personal group

for your benefit

Personal Group Holdings Plc Report and Financial Statements

for the year ended 31st December 2012

Contents

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Personal Group Holdings Plc Report and Financial Statements

An introduction to Personal Group

We are Personal Group, one of the largest providers of employee benefits and employee-related insurance products in the UK. Our headquarters are in Milton Keynes with our field staff based all over the country.

We provide a complete range of innovative employee benefit solutions that help employers to recruit, retain and reward their employees. We are unique in that we also offer our own core insurance products such as Hospital Cash Plans, Convalescence Plans and Voluntary Group Income Protection Plans which we underwrite through Personal Assurance Plc. In addition we also provide Death Benefit Plans underwritten by third parties. These products complement a wide variety of other benefits which make up the benefit programmes we provide to our customers and are a key ingredient to our success.

Every organisation is different, with individual aims and requirements. Personal Group works hard to get under the skin of each client to ensure we understand their exact needs and deliver against them. Our team of benefits experts work with our clients to ensure that the solution we provide is tailored to their employees. Our solutions are as dynamic and as flexible as our client requires.

We provide:

- Voluntary benefits
- Insurance products
- Flexible benefits
- Total reward statements
- Employee engagement and communication
- Benefits technology and administration
- Health and wellbeing
- Salary sacrifice benefits

We also communicate these products to our clients' employees so they fully understand what they have access to. Personal Group is best known for its face-to-face communication in the workplace talking directly to employees and explaining the products. We are particularly successful in delivering this high quality communication to over 120,000 people a year on a one-to-one basis. In total we serve nearly 1.2m people across the UK and specialise in communicating across all media and are firm believers in a cross-platform approach.

Our face-to-face approach drives up employee engagement, increases awareness of the programme, and actively encourages registration and participation in the employee benefit schemes. It also drives the take up of our insurance products.

Our latest innovation, in using tablet technology to explain benefit schemes to employees, has improved engagement and understanding significantly. Though we have already seen a 15% improvement in productivity as a result we are developing this application further to create a completely paperless system which will make the whole benefits provision process even simpler.

Strong Performance

Personal Group has delivered another set of good results with strong revenue growth in our core business, good cash conversion and the maintenance of a strong balance sheet. The group has embarked on a period of investment to transform its business.

We enter the new financial year in a good position with revenue momentum and a strong balance sheet to support future growth.

£27.4m	£9.9m	+2.3%
Revenue	EBITDA	Dividend paid in year

	2012	2011	
	£m	£m	%
Revenue – Total Group	27.4	27.5	- 0.4
Revenue – Employee Benefits	26.0	24.0	+ 8.1
Headline EBITDA *	9.9	10.2	- 3.0
Profit before tax	8.3	10.0	- 16.9
Underlying PBT **	9.4	9.8	- 3.7

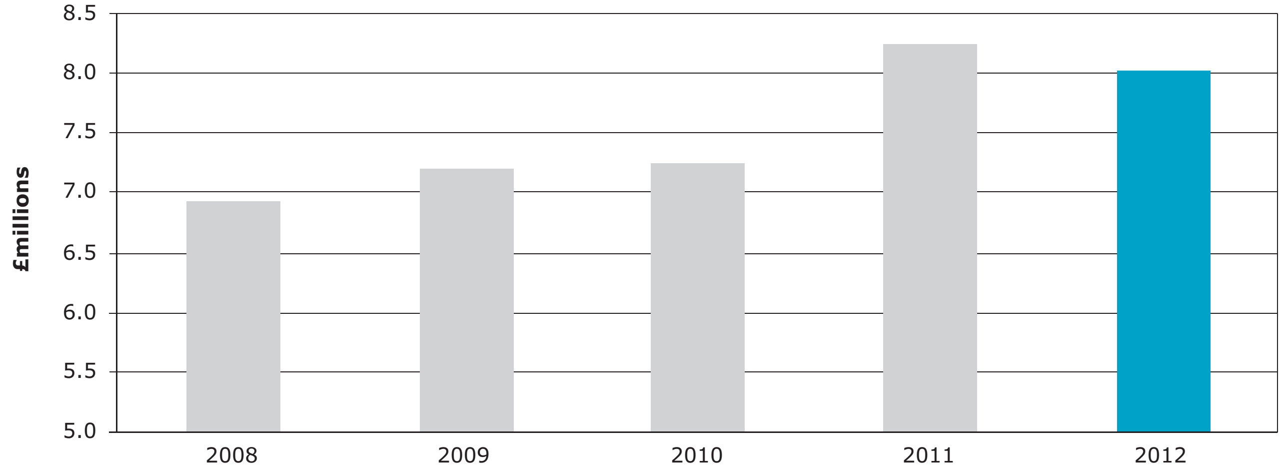
	2012	2011	
	pence	pence	%
EBITDA per share (basic)	33.2	34.2	- 2.9
Earnings per share (basic)	20.2	24.8	- 18.5
Dividends per share paid in year	17.8	17.4	+ 2.3

* EBITDA is defined as earnings before interest, tax, depreciation, goodwill impairment and share-based payment expenses, but excluding profit on disposal of a subsidiary undertaking. A reconciliation of EBITDA to profit for the year as shown in the consolidated income statement is shown within note 14.

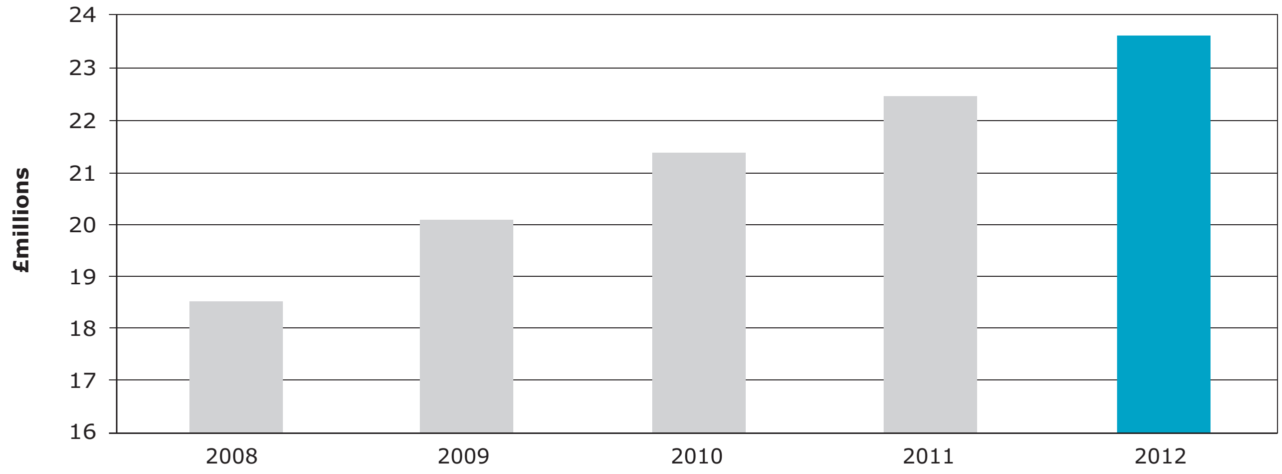
** Underlying PBT is defined as profit before tax, goodwill impairment on BMG and share-based payment expenses, but excluding profit on disposal of a subsidiary undertaking.

The Annual General Meeting will be held on 30 April 2013.

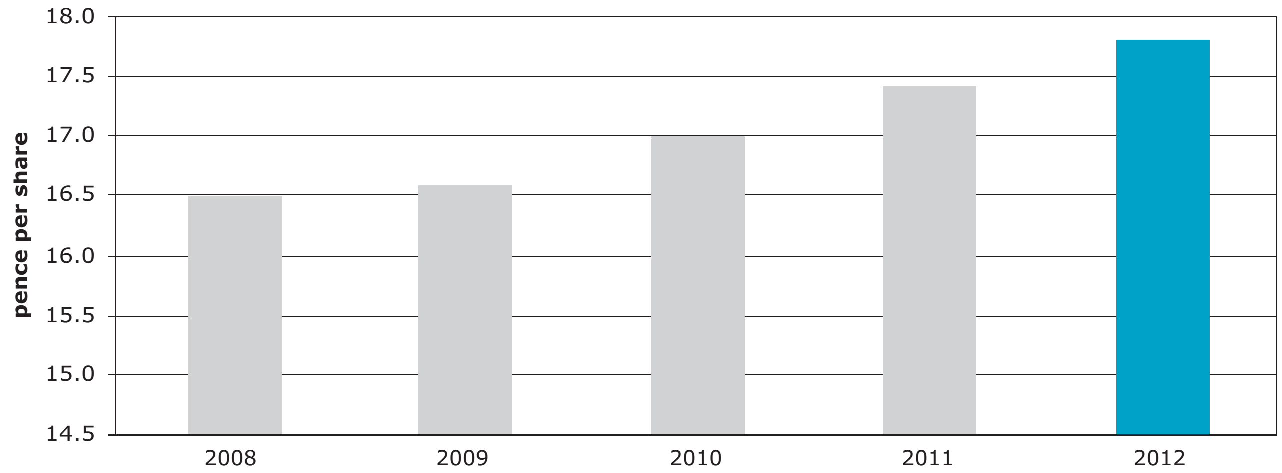
New annualised revenue from Hospital Cash and Convalescence Plans, Death Benefit and Voluntary Group Income Protection Plans



Revenue before claims from Hospital Cash and Convalescence Plans, Death Benefit and Voluntary Group Income Protection Plans



Dividend paid in year



Chairman's Statement

"For Personal Group 2012 has been a year both of continuing strong performance and of significant business transformation."

Business Review
For Personal Group 2012 has been a year both of continuing strong performance and of significant business transformation.

Our revenue from all our core employee benefits products reached £26m, an increase of 8.1% compared to 2011. We enjoyed another year of very strong new business generation in the core areas of Hospital Cash, Convalescence, Death Benefit and Voluntary Group Income Protection plans. New business generation in these areas came very close to that of our record year in 2011. Our core products continue to enjoy strong demand and to be well received.

The slight fall in total group revenue in comparison to 2011 was primarily a consequence of our decision to cease accepting new investment business into Berkeley Morgan Ltd (BML) with effect from 1st April 2012.

Our underwriting subsidiary Personal Assurance Plc handled 33,659 claims during the year for our core product plans (2011: 30,648 claims). The gross claims ratio for our core products was slightly down in comparison with 2011 but remains in line with levels experienced in previous years.

Investment for Growth
As foreshadowed in my chairman's statement accompanying the 2011 financial statements, we have embarked on a period of investment to transform our business, under the direction of Mark Scanlon, Chief Executive, who joined Personal Group in November 2011. This has already resulted in significant change.

Strengthening of the Senior Management Team
We have made further appointments into the senior management team, which both provide senior management succession and deliver the skills necessary for the further growth and development of the business. Mark Scanlon and Commercial Director David Walker (whose appointment was referred to in the Interim Statement in September) have been joined by Mike Dugdale as Chief Financial Officer, whose appointment was announced in December. This is a team of able and energetic people, well capable of developing the considerable potential of the Personal Group business and highly motivated to that end.

New Business Development
In the area of new business development we have considerably strengthened and restructured our business development and account management team. This team identifies and develops our relationships with host companies to whom we provide benefit programmes which include our core products. Under the direction of David Walker we now have a team focused on seeking new business opportunities as well as two dedicated to managing existing host company relationships. In consequence we have both strengthened our client relationship management and are better geared to identifying and developing new host company prospects.

Technology
The "front-end" sales process has been transformed through the use of an iPad application in the benefits presentations by our sales teams to host company employees. The iPad allows a more professional presentation, a slightly shorter presentation time (so that more presentations can be carried out in a day) and a more efficient signing-up procedure, as this is now done entirely online. Early indications also suggest a slightly higher conversion rate for employees purchasing our core product plans. The use of the iPad also gives the group a stream of valuable management information in real time: this is enabling us to manage more effectively the efficiency of our sales teams.

The Customer Experience
We want our customers to have the most positive experience when they are in contact with us: friendly, business-like and efficient. The quality of customer engagement is a fundamental element in market differentiation: an excellent

experience enhances our reputation, strengthens our brand and leads to more sales. Following an in-depth external review of our customer (i.e. policyholder) experience we have significantly restructured and brought together all our direct customer-facing areas under the overall control of a newly appointed senior member of the management team. The benefits of this are already showing through, for example in a much reduced level of complaints and in a greater understanding of why customers terminate their policies. This should help in reducing levels of cancellation.

Employee Pay, Reward and Progression

In order to be able to attract and retain the most able people, we have conducted a thorough review of our pay, rewards and progression/career development arrangements. Outputs from this review include a single grading and pay spine for all employees, clearer benchmarks for the achievement of career progression, and a long-term incentive plan for our most senior executive directors based on the increase in market capitalisation of the group over five years – thereby aligning the interests of our senior people very closely with those of shareholders.

Profit

These major changes give us a significantly enhanced competitive advantage and efficiency, and put the group into good shape to enable it to drive up business volume growth from 2013. Inevitably however the resulting investment has impacted on profit: EBITDA for the year ended 31 December 2012 was £9.9m (2011: £10.2m). This reduction in 2012 is primarily attributable to the investments in the change programme which was described earlier in this statement. Profit before tax of £8.3m (2011: £10.0m) and earnings per share of 20.2p (2011: 24.8p) were further affected by the Berkeley Morgan Group Ltd (BMG) goodwill impairment (£0.8m) announced in the interim statement in September, and by the long term incentive plan (£0.3m)

Balance Sheet

The group balance sheet remains strong with equity of £26.7m at 31 December 2012 (2011: £25.7m) representing 88.8p (2011: 85.3p) per share.

The margin of solvency (which allows Personal Assurance Plc to write further significant increases in premium without the requirement for new capital) remains strong: available qualifying assets at 31 December 2012 were £9.3m.

Dividends and Dividend Policy

Notwithstanding the lower profit performance in 2012 the directors' confidence in the medium and long-term prospects for Personal Group remains high. In consequence we are proposing to increase the dividend payable in 2013 by 4.5%, to 18.6p (2012: 17.8p) per share. This compares with an increase in dividends in each of the previous three years of between 2.0% and 2.4%. Our first quarterly dividend for 2013 of 4.65p (2012: 4.45p) per share will be paid on 8 April 2013.

The Board

Our founder and continuing major shareholder, Christopher Johnston, stepped down from the board in December, bringing to an end his active involvement in the business which he founded 29 years ago. He continues however through his reputation and example to inspire the staff of Personal Group, both those who joined the group and worked with him when he was involved in an executive capacity, and those who have become employees more recently. Christopher remains keenly interested in the business and a close and important friend of Personal Group.

Roger Green will also retire as a a non-executive director at the AGM on 30th April 2013 after ten years on the board. Throughout this time he has been chairman of the audit committee and a member of the remuneration committee and, since its establishment, of the compliance and risk committee. Roger's financial and industrial experience and expertise, together with his measured judgment, have been invaluable.

We are currently recruiting two new members of the board as independent non-executive directors.

