Personal Group Holdings Plc Report and Financial Statements

for the year ended 31st December 2013


John Ormond House, 899 Silbury Boulevard
personal group

Contents

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Personal Group Holdings Plc Annual Report and Financial Statements

Personal Group's 30th Year

Personal Group is proud to have been supplying employee benefits and employee-related insurance products in the UK for 30 years!

Personal Group was established in 1984, as the brainchild of Christopher Johnston and John Ormond. Our progressive approach has stood us in good stead, and we are looking forward to another 30 years of business.

Our strategy is to be an innovative, technologically enabled, employee engagement business of scale, underpinned by insurance products sold face-to-face. We are proud of our current offerings to our clients and customers.

We provide a range of innovative, well communicated, employee benefits programmes and we also offer our own insurance products which we underwrite ourselves. They include Hospital Cash Plans, Convalescence Plans and Voluntary Income Protection Plans, all of which are underwritten by Personal Assurance Plc. We can also provide Death Benefit Plans underwritten by third parties.

Our employee benefit solutions are:

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

Personal Group's face-to-face approach is very unusual in the market and it is the main driver behind employee engagement with our benefits. It encourages participation, activity and really drives understanding. We believe our communication skills are key to our 30 years of continued success.

Communication across all platforms is positively encouraged. This helps us to deliver to our customers. We service 1.5m people across the UK and we spoke to over 135,000 people face-to-face in the past year. Going that extra mile really makes the difference.

Last year we developed an iPad application for our benefits presentation and it has really embedded the process. The app allows customers to interact with the products and they can also register in real time for their benefits package. Planned developments for 2014 will see further improvements in the sales presentation.

As we continue to innovate, we have a number of new projects in the pipeline, all of which will help our employer clients communicate with their employees. Our latest communication tool, Connect, will be beneficial for HR managers as it allows all benefits communication to be controlled from one point. We are continuing to invest in technology and our digital presence. Our first 30 years have seen big strides forward in technology, communication and establishing robust products. Our next 30 will see new products, more new clients and of course further innovation.

Overview - Chairman's Introduction

"We continue to experience strong demand for our products, both from host companies to whose employees we offer our products, and from the employees themselves."

Dear Shareholder,

I am pleased to report on a year which has seen the delivery both of our continuing investment programme to transform our business, and an underlying financial performance in line with our expectations.

Return to Shareholders

Based on the strength of Personal Group's underlying performance and the Board's confidence in its business model, strategy and prospects, the Board has recommended an increase in the dividend payable in 2014 by 5.4% to 19.6p (2013: 18.6p) per share. This means that the level of dividend will have increased by 10.1% in the past two years.

We have no plans to change our long established policy of paying dividends quarterly, and accordingly our first quarterly dividend for 2014 of 4.9p (2013: 4.65p) per share was paid on 25 March 2014.

A Strong Platform for Growth

2013 is the second successive year in which an emphasis has been placed on delivering our major investment plan. This is to create a platform for significant organic growth and to deliver a highly attractive and competitive offering to our customers supported by outstanding customer service. We now have a senior management team and a motivated workforce capable of developing and expanding our business to become indisputably the market's employee benefits provider of choice, and we are a highly efficient operation. Our key performance indicators, not least our 17.5% increase over 2012 in new business generation, and the quality of our pipeline of new business, are evidence of the benefits flowing from this investment.

The Current Operating Environment

We continue to experience strong demand for our products, both from host companies to whose employees we offer our products, and from the employees themselves. We will continue in 2014 to invest in technology to maximise the ease of access to, and use of, our employee benefits platform, and some further expenditure will be required to complete our senior management succession transition. At the same time, however, our focus is on starting to deliver the enhanced profits of which this business is capable.

We have for some time recognised that the relationships which we enjoy with our host companies and with our policyholders provide an opportunity to widen the suite of products which we offer them. Some work was carried out in 2013 to identify specific opportunities which might complement our own product range, and this work continues in 2014. We have a strong balance sheet with sizeable cash reserves and no debt. We are pleased to announce the acquisition of Lets Connect. They are an employee benefit specialist in Salary Sacrifice providing home technology and their proposition brings significant synergies with our own.

Conclusion

Our business now has a well-received set of core products and a platform for the delivery of sustainable growth. This is based on a reliable track record of performance, a focus on the excellence of our customer experience, an efficient operation, and trusted relationships with over 400 clients and over 200,000 policyholders. It is now therefore well-placed to begin to widen its activity range and to increase its profit levels.

It is customary for the Chairman to pay tribute to a company's employees in his or her annual Chairman's statement. That I do so again this year is in recognition of the fact that the continuing success of Personal Group is attributable overwhelmingly to the efforts and enthusiasm of our employees – for which, on behalf of the Board, I thank them.

Chris Curling
Non-Executive Chairman
26 March 2014

2013 Performance Highlights

Total Group Revenue
£28.4m
2012 £27.2m

EBITDA*
£8.8m
2012 £9.9m

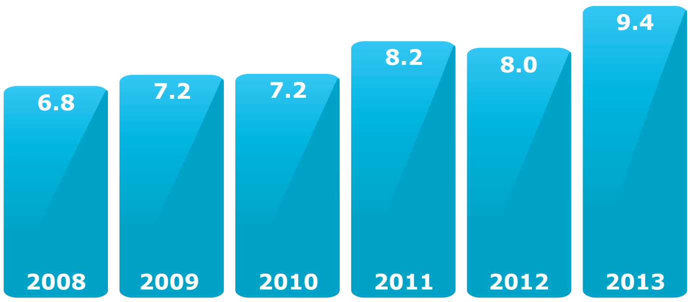
Dividend Paid
18.6p
2012 17.8p

Underlying PBT**
£8.3m
2012 £9.4m

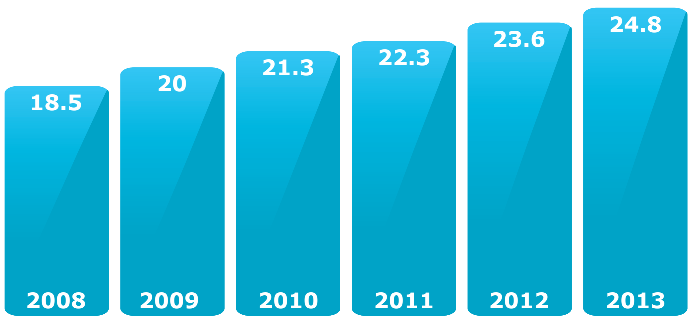
PBT
£3.7m
2012 £8.3m

Earnings per share
7.0p
2012 20.2p

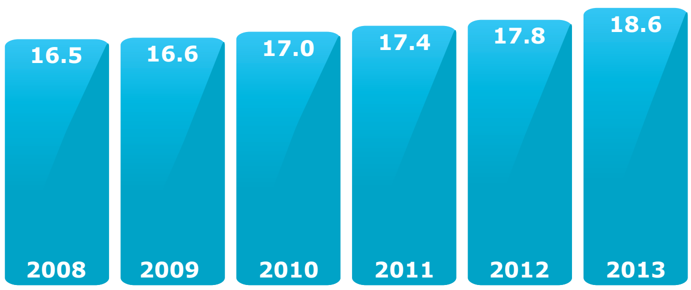
Record new annualised revenue from core products***



Progressive improvement in revenue before claims from core products***



Progressive improvement in dividend paid in year



* EBITDA is defined as earnings before interest, tax, depreciation, goodwill impairment on BMG, share-based payment expenses and reorganisation costs. A reconciliation of EBITDA to profit for the year as shown in the consolidated income statement is shown within the Chief Financial Officer's Statement on page 10.

** Underlying PBT is defined as profit before interest, tax, goodwill impairment on BMG, share-based payment expenses and reorganisation costs. A reconciliation of underlying PBT to profit for the year as shown in the consolidated income statement is shown within the Chief Financial Officer's Statement on page 10.

*** Core products are Hospital Cash and Convalescence Plans, Death Benefit and Voluntary Group Income Protection Plans.

Chief Executive's Statement

Coupled with our record field sales performance it is also one of our best ever years for securing new employer clients. 2 Sisters, Network Rail, Translink and Young's Seafood alone will grow our employee customer base by nearly 10%.

"2013 has been a transition year which has now positioned the business to deliver on its promise. Disciplined execution of our well-considered strategy is clearly taking our business in exactly the direction we want it to go."

Business Overview

2013 has been a transitional year for Personal Group. A number of important initiatives which began in 2012 were completed this year and now put us in a strong position from which to grow our business. These include, amongst others, our senior management team, sales performance, service quality and further technology deployments.

Revenue has increased by some 4.5% with our core Employee Benefits revenue growing organically by 6.8%. This is very encouraging and in line with our targets. Our sales performance of £9.4m of new annualised premium (2012: £8.0m) has beaten all previous records by a considerable margin. Of course the benefit of this increase will be felt in the coming years as we expense most of the acquisition costs in the year in which the costs are incurred. One-off charges for goodwill adjustments in our Berkeley Morgan business (£2.1m) together with LTIP/Share Option provisioning (£1.5m) have affected our profit before tax of £3.7m (2012:£8.3m), though these are non-cash items. Reorganisation charges of £1.0m are also particular to 2013.

Very pleasingly we have introduced a number of large clients such as Network Rail, 2 Sisters and Young's Seafood through the year and secured a number of others, such as Four Seasons and Translink which will be rolled out in the course of 2014. In addition we renewed our relationship with Stagecoach on a long-term contract with a number of other transport businesses in the pipeline.

EBITDA was £8.8m (2012: £9.9m) reflecting higher investment in our field sales organisation and claims costs which were ahead of historic levels. Our Berkeley Morgan business continues to reduce as expected with a reduction in revenue to £0.6m (2012: £1.1.m). Our claims costs climbed to £5.8m (2012: £4.2m) largely as a consequence of our increased core Hospital Cash plan business. We handled 41,223 claims in 2013 (2012: 33,659). The fact that we were able to absorb so much of this movement is testimony to the levels of efficiencies we have been able to drive out within the year.

Service level KPIs have soared. We now pay c.85% of claims within 24 hours (2012: 55%) with c.70% on the same day. During the year our complaints levels plummeted down to 3 per 10,000 policyholders. A wholesale revision of how complaints are managed has led to this much improved performance level.

As was the case in 2012 the Board continues to have conviction about the medium and long-term growth prospects for the Group. To that end we continue with our progressive dividend policy and we are proposing to increase the dividend payable in 2014 by 5.4% to 19.6p (2013: 18.6p) per share. This will then equate to a 10.1% increase in aggregate over the two years, bettering the 2.0% and 2.4% in 2011 and 2012 respectively. Our first quarterly dividend for 2014 of 4.9p (2013: 4.65p) per share was paid on 25 March.

