personal group
30 years

Personal Group Holdings Plc Annual Report and Financial Statements

for the year ended 31st December 2014


BIDWELLS

Contents

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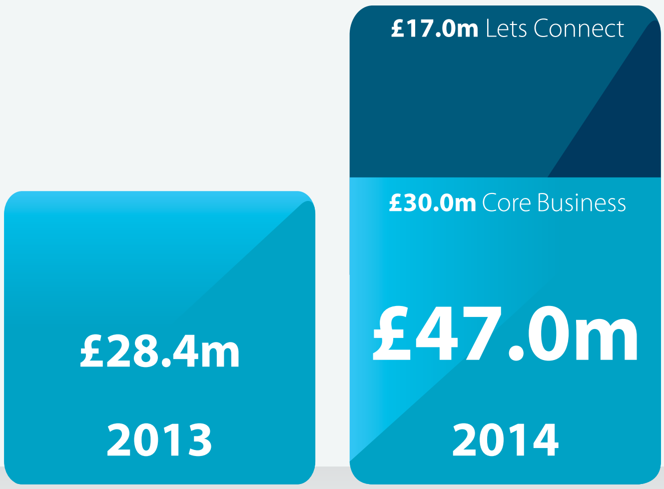
Personal Group Holdings Plc Annual Report and Financial Statements

2014 Performance Highlights

Total Group Revenue

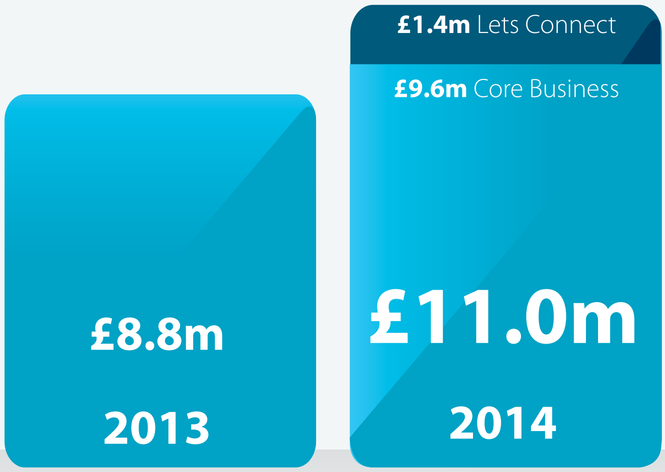
+65%



Organic Growth 6%

EBITDA*

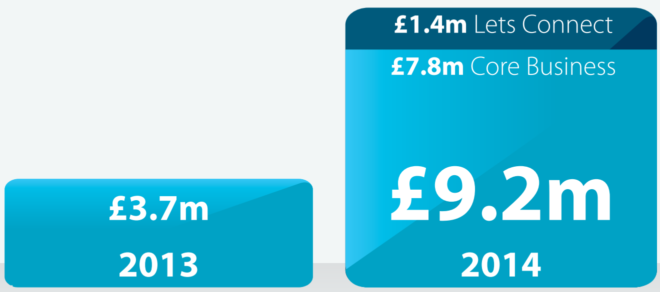
+25%



Organic Growth 9%

PBT

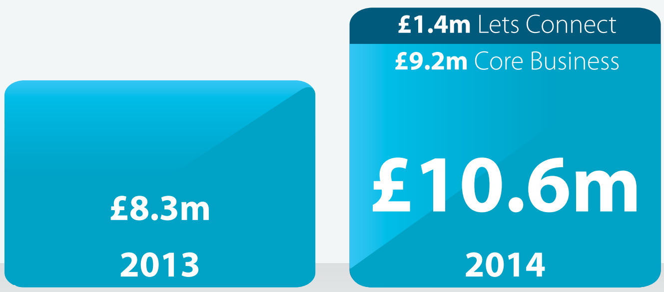
+149%



Organic Growth 111%

Underlying PBT**

+28%



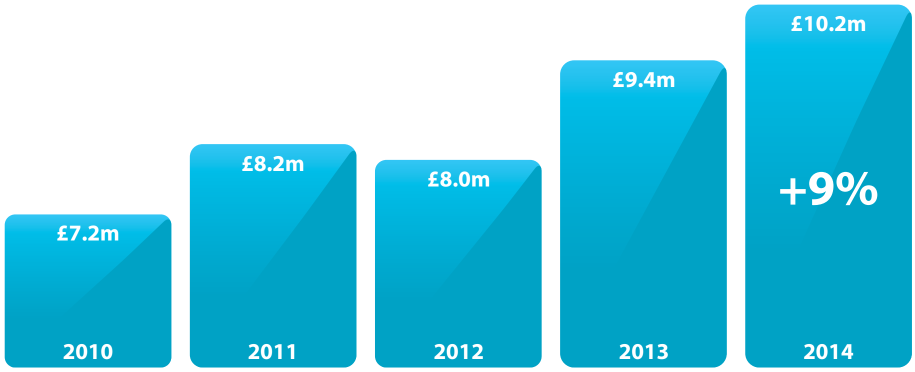
Organic Growth 11%

* EBITDA is defined as earnings before interest, tax, depreciation, amortisation of intangible assets, goodwill impairment, share-based payment expenses, aquisition costs and reorganisation costs.