Prospects for 2013

The improvements to the business which were put in place in the course of 2012 represent the preparation for the growth in business volumes which we are now beginning to witness. Our accounting policy for acquisition costs (i.e. the sales and other costs of generating new business), whereby the vast majority of all such costs are expensed in the year in which they are incurred, has the consequence that a significant increase in sales activity causes profits to dip in the year in which those sales take place, with the benefit flowing through in later years. 2013 is therefore planned as a year of further investment for significant sales growth, which is expected to lead to enhanced profits in future years.

Business change at the levels which the group has experienced in 2012 can be uncomfortable for staff involved in the change. The staff of Personal Group have shown both resilience in the implementation of the change programme and high enthusiasm as they have begun to see the impact of the changes on the business. My fellow directors and I therefore wish particularly to place on record this year our thanks to all our employees. We also thank our host companies and policyholders for their continuing loyalty and for their acknowledgment of the excellence of our products and service.

C J Curling
Non-Executive Chairman
22nd March 2013

Chief Executive's Statement

"Our strategy is to be an innovative, technologically enabled, employee engagement business of scale which is underpinned by insurance products sold face-to-face."

It is a great pleasure to present to shareholders my first full year review as Chief Executive of Personal Group, having joined the business in November 2011.

Since my arrival I have spent a significant amount of time listening to our various stakeholders, and observing at close hand how our business works in practice. I have had time in the field with our sales teams, and developed a number of new initiatives across the group in technology, customer service and product development. I have engaged with our business partners and customers and the feedback has been consistent and encouraging. We have a resilient business, especially in these uncertain times, with a strong and dedicated team of people, with market leading products and services providing tangible and measurable benefit to our customers.

Investment in Change

2012 has begun a period of change and transition for Personal Group. This has seen us invest heavily in building our management team, in new technology and in our customer experience. All of our efforts are designed to create a business structure which is both fit for purpose in the markets we serve but also enables us to grow. The foundations of the business are very solid and built upon a sound entrepreneurial spirit and track record. Careful attention has been paid to the succession planning of the board and management team and our intention now is to continue with that entrepreneurial zeal and take the business to the next level.

Strategy

Our strategy is to be an innovative, technologically enabled, employee engagement business of scale which is underpinned by insurance products sold face-to-face. The way we operate our business, with the combination of benefits schemes and insurance products, is unique and we know how very positively this gives our client companies the possibility of increasing employee engagement. Our online benefits programmes contain thousands of offers but it's the fact that we can deliver these programmes on a one-to-one basis that has allowed us to become a trusted participant in our clients' businesses. The level of acceptance and trust which our reputation affords also gives us some exciting opportunities to offer more products and services to our clients. Many of these customers have been with us for more than 20 years and value the services we provide.

Productivity Improvement

In this past year we have changed the way we think about ourselves. There is a renewed enthusiasm for what we do and a real desire to improve how we do it. Our fourth quarter sales performance in 2012 was 15% ahead of our best ever previous fourth quarter performance: this was borne out of improved efficiency and smarter working. This is due in no small measure to the rollout of our tablet presentations based on iPads which will see further augmentation in the first half of 2013 and with it further efficiencies and an improved customer experience. As we bring employee benefits programmes to life on behalf of our clients we want to make them simpler, easier to access and more engaging.

Customer Engagement

A key focus area for us in the past year has been customer engagement. This is a critical area of endeavour for us with the twin ambitions of improving our customer experience while at the same time making sure that we continue to treat our customers fairly. We completed a comprehensive review across all parts of the business, understood the areas for improvement and then took action to make the changes necessary. This saw us establish the customer engagement team, complete with the new roles of customer champion; and through this work we have seen our complaint levels reduce by over 80%. A company wide training and

"It is the people at Personal Group that really make the difference. We celebrated another two 25 year service awards this year. In the course of 2012 I have been delighted with the level of effort and commitment I have seen from our employees."

awareness programme involved every single member of the organisation and was completed over a three month period to embed our values and give everyone the tools to be able to continually make improvements. All of our reaction times have improved. Instead of days, our insurance product paperwork is completed in minutes. Feedback on the quality of our work in the field has gone from weeks to days as we survey our new customers immediately after they join.

Senior Team in Place

We now have a strengthened management team leading the business who bring with them knowledge and experience from a wide range of industries and provides senior management succession.

The changes which we have made in 2012 have affected all parts of our business and have transformed it into a much more customer-focused, customer-friendly, efficient and effective organisation, with the capability to grow by increasing sales of our core products and by expanding our sources of income and profit.

Growth

Our plans for 2013 are directed at growth, particularly in relation to our core products. Our pipeline is strong, not least in those industrial sectors to which our core offering has particular appeal. Significant investment in our sales infrastructure tends to impact profit adversely in the year in which the investment is made but positively thereafter. We therefore expect our profit in 2013 to be constrained as we build up our sales activity. In 2013 we will also explore opportunities for inorganic growth.

Digital Presence

We recognise the need to improve significantly our "digital presence": how we interact online with our customers, namely the employees of our client companies. We will be at the forefront in the nature and quality of our consumer experience. It will develop from a traditional B2B interaction to a stronger and more regular contact through a seamless digital platform. This will enable our trusted brand and reputation to fulfil more of the needs and expectations of our customers.

In addition we will be seeking out opportunities to strengthen our business through the development of relationships with third parties, who through partnerships and joint ventures, will enable us to expand the range of products offered through our employee benefits programmes.

People

It is the people at Personal Group that really make the difference. We celebrated another two 25-year service awards this year. In the course of 2012 I have been delighted with the level of effort and commitment I have seen from our employees. At a time of significant change I have seen so many rise to the challenge and remind us of why this business has been as successful as it has been over the past 29 years. Our sales team is the most impressive I have ever experienced, and the strong run-rate seen in the fourth quarter has continued into 2013. I am very grateful for the determination and enthusiasm with which everyone is contributing to the development and growth of our company.

M W Scanlon
Chief Executive
22nd March 2013

Finance Review

"We enter the new financial year in a strong position with good revenue momentum and a strong balance sheet to support future growth."

Group Results	2012 £'000	2011 £'000
Revenue	27,364	27,465
EBITDA	9,922	10,232
Profit before tax	8,320	10,015
Tax	2,296	2,592
Profit for the year	6,024	7,423
Dividends per share paid in year	17.8	17.4

Revenue
Revenue for the group of £27.4m in the year ended 31 December 2012 was in line with prior year (2011: £27.5m) largely driven by organic growth of 8.1% in our core benefits business substantially offsetting the decline in our financial services revenue where we have ceased to accept new investment business.

EBITDA
EBITDA decreased by £0.3m to £9.9m (2011: £10.2m) reflecting investments made in the business to prepare for future growth.

Profit Before Tax
Profit before tax for the year was £8.3m (2011: £10.0m), a decrease of £1.7m. This is largely as a result of the decision to impair the goodwill of Berkeley Morgan Group Ltd (BMG), our financial services business at the half year by £0.8m to £2.1m and the introduction of a five year long-term incentive plan (LTIP) for key executives at a cost of £0.3m. 2011 profit benefitted from the profit on sale of a subsidiary amounting to £0.3m.

Taxation
The tax charge for the year was £2.3m (2011: £2.6m). The improvement in the effective rate of tax is attributable to the reduction in mainstream corporation tax rates from 26% to 24%.

Profit After Tax
Profit after tax for the year was £6.0m (2011: £7.4m), a decrease of £1.4m on the prior year.

Dividend
The final dividend paid in 2012 of 4.45p brings the full year dividend to 17.8p per share (2011: 17.4p) paid in the year, an increase of 2.3%. Our first quarterly dividend for 2013 of 4.65p has already been announced and will be paid on 8th April. If business continues as anticipated we expect to pay further dividends in June, September and December 2013 of the same amount.

Investment Income
Investment income has risen to £0.4m (2011: £0.3m).

Key Performance Indicators (KPI's)
Personal Group uses a set of financial and non-financial KPI's to measure, manage and communicate critical aspects of our performance.

These KPI's are aligned with our strategic objective of achieving sustainable profitable growth and our financial KPI's are specifically focused on the level and quality of our earnings and the sustainability of dividends.

Balance Sheet

The group balance sheet remains strong with no debt. The balance sheet of our underwriting subsidiary Personal Assurance Plc (PA), has available qualifying assets as at 31 December 2012 of £9.3m. These provide a margin of solvency which allows PA to write further significant increases in premium income without the requirement for new capital. The board expects this to remain the same when Solvency II is introduced.

EPS

Basic EPS before other items was 20.2p (2011: 24.8p). The calculation is detailed in note 14.

Segmental Results

	2012 £'000	2011 £'000
Total Revenue		
Earned premiums net of reinsurance	20,924	19,108
Other income	4,626	4,647
Investment income	418	258
Employee benefits	25,968	24,013
Financial services	1,085	3,159
Investment property	311	293
Total Revenue	**27,364**	**27,465**
Net results for year before tax		
Employee benefits	8,848	8,860
Financial services	387	1,050
Investment property/other	(915)	105
	8,320	**10,015**

The group operates two trading operating segments, namely employee benefits insurance and consultancy, and financial services offered by BMG and its subsidiary undertakings.

Employee Benefits

Total revenue increased by 8.1% to £26.0m (2011: £24.0m) largely through the sale of hospital and convalescence plans, death benefit and Voluntary Group Income Protection (VGIP) policies.

Earned premiums net of reinsurance grew £1.8m to £20.9m (2011: £19.1m) reflecting the strong sale of insurance policies underwritten by PA.

PA handled 33,659 hospital and convalescence plans and income protection claims (2011: 30,648), the vast majority of which were settled within 48 hours. The gross claims ratio of PA was slightly higher as a result of underwiting higher volumes of private medical insurance in 2012 than 2011 but remains in line with expectations.

Over the last seven years we have had the opportunity to monitor the claims ratio of our private medical insurance business sold by Universal Provident Limited (UP) and took the decision to fully underwrite this business within PA from November 2012. Previously PA had accepted 20% of the claims risk with effect from 1 July 2011.

Other income from insurance and non-insurance activities remained at £4.6m and derives mostly from the sale of death benefit policies and the provision of bespoke employee benefit programmes.

Financial services

Revenue from financial services consists mainly of commission generated from insurance providers on the Berkeley Morgan book of business.

We took the decision to cease accepting new investment business into BML with effect from 1 April 2012. This has had some impact on total group revenue but has not materially impacted on profit. Expected volumes of business into UP, the other major subsidiary of BMG have fallen short of expectations during 2012. Following an impairment review the decision was taken at the half year to reduce the BMG goodwill in the balance sheet by £0.8m to £2.1m. Despite these changes within BMG it has performed in line with our expectations with revenue declining to £1.1m (2011: £3.2m). Part of this decline was as a consequence of disposing of Rapidinsure.co.uk Ltd in November 2011.

Investment property

Income of £0.3m remains in line with prior year.

Net Result for the year before tax

The net result of £8.8m (2011: £8.9m) from employee benefits, insurance and consultancy dominates the overall result and is in line with prior year. Financial services has declined as expected to £0.4m (2011: £1.1m) whilst investment property/others has declined £1m reflecting the impact of the aforementioned goodwill impairment and LTIP.

M I Dugdale
Chief Financial Officer
22nd March 2013

Board of Directors and Senior Management Team

C J Curling
Non-Executive Chairman

K W Rooney
Deputy Chairman and
Chief Operating Officer

M W Scanlon
Chief Executive

M I Dugdale
Chief Financial Officer

Dr J P Barber
Finance Director

R M Green
Non-Executive Director

H H Driver
Non-Executive Director

D J Walker
Commercial Director

A Lothian
Managing Director
Personal Group
Benefits Ltd

B Johnston
Group HR Director

personal group

Board of Directors

C J Curling Non-Executive Chairman (aged 62)
Chris Curling is a lawyer and businessman. As corporate finance lawyer, and for 15 years as either chief executive or executive chairman, he led the development of Osborne Clarke from a provincial firm into a national and international law practice. For the past ten years he has sat on the boards of a number of listed and private companies. He is now a non-executive director of Bristol Water Plc and chairman of the cycling and walking charity Sustrans. He was appointed to the Personal Group board in September 2002.

K W Rooney Deputy Chairman and Chief Operating Officer (aged 62)
Ken Rooney held the role of group chief executive between 2003 and 2008 and returned to the role on a temporary basis during 2011. He is currently the Chief Operating Officer and Deputy Chairman. He joined the group in 1999 and his 40 years' experience in financial services includes running his own company until 1998.

M W Scanlon Chief Executive (aged 44)
Appointed group Chief Executive in December 2011 Mark has spent most of his career in growth businesses. Having gained a degree in electronics from the University of Limerick in 1990 he spent time working for Schlumberger Industries, Viasystems, BAE Systems and Dyson where he established and then led their Commercial Division. For four years prior to joining Personal Group he was managing director and latterly chief executive at FMG Support, an outsourced service provider to the fleet industry.

M I Dugdale Chief Financial Officer (aged 50)
Mike was appointed to the board on 30 January 2013. He started his career at Ernst & Whinney in 1983 before moving to Arthur Young in 1987. He subsequently spent 8 years with Reebok in the UK and Canada in a variety of roles before being appointed international finance director for the business outside of North America. In 1996 he joined Guardian Royal Exchange Plc as group financial controller and in 2001 joined BUPA for over 8 years initially as group financial controller and subsequently as finance director of BUPA Membership, its UK insurance business. Most recently Mike was finance director of Virgin Care Limited.

Dr J P Barber Finance Director (aged 53)
After obtaining a PhD from the University of East Anglia in 1985, John Barber qualified as a chartered accountant with Grant Thornton before joining the group in 1991. He was appointed to the board in 2000 and is Company Secretary of all the subsidiaries.

R M Green Non-Executive Director (aged 69)
Roger Green was finance director of Bodycote International Plc from 1993 to 1998 when he was instrumental in the rapid expansion of the business from a small listed company to its current position as a member of the FTSE 350. Roger is chairman of the audit committee. He was appointed to the board in July 2002.

H H Driver Non-Executive Director (aged 63)
Harry Driver has spent his career in general insurance as an underwriter specialising in long tail liabilities and, in later years, in risk management. He was managing director of one of RSA's multi-national businesses and a member of the RSA group's executive team. He is now chairman of a property insurance company and a non-executive director of a European motor insurance company. He is chairman of the remuneration committee and the compliance and risk committee. Harry was appointed to the board in May 2008.