New Business

Coupled with our record field sales performance it is also one of our best ever years for securing new employer clients. 2 Sisters, Network Rail, Translink and Young's Seafood alone will grow our employee customer base by nearly 10%. The very encouraging aspect of these wins is the fact that so many very large employers in the UK, across a wide variety of sectors, understand the value of our unique offering.

The fact that we will sit down with over 135,000 people across the UK in the course of a year and individually give them 20-30 minutes to explain the benefits their employer has secured for them is a powerful capability which our new and existing customers continue to appreciate. Our face-to-face communication of employee benefits is very influential in getting an employer's message down to a 'grassroots' level in their organisations. Some of these wins were rolled out this year like Young's Seafood and others like Translink will happen in 2014. As well as new business origination we have also put a much greater emphasis on client management separating it out from the sales process as we further support and interact more fully with our existing employer clients.

Strategy

We set out our strategy in the middle of 2012 and implementation is progressing well. A robust strategy review was carried out by the Board in the course of the 4th quarter 2013 which saw no material change to the plan as outlined originally. The three key elements of our strategy, namely organic growth, technology and inorganic growth are explained in more detail in the Strategic Report on pages 14 and 15.

Acquisition

A key component of our strategy is growth by acquisition, and we have been working on this in 2013. I am pleased to say that we have, since the year end, been successful in acquiring Lets Connect. Lets Connect is an Employee Benefits leader, specialising in Salary Sacrifice provisioning of home technology in the form of computers, laptops, tablets, smart phones and smart televisions. This is a cash transaction, the initial consideration being financed from existing funds, and with deferred consideration based on profit performance post acquisition. Lets Connect has some 100 major clients who between them have approximately 600,000 employees. We share only one small client so its client base is almost entirely accretive to us. The market sectors the business currently serves are also complementary with a big presence in the public sector. This purchase sees us with a combined end customer base of over 2 million people. It also significantly increases our relationships in the financial services sector with clients including Grant Thornton, GE Capital and Bank of New York Mellon.

One exciting part of this new endeavour is the opportunity to introduce our existing customers to this new product provisioning, and we have already had some joint meetings with our existing clients. There is also potential to offer our core proposition to Lets Connect clients. The founding directors of Lets Connect will continue in the business, with significant incentive to continue to grow the business to realise their earn out potential.

"Our acquisition of Lets Connect offers the prospects both of a material profit contribution and of considerable cross-selling opportunities. It also establishes us in a number of sectors which we have not historically served."

Quality

Through the course of 2013 we continued to improve the quality of our customer engagement, through a strong focus on the quality of the insurance business we write. We have developed a new performance measurement system for our field sales team, made possible by reason of our tablet capability. In particular we measure policy renewal rates. In addition we have improved the rate at which we settle claims, moving up from 55% of claims paid in 24 hours to 85% with 70% paid on the same day. Complaints remain at very low levels of significantly less than 1%. Our tablet technology has given our field sales team the ability to complete the whole policy enrolment process without the involvement of head office, whilst giving head office more measurement and monitoring control. The speed at which we have been able to effect very significant cultural change in our remote sales organisation, is one of our greatest successes of 2013.

Technology

Our business is no different to any other 21st century business in that the potential that technology offers is without doubt a significant enabler. With the appointment of Ashley Doody as our CIO we are signalling a very significant commitment and investment into our technological capability. This is a key component of our strategy: in addition to supporting the incremental improvements in our field sales technology in 2013 we are planning a complete refit of our sales presentation and sale process. We have also planned our next generation of employee benefits platform, having already achieved an almost 6% rise in conversion rates in the field in the past year. This activity will also see us take more control of our "digital connection" with our end users.

We have very carefully studied the nature and frequency of how our customers interact with our systems and what their needs are. In turn this has informed the design of an entirely new platform and as a result we have approved the necessary investment over the next 3 years through which we will significantly reposition our offering in the market. This will be a combination of systems, some developed in-house and some externally. Our ambition is to become even more significant in the way that we can help our employer clients to attract and retain employees. Our whole offering will be available on mobile devices and we expect it will include some leading edge payment and collection technologies.

Organisation

From an organisational perspective we have seen more change in 2013 alone than in the previous history of the company. An essential part of our strategy has been to structure the business to make it ready for its next level of growth. There have been some significant changes of personnel in the course of 2013 with a number of senior joiners now having established their respective teams with the requisite talent. Several long serving employees have left the business.

Last year we announced the retirement of Ken Rooney, our Chief Operating Officer. We are delighted that Ken has agreed to continue in a part-time capacity. He will play a key role in the integration of our Lets Connect acquisition.

In stepping up our sales activity by 17.5% in 2013 Andy Lothian, the head of our sales team, has managed the biggest single year increase in the past 5 years. This has been achieved against a backdrop of improvements in the quality of our field sales activity supported by a number of systems improvements enabled by the deployment of our tablet technology.

We have continued at pace in rolling out additional functionality to our tablet platform. In the course of November we eradicated 90% of all paper usage from our field systems. This offers huge changes and is led by our new CIO. His sound understanding of the dynamics of the benefits 'eco-system' means that we are now well positioned to continue these improvements. We are also planning on increasing our digital presence in the course of 2014.

The reshaping of the finance function started in 2013, under the stewardship of Mike Dugdale, with the appointment of a group Financial Controller.

Profit

The impact of the investments which I have described has seen an EBITDA of £8.8m, reduced from £9.9m in 2012. Conversely we have increased our annualised new sales operation from £8.0m to £9.4m. The benefit of this will flow through in the coming years.

Forward View

As a consequence of the groundwork carried out in our core business in the course of 2012 and 2013 we are now well placed for growth. We also expect additional revenue streams as we improve our digital connection with our employee customers and offer more benefits to them. Our acquisition of Lets Connect offers the prospects both of a material profit contribution and of considerable cross-selling opportunities. It also establishes us in a number of sectors which we have not historically served.

We have established a high performing team capable of delivering our next level of growth. As ever it is our high performance employees who continue to propel the business forward. I would like to acknowledge their dedication, ingenuity and effort because without them we have no future.

Mark Scanlon
Chief Executive
26 March 2014

Chief Financial Officer's Statement

"A year of investment for the long-term benefit of the business and our shareholders is now starting to reap rewards."

Group Results

	2013 £'000	2012 £'000
Revenue	28,394	27,168
EBITDA	8,811	9,904
Profit before tax	3,730	8,304
Tax	1,632	2,280
Profit for the year	2,098	6,024
Dividends per share paid in year	18.6	17.8

Revenue
Revenue for the group of £28.4m in the year ended 31 December 2013 was 4.5% ahead of prior year (2012: £27.2m) largely driven by organic growth of 6.8% 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 £1.1m to £8.8m (2012: £9.9m) reflecting continued investments made in the business focusing on increasing our sales capacity, improving our technology offering to policyholders and driving further operational efficiencies.

	2013 £'000	2012 £'000
Profit for the year	**3,730**	**8,304**
Reorganisation costs	977	-
Share based payment	1,474	301
Goodwill impairment	2,100	800
Interest expense	1	3
Underlying PBT	**8,282**	**9,408**
Depreciation	529	496
EBITDA	**8,811**	**9,904**

Profit Before Tax
Profit before tax for the year was £3.7m (2012: £8.3m), a decrease of £4.6m. This is largely as a result of the aforementioned investment, a decision to fully impair the goodwill of Berkeley Morgan Group Ltd (BMG), our financial services business, by £2.1m (2012: £0.8m), the impact of our five year long term incentive plan (LTIP) for key executives at a cost of £1.5m (2012: £0.3m) and a reorganisation cost of £1.0m.

Neither of the goodwill nor LTIP charges impact cash nor do they reflect the underlying strength of the business. The LTIP charge is predominantly caused by the rise in the share price during 2013 (up 48%) together with management's expectation for the future, and market capitalisation over the duration of the 5 year scheme. See note 22 for details of the executive scheme.

Profit After Tax
The tax charge for the year was £1.6m (2012: £2.3m). The improvement in the underlying rate of tax is attributable to the reduction in the mainstream corporation tax rate from 24% to 23%. The resultant profit after tax for the year was £2.1m (2012: £6.0m), a decrease of £3.9m on the prior year.

Dividend
The final dividend paid in 2013 of 4.65p brings the full year dividend to 18.6p per share (2012: 17.8p) paid in the year, an increase of 4.5%. Our first quarterly dividend for 2014 of 4.9p has already been announced and was paid on 25 March. If business continues as anticipated we expect to pay further dividends in June, September and December 2014 of the same amount.

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. Over 57.3% of the group's total assets are held in cash or cash equivalents. The balance sheet of our underwriting subsidiary Personal Assurance Plc (PA), has a surplus over capital resource requirements of £3.3m as at 31 December 2013. This provides a margin of solvency which allows PA to write further significant increases in premium income without the requirement for new capital.

EPS
Basic EPS before other items was 7.0p (2012: 20.2p). The calculation is detailed in note 13.

Segmental Results

	2013 £'000	2012 £'000
Total Revenue		
Earned premiums net of reinsurance	22,572	20,924
Other income	4,823	4,626
Investment income	332	418
Employee benefits	27,727	25,968
Financial services	564	1,085
Investment property	103	115
Total Revenue	**28,394**	**27,168**
Net results for year before tax		
Employee benefits	6,666	8,848
Financial services	417	387
Other / Investment property	(3,480)	(995)
	3,603	**8,240**

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 6.8% to £27.7m (2012: £26.0m) largely through the 7.9% growth in earned premium from the sale of hospital and convalescence plans, private medical insurance (PMI) and Voluntary Group Income Protection (VGIP) policies.

Our core hospital and convalescence plans grew by 4.3% and accounts for 52% of the total growth and 92% of total earned premium with PMI contributing 39% of the growth (6.6% of earned premium) as we no longer reinsure any PMI risk.

The group handled 41,223 hospital and convalescence plans and income protection claims (2012:33,659), the vast majority of which were settled within 48 hours. The claims loss ratio increased to 25.8%, reflecting an increase in our core hospital and convalescence business from 17.7% to 22.5% coupled with PA fully underwriting PMI business sold by Universal Provident Limited (UP) for the duration of 2013. Up to November 2012 this business had been 80% underwritten externally.

The overall claims ratio remains in line with the increased trends commented on in our half year results announcement.

Other income from insurance and non-insurance activities grew 4% to £4.8m 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 Ltd (BML) book of business.

We took the decision to cease accepting new investment business into BML with effect from 1 April 2012. Volumes of business into UP, the other major subsidiary of BMG, have continued to decline as expected during 2013. Following an impairment review the decision was taken to write off the whole BMG goodwill in the balance sheet of £2.1m. BMG has performed in line with our expectations with revenue declining to £0.6m (2012: £1.1m).