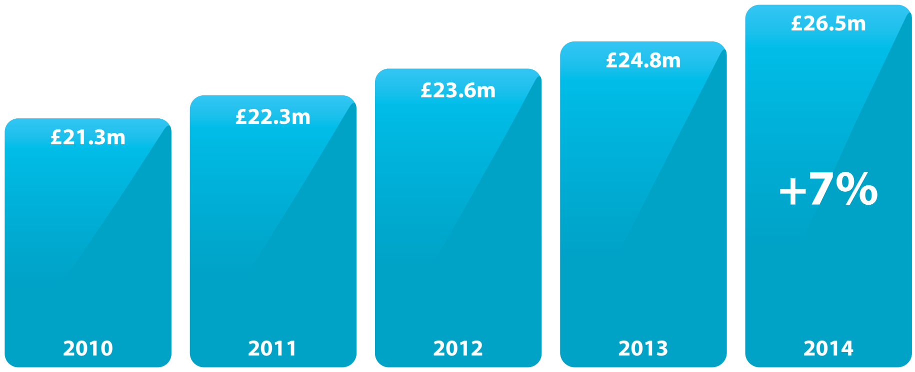
** Underlying PBT is defined as profit before interest, tax, amortisation of intangible assets, goodwill impairment, share-based payment expenses, aquisition costs and reorganisation costs.

A reconciliation of both these measures to the group profit for the year as shown in the consolidated income statement is shown within the Chief Financial Officer's Statement on page 10.

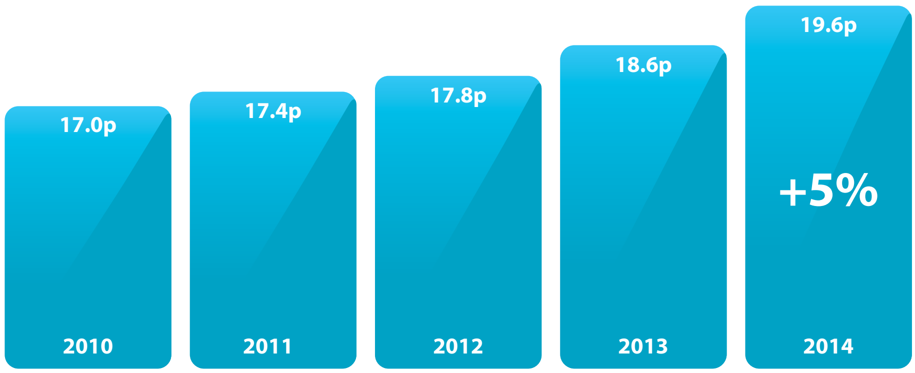
Record annualised new business premiums written on core insurance products***



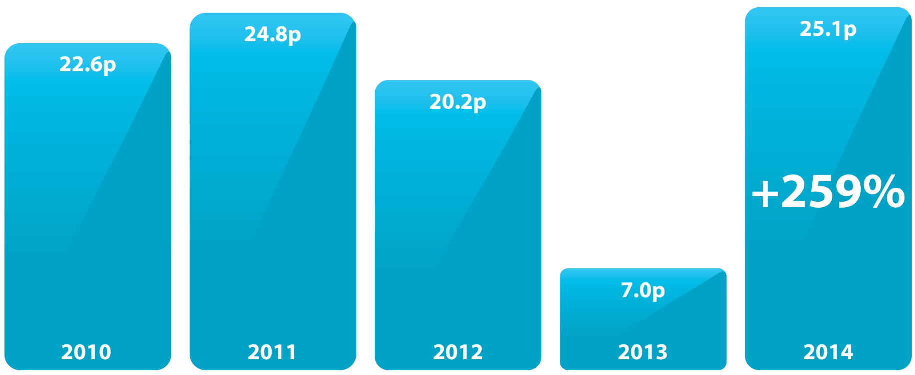
Progressive improvement in revenue before claims from core insurance products***



Progressive improvement in dividend paid in year



Earnings per share



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

Overview - Chairman's Introduction

In 2014 we have delivered both a strong financial performance and achieved our key strategic objectives for the year.