Senior Management Team

Mark Scanlon Chief Executive
See biography above

Ken Rooney Deputy Chairman and Chief Operating Officer
See biography above

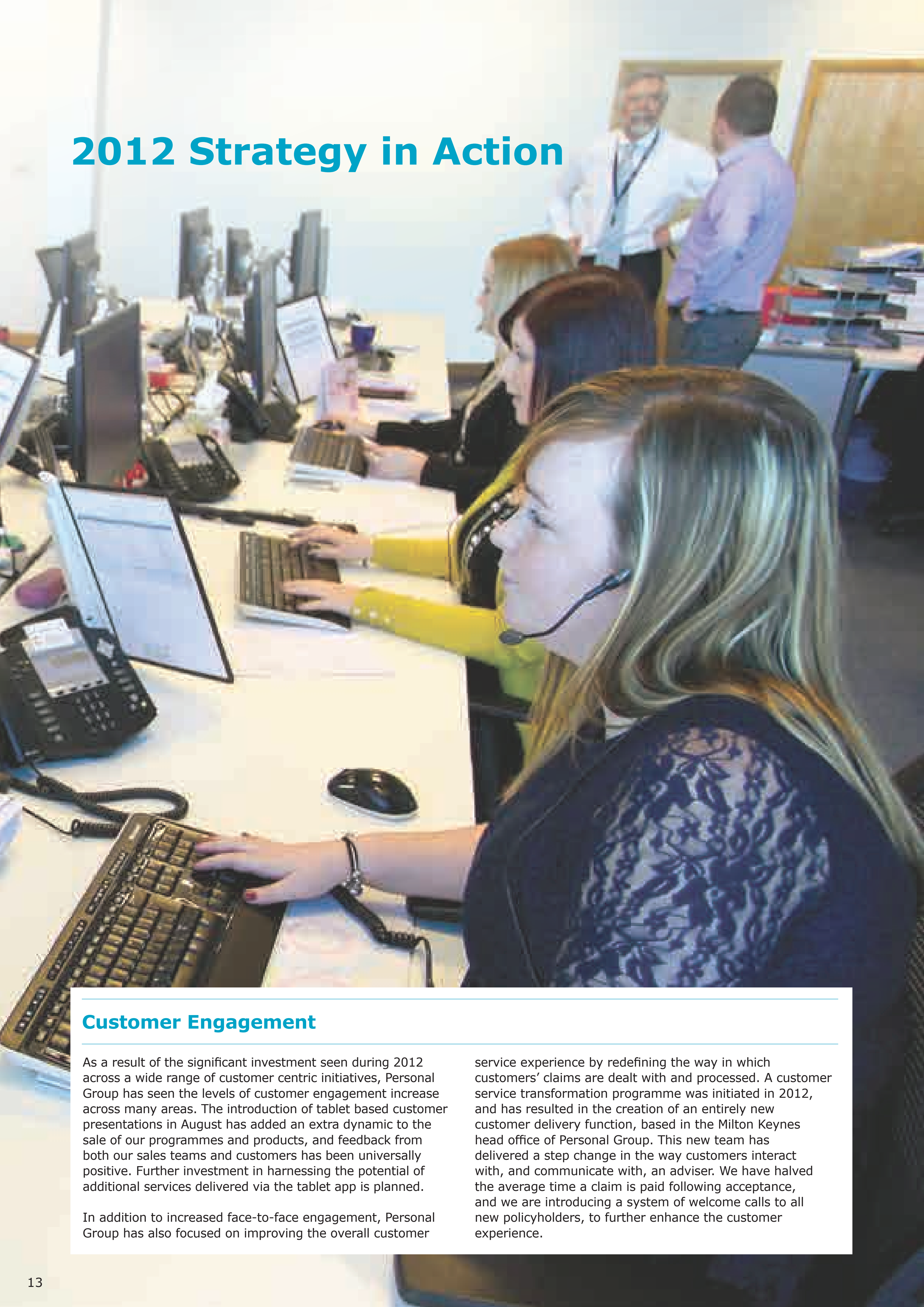
Mike Dugdale Chief Financial Officer
See biography above

David Walker Commercial Director (aged 42)
David was appointed to the newly created position of Commercial Director, Personal Group in July 2012. He oversees all client development, marketing, supply chain and product development activity for the group. Prior to joining Personal Group, David held roles within Corporate Banking with Barclays, head of commercial sales at BSkyB and most recently managing director of Dyson's commercial operations in the USA.

Andrew Lothian Managing Director Personal Group Benefits Ltd (aged 41)
Andy joined Personal Group in 1998 as a group account executive and steadily progressed through the company. He stepped up to the development manager role in 2001 and then to regional manager heading up two record breaking years for Personal Group sales. He was promoted further in 2004 to national sales manager and appointed to the board the same year. In 2010 Andy became Personal Group Benefits Managing Director.

Beth Johnston Group HR Director (aged 39)
Beth joined Personal Group as Group HR Manager in 2005, building the HR team to include recruitment, learning and development and general HR to work in partnership with the business, representing HR on the executive team throughout. She became Group HR Director in April 2011. Prior to her time at Personal Group Beth also worked for Eaton Corporation as human resources manager, Sheridan Maine as executive consultant and Hays Accountancy Personnel after completing her degree and MBA at the University of Portsmouth.

2012 Strategy in Action



Customer Engagement

As a result of the significant investment seen during 2012 across a wide range of customer centric initiatives, Personal Group has seen the levels of customer engagement increase across many areas. The introduction of tablet based customer presentations in August has added an extra dynamic to the sale of our programmes and products, and feedback from both our sales teams and customers has been universally positive. Further investment in harnessing the potential of additional services delivered via the tablet app is planned.

In addition to increased face-to-face engagement, Personal Group has also focused on improving the overall customer service experience by redefining the way in which customers' claims are dealt with and processed. A customer service transformation programme was initiated in 2012, and has resulted in the creation of an entirely new customer delivery function, based in the Milton Keynes head office of Personal Group. This new team has delivered a step change in the way customers interact with, and communicate with, an adviser. We have halved the average time a claim is paid following acceptance, and we are introducing a system of welcome calls to all new policyholders, to further enhance the customer experience.

Enhanced Product Development

A contributor to the record levels of new business written during 2012 was our Voluntary Group Income Protection (VGIP) plan. With the Government continuing to push employees to be more responsible for their own financial futures, the ability for companies to offer their employees a customised voluntary programme to replace income that could be lost due to illness or accident continues to resonate. During 2012 Personal Group enhanced the VGIP proposition to cover a wider range of employees by increasing the level of salary that can be protected, in addition to revising the qualification criteria to give the product a wider appeal. The nature and appeal of the VGIP proposition offers Personal Group the opportunity to expand its client base into new areas, and incremental distribution channels.

Employee Engagement

Personal Group has taken big steps forward on customer engagement but a key element of this programme has focused on internal employee engagement.

To ensure full staff alignment, Personal Group arranged extensive training of its entire staff to put its customer engagement strategy into action.

Linking Personal Group's people strategy to business performance is also part of the company vision "To be an innovative, technologically enabled, employee engagement business of scale which is underpinned by insurance products delivered face-to-face."

To achieve clarity in career paths, a consistent way of evaluating roles, and a structure that brings the group closer together, has been put in place in the form of the Personal Group career map.

To achieve the company goals and objectives individuals will be accomplishing their objectives in a way that reflects company values, and taking responsibility to improve personal performance in their role.

Driving Increased Reach, Efficiency and Effectiveness

Personal Group continues to work with all of our clients in ensuring that their employee benefits programmes are delivered in the most efficient and effective ways possible. In 2012 the group delivered a record number of employee presentations, driving home the enhanced benefit that their employers are offering. Face-to-face delivery of programmes remains the most effective way of maximising the impact of employee benefits schemes, delivered in conjunction with engaging bespoke websites and benefits booklets. Feedback from clients continues to reinforce the unique omnichannel approach to delivering our employee benefits programmes, particularly where employees do not have regular access to the internet in the workplace.

In response to changes in client needs, we are carrying out a trial of presenting our VGIP product by telephone. The trial will start as an email campaign and then progress through our customised sales process in order to reach more of our clients' employees. This is something we've never done before that could lead to a new channel sales strategy.

A Sustainable and Growing Business Model

In 2012, Personal Group delivered a wide range of client employee benefits programmes to a broad portfolio of clients, covering multiple sectors from logistics to food preparation, and transport to offices. The broad appeal of the extensive benefits that clients' employees can obtain through Personal Group remains very attractive, and a number of new corporate clients opted to use our programmes during the year. We have also been active in continuing to support our existing clients, the majority of which have been with Personal Group for over 10 years.

Corporate Governance Statement

General Principles
The board of Personal Group Holdings Plc supports the principles and is committed to achieving high standards of corporate governance. As an AIM quoted company it is not required to comply with the UK Corporate Governance Code 2010 ("the Code") but notwithstanding this seeks to comply with those provisions which are most appropriate given the size of the group and the nature of its operations.

Board of Directors
The board presently consists of four executive and three non-executive directors. Recruitment of two further independent non-executive directors is underway. The board meets on a regular basis and is responsible for the strategy and development of the group and the efficient management of its resources. It is supplied in a timely manner prior to meetings with information on financial, business and corporate matters, which enables it to discharge its duties. All directors have access to the advice and services of the company secretary and appropriate training is given as and when required. There are also procedures in place for the non-executive directors to obtain independent legal or other professional advice at the group's expense.

The group has a formal schedule of matters which are reserved for decision by the board. In addition the board has established committees with written terms of reference to fulfil specific functions, as set out below. The matters reserved for the board include the appointment of directors and senior executives, in consequence of which a separate nominations committee is considered unnecessary at the present time.

Audit Committee
The audit committee comprises three non-executive directors and is chaired by R M Green. It meets at least twice a year, with the finance director and auditor usually in attendance. The committee reviews accounting matters, financial reporting and internal controls (including the internal audit function) together with the interim and annual results announcements.

Remuneration Committee
The remuneration committee consists of three non-executive directors with the group chief executive in attendance and is chaired by H H Driver. The committee meets as required but not less than once a year. It reviews and makes recommendations to the board regarding the terms and conditions of employment of the executive directors (including performance related bonuses, share options and incentive plans), and sets the framework for the remuneration of other senior executives. The remuneration of the non-executive Directors is fixed by the board as a whole, but non-executive directors do not participate in discussions about their own remuneration.

Risk and Compliance Committee
The Risk and Compliance Committee (RCC) comprises three non-executive directors with the group chief executive, the chief operating officer and the head of risk normally in attendance. It is chaired by H H Driver. The committee meets as required but not less than four times a year. It oversees the risk and compliance function of the group and reports to the board on a range of compliance and operational activities of the group as a whole.

Auditor Independence
During the year, the board changed it's external auditors from Grant Thornton UKLLP to KPMG LLP.

The audit committee reviews the nature and extent of non-audit services supplied by the external auditor to the group, seeking to balance objectivity and value for money.

In determining the policy, the audit committee has taken into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, and does not agree to the auditor providing a service if, having regard to the ethical guidance, the result is that:

- the external auditor audits its own firm's work;
- the external auditor makes management decisions for the group;
- a mutuality of interests is created; or
- the external auditor is put in the role of advocate for the group.

Internal Control

The board of directors is responsible for the group's system of internal control and for reviewing its effectiveness. Such a system, however, is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The board has established a continuous process for identifying, evaluating and managing the group's significant risks. This process involves the monitoring of all controls including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from senior management and professional advisers to ensure that any significant weaknesses are promptly remedied.

During the year the board appointed Baker Tilly to provide an internal audit function that is risk-based and focused on key areas agreed with the board.

Relationship with Shareholders

The board attaches a high importance to maintaining good relationships with institutional shareholders and analysts, and seeks to keep them updated fully on the group's performance, strategy and management. In addition the board welcomes as many shareholders as possible to attend the Annual General Meeting and encourages open discussions both as part of and after the formal proceedings.

Corporate Social Responsibility

The group is committed to ensuring that the way in which its business is conducted has a positive impact on its employees and on the communities in which it operates. Its activity in this respect includes a charitable fund to which Personal Assurance Plc presently contributes approximately half of one per cent of premium income. The group supports a range of voluntary sector and community activities, primarily where its own employees or employees of host companies from whom the group derives its business are actively involved.

Risk Management Objectives and Policies

The board acknowledges that the group is exposed to risks that are inherent in all businesses and markets in which it operates. As a result the board places high priority on ensuring that there is a strong risk management culture throughout the group.

Regulatory Change

2012 was a period of change ahead of the transition to a system of dual regulation under the Prudential Regulatory Authority (PRA)/Financial Conduct Authority (FCA). The new regulators will take a proactive, judgment led and interventionist stance, using new and existing powers to act before failure occurs and will continue to place emphasis on credible deterrence through full use of enforcement powers. This requires firms to identify failure before detriment arises and underlines the need for improved governance and pre-loss control in areas of regulatory concern. 2012 also saw further delay in the implementation of Solvency II (which seems likely to be no earlier than 2015). Nonetheless we continue to work on pre-implementation with the objective of delivering a proportionate control framework that meets regulatory requirements.

Meeting Regulatory Challenge

Meeting regulatory challenge has required reorganisation of the group risk function. In 2012 we recruited resource to capture changes to risk outlook (including regulatory, legal and environmental) and changes to procedure to deliver appropriate treatment agreed before they crystallize. The risk monitoring function (responsible for monitoring group sales) has increased in capacity and is intelligence-led, directing resource towards activity that presents most risk to the group and conduct risk to customers.

The Enterprise Risk Management Framework (ERMF) is in process of review, overseen by the RCC. This has delivered new processes including policies that clearly articulate responsibilities, authority and risk appetite, and a new risk register, focused on understanding risk to group objectives, ensuring that risk management activity is relevant and delivers value to the group. Risk reporting focuses on both early warning and assurance of issue resolution. The risk department is also committed to engaging early with the business in strategic change projects, ensuring that risks to the group and its customers are identified and managed. Activity in 2012 included participation in the customer engagement, iPad and telephone selling projects.

Risk Management

The risk register includes all of the major risks faced by the group and is maintained by the group’s head of risk in close co-operation with all other group directors who are actively involved in the management of risk. The risk register is reviewed at every meeting of the compliance committee and periodically by the full board.

In addition to the financial risks described in detail below the risk register also considers operational, reputational, regulatory and government fiscal policy risks.

Operational risk is the risk of loss to the group as a direct result of inadequate or failed internal processes or systems, or the impacts of external events on the group’s processes or systems. As a result the group operates a range of controls over all aspects of the business. Many of these controls are built into computer operating systems but manual controls are also routinely used where considered appropriate. Both sorts of controls are reviewed on a regular basis and the group is seeking to enhance its documentation and testing of these controls as part of its transition to the new regulatory regime being introduced by Solvency II.

The group has developed a comprehensive disaster recovery plan which has been successfully tested in full, or in part, on a number of occasions in recent years. Whilst this recovery plan concentrates on the group’s IT capability it does also cover the requirement of alternative office facilities and associated office equipment.

All employees receive appropriate training to ensure that they are fully equipped to perform their duties to the highest possible standards. The group is committed to develop employees to their maximum potential and actively seeks to promote from within wherever possible. The board believes that the pro-active training programmes and career development opportunities reduce the possibility of employee error and hence the risk of damage to the business.

The training described above also helps to reduce reputational risk as a result of the actions of our employees. In addition the group is committed to the Financial Services Authority (FSA) Treating Customers Fairly principle which again can have a significant impact on reputational risk.