Net Result for the year before tax
The net result of £6.7m (2012: £8.8m) from employee benefits, insurance and consultancy dominates the overall result and is down on prior year due to the investment in front line sales and increased claims costs. Financial services has remained flat as expected at £0.4m (2012: £0.4m) whilst investment property/others has declined £2.5m reflecting the impact of the aforementioned goodwill impairment and LTIP.

Mike Dugdale
Chief Financial Officer
26 March 2014

Board of Directors and Senior Management Team

C J Curling
Non-Executive Chairman

M W Scanlon
Chief Executive

M I Dugdale
Chief Financial Officer

K W Rooney
Director and
Deputy Chairman

Dr J P Barber
Finance Director

H H Driver
Non-Executive Director

M Winlow
Non-Executive Director

A Doody
Chief Information Officer

D Walker
Commercial Director

A Lothian
Managing Director
PGB Sales

Board of Directors

C J Curling Non-Executive Chairman (aged 63)
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.

M W Scanlon Chief Executive (aged 45)
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 51)
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.

K W Rooney Director and Deputy Chairman (aged 63)
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.

Dr J P Barber Finance Director (aged 54)
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.

H H Driver Non-Executive Director (aged 64)
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.

M Winlow Non-Executive Director (aged 51)
Mark Winlow has 30 years of experience in financial services in Europe, the US, and South Africa including time at Zurich Financial Services where he was managing director of Zurich's UK Personal Lines. Mark is currently non-executive chairman of Lloyd's broker RFIB and Ageas Insurance (the second largest UK motor insurer). Until 2012 he was a partner in KPMG where he was the head of General Insurance. Mark has also been a partner at Ernst & Young where he led the insurance and investment management consulting practices. Mark has held non-executive positions at insurance broker Endsleigh, claims service company ETWB and industry bodies MIB and MIIC (Motor Insurers' Bureau and Motor Insurers' Information Centre, respectively). He is also a judge of the British Insurance Awards.

Senior Management Team

Mark Scanlon Chief Executive
See biography above

Ken Rooney Director and Deputy Chairman
See biography above

Mike Dugdale Chief Financial Officer
See biography above

Ashley Doody Chief Information Officer (aged 44)
Ashley joined Personal Group in May 2013 as Chief Information Officer. He brings considerable experience, having started his career with Hoskyns Group in 1992. He went on to spend 17 years at Thomson Reuters, most recently as Chief Technology Officer of the UK Legal Information business unit there. In this role Ashley implemented a SAP solution and led the creation and development of a number of online technology platforms and products for the legal industry. He has spent the last two years at Motability Operations as Head of Development where he was responsible for running the technology development teams and developing the company's online presence.

David Walker Commercial Director (aged 43)
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 B2B operation in the USA.

Andrew Lothian Managing Director PGB Sales (aged 42)
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. In 2010 Andy became Personal Group Benefits Managing Director.

2013 Strategic Report

Vision

Our vision is very simple: we wish to be the "Go To Employee Engagement Provider."

By this we mean that we want to figure highly on any HR or any other senior director's agenda for the provision of engagement services. We want to continue to establish ourselves as a priority decision whenever a company is deciding how best to attract and retain employees.

Our definition of employee engagement is the ability of a company to "unlock discretionary effort." We know that creating an environment where an employee wants to come to work, where they feel they are making a positive contribution, and can be proud of their endeavours builds strong sustainable businesses.

Strategy

The Strategy to achieve our vision is: 'To be an innovative, technologically enabled employee engagement business of scale which is underpinned by insurance products delivered face-to-face.'

Each element of this statement is fundamental to our success. When our company was founded we had just one employee benefit which was a simple Hospital Cash Plan. As nearly thirty years have gone by our business has developed to the point where we now have over 9,000 benefits provided to our customers, most of which are online and immediately available anywhere. We now have the ability to develop bespoke benefit programmes designed with the client in mind which are delivered by way of individual face-to-face meetings, benefit books and online interaction. Because our insurance products figure in benefits provision we are able to offer very competitive pricing on the programmes we design. At present c. 14% of all of the employees we serve are policyholders of our core products. This has been a constant figure for a number of years and underpins our business model. The vast majority of our competitors rely on their ability to levy a charge per head to make their income and we have seen this model come under more and more pressure in recent years.

Despite our enormous diversification of benefits our core products remain largely the same as they were in 1984. We continue to derive the majority of our income from the very simple Hospital Cash Plan, Death Benefit Plan, Convalescence Plan and Group Income Protection Plans while at the same time bringing significant savings to people who use our benefits programmes.

When benefits are used effectively we know that a person on National Average Wage* can save more than 4.5% of their salary per annum. We are a regulated insurance business in the UK with a unique business model. The model is unique in both the employee benefits market and insurance sector. Our product proposition is predicated on the fact that we meet our customers (our clients' employees) face-to-face to explain our products and to ensure that each customer has the best opportunity to take the benefit of what we offer. Our ability to make our economic model work is a key differentiator of, and a very significant attraction to, our employer clients and employee customers alike. We are able to carry our clients' message to each and every one of their employees and we create the platform for these employers to communicate with their employees on an ongoing basis. We currently have a capability to meet over 135,000 UK employees per annum and this is scalable in order to accommodate our organic growth plans. In 2013 we grew this capability and expect to grow it again in 2014.

*Data from ONS Annual Survey of Hours and Earnings 2013. Also ONS Family Spending 2013.

Growth

Our growth strategy comes in three parts:

1. **Organic growth**: here we have significantly improved the value and quality of our proposition. 2013 saw the rollout of a completely new online benefits program which is now available on mobile devices. As a consequence of our two customer engagement programs we have reduced complaints significantly and improved our rate of settling claims in 24 hours to 85%, up from 55%. Our core offering has a market share by headcount of c.8% and by value c.5%. The employee benefits market is a growing area. We are concentrated on clients of 5,000 and more employees, and we believe there are many more to target in this area. Recent wins such as Network Rail, 2 Sisters and Four Seasons highlight the fact that we are able to successfully target or bid business at these very large employers. Of course the majority of employers by number are in businesses below this size and this offers further possibilities for our company in the medium to long-term.

2. **Technology**: in line with most other businesses today technology offers an opportunity to do two things. The first is to establish a strong 'digital connection' with our customers so that we have an ongoing dialogue which allows us to remain in the minds of those who use our service. The second is to be able to significantly reduce the inertia and friction which is associated with transactions and interactions a person may have in order to make best use of our offering. 2014 sees us investing again in technology and this is now the single biggest business investment the company has ever undertaken. Through the enhancement of our digital offering we intend not just to increase customer loyalty but also offer the possibility of additional income streams.

3. **Acquisition**: where the opportunity presents itself we will look to grow by acquisition. Some work was carried out in 2013 to identify specific opportunities which might complement our own product range, and in 2014 we have acquired Lets Connect. Their Salary Sacrifice provision of home technology sits well alongside our current offering and we look forward to developing this part of the business.

   We believe that there is a great opportunity to consolidate the employee benefits market and that our business model and strong financial position together with our ability to raise capital on the public market allows us to take advantage of this market dynamic.

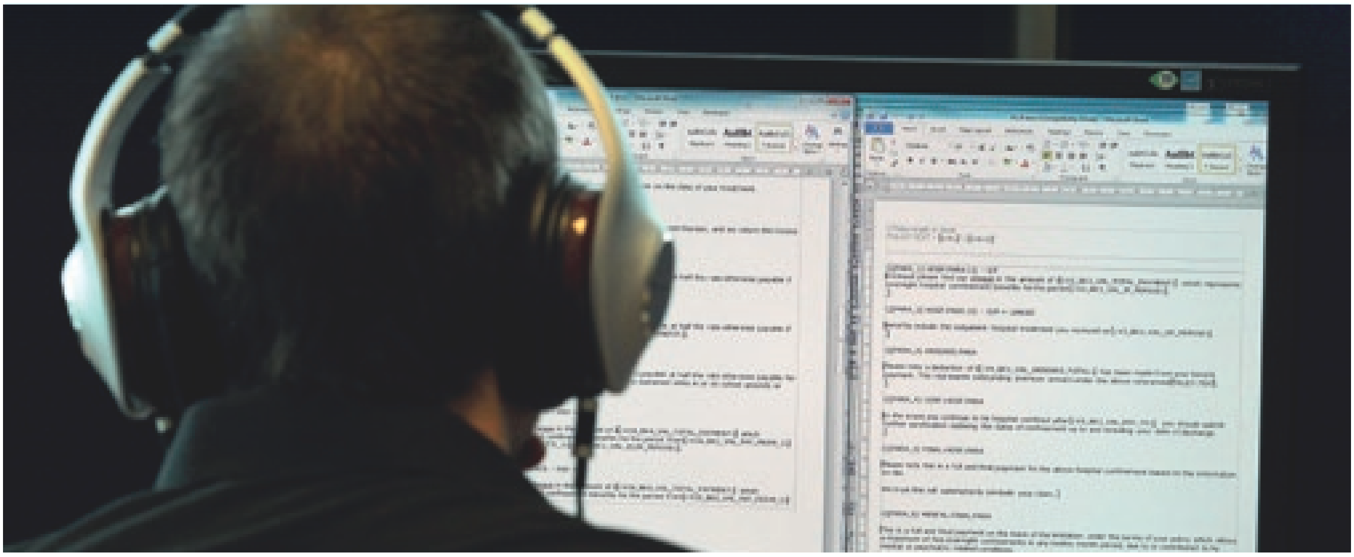
We have a strong financial standing with the ability to raise capital should we need it. Core to our strategy, however is the quality of our people. We have some exceptional talent across all sections of the organisation to be able now to capitalise on these opportunities.

Employee breakdown by gender at 31 December 2013

	Male	Female
Directors	14	4
Managers	7	6
Employees	55	75
Total	**76**	**85**

Mark Scanlon
Chief Executive
26 March 2014

Enabling Productivity and Growth



2013 has been a significant year for further investment into developing our digital presence and has seen a revolution in how our field and office based teams operate.

The start of 2013 saw further development in our tablet technology, enabling customers to purchase our insurance plans with the capture of an electronic signature. The addition of this capability, in combination with our introduction of tablet presentations during 2012, enabled a gradual progression over the year to removing most paper based activities that our sales team performed in the field. Virtually all of the actions we ask them to perform are now electronic.

These changes have enabled us to develop real-time management information reporting dashboards that are available across the business in order to monitor and improve performance. We can see in real-time which client employees have been presented to, how long was spent on the presentation and even the battery level of the device.

