sheet
at 31 December 2010**

	Note	2010 £	2009 £
Assets			
Investments			
Land and buildings	7	500,000	500,000
Financial investments	7	6,330,723	6,807,854
		<hr/>	<hr/>
	7	6,830,723	7,307,854
Current assets			
Debtors arising out of direct insurance operations		13,894	15,597
Other debtors	11	226,456	-
Tangible Assets	10	-	32,075
Cash at bank		1,125,824	449,588
		<hr/>	<hr/>
		1,366,174	497,260
Prepayments and accrued income			
Deferred acquisition costs		-	2,224
Other prepayments and accrued income		-	8,643
		<hr/>	<hr/>
		-	10,867
		<hr/>	<hr/>
Total assets		8,196,897	7,815,981
		<hr/> <hr/>	<hr/> <hr/>

**Balance Sheet
at 31 December 2010**

	Note	2010 £	2009 £
Liabilities			
Capital and reserves			
Called up share capital	14	1	-
Reserves	15	5,637,706	7,505,554
Total shareholders' funds	15	5,637,707	7,505,554
Technical provisions			
Provision for unearned premiums - Gross amount	13	78,634	111,311
Claims Outstanding - Gross amount	13	89,365	88,888
		167,999	200,199
Creditors			
Creditors arising out of direct insurance operations		81,742	13,020
Other creditors	12	2,144,499	43,825
		2,226,241	56,845
Accruals and deferred income		164,950	53,383
Total liabilities		8,196,897	7,815,981

The financial statements were approved by the Board of Directors on 24 March 2011 and signed on its behalf by



A S Haigh
Director

Company Number 4301736

Notes to the financial statements

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements

Going concern

The Directors have reviewed the business and have confirmed the accounts should be prepared on a going concern basis

Basis of preparation

The financial statements have been prepared in accordance with United Kingdom Law and applicable accounting standards, and under historic cost accounting rules. The principle accounting policies summarised below have been applied consistently throughout the current and preceding year.

The financial statements have been prepared in compliance with the provisions of Schedule 3 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. These financial statements conform with the Association of British Insurers' ("ABI") Statement of Recommended Practice on Accounting for Insurance Business ("SORP") issued in December 2005 (as amended in December 2006).

Under FRS 1 (revised 1996) 'Cash Flow Statements' the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Fixed assets

Depreciation is provided on the cost of assets in annual instalments over their estimated lives. The rates of depreciation applied per annum are as follows:

Office equipment	20% straight line
Computer equipment	25% straight line

The cost of new computer software is depreciated in full in the year in which it is incurred.

Notes to the financial statements

1 Accounting policies

Investments

Investments, consisting of land and buildings, listed investments, units in authorised unit trusts and deposits with credit institutions, are stated at their current values. Investments in group undertakings are held at market value. Listed investments, Government securities and other quoted fixed income securities are included at market value on the balance sheet date.

Land and Buildings are re-valued on an open market basis, by qualified external valuers. No depreciation is provided on properties held for investment purposes, as recommended by Statement of Standard Accounting Practice 19. Properties occupied by the Company are listed buildings and are maintained as a matter of policy. Having regard to this, it is the opinion of the directors that depreciation on these properties, as required by the Companies Act 2006 and accounting standards would not be material.

Investment income

Investment income includes interest receivable, rents and gains and losses on the realisation of investments. Realised investment gains and losses are calculated as the difference between net proceeds on disposal and their purchase price. Investment return is included in the non-technical account. Realised and unrealised investment gains and losses are included within the non-technical profit and loss account.

Premium levies

The amount charged in respect of the Financial Services Compensation Scheme levy is accounted for on an invoice basis and is charged to the year of invoice. The charge is included within administration expenses.

Premiums

General business written premiums comprise the premiums on contracts entered into during the year which incept during the current financial year. Premiums exclude taxes and levies based on premiums.

Provision for unearned premiums

The unearned premium reserve comprises the proportion of gross written premiums which is estimated to be earned in the following year, computed separately for each policy using the daily pro-rata method.

Claims outstanding

Provision is made for the cost of claims incurred, whether reported or not, which are outstanding at the balance sheet date. The provision includes an estimate for the cost of losses which may occur in the future as a result of incidents which have occurred by the balance sheet date.