As the vast majority of the group’s income is derived from activities that are regulated by the FSA the group is exposed to regulatory risk in that changes made by the FSA could have a direct impact on the ability of the group to maintain certain operations.

Fair Treatment of Customers

The group puts the fair treatment of customers at the heart of the business and is committed to sustaining a culture which ensures that fair outcomes are business as usual. This includes service delivery and a sales experience that meets customer needs and expectations (and responds to changes to the way customers want to be serviced) and products that continue to be relevant to and meet the needs of identified customer groups. We are also aware of the need to ensure that a vigorous sales culture does not drive activity that is detrimental to customers or to the group. This resulted in a review of remuneration and incentive structures and processes designed to mitigate customer risk that we will continue to monitor and deliver on in 2013.

All employees receive appropriate training to ensure that they are fully equipped and competent to perform their duties to the highest possible standards. The group is committed to develop employees to their maximum potential and actively seeks to promote from within wherever possible.

Report of the Directors

The directors present their report together with the audited financial statements for the year ended 31 December 2012.

Principal activities

The group is principally engaged in transacting employee benefits related business, including short term accident and health insurance and financial services in the UK.

Key performance indicators

Management has established certain financial and non-financial key performance indicators which are used to measure the performance of the business on a regular basis. The following key performance indicators are considered important to the business:

Financial:

- Annual premium growth
- Liquidity using the proportion of cash versus total assets
- FSA capital resources requirement
- EBITDA
- Profit before tax
- Claims ratio

Non-financial:

- Total number of policies in force
- Claims handled in the period

These key performance indicators are reviewed in the chairman’s statement (see pages 5 and 6) and in the financial review (see pages 9 and 10).

Results and dividends

A review of the year's results is given in the chairman's statement (see pages 5 and 6).

The profit for the year, before taxation of £2,296,000 (2011: £2,592,000), amounted to £8,320,000 (2011: £10,015,000). During the year ordinary dividends of £5,312,000 (2011: £5,194,000) were paid.

Directors

The membership of the board at the end of the year is set out below. All directors served throughout the year with the exception of M I Dugdale who was appointed as a director on 30 January 2013. C W T Johnston resigned as a director on 18 December 2012.

In accordance with the Articles of Association, C J Curling, H H Driver and M W Scanlon retire by rotation and offer themselves for re-election. In addition an ordinary resolution will be proposed at the Annual General Meeting that M I Dugdale, having been appointed as a director since the last Annual General Meeting, be elected as a director of the company.

The interests of the directors and their families (including transactions committed to before the year end and shares held in the all employee share ownership plan) in the shares of the company as at 1 January 2012 and 31 December 2012 were as follows:

		Ordinary shares of 5p each in Personal Group Holdings plc
	At 31 December 2012	At 1 January 2012
C J Curling (Non-Executive Chairman)	**28,854**	27,926
M W Scanlon (Group Chief Executive)	**-**	-
J P Barber	**362,479**	356,199
K W Rooney	**5,590**	256,258
H H Driver (Non-Executive)	**-**	-
R M Green (Non-Executive)	**39,017**	49,268
C W T Johnston (Non-Executive, resigned as a director on 18 December 2012)	**-**	15,591,393

At 31 December 2012 the mid-market closing share price was 322.25p per share.

Report of the Directors

The remuneration of the directors listed by individual director is as follows:

Audited	Salary and fees £'000	Profit related pay/ Commission £'000	Total 2012 £'000	Total 2011 £'000	Pension contributions 2012 £'000	Pension contributions 2011 £'000
C J Curling*	62	-	**62**	61	**3**	3
N Brittle	-	-	**-**	208	**-**	-
J Barber	133	6	**139**	149	**21**	16
K Rooney	122	155	**277**	277	**15**	15
M W Scanlon	268	-	**268**	21	**8**	-
H H Driver*	31	-	**31**	31	**2**	2
R M Green*	31	-	**31**	31	**-**	-
C W T Johnston	-	-	**-**	-	**-**	-
Total	647	161	**808**	778	**49**	36

*Non-executive director fees.

On 10 October 2012 the remuneration committee of Personal Group Holdings Plc approved the award of options to purchase shares in Personal Group Holding Plc as follows:

	Number of shares	Exercise price pence per share	Earliest exercisable date
J P Barber	8,695	345.00	10 October 2015
K W Rooney	5,228	345.00	10 October 2015

At 31 December 2012 options outstanding were as follows:

	Number of shares	Exercise price pence per share	Earliest exercisable date
J P Barber	22,508	311.00	27 April 2010
K W Rooney	36,000	311.00	27 April 2010
J P Barber	35,242	283.75	30 March 2014
K W Rooney	35,242	283.75	30 March 2014
J P Barber	8,695	345.00	10 October 2015
K W Rooney	5,228	345.00	10 October 2015

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

During 2012 the company adopted a discretionary Long Term Incentive Plan (LTIP) for the benefit of selected directors and senior employees of Personal Group.

The Plan provides for the grant of awards, entitling participants to the payment of a bonus relating to the percentage increase in the market capitalisation of the company over a specified period. The award will be satisfied in shares, or in the discretion of the remuneration committee wholly or partly in cash in accordance with the Plan rules.

Report of the Directors

A participant would be entitled to a payment in respect of their award on each of the second, third, fourth and fifth anniversary of their commencement date in the plan or if there is an exit event such as a sale before the fifth anniversary date. Each participant has been awarded a specified percentage of the value increase in the market capitalisation. If there is no increase in market capitalisation at the award dates then no payment will be made. Where the market capitalisation has increased the level of payment will be 10%, 30%, 60% and 100% cumulatively on the second, third, fourth and fifth anniversaries respectively of the relevant % entitlement. The number of shares awarded will be determined by dividing the amount of the appropriate payment by the market value (as defined in the Plan rules) of the shares on the relevant anniversary date.

The maximum amount payable by the company over 5 years is £10m with the only participating board members being M W Scanlon and M I Dugdale who are entitled to a max of 5% (£5m) and 1% (£1m) respectively of the increase in market capitalisation. The start date for M W Scanlon is 25 November 2011 and for M I Dugdale is 2 January 2013 when the market capitalisation was £81.55m and £96.96m respectively. An amount of £280,000 has been charged to the profit and loss account in 2012 for this scheme of which £235,000 relates to M W Scanlon being the only director whose participation started pre year end.

Charitable donations

Donations to charitable organisations amounted to £100,000 (2011: £100,000).

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

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

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 group and parent company and of their profit or loss for that period. In preparing each of the group and parent company 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 they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Report of the Directors

Principal risks and uncertainties

The principal risks and uncertainties facing the group, along with the risk management objectives and policies are discussed in note 3 to the consolidated financial statements.

Capital requirements

See note 4 to the consolidated financial statements.

Corporate governance

The board's report on the group's corporate governance procedures is set out on pages 15 and 16.

Payment of creditors

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

Auditor

KPMG LLP have expressed willingness to continue in office. In accordance with section 489 (4) of the Companies Act 2006 a resolution to reappoint KPMG LLP will be proposed at the Annual General Meeting to be held on 2013.

In so far as each of the directors is aware:
- there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

BY ORDER OF THE BOARD

J P Barber
Director & Company Secretary
22 March 2013

Report of the Independent Auditor to Members of Personal Group Holdings Plc.

We have audited the financial statements of Personal Group Holdings Plc for the year ended 31 December 2012 set out on pages 24 to 67. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 21, 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 Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2012 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Jonathan Holt
Senior Statutory Auditor
for and on behalf of KPMG LLP
Statutory Auditor, Chartered Accountants
Manchester

22 March 2013

Consolidated Income Report

	Note	**2012 £'000**	2011 £'000
Gross premiums written		**22,332**	20,581
Outward reinsurance premiums		**(1,097)**	(721)
Change in unearned premiums		**(281)**	(1,291)
Change in reinsurers' share of unearned premiums		**(30)**	539
Earned premiums net of reinsurance	5	**20,924**	19,108
Other income:			
Insurance related	5	**4,301**	6,378
Non-insurance related	5	**1,410**	1,427
Investment property	5	**311**	293
Investment income	6	**418**	259
Revenue		**27,364**	27,465
Claims incurred	7	**(4,211)**	(3,899)
Insurance operating expenses	8	**(9,190)**	(8,335)
Impairment of non-financial assets	16	**(800)**	-
Other expenses:			
Insurance related		**(1,968)**	(3,149)
Non-insurance related		**(2,355)**	(2,105)
Share-based payment expenses	23	**(301)**	(18)
Investment property		**(116)**	(91)
Charitable donations		**(100)**	(100)
Expenses		**(19,041)**	(17,697)
Results of operating activities		**8,323**	9,768
Profit on disposal of subsidiary undertaking	9	**-**	250
Finance costs	6	**(3)**	(3)
Profit before tax	11	**8,320**	10,015
Tax	12	**(2,296)**	(2,592)
Profit for the year	13	**6,024**	7,423

The profit for the year is attributable to equity holders of Personal Group Holdings Plc.

Earnings per share as arising from total and continuing operations		**Pence**	Pence
Basic	14	**20.2**	24.8
Diluted	14	**20.1**	24.8

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

Consolidated Statement of Comprehensive Income

	2012 £'000	2011 £'000
Profit for the year	**6,024**	7,423
Other comprehensive income		
Available for sale financial assets:		
Valuation changes taken to equity	**19**	(60)
Reclassification of gains and (losses) on available for sale financial assets on derecognition	**(9)**	(18)
Income tax on unrealised valuation changes taken to equity	**(3)**	21
Total comprehensive income for the year	**6,031**	7,366

The total comprehensive income for the year is attributable to equity holders of Personal Group Holdings Plc.

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

Consolidated Balance Sheet at 31 December 2012

	Note	2012 £'000	2011 £'000
ASSETS			
Non-current assets			
Goodwill	16	**2,100**	2,900
Property, plant and equipment	17	**5,610**	5,475
Investment properties	18	**3,185**	3,185
Financial assets	19	**14,680**	14,536
		25,575	26,096
Current assets			
Trade and other receivables	20	**4,259**	4,632
Reinsurance assets	21	**735**	599
Cash and cash equivalents	22	**3,015**	2,043
		8,009	7,274
Total assets		**33,584**	33,370

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

Consolidated Balance Sheet at 31 December 2012

	Note	**2012 £'000**	2011 £'000
EQUITY			
Equity attributable to equity holders of Personal Group Holdings Plc			
Share capital	23	**1,503**	1,503
Capital redemption reserve		**24**	24
Amounts recognised directly into equity relating to non-current assets held for sale		**(21)**	(28)
Other reserve		**(619)**	(652)
Profit and loss reserve		**25,805**	24,810
Total equity		**26,692**	25,657
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	24	**176**	204
Current liabilities			
Provisions	25	**63**	100
Trade and other payables	26	**2,638**	3,458
Insurance contract liabilities	27	**2,895**	2,585
Current tax liabilities		**1,061**	1,252
Borrowings	28	**59**	114
		6,716	7,509
Total liabilities		**6,892**	7,713
Total equity and liabilities		**33,584**	33,370

The financial statements were approved by the board on 22 March 2013.

C J Curling

J P Barber

Company number: 3194991

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

Company Balance Sheet at 31 December 2012

	Note	2012 £'000	2011 £'000
ASSETS			
Non-current assets			
Investment in subsidiary undertakings	29	**13,720**	14,520
Financial assets	19	**3,686**	3,899
		17,406	18,419
Current assets			
Trade and other receivables	20	**4,104**	2,950
Total assets		**21,510**	21,369
EQUITY			
Equity attributable to equity holders of Personal Group Holdings Plc			
Share capital	23	**1,503**	1,503
Capital redemption reserve		**24**	24
Other reserve		**(619)**	(652)
Profit and loss reserve		**13,799**	13,962
Total equity		**14,707**	14,837
LIABILITIES			
Current liabilities			
Trade and other payables	26	**6,744**	6,412
Current tax liabilities		**-**	6
Borrowings	28	**59**	114
Total liabilities		**6,803**	6,532
Total equity and liabilities		**21,510**	21,369

The financial statements were approved by the board on 22 March 2013.

C J Curling

J P Barber

Company number: 3194991

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

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2012

Equity attributable to equity holders of Personal Group Holdings Plc

	Share capital	Capital redemption reserve	Available for sale financial assets	Other reserve	Profit and loss reserve	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 1 January 2012	1,503	24	(28)	(652)	24,810	25,657
Dividends	-	-	-	-	(5,312)	(5,312)
Employee share-based compensation	-	-	-	-	301	301
Proceeds of AESOP* share sales	-	-	-	-	269	269
Cost of AESOP shares sold	-	-	-	287	(287)	-
Cost of AESOP shares purchased	-	-	-	(254)	-	(254)
Transactions with owners	-	-	-	33	(5,029)	(4,996)
Profit for the year	-	-	-	-	6,024	6,024
Other comprehensive income						
Available for sale financial assets:						
Valuation changes taken to equity	-	-	19	-	-	19
Transfer to income statement	-	-	(9)	-	-	(9)
Current tax on unrealised valuation changes taken to equity	-	-	(3)	-	-	(3)
Total comprehensive income for the year	**-**	**-**	7	-	6,024	6,031
Balance as at 31 December 2012	**1,503**	**24**	**(21)**	**(619)**	**25,805**	**26,692**

*All Employee Share Option Plan (AESOP)

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

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2011

Equity attributable to equity holders of Personal Group Holdings Plc

	Share capital	Capital redemption reserve	Available for sale financial assets	Other reserve	Profit and loss reserve	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 1 January 2011	1,503	24	29	(605)	22,573	23,524
Dividends	-	-	-	-	(5,194)	(5,194)
Employee share-based compensation	-	-	-	-	18	18
Proceeds of AESOP share sales	-	-	-	-	80	80
Cost of AESOP shares sold	-	-	-	90	(90)	-
Cost of AESOP shares purchased	-	-	-	(137)	-	(137)
Transactions with owners	-	-	-	(47)	(5,186)	(5,233)
Profit for the year	-	-	-	-	7,423	7,423
Other comprehensive income						
Available for sale financial assets:						
Valuation changes taken to equity	-	-	(60)	-	-	(60)
Transfer to income statement	-	-	(18)	-	-	(18)
Current tax on unrealised valuation changes taken to equity	-	-	21	-	-	21
Total comprehensive income for the year	**-**	**-**	(57)	**-**	7,423	7,366
Balance as at 31 December 2011	**1,503**	**24**	**(28)**	**(652)**	**24,810**	**25,657**

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

Company Statement of Changes in Equity for the Year Ended 31 December 2012

Equity attributable to equity holders of Personal Group Holdings Plc

	Share capital	Capital redemption reserve	Other reserve	Profit and loss reserve	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance as at 1 January 2012	1,503	24	(652)	13,962	14,837
Dividends	-	-	-	(5,312)	(5,312)
Employee share-based compensation	-	-	-	301	301
Proceeds of AESOP share sales	-	-	-	269	269
Cost of AESOP shares sold	-	-	287	(287)	-
Cost of AESOP shares purchased	-	-	(254)	-	(254)
Transactions with owners	**-**	**-**	33	(5,029)	(4,996)
Profit for the year	-	-	-	4,866	4,866
Balance as at 31 December 2012	**1,503**	**24**	**(619)**	**13,799**	**14,707**