This management information is enabling our sales efforts to move towards a more account management mindset. Our benefits team can see the number of employees they have registered, their customer retention rates and much more. Having this knowledge on the front line in real-time makes a step change to how we manage in the field.

All of these developments have seen our benefits team become more efficient, more effective and provide a better service to our customers.

Now that our core business process is fully digitised, 2014 will see us take further advantage of the increasing capabilities of the tablet devices.

Customer Engagement and Our Digital Presence

All companies strive to increase their digital presence with their customers and Personal Group is no exception.

We all know that customers are only prepared to interact in this way if they see a benefit in doing so and that we use the data they share with us to their advantage.

If customers share their email address with us during the benefits presentation we register them for use of the online benefit packages in real time. If they choose one of our products, they receive confirmation emails and text messages within seconds of doing so. This has led to approximately 80% of our new customers now interacting with us electronically.

We want to use technology as a key channel to engagement with customers.

Platform and Product Offerings

2014 will also see us enhance the products and platforms we offer as part of employee benefits packages. We know that benefit platforms offer thousands of discounts and promotions, but 90% of the money spent is on a very small subset of these. We want to use technology to make these platforms easier to use and work more closely with new and existing third parties to do this. Our goal is to expand our range of products, increase their usage and further improve the engagement of our customers.

2013 Developments and Corporate Responsibility

New Business

We have had a number of new clients join us during 2013. Network Rail, who boast 35,000 employees, came on board. This was the biggest win of the year and the second biggest win in our history. Staying in the transport sector we also gained Translink in Northern Ireland with 3,940 employees. In the food sector 2 Sisters Food Group with 24,000 employees chose to work with us as did Young's Seafood with 3,000 employees.

Personal Assurance Charitable Trust

People are very much at the heart of Personal Group and that is why we have a strong charity ethos. The Personal Assurance Charitable Trust (PACT) is a registered charity which was set up in 1993 and has raised over £1.5 million for charity. It has supported Willen Hospice (Milton Keynes), Macmillan Nurses, St John's Ambulance, Little Lives neo-natal unit at Milton Keynes hospital and now it is supporting the Alzheimer's Society, the company's Charity of the Year for 2013-2014. Our Charity of the Year for 2012-2013 was Little Lives and we raised almost £9,000 to help buy specialised medical equipment.

Innovation

We want to improve our digital offering and with that in mind we are developing several new systems.

We have introduced Connect, a new online benefits communication tool, which is unique within the industry. Connect allows the user to decide what they want to communicate, when they want to communicate it and how it is communicated. Personal Group will provide a library of designs all ready for use and additional material will be added throughout the year.

Environmental Impact

We work hard to limit the impact that Personal Group has on the environment and in 2013 we made a big improvement to our emissions by reviewing and updating our car fleet. Our previous fleet was made up of petrol Ford Fiestas with a CO_2 emission rating of 128g/km. Our new fleet of 37 Seat Ibizas have a much lower CO_2 emission rating of 92g/km.

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 listed 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. 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 M Winlow. 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 deputy chairman 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
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 Baker Tilly continued 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.


personal group

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

In 2013 responsibility for regulation transferred from the Financial Services Authority to the Prudential Regulatory Authority (PRA) and to the Financial Conduct Authority (FCA). The new regulators are taking a proactive, judgment led and interventionist stance, using new and existing powers to act before failure occurs and they 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. The end of 2013 saw increased activity in the implementation of Solvency II - now scheduled for January 2016. We continue to work on pre-implementation with the objective of delivering a proportionate control framework that meets regulatory requirements.

Meeting Regulatory Challenge

The group Risk Team has responsibility for capturing changes to the risk outlook (including regulatory, legal and environmental) and changes to procedure to deliver appropriate treatment agreed before they crystallise. The risk monitoring function is responsible for monitoring face-to-face sales, directing resource towards activity that presents most risk to the group and conduct risk to customers.

Implementation of the Enterprise Risk Management Framework (ERMF) began in early 2013 and continued throughout the year, overseen by the Risk and Compliance Committee. 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 Team 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 2013 included participation in the customer engagement and iPad projects and the transfer of complaint handling to Customer Relations. By focusing on the delivery of high standards of customer service at the first point of contact the group has seen a fall in the number of complaints it receives and a speedier resolution of issues where they still remain.

Risk Management

The Senior Management Team is fully involved in the group's risk management activity, meeting on a monthly basis to review the risk profile of the business and respond to any challenges.

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 the group directors who are actively involved in the management of risk. The risk register is reviewed at every quarterly meeting of the Risk and 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 focusses on the group's IT capability although it does also cover the requirement of alternative office facilities and associated office equipment. The plan as it relates to IT capability has been successfully tested on a number of occasions in recent years.

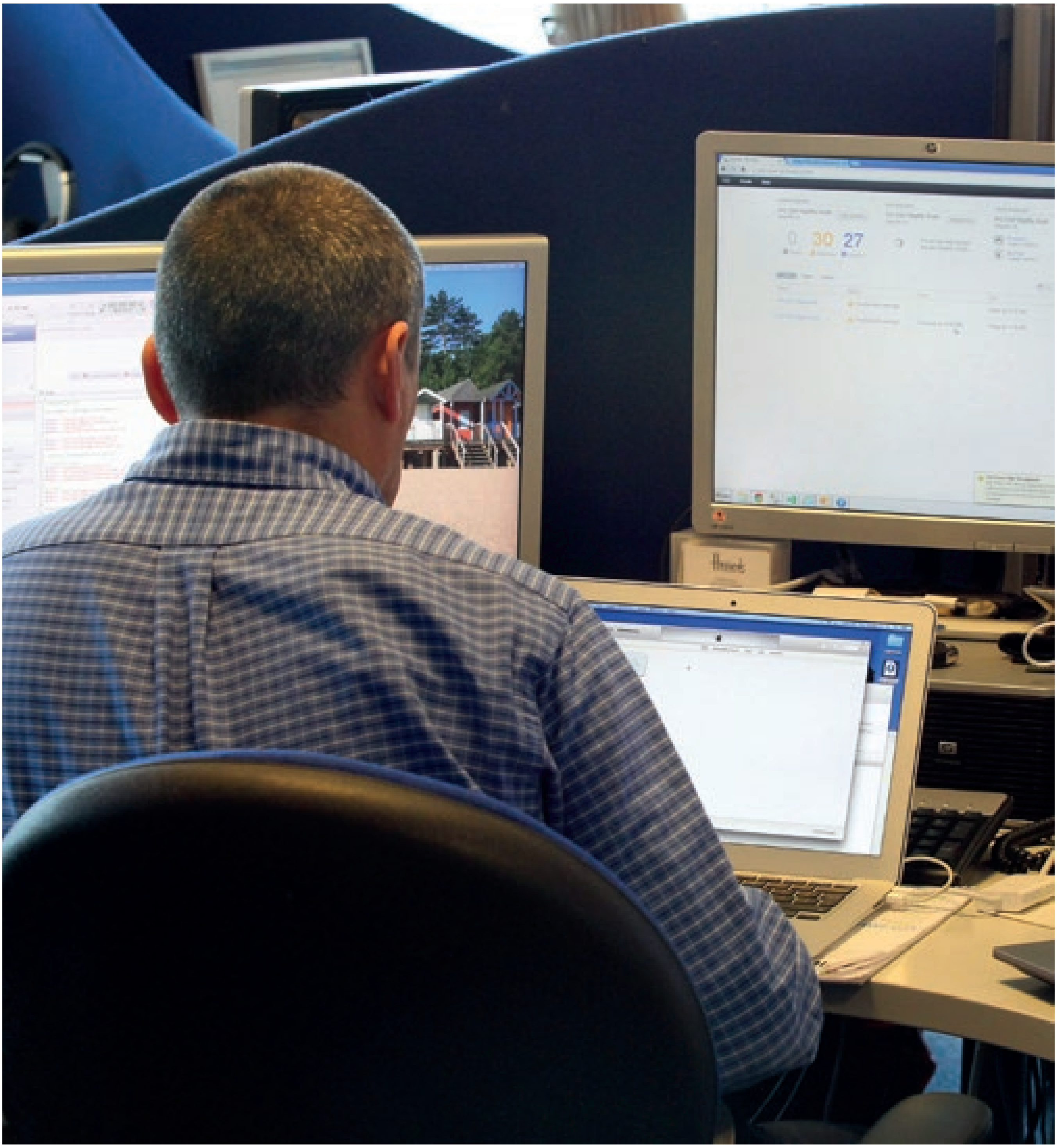
All employees receive appropriate training to ensure that they are fully equipped to perform their duties to the highest possible standards. In 2013 the group committed to further investment in the training and development of its staff. This investment is in a new e-learning platform and in voice recording facilities which will enhance performance management arrangements. 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 Conduct Authority (FCA) 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 FCA the group is exposed to regulatory risk in that changes made by the FCA could have a direct impact on the ability of the group to maintain certain operations.

Treating Customers Fairly

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. Remuneration and incentive structures and processes designed to mitigate customer risk are monitored to ensure the fair treatment of customers.



Report of the Directors

The directors present their report together with the audited financial statements for the year ended 31 December 2013.

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
- PRA 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 Introduction (see page 4), in the Chief Financial Officer's Statement (see pages 10 and 11) and in note 3 (see pages 44 to 48).

Results and dividends

A review of the year's results is given in the Chief Financial Officer's Statement (see pages 10 and 11) and in the Chief Executive's statement (see pages 6 to 8).

The profit for the year is £3,730,000 (2012: £8,304,000) before taxation of £1,632,000 (2012: £2,280,000). During the year ordinary dividends of £5,556,000 (2012: £5,312,000) 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 and M Winlow who were appointed as directors on 30 January 2013 and 3 October 2013 respectively. R Green resigned as a director on 30 April 2013. J P Barber will retire as a director at the Annual General Meeting to be held on 28 April 2014.

In accordance with the Articles of Association, C J Curling and K W Rooney retire by rotation and offer themselves for re-election. In addition an ordinary resolution will be proposed at the Annual General Meeting that M Winlow, 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 2013 or date of appointment if later, and 31 December 2013 were as follows:

	Ordinary shares of 5p each in Personal Group Holdings plc	
	At 31 December 2013	At 1 January 2013 or date of appointment if later
C J Curling (Non-Executive Chairman)	**25,157**	28,854
M W Scanlon (Group Chief Executive)	**56,588**	-
J P Barber	**348,967**	362,479
M I Dugdale	**425**	-
K W Rooney	**3,333**	5,590
H H Driver (Non-Executive)	**5,000**	-
R M Green (Non-Executive, resigned as a director on 30 April 2013)	**-**	39,017
M Winlow (Non-Executive)	**-**	-

At 31 December 2013 the mid-market closing share price was 478.12p per share.