Notes to the financial statements

1. Accounting policies

Deferred acquisition costs

Acquisition costs, which represent commission and other related expenses, are deferred subject to recoverability and amortised over the period in which the related premiums are earned

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax assets and liabilities are recognised in accordance with the provisions of Financial Reporting Standard 19 'Deferred Taxation' ('FRS 19'). The Company has chosen not to apply the option available under FRS 19 of discounting such assets and liabilities to reflect the time value of money. Except as set out in FRS 19, deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are recognised only to the extent that it is regarded as more likely than not that they will be recovered.

Pensions

On 30 September 2010 the employees and their pension arrangements, along with costs, were transferred to Engage Mutual Administration Limited (EMAL), the group administration company. Post 30 September the cost of pension for the transferred staff was borne by EMAL.

Up to this point the company operated a defined contribution pension scheme. The costs of operating the defined contribution scheme up to 30 September 2010 are included in the profit and loss account.

Financial Instruments

Debtors, shown in note 11, are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method where the effect is material. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate computed at initial recognition where the effect is material.

Trade creditors and amounts payable to group undertakings, shown in note 12, are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method where the effect is material.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Notes to the financial statements

2. Earned premiums

	2010 £	2009 £
Gross written premiums	1,347,678	1,427,768
Unearned premiums brought forward	111,311	113,276
Unearned premiums carried forward	(78,634)	(111,311)
Change in gross provision for unearned premiums	32,677	1,965
Total earned premiums	1,380,355	1,429,733

All amounts are shown gross as there is no reinsurance

3. Claims incurred

	2010 £	2009 £
Claims paid	(1,137,599)	(1,406,032)
Outstanding claims brought forward	88,888	76,047
Outstanding claims carried forward	(89,365)	(88,888)
Gross change in the provision for claims	(477)	(12,841)
Claims incurred	(1,138,076)	(1,418,873)

All amounts are shown gross as there is reinsurance

Notes to the financial statements

4. Notes to the profit and loss account

(Loss) / profit on ordinary activities before taxation is stated after charging

	2010 £	2009 £
Depreciation and other amounts written off owned tangible fixed assets	22,012	22,331

Auditor's remuneration

	2010 £	2009 £
Fee payable to the company's auditor for the audit of the company's accounts	20,658	14,159

5 Net operating expenses

	2010 £	2009 £
Acquisition costs	29,000	131,292
Change in deferred acquisition costs	2,224	23,091
Administrative expenses	771,490	448,387
Net Operating Expenses	802,714	602,770

Notes to the financial statements

6. Staff costs

The aggregate payroll costs of the staff were as follows

	2010 £	2009 £
Wages and salaries	260,294	396,322
Social security costs	25,743	34,150
Other pension costs	67,919	70,938
	353,957	501,410

The staff of the company were transferred to EMAL on 30 September 2010 as part of the acquisition. As such the costs from that date are included in the accounts of EMAL and instead an amount in respect of administration is recharged.

Remuneration in respect of Board of Members was £42,862 (2009 £32,139). These members resigned on 30 September 2010 as part of the acquisition and accordingly the amount for 2010 is lower.

The directors are also directors of the ultimate holding company, Homeowners Friendly Society Limited (HFS). The directors have been wholly remunerated by EMAL. During 2010 the total remuneration paid for the whole year to the directors was £881,000 (2009 £870,000). For further details the Report of the Directors on Remuneration can be found on pages 36 and 37 of the Homeowners Friendly Society Limited Group Report and Accounts.

7. Financial investments

	2010 £ Book cost	2010 £ Market value	2009 £ Book cost	2009 £ Market value
Investments				
Freehold property	600,000	500,000	600,000	500,000
Units in Insight Liquidity Funds (ILF)	6,330,723	6,330,723	-	-
Listed investments	-	-	6,008,311	6,807,854
	6,930,723	6,830,723	6,608,311	7,307,854

A change in the policy for the investment of surplus assets during 2010 meant the equity and fixed income investments were disposed of. The new policy is to hold surplus amounts in pooled liquidity funds.

Notes to the financial statements

8. Investment income

	2010 £	2009 £
Investment income		
Investment income	180,730	219,330
Bank Interest	-	3,941
Realised gains/(losses) on realisation of investments	1,330,886	(97,092)
Total investment income	1,511,616	126,179
Unrealised (losses) / gains on realisation of investments	(809,415)	1,117,369
Investment expenses and charges	(19,232)	(19,846)
Net investment return	682,969	1,223,702

9. Taxation

Analysis of charge in period

	2010 £	2009 £
UK Corporation Tax		
Current tax on income for period	-	31,754
Prior period adjustment	9,668	(9,665)
Tax on profit on ordinary activities	9,668	22,089