Dividends

The board has recommended an increase in the dividend payable in 2015 of 7%, to 20.9p (2014: 19.6p) per share. This reflects a progressive dividend policy in line with the growth and development of the group's business. In 2013, 2014 and 2015 dividends paid or now proposed to be paid will have increased by 4%, 5% and 7% respectively.

Business Review

The past three years have seen significant investment, strengthening and restructuring of almost every aspect of the group's operation. This has continued in 2014, but one of the key objectives for the year was to deliver a step increase in group EBITDA. This was achieved, with group EBITDA increasing by 25% to £11.0m (2013: £8.8m). Profit before tax increased by 149% to £9.2m (2013: £3.7m).

A second objective for the year was to deliver a strong performance from the group's core employee benefits and insurance activities. EBITDA from these activities increased by 9% to £9.6m (2013: £8.8m). Annualised new business premiums written from these same activities grew by 9% to a record £10.2m (2013: £9.4m). As we continue to expand the range of the group's employee benefits offering we make no concession to our concentration on the organic growth of our traditional core areas: the hospital cash, convalescence, and death benefit plans.

A further objective for the year was to expand the group's activities through the acquisition and integration of a business which would complement and strengthen our existing core employee benefits offering, and to deliver indicated profit from it. Lets Connect was acquired in March 2014. This is an employee benefits specialist business providing technology enabled products to employees through salary sacrifice. We have already been able to sell Lets Connect products into our core Personal Group clients. In addition it gives us the opportunity to sell core Personal Group products into Lets Connect's blue chip customer base of more than 100 companies. There is more work to be done to achieve full integration within the group, but progress in this exercise is well in line with plan.

EBITDA from Lets Connect in the nine months since acquisition was £1.4m, slightly above market expectations. Our final objective for the year has been to bring close to completion the development of our state of the art digital employee benefits platform (which we are internally calling Zeus)

Our core employee benefits and insurance activities remain the bedrock of our business, and demand for these products remains strong from existing as well as from potential new host company clients.

which can be instantly customised to meet the requirements of our host company clients and gives employees far greater ease of access to the benefits themselves. This enables customers more readily to make savings on purchases, and it improves customer loyalty; in consequence it opens up the possibility of additional income streams to the group. More details of Zeus are contained in the Chief Information Officer's statement on page 20.

The Board

Harry Driver retired in November, having been a non-executive director of the group since 2008. He brought to the board exceptional experience from a lifetime's distinguished career in the insurance industry, along with wise and sound counsel.

I am delighted to report that Deborah Rees has agreed to join our board, subject to FCA confirmation as an Approved Person. Deborah was the founder and is the CEO of Innecto, a specialist HR consulting practice. She brings to the board both wide experience across the HR agenda, including in particular extensive engagement in the rewards and incentives area, and an entrepreneurial background.

Outlook

Our core employee benefits and insurance activities remain the bedrock of our business, and demand for these products remains strong from existing, as well as from potential new, host company clients. The deployment of our Zeus digital platform into some of our host company clients will start shortly.

The performance of Lets Connect in 2014 under our ownership has confirmed its potential both as a stand-alone business and as an addition to the group's suite of salary sacrifice products.

The group has been reviewing a number of opportunities for further expanding our product range within our employee benefits programmes, and this work will continue in 2015.

In short, the strength of our core activities together with the opportunities to complement and expand our employee benefits offering, both through Lets Connect and potentially through other means, make Personal Group a compelling business proposition.

Chris Curling
Non-Executive Chairman
25 March 2015

Chief Executive's Statement

2014 was a transformational year for Personal Group. We said we were well placed for growth and we are now delivering that growth. It was our 30th year and it marks a significant progression in the company's development.

As I have mentioned in previous reports, we invested heavily in 2012 and particularly in 2013 to ready the business for its next stage of development. The past year was the time in which these investments have delivered the anticipated results. Our performance exceeded expectations and saw our group EBITDA grow by 25% with the

corresponding profit before tax growing by 149%. Our core business had a 9% increase in profitability (2013: 11% decrease) with the remainder coming from our strategic acquisition of Lets Connect. Our revenue went ahead by 65% to £47.0m (2013: £28.4m) mainly driven by Lets Connect but also includes a 6% rise in the core business revenue. We continued to introduce new customers, (12 new customers throughout the year) as well as re-contracting and expanding many existing relationships. Our sales performance was again a record with £10.2m of new annualised premium (2013: £9.4m) achieved in the period. It is especially pleasing that 25% (2013: 17%) of this business was written with completely new customers which outperforms last year. At the same time we have seen a sustained improvement in productivity and a record low cost of new business acquisition of £0.66 per £1 of new sales (2013: £0.78). Having seen an increase in 2013, our claims cost in 2014 came in where we expected it to be. The claims loss ratio increased to 27% (2013: 26%). This reflects a minimal increase in our core hospital and convalescence business coupled with Personal Assurance (PA) fully underwriting Private Medical Insurance (PMI) business sold by Universal Provident Limited (UP).