Report of the Directors

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

Audited	Salary and fees £'000	Share based payment expense £'000	Profit related pay/ Commission £'000	Pension contributions 2013 £'000	Total 2013 £'000	Total 2012 £'000
C J Curling*	66	-	-	3	**69**	65
M I Dugdale	120	-	-	47	**167**	-
J Barber	114	-	4	48	**166**	160
K Rooney	105	-	153	31	**289**	292
M W Scanlon	238	246	-	18	**502**	276
H H Driver*	33	-	-	2	**35**	33
R M Green*	11	-	-	-	**11**	31
M Winlow*	19	-	-	-	**19**	-
Total	706	246	157	149	**1,258**	857

*Non-executive director fees.

On 31 October 2013 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
K W Rooney	2,885	415.00	31 October 2016

At 31 December 2013 options outstanding were as follows:

	Number of shares	Exercise price pence per share	Earliest exercisable date
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
K W Rooney	2,885	415.00	31 October 2016

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.

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.

Report of the Directors

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 maximum 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 £1,456,000 has been charged to the profit and loss account in 2013 for this scheme. On 13 December 2013, 70,735 new shares were issued under the LTIP scheme of which 56,588 were awarded to M W Scanlon.

Charitable donations

Donations to charitable organisations amounted to £100,000 (2012: £100,000).

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

The directors are responsible for preparing the strategic report, 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.

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 of Personal Group Holdings Plc supports the principles and is committed to achieving high standards of corporate governance. As an AIM listed company it is not required to comply with the UK Corporate Governance Code 2010 ("the Code") but not withstanding this seeks to comply with those provisions which are most appropriate given the size of the group and the nature of its operations. The board's report on the group's corporate governance procedures is set out on page 18.

Report of the Directors

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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 Monday 28 April 2014.

BY ORDER OF THE BOARD

J P Barber
Director & Company Secretary
26 March 2014

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 2013 set out on pages 27 to 71. 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 24, 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 2013 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 Strategic Report and 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

26 March 2014

Consolidated Income Report

	Note	2013 £'000	2012 £'000 (Restated)*
Gross premiums written		**22,997**	22,332
Outward reinsurance premiums		**(358)**	(1,097)
Change in unearned premiums		**266**	(281)
Change in reinsurers' share of unearned premiums		**(333)**	(30)
Earned premiums net of reinsurance	5	**22,572**	20,924
Other income:			
Insurance related	5	**4,024**	4,301
Non-insurance related	5	**1,363**	1,410
Investment property	5	**103**	115
Investment income	6	**332**	418
Revenue		**28,394**	27,168
Claims incurred	7	**(5,820)**	(4,211)
Insurance operating expenses	8	**(11,368)**	(9,190)
Impairment of non-financial assets	15	**(2,100)**	(800)
Other expenses:			
Insurance related		**(1,296)**	(1,968)
Non-insurance related		**(2,504)**	(2,355)
Share-based payment expenses	22	**(1,474)**	(301)
Investment property	17	**(128)**	-
Charitable donations		**(100)**	(100)
Expenses		**(24,790)**	(18,925)
Results of operating activities		**3,604**	8,243
Finance costs	6	**(1)**	(3)
Share of profit of equity–accounted investee net of tax		**127**	64
Profit before tax	10	**3,730**	8,304
Tax	11	**(1,632)**	(2,280)
Profit for the year	12	**2,098**	6,024

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	13	**7.0**	20.2
Diluted	13	**7.0**	20.1

* Application of IFRS 11 has resulted in a change in recognition of the group's joint venture from proportionate consolidation to the equity method. Under the transitional provisions within the standard, the change has been retrospectively applied from 1 January 2012 (see note 2.5).

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

Consolidated Statement of Comprehensive Income

	2013 £'000	2012 £'000
Profit for the year	**2,098**	6,024
Items that may be reclassified subsequently to the income statement		
Available for sale financial assets:		
Valuation changes taken to equity	**110**	19
Reclassification of gains and (losses) on available for sale financial assets on derecognition	**(3)**	(9)
Income tax on unrealised valuation changes taken to equity	**(25)**	(3)
Total comprehensive income for the year	**2,180**	6,031

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 2013

	Note	2013 £'000	2012 £'000 (Restated)
ASSETS			
Non-current assets			
Goodwill	15	**-**	2,100
Property, plant and equipment	16	**4,790**	5,605
Investment property	17	**940**	1,068
Equity–accounted investee	34	**399**	272
Financial assets	18	**15,038**	16,488
		21,167	25,533
Current assets			
Trade and other receivables	19	**4,200**	4,240
Reinsurance assets	20	**325**	735
Cash and cash equivalents	21	**6,991**	3,015
		11,516	7,990
Total assets		**32,683**	33,523

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

Consolidated Balance Sheet at 31 December 2013

	Note	2013 £'000	2012 £'000 (Restated)
EQUITY			
Equity attributable to equity holders of Personal Group Holdings Plc			
Share capital	22	**1,507**	1,503
Capital redemption reserve		**24**	24
Amounts recognised directly into equity relating to non-current assets held for sale		**61**	(21)
Other reserve		**(264)**	(619)
Profit and loss reserve		**23,835**	25,805
Total equity		**25,163**	26,692
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	23	**111**	176
Current liabilities			
Provisions	24	**34**	63
Trade and other payables	25	**3,667**	2,593
Insurance contract liabilities	26	**2,854**	2,895
Current tax liabilities		**854**	1,045
Borrowings	27	**-**	59
		7,409	6,655
Total liabilities		**7,520**	6,831
Total equity and liabilities		**32,683**	33,523

The financial statements were approved by the board on 26 March 2014.

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 2013

	Note	2013 £'000	2012 £'000
ASSETS			
Non-current assets			
Investment in subsidiary undertakings	28	**11,602**	13,720
Financial assets	18	**2,596**	3,686
		14,198	17,406
Current assets			
Trade and other receivables	19	**4,681**	4,104
Cash and cash equivalents	21	**351**	-
		5,032	4,104
Total assets		**19,230**	21,510
EQUITY			
Equity attributable to equity holders of Personal Group Holdings Plc			
Share capital	22	**1,507**	1,503
Capital redemption reserve		**24**	24
Other reserve		**(264)**	(619)
Profit and loss reserve		**11,563**	13,799
Total equity		**12,830**	14,707
LIABILITIES			
Current liabilities			
Trade and other payables	25	**6,400**	6,744
Borrowings	27	**-**	59
Total liabilities		**6,400**	6,803
Total equity and liabilities		**19,230**	21,510

The financial statements were approved by the board on 26 March 2014.

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 2013

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 2013	1,503	24	(21)	(619)	25,805	26,692
Dividends	-	-	-	-	(5,556)	(5,556)
Employee share-based compensation	-	-	-	-	1,474	1,474
Proceeds of AESOP* share sales	-	-	-	-	630	630
Cost of AESOP shares sold	-	-	-	612	(612)	-
Cost of AESOP shares purchased	-	-	-	(257)	-	(257)
Nominal value of LTIP** shares issued	4	-	-	-	(4)	-
Transactions with owners	4	-	-	355	(4,068)	(3,709)
Profit for the year	-	-	-	-	2,098	2,098
Other comprehensive income						
Available for sale financial assets:						
Valuation changes taken to equity	-	-	110	-	-	110
Transfer to income statement	-	-	(3)	-	-	(3)
Current tax on unrealised valuation changes taken to equity	-	-	(25)	-	-	(25)
Total comprehensive income for the year	**-**	**-**	82	-	2,098	2,180
Balance as at 31 December 2013	**1,507**	**24**	**61**	**(264)**	**23,835**	**25,163**

*All Employee Share Option Plan (AESOP)
**Long Term Incentive Plan (LTIP)

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**

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 2013

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 2013	1,503	24	(619)	13,799	14,707
Dividends	-	-	-	(5,556)	(5,556)
Employee share-based compensation	-	-	-	1,474	1,474
Proceeds of AESOP share sales	-	-	-	630	630
Cost of AESOP shares sold	-	-	612	(612)	-
Cost of AESOP shares purchased	-	-	(257)	-	(257)
Nominal value of LTIP shares issued	4	-	-	(4)	-
Transactions with owners	4	-	355	(4,068)	(3,709)
Profit for the year	-	-	-	1,832	1,832
Balance as at 31 December 2013	**1,507**	**24**	**(264)**	**11,563**	**12,830**

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

Consolidated Cash Flow Statement

	Note	2013 £'000	2012 £'000 (Restated)
Operating activities			
Profit after tax		**2,098**	6,024
Adjustments for			
Depreciation		**529**	496
Goodwill impairment		**2,100**	800
Impairment of investment property		**128**	-
Profit on disposal of property, plant and equipment		**(42)**	(9)
Realised and unrealised net investment losses		**-**	(17)
Interest received		**(222)**	(390)
Dividends received		**(19)**	(22)
Interest paid		**1**	3
Share of profit of equity–accounted investee, net of tax		**(127)**	(64)
Share-based payment expenses		**1,474**	301
Taxation expense recognised in income statement		**1,632**	2,280
Changes in working capital			
Trade and other receivables		**489**	231
Trade and other payables		**1,004**	(574)
Taxes paid		**(1,913)**	(2,499)
Net cash from operating activities		**7,132**	6,560
Investing activities			
Additions to property, plant and equipment		**(248)**	(735)
Proceeds from disposal of property plant and equipment		**537**	111
Purchase of own shares by the AESOP		**(257)**	(254)
Proceeds from disposal of own shares by the AESOP		**630**	269
Purchase of financial assets		**(5,842)**	(11,880)
Proceeds from disposal of financial assets		**7,399**	11,859
Interest received		**222**	390
Dividends received		**19**	22
Net cash used in investing activities		**2,460**	(218)
Financing activities			
Proceeds from bank loans		**257**	254
Repayment of bank loans		**(316)**	(309)
Interest paid		**(1)**	(3)
Dividends paid		**(5,556)**	(5,312)
Net cash used in financing activities		**(5,616)**	(5,370)
Net change in cash and cash equivalents		**3,976**	972
Cash and cash equivalents, beginning of year	21	**3,015**	2,043
Cash and cash equivalents, end of year	21	**6,991**	3,015

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 listed on the Alternative Investment Market of the London Stock Exchange.

These financial statements have been approved for issue by the board of directors on 26 March 2014.

2 Accounting policies

These financial statements of Personal Group Holdings Plc are for the year ended 31 December 2013. 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 2013.