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

Company Statement of Changes in Equity for the Year Ended 31 December 2011

Equity attributable to equity holders of Personal Group Holdings Plc

	Share capital	Capital redemption reserve	Other reserve	Profit and loss reserve	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance as at 1 January 2011	1,503	24	(605)	14,405	15,327
Dividends	-	-	-	(5,194)	(5,194)
Employee share-based compensation	-	-	-	18	18
Proceeds of AESOP share sales	-	-	-	80	80
Cost of AESOP shares sold	-	-	90	(90)	-
Cost of AESOP shares purchased	-	-	(137)	-	(137)
Transactions with owners	**-**	**-**	(47)	(5,186)	(5,233)
Profit for the year	-	-	-	4,743	4,743
Balance as at 31 December 2011	**1,503**	**24**	**(652)**	**13,962**	**14,837**

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

Consolidated Cash Flow Statement

	Note	**2012 £'000**	2011 £'000
Operating activities			
Profit after tax		**6,024**	7,423
Adjustments for			
Depreciation		**498**	446
Goodwill impairment		**800**	-
Profit on disposal of subsidiary undertaking		**-**	(250)
Profit on disposal of property, plant and equipment		**(9)**	(15)
Realised and unrealised net investment (profits)/losses		**(17)**	36
Interest received		**(390)**	(284)
Dividends received		**(22)**	(19)
Interest paid		**3**	3
Share-based payment expenses		**301**	18
Taxation expense recognised in income statement		**2,296**	2,592
Changes in working capital			
Trade and other receivables		**237**	(2,145)
Trade and other payables		**(547)**	1,771
Taxes paid		**(2,518)**	(2,665)
Net cash from operating activities		**6,656**	6,911
Investing activities			
Net proceeds from sale of subsidiary undertaking		**-**	350
Additions to property, plant and equipment		**(735)**	(390)
Proceeds from disposal of property plant and equipment		**111**	100
Purchase of own shares by the AESOP		**(254)**	(137)
Proceeds from disposal of own shares by the AESOP		**269**	80
Purchase of financial assets		**(11,880)**	(12,242)
Proceeds from disposal of financial assets		**11,763**	5,170
Interest received		**390**	284
Dividends received		**22**	19
Net cash used in investing activities		**(314)**	(6,766)
Financing activities			
Proceeds from bank loans		**254**	137
Repayment of bank loans		**(309)**	(117)
Interest paid		**(3)**	(3)
Dividends paid		**(5,312)**	(5,194)
Net cash used in financing activities		**(5,370)**	(5,177)
Net change in cash and cash equivalents		**972**	(5,032)
Cash and cash equivalents, beginning of year	22	**2,043**	7,075
Cash and cash equivalents, end of year	22	**3,015**	2,043

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

Notes to the Financial Statements

1 General information

The principal activities of Personal Group Holdings Plc ('the company') and subsidiaries (together 'the group') include transacting short term accident and health insurance, and providing employee benefits related business and financial services in the UK.

The company is a limited liability company incorporated and domiciled in England. The address of its registered office is John Ormond House, 899 Silbury Boulevard, Milton Keynes, MK9 3XL.

The company is quoted on the Alternative Investment Market of the London Stock Exchange.

These financial statements have been approved for issue by the board of directors on 22 March 2013.

2 Accounting policies

These financial statements of Personal Group Holdings Plc are for the year ended 31 December 2012. They have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRS) as adopted by the EU. These financial statements have been prepared in accordance with IFRS standards and IFRIC interpretations as adopted by the EU, issued and effective as at 31 December 2012.

2.1 Standards and Interpretations not yet effective

The following Standards and Interpretations which are not yet effective are not expected to have any significant impact on the group's financial statements in their periods of initial application.

- IFRS 9 Financial Instruments (effective 1 January 2015)*
- IFRS 10 Consolidated Financial Statements (effective 1 January 2013)**
- IFRS 11 Joint Arrangements (effective 1 January 2013)**
- IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2013)**
- IFRS 13 Fair Value Measurement (effective 1 January 2013)
- IAS 19 Employee Benefits (Revised June 2011) (effective 1 January 2013)
- IAS 27 (Revised), Separate Financial Statements (effective 1 January 2013)**
- IAS 28 (Revised), Investments in Associates and Joint Ventures (effective 1 January 2013)**
- Presentation of Items of Other Comprehensive Income - Amendments to IAS 1 (effective 1 July 2012)
- Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (effective 1 January 2013)
- Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (effective 1 January 2014)
- Mandatory Effective Date and Transition Disclosures - Amendments to IFRS 9 and IFRS 7 (effective 1 January 2015)*

* these standards and interpretations are in issue but not yet adopted by the EU.
** these standards and interpretations have been adopted by the EU but will not become effective until 1 January 2014

Implementation of IFRS 11 would mean that the current accounting treatment of the joint venture by proportionate consolidation would no longer be permitted, the equity method of accounting would be required instead.

Notes to the Financial Statements

2.2 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

It should be noted that accounting estimates and assumptions are used in the preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.
Such knowledge has been used to determine the following:

- future profitability of the Berkeley Morgan group of companies on which the goodwill impairment valuation is based (note 16);
- establishing the value of claims outstanding (note 3);
- presentation and carrying value of certain property as investment property (note 2.14 and note 18); and,
- Long term incentive plan (note 23).

The impacts of these estimates and assumptions are given in the cross-referred notes above.

The financial statements are prepared on a going concern basis. In considering going concern, the directors have reviewed the group's future cash requirements and earnings projections for the period up to 31 March 2014. The directors believe these forecasts have been prepared on a prudent basis and have also considered the impact of a range of potential changes to trading performance. The directors have concluded that the group will be able to operate without requiring any external funding and therefore believe it is appropriate to prepare the financial statements of the group on a going concern basis. This is supported by the group's liquidity position at the year end.

2.3 Basis of consolidation

The group financial statements consolidate those of the company and all of its subsidiary undertakings drawn up to 31 December 2012. Subsidiaries are entities over which the group has the power to control the financial and operating policies so as to obtain benefits from its activities. The group obtains and exercises control through voting rights.

Unrealised gains on transactions between the group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the group.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the deemed cost for subsequent measurement in accordance with the group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

2.4 Business combinations completed prior to date of transition to IFRS

The group has elected not to apply IFRS 3 Business Combinations retrospectively to business combinations prior to 1 January 2006.

Accordingly the classification of the combination remains unchanged from that used under UK GAAP. Assets and liabilities are recognised at date of transition if they would be recognised under IFRS, and are measured using their UK GAAP carrying amount immediately post-acquisition as deemed cost under IFRS, unless IFRS requires fair value measurement. Deferred tax and minority interest are adjusted for the impact of any consequential adjustments after taking advantage of the transitional provisions.

Notes to the Financial Statements

2.5 Joint ventures

Abbeygate Developments (Marlborough Gate 2) Limited is the only jointly controlled entity within the group. Its financial statements have been incorporated into Personal Group Holdings Plc's financial statements using proportionate consolidation.

The proportionate consolidation approach includes the group's share of net assets and net profits of the joint venture under each heading of the income statement and balance sheet.

2.6 Goodwill

Goodwill representing the excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired, is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses. Negative goodwill is recognised immediately after acquisition in the income statement.

Goodwill written off to reserves prior to date of transition to IFRS remains in reserves. There is no re-instatement of goodwill that was amortised prior to transition to IFRS. Goodwill previously written off to reserves is not written back to profit or loss on subsequent disposal.

2.7 Revenue

Revenue is measured by reference to the fair value of consideration received or receivable by the group for goods supplied and services provided, excluding VAT, IPT and trade discounts.

Premium earned

Premium income is recognised on a receivable basis over the life that the policy is in force. Where a proportion of premiums written in the current year relate to cover provided in the following year it is carried forward as a provision for unearned premiums, calculated on a daily pro rata basis.

Written premiums exclude insurance premium tax.

Other income

a) Insurance related

Commission on insurance product sales is recognised when the policy goes on risk (i.e., when confirmation has been received from the insurer that the policy has been unconditionally accepted and that cover is being provided for the policyholder); in the case of indemnity commission, provision is made for estimated future lapses.

b) Non-insurance related

Non-insurance related fee income is recognised on a straight line basis over the length of the contract. Where a proportion of this income and costs, credited or charged in the current year relate to the provision of services provided in the following year they are carried forward as deferred income or costs, calculated on a daily pro rata basis.

Property rental income is recognised on a receivable basis when the right to receive consideration has been established.

c) Investment property

Rental income arising from investment properties is recognised on a straight line basis over the lease term. The leases are classified as operating leases as the group has substantially all the risks and rewards related to the ownership of the leased asset.

Investment income

a) *Interest and dividend income*

Interest income is recognised on an effective interest rate method. Dividends are recognised when declared.

b) *Investment management expenses*

Investment management expenses are recognised on an accruals basis.

c) *Realised gains and losses*

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

d) *Unrealised gains and losses*

Unrealised gains or losses on long term assets classified as available for sale are recognised directly into equity. Unrealised investment gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years which have been realised during the year and are reported as realised gains and losses in the current income statement together with gains or losses realised in the current year.

Unrealised gains or losses on assets classified at fair value through profit or loss are recognised as income or expense in the income statement.

2.8 Reinsurance premiums and claims recoveries

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured. Reinsurers' share of technical reserves are shown as an asset in the balance sheet.

Amounts recoverable under reinsurance contracts are assessed for impairment at each balance sheet date. If objective evidence of impairment exists reinsurance assets are reduced to the level at which they are considered to be recoverable and an impairment loss is recognised in the income statement.

2.9 Deferred acquisition expenses

Costs incurred in acquiring general insurance contracts are deferred. Acquisition costs include direct costs such as brokerage and commission and indirect costs such as administrative expenses connected with the processing of proposals and the issuing of policies. The deferred acquisition cost asset represents the proportion of acquisition costs which corresponds to the proportion of gross premiums written that is unearned at the balance sheet date.

2.10 Claims recognition and claims provisions

Claims incurred comprise claims and claims handling expenses paid in the year and the movement in provision for outstanding claims and settlement expenses.

Outstanding claims include an allowance for the cost of claims incurred by the balance sheet date but not reported until after the year end (IBNR). The amount included in respect of IBNR is based on management's estimate of the volume and level of claims that remain unreported at the year end. The provision for claims also includes amounts in respect of internal and external claims handling costs.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place.

The ultimate liability may vary from the estimates as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the annual accounts for the period in which the adjustments are made. The methods used and the estimates made are reviewed regularly.

The liability adequacy test (IFRS 4 paragraph 16) is performed at each reported balance sheet date. This requires the estimate of future cash flows under its insurance contracts to be measured against the recognised insurance liabilities.

Notes to the Financial Statements

2.11 Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. No depreciation is charged during the period of construction.

Borrowing costs on property, plant and equipment under construction are capitalised during the period of construction.

Disposal of assets

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation

Depreciation is calculated to write down the cost or valuation less estimated residual value of all property, plant and equipment other than freehold land excluding investment properties by equal annual instalments over their estimated useful economic lives. Residual value is reviewed annually and amended if material. The rates generally applicable are:

Freehold properties	50 years
Motor vehicles	4 years
Computer equipment	2 - 4 years
Furniture, fixtures and fittings	5 - 10 years

2.12 Impairment of non-financial assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the group at which management monitors the related cash flows.

Goodwill, other individual assets or cash-generating units that include goodwill and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. See note 16 for further details on the impairment testing of goodwill.

2.13 Leased assets

All leases are operating leases as the group does not bear substantially all the risks and rewards related to the ownership of the leased asset. The payments made under them are charged to the income statement on a straight line basis over the lease term. Lease incentives are spread over the term of the lease.

2.14 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

The group measures all of its investment properties in accordance with IAS 40's requirements for the cost model. Depreciation is based on cost less residual value. As residual value currently exceeds cost no depreciation is being provided.

Rental income arising from the investment properties is shown within other income and is recognised on a straight line basis over the lease term. The leases are classified as operating leases as the group has substantially all the risks and rewards related to the ownership of the leased asset.

Expenses relating to investment properties are presented within "other expenses" and are recognised on an accruals basis.

2.15 Taxation

Current tax is the tax currently payable based on taxable profit for the year.

Notes to the Financial Statements

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

2.16 Financial assets

Financial assets include; bank deposits (as defined below); loans and other receivables; financial assets at fair value through profit or loss; and available for sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which they were acquired.

All financial assets are recognised when the group becomes a party to the contractual provisions of the instrument. Financial assets other than those categorised as at fair value through profit or loss are initially recognised at fair value plus transaction costs. Financial assets categorised as at fair value through profit or loss are recognised initially at fair value with transaction costs expensed through the income statement.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Fixed interest rate bank deposits with a maturity date of three months or more from the date of acquisition are classified as financial assets.

Provision against receivables is made when there is objective evidence that the group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the assets carrying amount and the present value of estimated future cash flows.

Other financial assets include quoted and unquoted equity shares. These assets are not considered to be current assets and have been classified as long term financial assets and are carried at fair value through profit or loss.

Financial assets at fair value through profit or loss include financial assets that are designated by the entity as at fair value through profit or loss upon initial recognition. Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in the income statement. Financial assets originally designated as financial assets at fair value through profit or loss are not reclassified subsequently.

Financial assets are designated as at fair value through profit or loss where they are managed and their performance evaluated on a fair value basis in accordance with the group's documented investment strategy.

The group owns a portfolio of UK shares that are held, and managed on a discretionary basis, by an independent fund manager. These assets are reported as long term financial assets classified as available for sale.

Available for sale financial assets include non-derivative financial assets that are either designated as such or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are measured subsequently at fair value, with changes in value recognised in other comprehensive income. Gains and losses arising from investments classified as available for sale are recognised in the income statement when they are sold or when the investment is impaired.

An assessment for impairment of available for sale assets is undertaken at least at each balance sheet date.

Notes to the Financial Statements

A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for derecognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the group retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for derecognition if the group transfers substantially all the risks and rewards of ownership of the asset, or if the group neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset.

2.17 Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the group becomes a party to the contractual provisions of the instrument. All financial liabilities are recorded initially at fair value, net of direct issue costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest related charges recognised as an expense in finance cost in the income statement. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

There are no financial liabilities categorised as at fair value through profit or loss.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

2.18 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

As stated in note 2.16 fixed interest rate bank deposits with the maturity date of three months or more from the date of acquisition are classified as financial assets.

2.18a Prior year restatement

The company does not have or operate a bank account. All transactions it enters into are settled through subsidiary undertakings bank accounts and are recognised by the company through intercompany balances. Accordingly, the company should not have prepared and presented a cash flow statement in its 31 December 2011 financial statements.

2.19 Investments in subsidiary undertakings and joint ventures

Company investments in subsidiary undertakings and joint ventures held in the company only balance sheet are shown at cost less impairment provisions.