Our sales performance was again a record with £10.2m of new annualised premium (2013:£9.4m) achieved in the period.

Our Lets Connect acquisition had a strong performance in the year with EBITDA moving up 40% on the comparable period last year to £1.4m (2013: £1m) and is £100k ahead of expectations. Having identified, measured and acquired the business we have now successfully integrated it into the wider business. David Walker our Chief Commercial Officer has additionally taken on the role of Managing Director for Lets Connect since the beginning of 2015. We have already had success in cross selling this product portfolio into core Personal Group customers with 5 schemes delivered by the year end. From a cold start in March this is a strong performance and bodes well for future business opportunities. We have been able to bring our financial strength to bear in exploiting opportunities as they arose. As an endorsement of Lets Connects' performance Apple took the decision in September last year to allow us to sell their iPhone product without airtime. This is a direct relationship and means that we are the only employee benefits business in the UK who can sell an iPhone 'sim-free' apart from Apple themselves. Lets Connect is a very strong strategic fit for our company and offers huge attractiveness to our current and potential customers. There are also opportunities to further extend the product range with airtime being a key potential development.

Strategy

We set out our strategy in 2012 and following two strategic reviews since, we remain committed to the path we are on. There is clear evidence that the strategy is working and has the potential to serve us well into the future.

From a growth perspective there are three mechanism of growth for us and they are:

Organic growth
Technology
Inorganic growth

These are described in more detail on page 14.

People

One of the most pleasing observations of 2014 is the number of opportunities we have been able to offer our employees with more than 10% of the workforce changing role in the year to new and exciting jobs. This recognises those with the opportunity to progress but keeps the great level of knowledge gained by them within the business. We, as usual, measured our employee engagement and saw an improvement in our score. We also entered the Times 100 Best Places to work and received a star rating which is an enormous improvement on our last entry which saw us as "one to watch".

In the past three years we have been able to attract, incentivise and develop some very talented people. This ability to drive performance through people will stand us in good stead as we continue to expand our business both organically and inorganically. This is a key strength in our business. As part of the Senior Management Team, Rebekah Tapping our new HR Director, will help us drive this people agenda.

Without the dedication, ingenuity and hard work of all our team we couldn't have achieved the levels of success we have achieved in the past twelve months. I sincerely thank them for their effort. I believe the opportunities we have ahead of us are great indeed and I look forward to delivering these with the best team I have ever worked with.

Mark Scanlon
Chief Executive Officer
25 March 2015

best company
2015

In the past three years we have been able to attract, incentivise and develop some very talented people. This ability to drive performance through people will stand us in good stead as we continue to expand our business both organically and inorganically. This is a key strength in our business.

Chief Financial Officer's Statement

Group Results	2014 £'000	2013 £'000
Revenue	47,034	28,394
EBITDA	10,975	8,811
Underlying Profit before tax	10,590	8,282
Profit before tax	9,197	3,730
Tax	1,653	1,632
Profit for the year	7,544	2,098
Dividends per share paid in year	19.6	18.6

Revenue

Revenue for the group of £47.0m in the year ended 31 December 2014 was 65.6% ahead of prior year (2013: £28.4m) driven by organic growth of 5.6% in our existing business plus 60% (£17.0m) from the revenue from Lets Connect IT Solutions Limited acquired in March 2014.

EBITDA / Underlying Profit Before Tax

EBITDA increased by £2.2m to £11.0m (2013: £8.8m) reflecting delivery of our strategy through focussing on increasing our sales capacity, improving our technology offering to policyholders and driving further operational efficiencies and the impact of leveraging the acquisition of Lets Connect.

Underlying PBT increased by £2.3m to £10.6m (2013: £8.3m) for the same reasons.