2.1 Standards and Interpretations not yet effective

The following Adopted IFRSs have been issued but have not been applied in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' (mandatory for year commencing on or after 1 January 2014).
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) (mandatory for year commencing on or after 1 January 2014).
- IFRS 9 Financial Instruments (effective date to be confirmed).
- IFRIC Interpretation 21 Levies (mandatory for year commencing on or after 1 January 2014).

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 15);
- establishing the value of claims outstanding (note 3);
- presentation and carrying value of certain property as investment property (note 2.14 and note 17); and,
- Long term incentive plan (note 22).

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

Going concern

The financial statements are prepared on a going concern basis. In considering going concern, the directors have reviewed the group's future cash requirements, earnings projections and capital projections for the period up to 31 March 2015. 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 2013. 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.

The group has adopted early the requirements of IFRS 10, 11 and 12. The adoption of IFRS 10 and 12 has no material impact on the financial statements.

Application of IFRS 11 has resulted in a change in recognition of the group's joint venture from proportionate consolidation to the equity method. Under the transitional provisions within the standard, the change has been retrospectively applied from 1 January 2012. Prior year figures have been restated as a result of this change in accounting policy, but there has been no impact on net assets or profit as a result of the restatement.

The overall impact of the change in presentation is a reclassification of net assets of £272,000 at 31 December 2012 (1 January 2012: £208,000) from the individual balance sheet headings to a single line item under non-current assets on the face of the consolidated balance sheet. Within the consolidated income statement, the change in presentation has resulted in reclassification of the group's share in the post-tax profit of the joint venture for 2012 of £64,000 (31 December 2011: £67,000) from individual headings to a single line item presented on the face of the income statement.

The effect of this change on the individual financial statement captions in the financial information as at 1 January 2012 and 31 December 2012 is disclosed below.

	31 December 2012 £'000	1 January 2012 £'000
Decrease in non-current assets	42	12
Decrease in current assets	19	25
Decrease in current liabilities	61	36
Decrease in revenue	196	182
Decrease in administration and other expenses	116	91

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 property 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.

Notes to the Financial Statements

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.

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 15 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 property

The investment property is a property held to earn rentals and/or for capital appreciation.

The group measures its investment property in accordance with IAS 40's requirements for the cost model. The investment property is stated at cost less accumulated depreciation and provision for impairment. Depreciation is based on cost less residual value. As residual value currently exceeds cost less impairment no depreciation is being provided.

Rental income arising from the investment property 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 the investment property are presented within "other expenses" and are recognised on an accruals basis.

Notes to the Financial Statements

2.15 Taxation

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

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.

2.19 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 "profit and loss reserve".

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	
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
		(Restated)		
Trade receivables	**2,982**	2,819	**-**	-
Reinsurance assets	**325**	735	**-**	-
Other receivables	**863**	688	**-**	-
Accrued interest	**43**	43	**-**	-
Loan to joint venture	**2,596**	3,616	**2,596**	3,616
Amounts due from subsidiary undertakings	**-**	-	**4,676**	4,099
Cash and cash equivalents	**6,991**	3,015	**-**	-
Bank deposits	**11,743**	12,309	**-**	-
	25,543	23,225	**7,272**	7,715

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 19. 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 PRA. At 31 December 2013 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 A to B- (ratings sourced from Fitch, and Standard & Poors).

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 2013 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 larger subsidiary companies boards and as all operations are controlled from within the registered office in Milton Keynes 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.

Information relating to the fair value measurement of financial assets can be found in note 18.

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:

	2013	2012
	£'000	£'000
Financial assets designated at fair value through profit or loss:		
Quoted investments:		
Lighthouse Group shares	**-**	70
Available for sale financial assets:		
Independently managed equity portfolio	**699**	493
	699	563

The Lighthouse Group shares were sold 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 2013 totalled £19,000 (2012: £16,000).

Unrealised gains and losses on financial assets carried at fair value through profit or loss are recognised in the income statement.

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 2013 would result in a deduction to equity of approximately £70,000. A 10% increase in the value of these assets at 31 December 2013 would result in an addition to equity of approximately £70,000.

Liquidity risk

Cash balances are managed internally by the finance director and amounts are placed on short term deposits (currently not exceeding 6 months) to ensure that sufficient funds are available at all times to pay all liabilities as and when they fall due.

At 31 December 2013 amounts on short term deposits exceeded borrowings by £18,734,000.

Notes to the Financial Statements

As at 31 December 2013 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 2013					
Trade and other payables	**3,174**	**83**	**30**	**302**	**3,589**
Borrowings (including interest payable in following periods)	**-**	**-**	**-**	**-**	**-**
	3,174	**83**	**30**	**302**	**3,589**
At 31 December 2012 (Restated)					
Trade and other payables	2,249	67	25	252	2,593
Borrowings (including interest payable in following periods)	30	30	-	-	60
	2,279	97	25	252	2,653
Company					
At 31 December 2013					
Amounts owed to subsidiary undertakings	**6,343**	**-**	**-**	**-**	**6,343**
Borrowings (including interest payable in following periods)	**-**	**-**	**-**	**-**	**-**
	6,343	**-**	**-**	**-**	**6,343**
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

Notes to the Financial Statements

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. During the year this loan was repaid in full and there are no borrowings at 31 December 2013.

At 31 December 2013 bank deposits exceeded borrowings by £18,734,000. If UK interest rates increased by 2% net finance income would increase by approximately £375,000 with a corresponding increase to equity.

Insurance claim and related risks

PA currently underwrites three categories of business which are described in detail below:

a) Hospital cash plans and other personal accident and sickness policies

These have been PA's core products since 1984 and, at 31 December 2013, represent 90.1% (2012: 88.8%) of PA's gross premiums written. The vast majority of these policies are sold to individuals at their place of work as part of an employee benefits package introduced by PGH on behalf of the employer. The gross loss ratio (excluding claims handling costs) on these policies at 31 December 2013 was 22.5% (2012: 17.8%). The loss ratio has remained relatively consistent throughout the 30 years that these policies have been underwritten and therefore the board has taken the decision to accept the underwriting risk in full and not to use reinsurance as a way of managing insurance claim risk.

At present the maximum payable on any one single claim is £73,400 and would only be payable after a period of hospital confinement of two years. The total number of these individual policies in force at 31 December 2013 was 243,367 (2012: 229,111) and the total annualised premium value of these policies was £22,834,000 (2012: 21,034,000). The average amount paid per claim in 2013 was £159 (2012: £165).

b) Private Medical Insurance policies (PMI)

On 1 July 2011 PA commenced the underwriting of PMI policies sold by one of the group's insurance intermediaries, Universal Provident Ltd (UP). Up to this date UP 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 took 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 due to both the small number of policies in force and the total gross premium value of these policies. For the same reasons as stated above it has not been possible to find cost effective alternative reinsurance and therefore the board has taken the decision to accept the underwriting risk in full for this small block of business.

At 31 December 2013 these policies represent 7.0% (2012: 8.4%) of PA's gross premiums written. The gross loss ratio (excluding claims handling costs) on these policies at 31 December 2013 was 64.0% (2012: 67.6%).

The total number of these individual policies in force at 31 December 2013 was 1,058 (2012: 1,255) and the average amount paid per claim in 2013 was £1,808 (2012: £2,252)

c) Voluntary Group Income Protection policies (VGIP)

In July 2012 PA commenced the underwriting of VGIP policies. In order to manage this new insurance risk the board took out a quota share reinsurance policy to exclusively cover this part of the business. Under this reinsurance policy 90% of the value of each claim is recoverable from the reinsurer.

At 31 December 2013 these policies represent 2.9% (2012: 2.8%) of PA's gross premiums written. The gross loss ratio (excluding claims handling costs) on these policies at 31 December 2013 was 16.3% (2012: 13.7%). The total number of these individual policies in force at 31 December 2013 was 2,860 (2012: 2,753) and the average amount paid per claim in 2013 was £2,117 (2012: £2,809).

For the year ended 31 December 2013 the gross claims ratio of Personal Assurance Plc was 26.9% (2012: 23.6%). A 2% increase in the claims ratio would increase claims incurred by approximately £460,000.

Notes to the Financial Statements

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 growth from £12,319,000 at 31 December 2001 (first year after AIM listing) to £25,163,000 at 31 December 2013.

In addition to the statutory capital requirements of a UK registered Plc the PRA requires that all regulated companies maintain sufficient capital resources requirements, the actual amount being determined on an annual basis at the year end. During 2013, the group maintained these capital resources as required.

At 31 December 2013 the requirements of the group's PRA regulated companies were as follows:

	PRA capital resources requirement £'000	Capital resources £'000	Surplus over capital resources requirement £'000
Company			
Personal Assurance Plc	4,061	7,383	3,322
Personal Assurance Services Limited	58	1,313	1,255
Personal Group Benefits Limited	29	173	144
Berkeley Morgan Limited	73	724	651

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 and corresponding capital resource requirement for each PRA regulated entity is calculated in accordance with PRA regulations.

For Personal Assurance Plc at 31 December 2013 admissible assets in excess of market and counterparty limits were £4,677,000 (2012: £2,363,000), all relating to amounts on deposit with UK banks.

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 a PRA 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.

Notes to the Financial Statements

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					
2013					
Revenue					
Earned premiums net of reinsurance	**22,572**	**-**	**-**	**-**	**22,572**
Other income:					
Insurance related	**3,460**	**564**	**-**	**-**	**4,024**
Non-insurance related	**1,363**	**-**	**-**	**-**	**1,363**
Investment property	**-**	**-**	**103**	**-**	**103**
Investment income	**332**	**-**	**-**	**-**	**332**
Total revenue	**27,727**	**564**	**103**	**-**	**28,394**
Net result for year before tax	**6,666**	**417**	**(25)**	**(3,455)**	**3,603**
Segment assets	**29,147**	**2,596**	**940**	**-**	**32,683**
Segment liabilities	**7,146**	**351**	**23**	**-**	**7,520**
Depreciation and amortisation	**518**	**2**	**-**	**9**	**529**
2012 (Restated)					
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	-	-	115	-	115
Investment income	418	-	-	-	418
Total revenue	25,968	1,085	115	-	27,168
Net result for year before tax	8,848	387	115	(1,110)	8,240
Segment assets	29,617	466	1,068	2,100	33,251
Segment liabilities	6,373	458	-	-	6,831
Depreciation and amortisation	479	8	-	9	496

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 property, including the impairment, but excluding the results for the equity-accounted investee.