2.20 Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Capital redemption reserve" represents the nominal value of its own equity shares purchased, and then cancelled, by the company.
- "Amounts recognised directly into other comprehensive income relating to available for sale financial assets" represents changes to the market value of available for sale assets. On disposal of available for sale financial assets gains or losses previously recognised in equity are transferred to the income statement.
- "Other reserve" represents the investment in own company shares by the Employee Benefit Trust.
- "Profit and loss reserve" represents retained profits.

2.21 Employee benefits

Defined contribution group and self-invested personal pension schemes

The pension costs charged against profits are the contributions payable to the schemes in respect of the accounting period.

Notes to the Financial Statements

2.22 Share-based payment

Equity-settled share-based payment

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2006 are recognised in the financial statements.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument as at the date it is granted to the employee.

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to "other reserves".

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

2.23 Employee Benefit Trust

The assets and liabilities of the Employee Benefit Trust (EBT) have been included in the group accounts. Any assets held by the EBT cease to be recognised on the group balance sheet when the assets vest unconditionally in identified beneficiaries.

The costs of purchasing own shares held by the EBT are shown as a deduction against equity. The proceeds from the sale of own shares held increase equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the group income statement.

At present the company operates a plan whereby all employees, excluding controlling shareholders, are entitled to make monthly payments to the trust via payroll deductions. The current allocation period is six months and shares are allocated to employees at the end of each allocation period. The shares are allocated at the lower of the mid-market price at the beginning and end of the allocation period. The trust company has not waived its right to dividends on unallocated shares. Dividend income receivable on unallocated shares and any profit or loss on allocation of shares to individuals is taken directly to the "other reserve" within equity.

3 Risk management objectives and policies

The board acknowledges that the group is exposed to risks that are inherent in all businesses and markets in which it operates. As a direct result of these risks the board places high priority on ensuring that there is a strong risk management culture throughout the group. This is evidenced by the existence of a comprehensive risk register and internal controls in critical business processes. The group's risk management is co-ordinated at its headquarters.

As an insurance group the ability to recover Value Added Tax (VAT) is severely restricted. In addition changes to other taxes including Insurance Premium Tax, National Insurance contributions and Corporation Tax are also risks that the group has to manage.

The group pursues an active treasury management policy which seeks to secure its short to medium term cash flows by minimising exposure to financial markets.

The group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. It does not have exposure to foreign currencies and does not use any derivatives or hedging to manage any of its liabilities. The most significant financial risks to which the group and company are exposed are described below.

Notes to the Financial Statements

Credit risk

The group's and company's exposure to credit risk includes the carrying value of certain financial assets at the balance sheet date, summarised as follows:

		Group		Company
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Trade receivables	**2,819**	3,117	**-**	-
Reinsurance assets	**735**	599	**-**	-
Other receivables	**707**	806	**-**	-
Accrued interest	**43**	45	**-**	-
Loan to joint venture	**1,808**	1,905	**3,616**	3,809
Amounts due from subsidiary undertakings	**-**	-	**4,099**	2,943
Cash and cash equivalents	**3,015**	2,043	**-**	-
Bank deposits	**12,309**	12,154	**-**	-
	21,436	20,669	**7,715**	6,752

There are no corresponding impairment provisions nor any related credit derivatives or similar instruments which mitigate the credit risk.

The vast majority of the group's revenue is generated from the sale of insurance policies to individual customers. However a substantial proportion of the premiums are collected, and paid over to the group, by the individuals' employer via payroll deduction. This naturally exposes the group to an element of credit risk. However the vast majority of employers pay over payroll deductions made, within one month, on a regular basis. The use of payroll deductions by a "host company employer" would not be permitted where the board believed there may be a significant credit risk. Receivables past their due date are summarised within note 20. The credit risk for liquid funds and other short term financial assets is considered negligible, since the counterparties are all regulated in the UK by the FSA. At 31 December 2012 the counterparties were as follows: The Co-operative Bank plc, Abbey National plc, Bank of Scotland plc, HSBC Bank plc, Lloyds TSB Bank Plc, National Westminster Bank Plc, Close Brothers Ltd, Barclays Bank Plc and Clydesdale Bank Plc. Long term rate credit ratings for these counterparties range from BBB+ to AA.

The company is also exposed to the loan to the joint venture. The property owned by the joint venture is currently substantially let and income continues to exceed expenditure and therefore the joint venture is able to fulfil its obligations regarding the payment of interest to the company. The company's loan to the joint venture is secured by a charge over the property.

The group is also exposed to the recoverability of receivables from reinsurers. At 31 December 2012 the two reinsurance counterparties were Munich Reinsurance Company United Kingdom General Branch and Swiss Re Europe S.A., UK Branch. Credit ratings for these reinsurers range from A+ to AA-.

All subsidiary undertakings are 100% owned by the company. There is at least one company director on each of the subsidiary companies boards and therefore the company directors have a good understanding of the operational performance of each of the subsidiary undertakings. The company directors are satisfied that the subsidiary undertakings have sufficient future income streams to enable the liabilities to be repaid in full in the foreseeable future.

The group is also exposed to credit risk of £nil (2011: £30,000) in relation to the estimate of amounts recoverable from financial advisers in respect of renewals commission which has been clawed back due to the policy being terminated. This asset forms part of the group's estimate of wastage provision shown in note 25. There is no collateral on these amounts and the write-off of these amounts over the past three years is £nil.

Information relating to the fair value measurement of financial assets can be found in note 19.

Notes to the Financial Statements

Market risk

The group is exposed to market risk in respect of its financial assets carried at fair value through profit or loss and available for sale assets. These assets are traded on UK regulated markets. The available for sale assets are managed by an independent third party fund manager on a discretionary basis, subject to certain conditions imposed by the board.

A detailed analysis of the individual components of financial assets at fair value and available for sale assets are as follows:

	2012	2011
	£'000	£'000
Financial assets designated at fair value		
through profit or loss:		
Quoted investments		
Lighthouse Group shares	**70**	90
Available for sale financial assets:		
Independently managed equity portfolio	**493**	387
	563	477

The reduction in the value of the Lighthouse Group shares is due entirely to a reduction in value during the year.

Realised investment income from these investments is not considered to be subject to material variation as the other assets carried at fair value through profit or loss are not currently paying substantial dividends. Dividends from the equity portfolio in 2012 totalled £16,000 (2011: £12,000).

Unrealised gains and losses on financial assets carried at fair value through profit or loss are recognised in the income statement. A 10% decrease in the value of these assets at 31 December 2012 would result in a charge to the income statement of approximately £7,000, with a corresponding deduction in equity.

Unrealised gains and losses on available for sale financial assets are recognised in equity. A 10% decrease in the value of these assets at 31 December 2012 would result in a deduction to equity of approximately £49,000.

Liquidity risk

Cash balances are managed internally by the finance director and amounts are placed on short term deposits (currently not exceeding 12 months) to ensure that sufficient funds are available at all times to pay all liabilities as and when they fall due.

At 31 December 2012 amounts on short term deposits exceeded borrowings by £15,265,000.

Notes to the Financial Statements

As at 31 December 2012 the group's and company's liabilities have contractual maturities (including interest payments where applicable) as summarised below:

	Within 6 months £'000	6 – 12 months £'000	1-5 years £'000	Non cash items £'000	Total £'000
Group					
At 31 December 2012					
Trade and other payables	**2,275**	**67**	**25**	**271**	**2,638**
Borrowings (including interest payable in following periods)	**30**	**30**	**-**	**-**	**60**
	2,305	**97**	**25**	**271**	**2,698**
At 31 December 2011					
Trade and other payables	2,789	73	83	513	3,458
Borrowings (including interest payable in following periods)	58	58	-	-	116
	2,847	131	83	513	3,574
Company					
At 31 December 2012					
Amounts owed to subsidiary undertakings	**6,702**	**-**	**-**	**-**	**6,702**
Borrowings (including interest payable in following periods)	**30**	**30**	**-**	**-**	**60**
	6,732	**30**	**-**	**-**	**6,762**
At 31 December 2011					
Amounts owed to subsidiary undertakings	6,371	-	-	-	6,371
Borrowings (including interest payable in following periods)	58	58	-	-	116
	6,429	58	-	-	6,487

Cash flow and fair value interest rate risk

At 31 December 2012 the group's and company's cash flow interest rate risk arises from borrowings in respect of the group's All Employee Share Ownership Plan (AESOP) loan. The group's and company's borrowings are all at variable rates linked to the Bank of England base rate.

Interest rate risk on the group's and company's borrowings is considered to be insignificant.

At 31 December 2012 bank deposits exceeded borrowings by £15,265,000. If UK interest rates increased by 2% net finance income would increase by approximately £305,000 with a corresponding increase to equity.

Insurance claim and related risks

Up to 30 June 2011 Personal Assurance Plc had only underwritten healthcare cash plans and personal accident or sickness policies. Taking into account the company's claims history since the company was incorporated in 1984, the board had taken the decision not to use reinsurance as a way of managing insurance claim risk. At present the maximum amount payable on any one single claim is £73,400, and would only be payable after a continuous period of hospital confinement of two years. The total number of these individual policies in force at 31 December 2012 was 229,111 (2011: 229,007) and the average amount paid per claim in 2012 was £164 (2011: £175).

On 1 July 2011 Personal Assurance Plc commenced the underwriting of private medical insurance policies sold by one of the group's insurance intermediaries, Universal Provident Ltd. Up to this date Universal Provident Ltd had placed this business with a third party insurer. This private medical business traditionally has a significantly higher gross claims ratio. In order to manage this new insurance risk the board has taken out quota share and stop loss reinsurance policies to exclusively cover this part of the business. The stop loss reinsurance policy was terminated by the reinsurer on 30 June 2012. The quota share reinsurance policy was terminated by the reinsurer for new business on 31 October 2012. Alternative reinsurance arrangements are currently being considered by the board.

For the year ended 31 December 2012 the gross claims ratio (on earned premiums) for private medical insurance policies was 70.1% (2011: 78.9%).

All underwriting and the vast majority of insurance related business is regulated by the Financial Services Authority (FSA). As required by the FSA all regulated companies have an appropriate level of professional indemnity insurance which covers both employees and self-employed advisers.

For the year ended 31 December 2012 the gross claims ratio of Personal Assurance Plc was 23.6% (2011: 20.3%). A 2% increase in the claims ratio would increase claims incurred by approximately £447,000.

4 Capital management and requirements

The group's capital management objectives are:

- to ensure the group's ability to continue as a going concern;
- to ensure capital resources requirements set out below are met; and
- to provide an adequate return to shareholders;

by pricing products and services commensurately with the level of risk.

The group considers capital to be the carrying amount of its equity. Subject to the externally imposed capital requirements, it sets out the amount of capital in proportion to its overall financing structure but does not have specific goals. The group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, issue new debt or sell assets to reduce debt.

The carrying amount of the group's equity has shown continuous growth from £12,319,000 at 31 December 2001 (first year after AIM listing) to £26,598,000 at 31 December 2012.

In addition to the statutory capital requirements of a UK registered Plc the FSA requires that all regulated companies maintain capital resources requirements, the actual amount being determined on an annual basis at the year end.

Notes to the Financial Statements

At 31 December 2012 the requirements of the group's FSA regulated companies were as follows:

	FSA capital resources requirement £'000	Available qualifying assets £'000	Surplus over capital resources requirement £'000
Company			
Personal Assurance Plc	3,750	9,280	5,530
Personal Assurance Services Limited	49	833	784
Personal Group Benefits Limited	30	314	284
Berkeley Morgan Limited	73	561	488

In order to maintain its capital resources requirement, Personal Assurance Plc maintains the majority of its assets in short term fixed interest rate deposits.

The capital resources requirement for each FSA regulated entity is calculated in accordance with FSA regulations. Typically these regulations take into account the annual value of gross premiums written or commissions receivable and claims incurred in respect of Personal Assurance Plc.

5 Segment analysis

The group operates two trading operating segments, namely employee benefits insurance and consultancy; and financial services offered by Berkeley Morgan Group Limited (BMG) and its subsidiary undertakings.

1) Employee benefits insurance and consultancy

Personal Assurance Plc (PA), a subsidiary within the group, is an FSA regulated general insurance company and is authorised to transact accident and sickness insurance. It was established in 1984 and has been underwriting business since 1985. In 1997 Personal Group Holdings Plc (PGH) was created and became the ultimate parent undertaking of the group.

This operating segment derives the majority of its revenue from the underwriting by PA of insurance policies that have been bought by employees of host companies via bespoke benefit programmes.

Insurance related income includes insurance and reinsurance brokerage commission. Insurance brokerage commission includes that derived from voluntary group income protection plan sales.

Non-insurance related income includes income derived from the sale of benefit books, consultancy services and property rental income.

2) Financial services

The financial services operating segment consists exclusively of revenue generated by BMG and its subsidiary undertakings. BMG was acquired by PGH in January 2005.

Financial services revenue consists mainly of commission generated by financial advisers and commission generated from insurance underwriting agencies.

Notes to the Financial Statements

The revenue and net result generated by each of the group's operating segments are summarised as follows:

	Employee benefits £'000	Financial services £'000	Unallocated £'000	Consolidation adjustments £'000	Group £'000
Operating segments					
2012					
Revenue					
Earned premiums net of reinsurance	**20,924**	**-**	**-**	**-**	**20,924**
Other income:					
Insurance related	**3,216**	**1,085**	**-**	**-**	**4,301**
Non-insurance related	**1,410**	**-**	**-**	**-**	**1,410**
Investment property	**-**	**-**	**311**	**-**	**311**
Investment income	**418**	**-**	**-**	**-**	**418**
Total revenue	**25,968**	**1,085**	**311**	**-**	**27,364**
Net result for year before tax	**8,848**	**387**	**195**	**(1,110)**	**8,320**
Segment assets	**27,833**	**466**	**3,185**	**2,100**	**33,584**
Segment liabilities	**6,374**	**458**	**60**	**-**	**6,892**
Depreciation and amortisation	**481**	**8**	**9**	**-**	**498**
2011					
Revenue					
Earned premiums net of reinsurance	19,108	-	-	-	19,108
Other income:					
Insurance related	3,220	3,158	-	-	6,378
Non-insurance related	1,427	-	-	-	1,427
Investment property	-	-	293	-	293
Investment income	258	1	-	-	259
Total revenue	24,013	3,159	293	-	27,465
Net result for year before tax	8,860	1,050	202	(97)	10,015
Segment assets	26,551	734	3,185	2,900	33,370
Segment liabilities	6,675	1,002	36	-	7,713
Depreciation and amortisation	427	10	9	-	446

All income is derived from the UK.

The figures shown above for employee benefits and financial services are from the group's management accounts that are not prepared under IFRS. Unallocated amounts relate to the group's investment properties.