	2014 £'000	2013 £'000
Profit for the year	**9,197**	**3,730**
Reorganisation costs	-	977
Share based payment	797	1,474
Amortisation of intangible assets	275	-
Goodwill impairment	-	2,100
Interest expense	-	1
Acquisition costs	321	-
Underlying PBT	**10,590**	**8,282**
Depreciation	385	529
EBITDA	**10,975**	**8,811**

Profit Before Tax

Profit before tax for the year was £9.2m (2013: £3.7m), an increase of £5.5m. This is as a result of the improvement in performance of the existing business coupled with the aforementioned acquisition. In addition 2013 includes the full impairment of the goodwill of Berkeley Morgan Group Limited (BMG), our financial services business, by £2.1m and a reorganisation cost of £1.0m.

The movement in the PBT year on year was also impacted by the LTIP charge. The charge is predominantly caused by changes in the share price during 2014 together with management's expectation for the future, and market capitalisation over the duration of the five year scheme. See note 22 for details of the executive scheme.

Profit After Tax

The tax charge for the year was £1.7m (2013: £1.6m). The improvement in the underlying rate of tax is attributable to the reduction in the mainstream corporation tax rate from 23% to 21%. The resultant profit after tax for the year was £7.5m (2013: £2.1m), an increase of £5.4m on the prior year.

Dividend

The final dividend paid in 2014 of 4.9p brings the full year dividend to 19.6p per share (2013: 18.6p) paid in the year, an increase of 5.4%. Our first quarterly dividend for 2015 of 5.225p has already been announced and is being paid on 27 March. If business continues as anticipated we expect to pay further dividends in June, September and December 2015 of the same amount.

Balance Sheet

The group balance sheet remains strong with no debt. As at 31 December 2014 the group had a surplus of £5.7m over its Group Capital Resources Requirement of £4.1m. Over 29% 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 £4.1m as at 31 December 2014. This provides a margin of solvency which allows PA to write further significant increases in premium income without the requirement for new capital. We made significant progress in our Solvency II preparation during 2014 and remain confident of meeting the regulatory requirements having submitted our initial Own Risk and Solvency Assessment (ORSA) to the regulator in December.

EPS

Basic EPS before other items was 25.1p (2013: 7.0p). The calculation is detailed in note 13.

Segmental Results

Segmental Results	2014 £'000	2013 £'000
Total Revenue		
Earned premiums net of reinsurance	24,054	22,572
Other income	22,209	4,823
Investment income	210	332
Employee benefits	46,473	27,727
Financial services	494	564
Investment property	67	103
	47,034	**28,394**
Net results for year before tax		
Employee benefits	9,361	6,666
Financial services	347	417
Other / Investment property	(703)	(3,480)
	9,005	**3,603**
Equity Accrued Investee	192	127
Profit before tax	**9,197**	**3,730**

The group operates two trading operating segments, namely:

- Employee benefits insurance and consultancy,
- Financial services offered by Berkeley Morgan Group (BMG) and its subsidiary undertakings.

BMG is in decline having ceased to accept new investment business in 2012.

Employee Benefits

Total revenue increased by 67.6% to £46.5m (2013: £27.7m) largely through the acquisition of Lets Connect £17.0m. Earned premium from the sale of hospital and convalescence plans, private medical insurance (PMI) and Voluntary Group Income Protection (VGIP) policies grew 6.6%.

Our core hospital and convalescence plans accounted for 92.5% of total earned premium, and with growth of 7.1% in the year, accounted for almost all the increase in earned premiums.

The group handled 44,475 hospital and convalescence plans and income protection claims (2013: 41,223), the vast majority of which were settled within 48 hours. The claims loss ratio increased to 27.2% (2013: 25.8%), reflecting an increase in our core hospital and convalescence business from 22.5% to 22.8% coupled with PA fully underwriting PMI business sold by Universal Provident Limited (UP).

Other income from insurance and non-insurance activities grew £17.3m to £22.7m largely from Lets Connect and a 14.0% increase from the sale of death benefit policies whilst the provision of bespoke employee benefit programmes fell 16.6%.

Financial Services

Revenue from financial services consists mainly of commission generated from insurance providers on the Berkeley Morgan Limited (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 Universal Provident (UP), the other major subsidiary of BMG, have continued to decline as expected during 2014. Following an impairment review in 2013 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 £0.5m (2013: £0.6m).

Net Result for the year before tax

The net result of £9.4m (2013: £6.7m) from employee benefits, insurance and consultancy dominates the overall result and is up on prior year following investments made in 2013 in front line sales, operational efficiencies achieved and the acquisition of Lets Connect. Financial services has declined slightly as expected at £0.3m (2013: £0.4m) whilst investment property/others has increased £2.8m reflecting the impact of the aforementioned goodwill impairment in 2013.

Mike Dugdale
Chief Financial Officer
25 March 2015

Board of Directors

C J Curling
Non-Executive Chairman

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. He was appointed to the Personal Group board in September 2002.