Notes to the Financial Statements

6 Investment income and finance costs

	2013 **£'000**	2012 £'000
Investment income		
Loans and receivables:		
Income from unlisted investments	**96**	111
Interest income from cash on deposit	**222**	278
Financial assets designated as at fair value through profit or loss:		
Income from listed investments	**-**	5
Unrealised gains/(losses)	**3**	(11)
Available for sale:		
Income from listed investments	**19**	16
Realised gains	**11**	36
Realised losses	**(10)**	(1)
Realised gains transferred from other comprehensive income	**(3)**	(9)
Investment management expenses	**(6)**	(7)
	332	418
Finance costs		
Interest expense on AESOP bank loan	**1**	3

7 Claims incurred

	2013 **£'000**	2012 £'000
Claims paid	**5,582**	4,856
Reinsurance recoveries	**(470)**	(899)
Claims handling expenses paid	**394**	384
	5,506	4,341
Increase in claims provision	**234**	29
Reinsurers' share	**77**	(166)
Increase in provision for claims handling costs	**3**	7
	314	(130)
	5,820	4,211

Notes to the Financial Statements

8 Insurance operating expenses

	2013	2012
	£'000	£'000
Acquisition costs	**6,451**	5,429
(Decrease)/increase in deferred acquisition costs	**(10)**	58
Incurred acquisition costs	**6,441**	5,487
Administration expenses	**4,955**	3,778
Reinsurance commission	**(28)**	(75)
	11,368	9,190

Total commission incurred during the year in respect of direct insurance was £1,353,000 (2012: £1,294,000).

Notes to the Financial Statements

9 Directors' and employees' remuneration

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

	2013	2012
	£'000	£'000
Wages and salaries	**6,459**	6,028
Share based payments expense	**1,456**	280
Social security costs	**903**	680
Other pension costs	**514**	360
	9,332	7,348

Average number of employees was as follows:

	2013	2012
	Number	Number
Administration	**73**	70
Sales and marketing	**98**	93
	171	163

b) Directors remuneration:

	2013	2012
	£'000	£'000
Emoluments	**872**	810
Share based payments expense	**246**	-
Pension contributions to group and self invested personal pension schemes	**149**	49

During the year, 6 directors (2012: 5 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.

	2013	2012
	£'000	£'000
Emoluments	**245**	277
Share based payments expense	**246**	-
Pension contributions to self invested personal pension scheme	**18**	15
	509	292

Details of individual director's remuneration are given in the report of the directors (see page 23). 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:

	2013 £'000	2012 £'000
Short term employee benefits:		
Salaries including bonuses	**872**	810
Social security costs	**159**	105
Share based payments expense	**246**	-
	1,277	915
Post-employment benefits:		
Defined contribution pension plans	**149**	49
Total remuneration	**1,426**	964

10 Profit before tax

	2013 £'000	2012 £'000 (Restated)
Profit before tax is stated after:		
Auditor's remuneration (inclusive of non-recoverable VAT):		
Audit services:		
Audit of company financial statements	**45**	38
Audit of subsidiary undertakings	**60**	72
Non-audit services:		
Taxation and other advice	**23**	21
Review of regulatory returns	**15**	15
Other assurance services	**10**	9
Depreciation of property, plant and equipment	**529**	496
Rental income receivable	**196**	208
Operating lease rentals – land and buildings	**26**	65
Operating lease rentals – motor vehicles	**110**	-

Notes to the Financial Statements

11 Tax

The relationship between the expected tax expense based on the effective tax rate of Personal Group Holdings Plc at 23.25% (2012: 24.5%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2013	2012
	£'000	£'000
		(Restated)
Profit before tax	**3,730**	8,304
Share of profit of equity-accounted investee net of tax	**(127)**	(64)
Profit before tax excluding equity-accounted investee	**3,603**	8,240
Tax rate	**23.25%**	24.50%
Expected tax expense	**838**	2,019
Adjustment for marginal tax rate differences	**(2)**	(5)
Adjustment for non deductible expenses	**795**	256
Other adjustments		
Tax charge in respect of prior years	**6**	13
Utilisation of losses not provided for	**(5)**	(3)
Actual tax expense	**1,632**	2,280
Comprising		
Current tax expense	**1,716**	2,308
In respect of prior year	**6**	13
Deferred tax		
Origination and reversal of temporary differences	**(88)**	(39)
Change in tax rate	**(2)**	(2)
	1,632	2,280

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 December 2013 and 31 December 2012 has been calculated based on the rates of 20% and 21% substantively enacted at the balance sheet date.

12 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 £1,832,000 (2012: £4,866,000).

Notes to the Financial Statements

13 Earnings per share

	2013			2012		
	Earnings £'000	**Weighted average number of shares**	**Pence per share**	Earnings £'000	Weighted average number of shares	Pence per share
Basic	**2,098**	**29,886,673**	**7.0**	6,024	29,865,746	20.2
Dilutive effect of shares in Employee Share Ownership Plan	**-**	**44,594**	-	-	16,926	(0.1)
Diluted	**2,098**	**29,931,267**	**7.0**	6,024	29,882,672	20.1

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

14 Dividends

	2013	2012	**2013**	2012
	Pence per share		**£'000**	£'000
Equity dividends				
Ordinary shares paid in year				
March	**-**	4.45	**-**	1,338
April	**4.65**	-	**1,398**	-
June	**4.65**	4.45	**1,398**	1,338
September	**4.65**	4.45	**1,398**	1,338
December	**4.65**	4.45	**1,398**	1,338
			5,592	5,352
Less: amounts paid on own shares			**(36)**	(40)
	18.60	17.80	**5,556**	5,312

Notes to the Financial Statements

15 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:

For the year ended 31 December 2013

	£'000
Cost at 1 January and 31 December	9,433
Amortisation and impairment	
At 1 January	7,333
Impairment charge for year	2,100
At 31 December	9,433
Net book value at 31 December 2013	**-**
Net book value at 31 December 2012	2,100

For the year ended 31 December 2012

	£'000
Cost at 1 January and 31 December	9,433
Amortisation and impairment	
At 1 January	6,533
Impairment charge for year	800
At 31 December	7,333
Net book value at 31 December 2012	**2,100**
Net book value at 31 December 2011	2,900

The net carrying amount at 31 December 2013 is after impairment provisions and amounts eliminated on disposal totalling £9,433,000. Following the decision to cease accepting new investment business into Berkeley Morgan Ltd (BML), the carrying value of the business was considered by the board in December 2013. The board concluded in December 2013 that it is likely that this business segment will substantially decline within the next two years and therefore the decision was taken to impair the remaining value of the goodwill in full.

Notes to the Financial Statements

16 Property, plant and equipment

For the year ended 31 December 2013

	Freehold land and properties £'000	Motor vehicles £'000	Computer equipment £'000	Furniture fixtures and fittings £'000	Total £'000
Cost					
At 1 January 2013	5,478	1,088	823	1,045	8,434
Additions	-	81	126	2	209
Disposals	-	(1,024)	(108)	(116)	(1,248)
At 31 December 2013	5,478	145	841	931	7,395
Depreciation					
At 1 January 2013	1,128	433	448	820	2,829
Provided in the year	94	201	194	40	529
Eliminated on disposals	-	(531)	(106)	(116)	(753)
At 31 December 2013	1,222	103	536	744	2,605
Net book amount at 31 December 2013	**4,256**	**42**	**305**	**187**	**4,790**
Net book amount at 31 December 2012	4,350	655	375	225	5,605

For the year ended 31 December 2012
(Restated)

	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	1,033	7,995
Additions	-	424	299	12	735
Disposals	-	(296)	-	-	(296)
At 31 December 2012	5,478	1,088	823	1,045	8,434
Depreciation					
At 1 January 2012	1,034	380	342	771	2,527
Provided in the year	94	247	106	49	496
Eliminated on disposals	-	(194)	-	-	(194)
At 31 December 2012	1,128	433	448	820	2,829
Net book amount at 31 December 2012	**4,350**	**655**	**375**	**225**	**5,605**
Net book amount at 31 December 2011	4,444	580	182	262	5,468

Notes to the Financial Statements

17 Investment property

For the year ended 31 December 2013	**£'000**
Cost	
At 1 January and 31 December 2013	1,068
Impairment	
At 1 January 2013	-
Provided in the year	128
At 31 December 2013	128
Net book amount at 31 December 2013	**940**
Net book amount at 31 December 2012	1,068

For the year ended 31 December 2012	£'000
Cost	
At 1 January and 31 December 2012	1,068
Impairment	
At 1 January and 31 December 2012	-
Net book amount at 31 December 2012	**1,068**
Net book amount at 31 December 2011	1,068

The property was externally valued by Taylor Weaver Ltd, chartered surveyors on 16 October 2013.

Notes to the Financial Statements

18 Financial assets

	Group		Company	
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
		(Restated)		
Bank deposits	**11,743**	12,309	**-**	-
Loans and receivables	**2,596**	3,616	**2,596**	3,616
Financial assets:				
Designated at fair value through profit and loss	**-**	70	**-**	70
Available for sale	**699**	493	**-**	-
	15,038	16,488	**2,596**	3,686

IFRS 13 Fair Value Measurement establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs)

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable input).

The available for sale financial assets are stated at their bid market price, these are all based on level 1 inputs.

The item designated as fair value through profit and loss in 2012 has been disposed of in 2013 and was valued at £70,000 in 2012, based on level 1 inputs.

Loans and receivables, held at amortised costs, are short-term trade receivables and the carrying amount is a reasonable approximation of fair value. The loans and receivables are secured by a charge over the Milton Keynes property shown within note 34.

Bank deposits, also held at amortised cost, are due within 6 months and the carrying amount is a reasonable approximation of fair value.

Trade receivables arising out of direct insurance operations and other receivables (note 19) are also held at amortised cost and the carrying amount is a reasonable approximation of fair value.

All unquoted financial assets were impaired to £nil in previous years.

Notes to the Financial Statements

19 Trade and other receivables

	Group		Company	
	2013	2012	**2013**	2012
	£'000	£'000 (Restated)	**£'000**	£'000
Loans and receivables:				
Trade receivables arising out of direct insurance operations	**2,982**	2,819	**-**	-
Other receivables due within one year	**863**	688	**-**	-
Amounts due from subsidiary undertakings	**-**	-	**4,676**	4,099
Accrued interest	**43**	43	**-**	-
Deferred acquisition costs	**67**	85	**-**	-
Other prepayments and accrued income	**245**	605	**5**	5
	4,200	4,240	**4,681**	4,104

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:

	2013	2012
	£'000	£'000
Not more than three months	**3,080**	2,558
More than three months but not more than 6 months	**6**	14
	3,086	2,572

In the past, the group has incurred bad debt write offs up to £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:

	2013	2012
	£'000	£'000
At 1 January	**85**	17
Deferred acquisition costs	**67**	85
Amortisation	**(85)**	(17)
At 31 December	**67**	85

Notes to the Financial Statements

20 Reinsurance assets

	2013 £'000	2012 £'000
Claims incurred	**149**	226
Unearned premiums	**176**	509
	325	735

21 Cash and cash equivalents

	Group		Company	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Cash at bank and in hand	**5,991**	1,515	**351**	-
Short term investments/cash equivalents	**1,000**	1,500	**-**	-
	6,991	3,015	**351**	-

The balance shown for the company is held by Personal Group Trustees Ltd in respect of the various share schemes operated by the company.