Notes to the Financial Statements

6 Investment income and finance costs

	2012 £'000	2011 £'000
Investment income		
Loans and receivables:		
Income from unlisted investments	**111**	116
Interest income from cash on deposit	**278**	167
Financial assets designated as at fair value through profit or loss:		
Income from listed investments	**5**	7
Unrealised losses	**(11)**	(42)
Available for sale:		
Income from listed investments	**16**	12
Realised gains	**36**	36
Realised losses	**(1)**	(12)
Realised gains transferred from other comprehensive income	**(9)**	(18)
Investment management expenses	**(7)**	(7)
	418	259

	2012 £'000	2011 £'000
Finance costs		
Interest expense on AESOP bank loan	**3**	3

7 Claims incurred

	2012 £'000	2011 £'000
Claims paid	**4,856**	3,781
Reinsurance recoveries	**(899)**	(134)
Claims handling expenses paid	**384**	283
	4,341	3,930
Increase in claims provision	**29**	21
Reinsurers' share	**(166)**	(60)
Increase in provision for claims handling costs	**7**	8
	(130)	(31)
	4,211	3,899

Notes to the Financial Statements

8 Insurance operating expenses

	2012	2011
	£'000	£'000
Acquisition costs	**5,429**	5,237
Increase/(decrease) in deferred acquisition costs	**58**	(5)
Incurred acquisition costs	**5,487**	5,232
Administration expenses	**3,778**	3,116
Reinsurance commission	**(75)**	(13)
	9,190	8,335

Total commission incurred during the year in respect of direct insurance was £1,294,000 (2011: £1,409,000).

9 Profit on disposal of subsidiary undertaking

	2012	2011
	£'000	£'000
Sale proceeds	**-**	400
Legal and professional fees	**-**	(50)
Carrying value of goodwill eliminated on disposal	**-**	(100)
	-	250

Rapidinsure.co.uk Limited, a direct subsidiary undertaking of Berkeley Morgan Group Limited was disposed of during the previous year.

Notes to the Financial Statements

10 Directors' and employees' remuneration

a) Staff costs (excluding non-executive directors' fees) during the year were as follows:

	2012	2011
	£'000	£'000
Wages and salaries	**6,028**	5,692
Compensation for loss of office	**-**	70
Social security costs	**680**	657
Other pension costs	**360**	368
	7,068	6,787

Average number of employees was as follows:

	2012	2011
	Number	Number
Administration	**70**	72
Sales and marketing	**93**	92
	163	164

b) Directors remuneration:

	2012	2011
	£'000	£'000
Emoluments	**810**	708
Compensation for loss of office	**-**	70
Pension contributions to group and self invested personal pension schemes	**49**	36

During the year, 5 directors (2011: 4 directors) participated in group and self invested personal pension schemes.

The amounts set out above include remuneration in respect of the highest paid director as follows. All emoluments relate to payments made by subsidiary undertakings.

	2012	2011
	£'000	£'000
Emoluments	**277**	277
Pension contributions to self invested personal pension scheme	**15**	15

Details of individual director's remuneration are given in the report of the directors (see page 20). The company does not incur employee remuneration.

Notes to the Financial Statements

Key management of the group are the directors of Personal Group Holdings Plc. Key management personnel remuneration includes the following expenses:

	2012 £'000	2011 £'000
Short term employee benefits:		
Salaries including bonuses	**810**	708
Social security costs	**105**	96
	915	804
Post-employment benefits:		
Defined contribution pension plans	**49**	36
Termination benefits	**-**	70
	-	70
Total remuneration	**964**	910

11 Profit before tax

	2012 £'000	2011 £'000
Profit before tax is stated after:		
Auditor's remuneration (inclusive of non-recoverable VAT):		
Audit services:		
Audit of company financial statements	**38**	34
Non-audit services:		
Audit of subsidiary undertakings	**87**	80
Taxation	**21**	4
Review of interim financial statements	**9**	9
Compliance and solvency II reviews	**-**	35
Depreciation of property, plant and equipment	**498**	446
Rental income receivable	**405**	416
Operating lease rentals – land and buildings	**65**	99

The amounts shown for 2012 include £3,000 taxation and £9,000 review of interim financial statements paid to the former auditor Grant Thornton.

Notes to the Financial Statements

12 Tax

The relationship between the expected tax expense based on the effective tax rate of Personal Group Holdings Plc at 24.5% (2011: 26.5%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2012 £'000	2011 £'000
Profit before tax	**8,320**	10,015
Tax rate	**24.5%**	26.5%
Expected tax expense	**2,038**	2,654
Adjustment for marginal tax rate differences	**(9)**	(13)
Adjustment for non deductible expenses/(income)	**257**	(48)
Other adjustments		
Tax charge in respect of prior years	**13**	-
Utilisation of losses not provided for	**(3)**	(1)
Actual tax expense	**2,296**	2,592
Comprising		
Current tax expense	**2,324**	2,605
In respect of prior year	**13**	-
Deferred tax		
Origination and reversal of temporary differences	**(39)**	(9)
Change in tax rate	**(2)**	(4)
	2,296	2,592

On 21 March 2012 the Chancellor announced the reduction in the main rate of UK corporation tax to 24 per cent with effect from 1 April 2012 and a further reduction to 23 per cent with effect from 1 April 2013. These changes became substantively enacted on 26 March 2012 and 3 July 2012 respectively and therefore the effect of these rate reductions creates a reduction in the deferred tax liability which has been included in the figures above and in note 24.

The Chancellor proposed changes to further reduce the main rate of corporation tax by one per cent per annum to 22 per cent by 1 April 2014, but these changes have not yet been substantively enacted and therefore are not included in the figures above. The overall effect of the further reductions from 23 per cent to 22 per cent, if these applied to the deferred tax balance as at 31 December 2012, would be to further reduce the deferred tax liability by approximately £2,000.

13 Profit for the year

The parent company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The parent company's profit for the year was £4,866,000 (2011: £4,743,000).

Notes to the Financial Statements

14 Earnings per share

	2012 Earnings £'000	**2012** Weighted average number of shares	**2012** Pence per share	2011 Earnings £'000	2011 Weighted average number of shares	2011 Pence per share
Basic	**6,024**	**29,865,746**	**20.2**	7,423	29,871,611	24.8
Dilutive effect of shares in Employee Share Ownership Plan	**-**	**16,926**	**(0.1)**	-	4,570	-
Diluted	**6,024**	**29,882,672**	**20.1**	7,423	29,876,181	24.8
Profit for the year	**6,024**	**29,865,746**	**20.2**	7,423	29,871,611	24.8
Interest expense	**3**		**-**	3		-
Tax	**2,296**		**7.7**	2,592		8.7
Depreciation	**498**		**1.6**	446		1.5
Profit on disposal of subsidiary undertaking	**-**		**-**	(250)		(0.8)
Goodwill impairment	**800**		**2.7**	-		-
Share-based payment expenses	**301**		**1.0**	18		-
EBITDA	**9,922**	**29,865,746**	**33.2**	10,232	29,871,611	34.2

EBITDA per share is based on earnings before interest, tax, depreciation, goodwill impairment and share-based payment expenses but excluding profit on disposal of a subsidiary undertaking.

The weighted average number of shares shown above exclude unconditionally allocated own company shares held by Personal Group Trustees Ltd.

15 Dividends

	2012 Pence per share	2011 Pence per share	**2012** £'000	2011 £'000
Equity dividends				
Ordinary shares paid in year				
March	**4.45**	4.35	**1,338**	1,308
June	**4.45**	4.35	**1,338**	1,308
September	**4.45**	4.35	**1,338**	1,308
December	**4.45**	4.35	**1,338**	1,308
			5,352	5,232
Less: amounts paid on own shares			**(40)**	(38)
	17.80	17.40	**5,312**	5,194

Notes to the Financial Statements

16 Goodwill

All of the goodwill results from the acquisition of Berkeley Morgan Group Limited in January 2005. The carrying amount of goodwill which has been allocated to that cash-generating unit can be analysed as follows:

	2012	2011
	£'000	£'000
Cost at 1 January and 31 December	**9,433**	9,433
Amounts written off		
At 1 January	**6,533**	6,433
Carrying value eliminated on disposal	**-**	100
Impairment provision in year	**800**	-
At 31 December	**7,333**	6,533
Net carrying value at 31 December	**2,100**	2,900

The net carrying amount at 31 December 2012 is after impairment provisions and amounts eliminated on disposal in this and prior years totalling £7,333,000. Following the decision to cease accepting new investment business into Berkeley Morgan Ltd (BML), the carrying value of the business was considered and an impairment charge of £800,000 was made in the six months to 30 June 2012.

The amounts for the cash-generating unit were determined based on value in use calculations over a period of fifteen years, covering a detailed five year forecast. The five year forecast assumes declining profitability as a result of the decision to cease accepting new investment business into BML, followed by an extrapolation of cash flows at a growth rate of nil to reflect the impact of the on-going activities of Universal Provident Ltd. A fifteen year period has been used as the directors believe that the core business activities of that group will continue to make a contribution to group profits for the foreseeable long term future. The pre-tax discount rate at 31 December 2012 has been estimated at 15.00% (2011: 15.00%) based upon the weighted average cost of capital of the group and that of other companies in the same market sector. The value in use calculation described above results in a deficit of approximately £7,333,000 against the cost. This deficit has been provided for in full.

There are a number of significant estimates used by management to determine the value in use of goodwill including profitability and discount rate.

If profits were to decrease by 10% over the 15 years, the impairment provision would remain unaltered. If the discount rate were to increase by 1% the impairment provision would remain unaltered. No further impairment would be necessary unless the discount rate increased to approximately 18.5% without changing any other assumptions. Similarly profits would need to be reduced by approximately 12% to make a further impairment provision necessary.

Notes to the Financial Statements

17 Property, plant and equipment

For the year ended 31 December 2012

	Freehold land and properties £'000	Motor vehicles £'000	Computer equipment £'000	Furniture fixtures and fittings £'000	Total £'000
Cost					
At 1 January 2012	5,478	960	524	1,176	8,138
Additions	-	424	299	12	735
Disposals	-	(296)	-	-	(296)
At 31 December 2012	5,478	1,088	823	1,188	8,577
Depreciation					
At 1 January 2012	1,034	380	342	907	2,663
Provided in the year	94	247	106	51	498
Eliminated on disposals	-	(194)	-	-	(194)
At 31 December 2012	1,128	433	448	958	2,967
Net book amount at 31 December 2012	**4,350**	**655**	**375**	**230**	**5,610**
Net book amount at 31 December 2011	4,444	580	182	269	5,475

For the year ended 31 December 2011

	Freehold land and properties £'000	Motor vehicles £'000	Computer equipment £'000	Furniture fixtures and fittings £'000	Total £'000
Cost					
At 1 January 2011	5,478	970	455	1,209	8,112
Additions	-	276	94	20	390
Disposals	-	(286)	(25)	(53)	(364)
At 31 December 2011	5,478	960	524	1,176	8,138
Depreciation					
At 1 January 2011	939	357	314	891	2,501
Provided in the year	95	235	52	64	446
Eliminated on disposals	-	(212)	(24)	(48)	(284)
At 31 December 2011	1,034	380	342	907	2,663
Net book amount at 31 December 2011	**4,444**	**580**	**182**	**269**	**5,475**
Net book amount at 31 December 2010	4,539	613	141	318	5,611

Notes to the Financial Statements

18 Investment properties

	2012	2011
	£'000	£'000
Carrying value at 1 January and 31 December	**3,185**	3,185

There are two investment properties, one in Milton Keynes and one in Blackburn. Neither has been valued by independent professional chartered surveyors.

The directors believe that, taking into account recent property transactions in the Milton Keynes area, the total open market value of the Milton Keynes property is likely to be in the range £4,500,000 - £5,000,000. The group's share of this amount is 50%.

The directors believe that the open market value of the Blackburn property is likely to be in the range £1,000,000 - £1,200,000.

19 Financial assets

		Group		**Company**
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Bank deposits	**12,309**	12,154	**-**	-
Loans and receivables	**1,808**	1,905	**3,616**	3,809
Financial assets:				
Designated at fair value through profit and loss	**70**	90	**70**	90
Available for sale	**493**	387	**-**	-
	14,680	14,536	**3,686**	3,899

The loans and receivables are secured by a charge over the Milton Keynes property shown within note 18.

Quoted financial assets designated at fair value through profit or loss and available for sale assets are stated at their bid market price and are level 1 assets. There are no level 2 or 3 assets.

Unquoted financial assets designated at fair value through profit or loss are valued using an expected future cash flow basis. At 31 December 2012 all unquoted financial assets were valued at £nil (2011: £nil).

Notes to the Financial Statements

20 Trade and other receivables

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Loans and receivables:				
Trade receivables arising out of direct insurance operations	**2,819**	3,117	**-**	-
Other receivables due within one year	**707**	806	**-**	-
Amounts due from subsidiary undertakings	**-**	-	**4,099**	2,943
Accrued interest	**43**	45	**-**	-
Deferred acquisition costs	**85**	17	**-**	-
Other prepayments and accrued income	**605**	647	**5**	7
	4,259	4,632	**4,104**	2,950

All of the group's trade receivables arising out of direct insurance operations and other trade receivables due within one year have been reviewed for indicators of impairment. No provisions have been made in the year in respect of trade and other receivables.

Some of the unimpaired receivables are past their due date as at the reporting date. The age of receivables past their due date but not impaired is as follows:

	2012 £'000	2011 £'000
Not more than three months	**2,558**	2,546
More than three months but not more than 6 months	**14**	190
More than six months but not more than 1 year	**-**	31
	2,572	2,767

In the past, the group has incurred bad debt write offs up to approximately £40,000 in a year and consequently whilst the above may be overdue, the risk of credit default is considered to be low. The group has no charges or other security over any of these assets.

An analysis of deferred acquisition costs is as follows:

	2012 £'000	2011 £'000
At 1 January	**17**	11
Deferred acquisition costs	**85**	17
Amortisation	**(17)**	(11)
At 31 December	**85**	17

Notes to the Financial Statements

21 Reinsurance assets

	2012 £'000	2011 £'000
Claims incurred	**226**	60
Unearned premiums	**509**	539
	735	599

22 Cash and cash equivalents

	2012 £'000	2011 £'000
Cash at bank and in hand	**1,515**	1,043
Short term investments/cash equivalents	**1,500**	1,000
	3,015	2,043

23 Share capital

	2012 £'000	2011 £'000
Authorised		
200,000,000 ordinary shares of 5p each	**10,000**	10,000
Allotted, called up and fully paid 30,064,661 (2011: 30,064,661) ordinary shares of 5p each	**1,503**	1,503

The total number of own shares held by the Employee Benefit Trust at 31 December 2012 was 356,131 (2011: 405,118). Of this amount there are 184,242 (2011: 196,862) AESOP shares that have been unconditionally allocated to employees.

As at 31 December 2012 the group maintained two share-based payment schemes for employee compensation.

a) Company Share Ownership Plan (CSOP) and unapproved options

For the options granted to vest there are no performance criteria obligations to be fulfilled other than continuous employment during the 3 year period, except for early termination of employment by attaining normal retirement age, ill health or redundancy.