M W Scanlon
Chief Executive

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 Winlow
Non-Executive Director

Mark Winlow has over 30 years of experience in financial services including time at Zurich Financial Services where he was managing director of Zurich's UK consumer business. Mark is currently non-executive chairman of Lloyd's insurance broker RFIB and Ageas Insurance and is a non-executive at reinsurer, TransRe and life insurer, AIG Life. Until 2012 he was an advisory partner in KPMG and has also been a partner at Ernst & Young. 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).

K W Rooney
Deputy Chairman

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 Deputy Chairman. He joined the group in 1999 and his 40 years' experience in financial services includes running his own company until 1998.

M I Dugdale
Chief Financial Officer

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.

S A Mace
Company Secretary

Sarah joined Personal Group in January 2014 as Group Financial Controller and Company Secretary. Having gained a degree in mathematics from Oxford university she qualified as a certified accountant in 1992. The early part of Sarah's career was spent in Life Assurance and Pensions which was followed by various roles in Cable & Wireless Communications. Prior to joining Personal Group, Sarah was Head of finance for private equity backed Chicago Leisure Limited.

Senior Management Team

1. David Walker
Chief Commercial Officer / Managing Director Lets Connect

As Chief Commercial Officer, David oversees all client development, marketing, supply chain, business development and product design and structure activity for the group. Prior to joining Personal Group in July 2012, 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. In January 2015, David assumed the role of Managing Director, Lets Connect in addition to his Group remit.

2. Rebekah Tapping
HR Director

Rebekah was appointed as HR Director in January 2015. She started her career in operational management before progressing through various HR roles in the Retail and Public Sector. Her first HR Director role was in B2B Telecoms for Daisy Group. This was a highly acquisitive, rapidly growing business. From there she moved on to Huntingdon Life Sciences to develop their HR function following an acquisition that had doubled them in size and made them a global business.

3. M I Dugdale
Chief Financial Officer

See biography opposite

4. M W Scanlon
Chief Executive

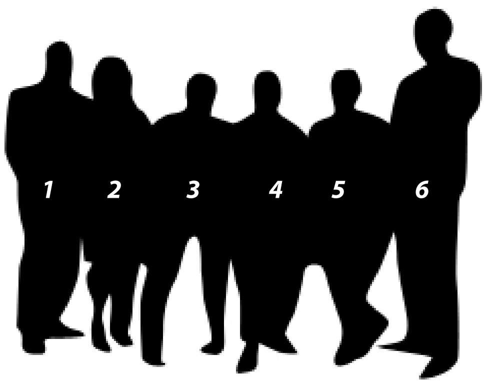
See biography opposite

5. Ashley Doody
Chief Information Officer

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.

6. Andrew Lothian
Managing Director PGB Sales

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.



2014 Strategic Report

Our vision is to be the 'Go to Benefits Provider'

We operate in the mid-market and by this we mean we don't intend to be a large advisory, typically supporting pensions, nor do we see ourselves as a niche player for products like Childcare Vouchers. We are a full service Employee Benefits business offering our own, as well as third party products, to our customers. Our business model is almost unique and as such we have little direct competition.

Our strategy is 'To be an innovative, technologically enabled employee engagement business of scale, underpinned by insurance products delivered face-to-face.'

Our business is designed to help our customers achieve higher levels of employee engagement. The value of a motivated and engaged workforce is well documented and a company's ability to encourage a person's 'discretionary effort' can be the difference between existing and excelling as an organisation. The twin approach of saving money through all of the discounts and salary sacrifice products, together with the peace of mind our insurance products affords, brings a level of security for the individual employee. This certainty is brought to each individual by us on behalf of their employer. Our employee benefit schemes have been referred to as a hidden pay rise, because an average end user can save over £1,000 net per annum if they efficiently use our schemes, and often much more.

Innovation is a key ingredient in our business which was evidenced in our entirely new sales process which operates on a tablet. This has been an enormous success and highly appreciated by our clients and their employees alike. An innovative approach is encouraged in all quarters of the business. Our acquisition of Lets Connect underlines this approach and we are looking to further expand the offering here in what is an ever evolving product set.

Our ability to meet our clients' employees face-to-face is our most powerful capability as it brings the program alive in every corner of their business. We endeavour to spend a minimum of twenty minutes per person on a one-to-one basis explaining their benefits program including our insurance products. This drives a relatively high acquisition cost for us but our business model, of some 30 years, is able to absorb this cost and this is supported by our strong financial position which makes this possible. At our core we have an insurance business and we see this as being central to what we offer, as it provides that peace of mind to the individual, and affords us a long term relationship with our policyholders.