22 Share capital

	2013 £'000	2012 £'000
Authorised		
200,000,000 ordinary shares of 5p each	**10,000**	10,000
Allotted, called up and fully paid 30,135,396 (2012: 30,064,661) ordinary shares of 5p each	**1,507**	1,503

On 13 December 2013 the company issued 70,735 5p ordinary shares under the LTIP scheme.

The total number of own shares held by the Employee Benefit Trust at 31 December 2013 was 172,772 (2012: 356,131). Of this amount there are 107,681 (2012: 184,242) AESOP shares that have been unconditionally allocated to employees.

As at 31 December 2013 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:

		2013 Weighted average exercise price		2012 Weighted average exercise price
	Number	**pence**	Number	pence
Outstanding at 1 January	**375,285**	**301.1**	414,017	294.7
Options granted in year	**33,408**	**432.2**	28,505	335.3
Options exercised in year	**(182,277)**	**306.0**	(67,237)	276.0
Outstanding at 31 December	**226,416**	**316.5**	375,285	301.1

The weighted average exercise price of 48,534 (2012: 168,642) share options exercisable at 31 December 2013 was 309.0 pence per share.

The fair values of options which were granted in April 2013 were determined by using the Black-Scholes valuation model. The fair value of these options was 63 pence per share. Significant inputs into the calculation include a weighted average share price of 432p and exercise prices as illustrated above. Furthermore the calculation takes into account future dividends of 4.0% 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 432 pence per share.

The weighted average remaining contracted life of outstanding options at 31 December 2013 was 7 years and 0 months (2012: 6 years and 6 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, £18,000 of employee compensation by way of share based payment expense has been included in the consolidated income statement for 2013 (2012: £21,000). 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 £1,456,000 (2012: £280,000) has been charged to the profit and loss account in 2013 for this scheme based on estimating the future share price of the company over the duration of the plan. Estimates of future share prices have been used for the next four payments 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 movement. A maximum cap on the payout to all individuals in the scheme of £10,000,000 has been applied. As a result of this condition, the income statement charge for the year could have increased by a maximum of £99,000.

23 Deferred tax

		2013		2012
	Deferred tax assets £'000	**Deferred tax liabilities £'000**	Deferred tax assets £'000	Deferred tax liabilities £'000
Non-current assets and liabilities				
Property plant and equipment	**46**	**171**	27	196
Investment property	**-**	**11**	-	11
Current assets				
Share options	**25**	**-**	4	-
	71	**182**	31	207
Offset	**(71)**	**(71)**	(31)	(31)
	-	**111**	-	176

	2013 £'000	2012 £'000
At 1 January	**176**	204
Movement in provisions credited to income statement	**(65)**	(28)
At 31 December	**111**	176

At 31 December 2013 the group had tax losses of £1,018,000 (2012: £1,038,000) 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.

Notes to the Financial Statements

24 Provisions

	2013 £'000	2012 £'000
At 1 January	**63**	100
Movement in provisions charged to income statement	**63**	77
Utilised during the year	**(92)**	(114)
At 31 December	**34**	63

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

25 Trade and other payables

	Group		Company	
	2013 £'000	2012 £'000 (Restated)	**2013 £'000**	2012 £'000
Financial liabilities measured at amortised cost:				
Amounts owed to subsidiary undertakings	**-**	-	**6,343**	6,702
Other creditors	**1,023**	1,112	**-**	-
Accruals and deferred income	**2,644**	1,481	**57**	42
	3,667	2,593	**6,400**	6,744

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

26 Insurance contract liabilities

	2013 £'000	2012 £'000
Claims reported	**726**	766
Claims incurred but not reported	**575**	301
Claims settlement expenses	**58**	66
Unearned premiums	**1,495**	1,762
	2,854	2,895

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

Notes to the Financial Statements

a) Claims

	Gross	**Reinsurance**	**2013 Net**	Gross	Reinsurance	2012 Net
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Claims reported	**766**	**(226)**	**540**	827	(60)	767
Claims incurred but not reported	**301**	**-**	**301**	211	-	211
Claims settlement figures	**66**	**-**	**66**	66	-	66
At 1 January	**1,133**	**(226)**	**907**	1,104	(60)	1,044
Claims paid during the financial year	**(5,954)**	**470**	**(5,484)**	(5,240)	899	(4,341)
Increase/(decrease) in liabilities:						
Arising from current year claims	**6,161**	**(530)**	**5,631**	5,292	(895)	4,397
Arising from prior year claims	**19**	**137**	**156**	(23)	(170)	(193)
Total movement	**226**	**77**	**303**	29	(166)	(137)
Claims reported	**726**	**(59)**	**667**	766	(226)	540
Claims incurred but not reported	**575**	**(90)**	**485**	301	-	301
Claims settlement expenses	**58**	**-**	**58**	66	-	66
At 31 December	**1,359**	**(149)**	**1,210**	1,133	(226)	907

b) Unearned premiums

	Gross	**Reinsurance**	**2013 Net**	Gross	Reinsurance	2012 Net
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
At 1 January	**1,762**	**(509)**	**1,253**	1,481	(539)	942
Increase in the financial year	**22,996**	**(358)**	**22,638**	22,332	(1,097)	21,235
Release in the financial year	**(23,263)**	**691**	**(22,572)**	(22,051)	1,127	(20,924)
Movement in the financial year	**(267)**	**333**	**66**	281	30	311
At 31 December	**1,495**	**(176)**	**1,319**	1,762	(509)	1,253

Notes to the Financial Statements

27 Borrowings

	2013 **£'000**	2012 £'000
Financial instruments measured at amortised cost:		
All Employee Share Option Plan (AESOP) bank loan	**-**	59

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. At 31 December 2013 the bank loan had been repaid in full.

28 Company investment in subsidiary undertakings and joint venture

	Shares in subsidiary undertakings	
	2013 **£'000**	2012 £'000
Cost		
At 1 January and 31 December	**24,042**	24,042
Amounts written off		
At 1 January	**10,322**	9,522
Impairment provision in year	**2,118**	800
	12,440	10,322
Net book amount at 31 December	**11,602**	13,720

The impairment provision includes the Berkeley Morgan Group Limited write down, using similar assumptions and estimates in the goodwill impairment review (see note 15), along with the impairment of dormant and loss making subsidiary undertakings.

At 31 December 2013 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 2013 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 2013 the allotted share capital of Abbeygate Developments (Marlborough Gate 2) Limited was 2 £1 ordinary shares (see note 34).

Notes to the Financial Statements

29 Capital commitments

The group had no capital commitments at 31 December 2013 and 31 December 2012.

30 Contingent liabilities

There were no contingent liabilities at 31 December 2013 and 31 December 2012.

31 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.

32 Leasing commitments and rental income receivable

Total operating lease payments due until the end of the lease, or the first break clause, total £1,126,000 (2012: £21,000). An analysis of these payments due is as follows:

	Motor vehicles		**Land and buildings**	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Total operating lease payments falling due on leases:				
Within one year	**302**	-	**-**	21
Within one to two years	**302**	-	**-**	-
Within two to five years	**522**	-	**-**	-
	1,126	-	**-**	21

Total operating rent receivable payments due until the end of the lease or the first break clause, total £345,000 (2012: £410,000). An analysis of these receivable payments due is as follows:

	2013 £'000	2012 £'000 (Restated)
Future minimum lease payments:		
Within one year	**213**	177
Within one to two years	**118**	110
Within two to five years	**14**	123
	345	410

Notes to the Financial Statements

33 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:

	2013		2012	
	Receivable £'000	**Payable £'000**	Receivable £'000	Payable £'000
Personal Assurance Plc	**4,039**	**-**	3,134	-
Personal Assurance Services Limited	**-**	**4,508**	-	3,513
Personal Group Benefits Limited	**-**	**42**	369	-
Personal Assurance Financial Services Plc	**-**	**137**	-	137
Multiplelisting Limited	**-**	**100**	-	100
John Ormond House Limited	**-**	**-**	-	-
Personal Management Solutions Limited	**634**	**-**	593	-
Mutual Benefit Limited	**-**	**12**	-	12
ParTake Services Limited	**3**	**-**	3	-
Berkeley Morgan Group Limited	**-**	**1,544**	-	2,940
	4,676	**6,343**	4,099	6,702

34 Equity-accounted investee

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. The profit and loss account and balance sheet for this joint venture company are as follows:

Profit and loss account	**2013 £'000**	2012 £'000
Turnover	**1,058**	-
Cost of Sales	**(899)**	**-**
Gross profit	**159**	**-**
Rent receivable	**354**	393
Administration expenses	**(100)**	(122)
Operating profit	**413**	271
Interest payable	**(95)**	(111)
Profit on ordinary activities before taxation	**318**	160
Tax on profit on ordinary activities	**(65)**	(32)
Profit for the financial year retained	**253**	128

Notes to the Financial Statements

Balance Sheet

	2013 £'000	2012 £'000
Current assets		
Stocks	**3,341**	4,243
Debtors	**156**	38
Cash at bank and in hand	**12**	-
	3,509	4,281
Creditors: amounts falling due within one year	**(2,712)**	(3,737)
Net current assets	**797**	544
Capital and reserves		
Called up share capital	**-**	-
Profit and loss account	**797**	544
Shareholders' funds	**797**	544

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 £95,253 (2012: £110,863). Personal Group Holdings Plc has a charge over the development.

At 31 December 2013 the amount outstanding on the loan was £2,596,428 (2012: £3,615,719).

35 Cash flows from insurance contracts

During the year £22,910,576 (2012: £22,552,432) 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.

36 Post balance sheet event

On 10 March 2014 the company announced that it had acquired the entire share capital of Lets Connect IT Solutions Limited for a total consideration of up to £12,000,000. The consideration will be satisfied by a £6,000,000 cash payment at completion, followed by an earn out over two years for the remainder of the consideration, dependant on performance.

Due to the proximity of the acquisition to Personal Group Holdings Plc reporting date, the fair values of assets and liabilities acquired have not yet been finalised. A comprehensive review of the carrying value of assets and liabilities will be carried out to ensure they are stated at fair value, however it is the intention that the completion statement on acquisition will show a minimal tangible asset value.

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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 - Director and Deputy Chairman H H Driver - Non-Executive M Winlow - Non-Executive
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

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