Notes to the financial statements

9. Taxation (continued)

The current tax charge is lower (2009 lower) than the standard rate of corporation tax in the UK of 28% (2009 28%). The differences are included in the current tax reconciliation as follows

	2010 £	2009 £
(Loss) / profit on ordinary activities before tax	(1,867,848)	621,792
Current tax at standard corporation tax rate - 28% (2009 - 28%)	(522,997)	130,576
Effects of		
Items disallowable in the tax returns	-	8,799
Capital allowances in excess of depreciation	-	(553)
Movement in short term timing differences	-	(3,348)
Increase in / (utilisation) of tax losses	522,997	(90,759)
Dividends tax treatment	-	(12,961)
Adjustment to prior year tax charge	9,668	(9,665)
Current tax on income for period	9,668	22,089

The tax charge in the future will be lower than the standard rate of corporation tax due to the brought forward losses which are not recognised as a deferred tax asset in the Balance Sheet

The total amount of trading losses carried forward for tax purposes is £3,081,606 (2009 £3,400,000)

Notes to the financial statements

10. Tangible fixed assets

	Motor vehicles £	Furniture and equipment £	Total £
Cost			
At 1 January 2010	39,822	51,028	90,850
Additions	-	1,498	1,498
Disposals	(39,822)	(52,526)	(92,348)
At 31 December 2010	-	-	-
Depreciation			
At 1 January 2010	20,794	37,981	58,775
Provided in the year	7,467	14,545	22,012
On disposals	(28,261)	(52,526)	(80,787)
At 31 December 2010	-	-	-
Net book value			
At 31 December 2010	-	-	-
At 31 December 2009	19,028	13,047	32,075

The motor vehicles and fixtures and fittings were transferred on 30 September to EMAL as part of the transaction. They were transferred at net book value in a no gain, no loss transaction.

11 Debtors

Amounts due within one year

	2010 £	2009 £
Trade debtors	586	-
Amounts owed by Group undertakings	225,870	-
	226,456	-

Notes to the financial statements

12. Creditors

Amounts due within one year

	2010 £	2009 £
Trade creditors	1,996,407	-
Amounts owed to group undertakings	103,936	-
Other taxes and social security costs	44,156	43,825
	<u>2,144,499</u>	<u>43,825</u>

13 Technical provisions

Gross	Provision for unearned premiums	Provision for outstanding claims and IBNR £	Total £
At 1 January 2010	111,311	88,888	200,199
Additional provision in the year	78,634	89,365	167,999
Utilisation in the year	(111,311)	(88,888)	(200,199)
	<u>78,634</u>	<u>89,365</u>	<u>167,999</u>
At 31 December 2010	78,634	89,365	167,999

Notes to the financial statements

14 Called up share capital

	2010 £	2009 £
Issued and fully paid ordinary shares of £1 each	1	-

The company was limited by guarantee up to 30 September 2010. As part of the transaction the company was converted into an unlimited company with shares. The one issued share is owned by Engage Health Holdings Limited.

15. Reconciliation of movement in equity shareholders' funds

	Share capital £	General Reserve	Unrealised Investment Reserve	Total £
At 1 January 2009	-	6,905,851	-	6,905,851
Profit for the year	-	(199,839)	799,542	599,703
Revaluation of property	-	-	-	-
At 1 January 2010	-	6,706,012	799,542	7,505,554
Loss for the year	-	(1,068,306)	(799,542)	(1,867,848)
Issue of share capital	1	-	-	1
At 31 December 2010	1	5,637,706	-	5,637,707

16. Related party disclosures

As the company is a wholly owned subsidiary Engage Health Holdings Limited (which in turn is a wholly owned subsidiary of HFSL, the company has taken advantage of the exemption contained in FRS 8 'Related Party Disclosures' and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties).

Notes to the financial statements

17. Ultimate parent company

The consolidated financial statements of HFSL, the company's ultimate parent and the smallest and largest entity within which this company is included, can be obtained from Homeowners Friendly Society Limited, Hornbeam Park Avenue, Harrogate, HG2 8XE

18. Subsequent events

On 1 January 2011 the company commenced as underwriter of the health cash plan business of the Homeowners Group which had previously been underwritten by Engage Mutual Insurance Limited (a company registered in Gibraltar and part of the Homeowners Group)

Also, on 1 January 2011 the company commenced as underwriter of the health cash plan business of Friendly Healthcare Organisation Limited which had previously been underwritten by Hospital Saturday Fund Limited

Neither of these events are included in the financial statements for the year ending 31 December 2010