Our strategy is a growth strategy and there are three ways in which we are growing:

Organic growth

Over the past three years we have reshaped our core business. We set this on a growth trajectory which saw it achieve revenue growth last year of 7% and an EBITDA growth of 9%. We have also improved our quality significantly with complaints reduced by two thirds and productivity increased by nearly 30% over the past 3 years. In addition to that we have seen a number of our Key Performance Indicators outstrip our expectations. For example the persistency of our insurance products and initial up take is beyond the target levels we set ourselves this past year. In our core business we have seen a record sales performance of £10.2m of annualised premium income and we envisage this upward trend to continue. We are now also much less sensitive to the income from our Berkley Morgan business as this continues to run off.

We are confident that we have a strong, capable and well managed business at our centre which will continue to perform well and this now gives us the ability to also concentrate on the other areas of growth, an example of which is Lets Connect.

Technology

This is a key development area for Personal Group. Having made a significant investment in 2012 in our tablet based sales system, we took the decision to completely re-design it in 2014. This has proved to be more successful than we had hoped with a much greater speed of operation, making it much more configurable and we believe all this has enabled a 10% improvement in productivity in the past year. Our customers really like the new product and this was the most highly developed and tested software project in the history of the company.

In the course of 2014 we moved onto the development of a whole new customer platform. We took the decision to move our development onto a cutting edge rapid development tool called Outsystems. This is basically software that allows rapid development of web based applications and more. We have reskilled our development team and we will have a very configurable capability to meet our customers ever expanding needs. The expectation is that we will launch this platform with our first customers early in Q2 2015 with full rollout available to all new customers by the end of 2015. Within this we are pioneering a 'card tethering' technology which means that once we take the details of a person's bank card we can simply post cashback to that customer. As they use the bank card in the course of their everyday spend we identify the cashback saving and make that available to them. They provide their details just once, and then spend at the retailers with whom we have arrangements in place; they will save money without necessarily knowing they are doing it at the time.

The development of our new customer platform which has a project name of Zeus is discussed more in the Chief Information Officer's Statement on page 20. It is a very innovative approach to benefits provisioning which effectively makes it as easy as possible for someone to save on their everyday spend. It also offers our clients a high degree of configuration so that their Zeus 'Hub Platform' has all of the elements they require when first designed and then thereafter reconfigurable as needed.

Inorganic growth

The timeline for our growth ambitions will be greatly assisted by acquisition. As we have said before any acquisitions we consider will be targeted in the benefit area or insurance business. We are not seeking to diversify away from our existing product offerings but rather to underpin and augment our current position. Furthermore, our ambition is not just to acquire top line and bottom line increments, but to identify and exploit strategic opportunities that an acquisition can bring. This is certainly the case with our purchase of Lets Connect.

Market

We have seen further consolidation in the market place with Sodexo's acquisition of Motivcom the parent company of P&MM which is a supplier to the group. Sodexo remain strong supporters of our business and we are developing even stronger working relations with them through our Lets Connect business.

Voluntary Benefits lie at the heart of what we provide our customers and in the recent past we have seen more and more of the discounts contained in these programs becoming more widely available through banks and companies like Trainline. We have seen reward and recognition increase with startups like Work Angel. What is clear to us is that our clients want more than just voluntary benefits and with this in mind we have developed a 'hub-type' solution which offers far more than just these benefits. It covers areas including Wellbeing, Employee Assistance Programs and much more.

Our new platform design, which has a project name Zeus, creates this hub into which we can include a wide range of functionality from discounts, to pay slips, and beyond.

Risks and Opportunities

We are highly aware that we operate in a regulated environment and have made great strides in the quality of the services we provide. We have also completed our Own Risk and Solvency Assessment (ORSA) and on these and many other measures we operate our business on a customer centric basis with the principle of Treating Customers Fairly at the heart of what we do. We wish to 'help a little when it means a lot'. There is always the risk that FCA and or PRA may implement a change which would impact our business model. For example this could be in relation to our claims ratio where they might set a minimum requirement or oblige us to change our mechanism of face to face selling. We see no threat to these or any other forthcoming regulatory requirements but none the less we remain vigilant of and very responsive to any pertinent guidance either authority publish. On the other hand as requirements and standards rise and as we continue to measure up to these requirements it will drive out those less capable and in doing so could create opportunity for our company.

We are a regulated business with a strong risk management culture. Our approach to identifying risks and risk management are set out in more detail on p22.

Thankfully we have some very long standing and large customer relationships which intrinsically creates a customer dependency. The key consideration here is one major customer currently accounts for 19.6% of revenues in our core insurance products. Beyond that our next largest customer is 5.5% of revenue, so we have a good spread of customers. That said, the mitigation here is to continue to add more new customers each year which further dilutes this risk.