All share-based employee compensation will be settled in equity. The group has no legal or constructive obligation to repurchase or settle the options.

Share option and weighted average exercise price are as follows for the reporting periods presented:

	Number	**2012 Weighted average exercise price pence**	Number	2011 Weighted average exercise price pence
Outstanding at 1 January	**414,017**	**294.7**	300,285	300.0
Options granted in year	**28,505**	**335.3**	170,119	281.4
Options exercised in year	**(67,237)**	**276.0**	-	-
Options cancelled in year	**-**	**-**	(56,387)	283.7
Outstanding at 31 December	**375,285**	**301.1**	414,017	294.7

In the previous year the options awarded to a former director were cancelled by the entity with no significant financial impact.

The weighted average exercise price of 168,642 (2011: 209,213) share options exercisable at 31 December 2012 was 311.0 pence per share.

The fair values of options which were granted on 10 April 2012 were determined by using the Black-Scholes valuation model. The fair value of these options was 37 pence per share. Significant inputs into the calculation include a weighted average share price of 316p and exercise prices as illustrated above. Furthermore the calculation takes into account future dividends of 5.6% and a volatility rate of 30%, based on expected share price. Risk-free interest rate was determined at 1.0%. The options are exercisable between 3 and 10 years after the date of the grant and have an exercise price of 316 pence per share.

The fair values of options which were granted on 10 October 2012 were determined by using the Black-Scholes valuation model. The fair value of these options was 33 pence per share. Significant inputs into the calculation include a weighted average share price of 274p and exercise prices as illustrated above. Furthermore the calculation takes into account future dividends of 5.2% and a volatility rate of 30%, based on expected share price. Risk-free interest rate was determined at 1.0%. The options are exercisable between 3 and 10 years after the date of the grant and have an exercise price of 345 pence per share.

The weighted average remaining contracted life of outstanding options at 31 December 2012 was 6 years and 6 months (2011: 7 years and 0 months).

The underlying expected volatility was determined by reference to historical data. No special features immanent to the options granted were incorporated into the measurement of fair value.

In total, £21,000 of employee compensation by way of share based payment expense has been included in the consolidated income statement for 2012 (2011: £18,000). The corresponding credit is taken to equity. No liabilities were recognised due to share-based transactions.

b) Long Term Incentive Plan (LTIP)

During 2012 the company, adopted a discretionary LTIP for the benefit of selected directors and senior employees of Personal Group.

The Plan provides for the grant of awards, entitling participants to the payment of a bonus relating to the percentage increase in the market capitalisation of the company over a specified period. The awards will be satisfied in shares or in the discretion of the remuneration committee wholly or partly in cash in accordance with the plan rules. It is management's intention to settle these awards in shares.

Notes to the Financial Statements

A participant would be entitled to a payment in respect of their award on each of the second, third, fourth and fifth anniversary of their commencement date in the plan or if there is an exit event such as a sale before the fifth anniversary date. Each participant has been awarded a specified percentage of the value increase in the market capitalisation. If there is no increase in market capitalisation at the award dates then no payment will be made.

Where the market capitalisation has increased the level of payment will be 10%, 30%, 60% and 100% cumulatively on the second, third, fourth and fifth anniversary respectively. The number of shares awarded will be determined by dividing the amount of appropriate payment by the average of the closing bid price for the 20 business days immediately preceding the date of issue.

An amount of £280,000 has been charged to the profit and loss account in 2012 for this scheme based on estimating the future share price of the company over the duration of the plan. A share price of £3.30 has been used at each payment date to calculate the expense for each individual under each of the four tranches of the LTIP period.

The estimate is highly sensitive to share price and a 25% increase in the share price would result in an additional charge of approximately £630,000.

24 Deferred tax

	2012 Deferred tax assets £'000	**2012 Deferred tax liabilities £'000**	2011 Deferred tax assets £'000	2011 Deferred tax liabilities £'000
Non-current assets and liabilities				
Property plant and equipment	**27**	**196**	32	226
Investment properties	**-**	**11**	-	11
Current assets				
Share options	**4**	**-**	1	-
	31	**207**	33	237
Offset	**(31)**	**(31)**	(33)	(33)
	-	**176**	-	204

	2012 £'000	2011 £'000
At 1 January	**204**	212
Movement in provisions credited to income statement	**(28)**	(8)
At 31 December	**176**	204

At 31 December 2012 the group had tax losses of £1,038,000 (2011: £1,051,000) available to carry forward to offset against future profits of the same trades. A deferred tax asset has not been recognised in respect of the carried forward tax losses as there is uncertainty as to when they will be utilised given the trade is no longer a significant component of the group.

25 Provisions

	2012 £'000	2011 £'000
At 1 January	**100**	117
Movement in provisions charged to income statement	**77**	99
Utilised during the year	**(114)**	(116)
At 31 December	**63**	100

The provisions have been recognised in respect of the estimate of claw back of commission relating to cancellation of policies, pensions transfers and the free standing additional voluntary contributions review. Due to the nature of the provisions, and the fact that they will be affected by circumstances that are outside of the control of the group, there is uncertainty as to the actual amount that should be provided for.

This uncertainty is taken into consideration when reviewing the outstanding provisions at the balance sheet date. The utilisation of the provisions over the past three years has been between £114,000 and £154,000. The estimate takes into account this historical data but has been reduced in the current year as a direct result of the decision to cease accepting new investment business within BML.

The maximum potential claim of pension transfers and the free standing voluntary contributions review is unknown as it depends upon the circumstances of each claim.

26 Trade and other payables

		Group		**Company**
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Financial liabilities measured at amortised cost:				
Amounts owed to subsidiary undertakings	**-**	-	**6,702**	6,371
Other creditors	**1,115**	1,682	**-**	-
Accruals and deferred income	**1,523**	1,776	**42**	41
	2,638	3,458	**6,744**	6,412

These liabilities are not secured against any assets of the group.

27 Insurance contract liabilities

	2012 £'000	2011 £'000
Claims reported	**766**	827
Claims incurred but not reported	**301**	211
Claims settlement expenses	**66**	66
Unearned premiums	**1,762**	1,481
	2,895	2,585

It is estimated that the vast majority of all claims will be paid within 12 months.

Notes to the Financial Statements

a) Claims

	2012 Gross £'000	2012 Reinsurance £'000	2012 Net £'000	2011 Gross £'000	2011 Reinsurance £'000	2011 Net £'000
Claims reported	**827**	**(60)**	**767**	716	-	716
Claims incurred but not reported	**211**	**-**	**211**	301	-	301
Claims settlement figures	**66**	**-**	**66**	58	-	58
At 1 January	**1,104**	**(60)**	**1,044**	1,075	-	1,075
Claims paid during the financial year	**(5,240)**	**899**	**(4,341)**	(4,064)	134	(3,930)
Increase/(decrease) in liabilities:						
Arising from current year claims	**5,292**	**(895)**	**4,397**	4,234	(194)	4,040
Arising from prior year claims	**(23)**	**(170)**	**(193)**	(141)	-	(141)
Total movement	**29**	**(166)**	**(137)**	29	(60)	(31)
Claims reported	**766**	**(226)**	**540**	827	(60)	767
Claims incurred but not reported	**301**	**-**	**301**	211	-	211
Claims settlement expenses	**66**	**-**	**66**	66	-	66
At 31 December	**1,133**	**(226)**	**907**	1,104	(60)	1,044

b) Unearned premiums

	2012 Gross £'000	2012 Reinsurance £'000	2012 Net £'000	2011 Gross £'000	2011 Reinsurance £'000	2011 Net £'000
At 1 January	**1,481**	**(539)**	**942**	190	-	190
Increase in the financial year	**22,332**	**(1,097)**	**21,235**	20,581	(721)	19,860
Release in the financial year	**(22,051)**	**1,127**	**(20,924)**	(19,290)	182	(19,108)
Movement in the financial year	**281**	**30**	**311**	1,291	(539)	752
At 31 December	**1,762**	**(509)**	**1,253**	1,481	(539)	942

28 Borrowings

	2012 £'000	2011 £'000
Financial instruments measured at amortised cost:		
All Employee Share Option Plan (AESOP) bank loan	**59**	114

The AESOP bank loan is repayable within one year by equal monthly instalments. Interest is charged at 1% over the Co-operative Bank plc base rate.

29 Company investment in subsidiary undertakings and joint venture

	Shares in subsidiary undertakings	
	2012 £'000	2011 £'000
Cost		
At 1 January	**24,042**	24,442
Disposal	**-**	(400)
At 31 December	**24,042**	24,042
Amounts written off		
At 1 January	**9,522**	9,751
Impairment provision in year	**800**	100
Eliminated on disposal	**-**	(329)
	10,322	9,522
Net book amount at 31 December	**13,720**	14,520

The impairment provision includes the Berkeley Morgan Group Limited write down, using similar assumptions and estimates in the goodwill impairment review (see note 16), along with the impairment of dormant and loss making subsidiary undertakings.

Notes to the Financial Statements

At 31 December 2012 the company held 100% of the allotted share capital of the following trading companies, all of which were incorporated in England and Wales and have been consolidated in the group financial statements.

	Nature of business
Personal Assurance Plc *	General insurance
Personal Assurance Services Limited *	Administration services
Personal Group Benefits Limited *	Employee benefits sales and marketing
Personal Group Trustees Limited *	Trustee for employee share options
Personal Management Solutions Limited *	Employee benefits sales and marketing
Berkeley Morgan Group Limited *	Berkeley Morgan Group Holding company
Berkeley Morgan Limited	Independent financial advisers
Universal Provident Limited	Health insurance services
B M Agency Services Limited	Wholesale insurance intermediary

* Directly owned by Personal Group Holdings Plc

At 31 December 2012 the company held 50% of the allotted share capital of Abbeygate Developments (Marlborough Gate 2) Limited which has been incorporated in England and Wales. At 31 December 2012 the allotted share capital of Abbeygate Developments (Marlborough Gate 2) Limited was 2 £1 ordinary shares (see note 34).

30 Capital commitments

The group had no capital commitments at 31 December 2012 and 31 December 2011.

31 Contingent liabilities

There were no contingent liabilities at 31 December 2012 and 31 December 2011.

32 Pensions

Group and self invested personal pension schemes.

The company operates a defined contribution group personal pension scheme for the benefit of certain directors and employees. The scheme is administered by Scottish Equitable Plc and the funds are held independent of the company. In addition the company makes contributions to certain directors' self invested personal pension schemes. These schemes are administered by independent third party administrators and the funds are held independent of the company.

Notes to the Financial Statements

33 Leasing commitments and rental income receivable

Total operating lease payments due until the end of the lease, or the first break clause, total £21,000 (2011: £114,000). All payments are in respect of land and buildings. An analysis of these payments due is as follows:

	2012 £'000	2011 £'000
Total operating lease payments falling due on leases:		
Within one year	**21**	83
Within one to two years	**-**	31
	21	114

Total operating rent receivable payments due until the end of the lease or the first break clause, total £668,000 (2011: £982,000). An analysis of these receivable payments due is as follows:

	2012 £'000	2011 £'000
Future minimum lease payments:		
Within one year	**299**	355
Within one to two years	**190**	260
Within two to five years	**179**	367
	668	982

Notes to the Financial Statements

34 Related party transactions

Personal Group Holdings Plc does not have any bank accounts. All transactions are dealt with via subsidiary undertakings. A list of inter-company balances with subsidiary undertakings is as follows:

		2012		2011
	Receivable	**Payable**	Receivable	Payable
	£'000	**£'000**	£'000	£'000
Personal Assurance Plc	**3,134**	**-**	2,599	-
Personal Assurance Services Limited	**-**	**3,513**	-	3,332
Personal Group Benefits Limited	**369**	**-**	7	-
Personal Insurance & Reinsurance Brokers Limited	**-**	**-**	-	-
Personal Assurance Financial Services Plc	**-**	**137**	-	137
Multiplelisting Limited	**-**	**100**	-	100
John Ormond House Limited	**-**	**-**	-	-
Personal Management Solutions Limited	**593**	**-**	334	-
Mutual Benefit Limited	**-**	**12**	-	12
ParTake Services Limited	**3**	**-**	3	-
Berkeley Morgan Group Limited	**-**	**2,940**	-	2,790
	4,099	**6,702**	2,943	6,371

During 2004 the company entered into a joint venture agreement with Abbeygate Developments Limited to construct a freehold joint office and residential property development on land adjacent to John Ormond House. A joint venture company called Abbeygate Developments (Marlborough Gate 2) Limited was established to construct the property. This company is owned equally by Personal Group Holdings Plc and Abbeygate Developments Limited.

The development is funded by way of a loan from Personal Group Holdings Plc. Up to and including 31 May 2009 interest on the loan was charged at 1% above the Bank of England base rate on a daily basis. The interest charge increased to 2.5% above the Bank of England base rate on 1 June 2009. During the year interest receivable totalled £110,863 (2011: £116,093). Personal Group Holdings Plc has a charge over the development.

At 31 December 2012 the amount outstanding on the loan was £3,615,719 (2011: £3,809,159).

Notes to the Financial Statements

The aggregate amounts relating to Abbeygate Developments (Marlborough Gate 2) Limited that have been included in the consolidated financial statements are as follows:

	2012 £'000	2011 £'000
Non-current assets		
Property, plant and equipment	**5**	7
Investment property	**2,117**	2,117
Long term financial assets	**(1,808)**	(1,904)
	314	220
Current assets		
Trade and other receivables	**19**	25
	333	245
Current liabilities		
Trade and other payables	**16**	17
Current tax liabilities	**44**	19
	60	36
Income	**196**	182
Expenses	**(116)**	(91)
Profit for the year before tax	**80**	91

The long term financial asset deduction represents the derecognition of the group's long term asset invested in the joint venture.

There were no cash movements in the year as the company does not have its own bank account and all transactions are dealt with through inter-company accounts.

35 Cash flows from insurance contracts

During the year £22,552,432 (2011: £18,992,000) was received from insurance contracts. Future cash flows will depend upon the amount of new business written, and the amount of cancellations received, in any financial period.

Company registration number:	3194991
Registered office:	John Ormond House 899 Silbury Boulevard Central Milton Keynes MK9 3XL www.personal-group.com
Directors:	C J Curling - Non-Executive Chairman M W Scanlon - Chief Executive M I Dugdale - Chief Financial Officer J P Barber - Finance Director K W Rooney - Deputy Chairman and Chief Operating Officer H H Driver - Non-Executive R M Green - Non-Executive and Senior Independent Director
Secretary:	J P Barber
Solicitor:	SNR Denton UK LLP The Pinnacle 170 Midsummer Boulevard Milton Keynes MK9 1FE
Banker:	The Co-operative Bank Plc Birmingham Corporate Banking Centre PO Box 82 118-120 Colmore Row Birmingham B3 3BA
Auditor:	KPMG LLP St James' Square Manchester M2 6DS
Nominated Broker and Adviser:	Cenkos Securities Plc 6.7.8 Tokenhouse Yard London EC2R 7AS

personal group
for your benefit

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