People

Key to achieving our plans is our ability to identify, target, acquire and integrate other businesses into our own. In our experience, and with the assistance of others, in identifying opportunities they remain small in number and therefore successful targeting, acquisition and integration are critical. Our acquisition of Lets Connect we believe is a perfect example of how to do this and we have been able to integrate and grow this business by c.40% in the nine months we owned it in 2014. Of even greater importance is the complementarity of the business to our own. Salary sacrifice products already existed in our portfolio with childcare vouchers, cars, bikes etc. so home technology is an easily understood addition. We have introduced five existing Personal Group clients with many more in the pipeline. We have opened up many new third party channels into the large benefits advisory businesses in the UK, and maintain an ability to sell this product as a standalone item, which we believe will in the future, create demand for our core products too.

We continue our search for good acquisition targets and if we are successful, this will necessitate some capital raising to achieve our ambitions.

Our strategy is regularly reviewed by the board and our most recent review in February 2015 found that the strategy we set in 2012 is serving us well and we intend to continue on this path.

We are seeing increased price pressure in the market together with a far more disciplined approach through tendering processes. We have a unique business model in that we are far less sensitive to the 'per head' price approach of our competitors. Because we can gain from our insurance products, we are able to price more competitively and our forthcoming platform development we hope will give us significant competitive advantage in the market place.

We have a strong dependency on our product set with our Hospital Cash Plan being 79% of our core revenue. As it is offered in addition to another c.8000 offers on our programs our overall offering remains very compelling. The Hospital Cash Plan is a very well established, understood and appreciated product by our customers and we are seeking to add more products to the group which will change this product's share of the overall product offering. An example of this is the Lets Connect offering which is complementary to what we do today and is very much in line with the needs of our current customer base. This product is also a standalone proposition and is attracting new customers in its own right. This is beginning to broaden our product spread both within our existing client base and with new customers joining us.

Key Performance Indicators (KPIs)

We use a set of financial and non-financial KPIs to measure, manage and communicate critical aspects of our performance. These KPIs are aligned with our strategic objective of achieving substantial profitable growth and our financial KPIs are specifically focused on the level and quality of our earnings and the sustainability of dividends.

Financial:

- Annual premium growth
- PRA capital resources requirement
- EBITDA
- Profit before tax
- Claims ratio

Non-financial:

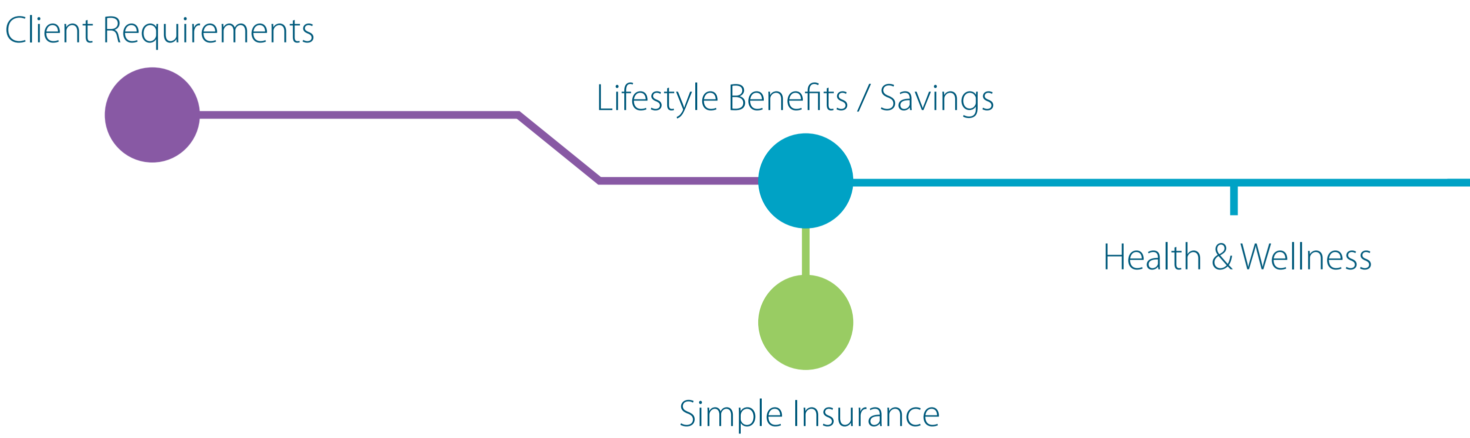
- Treating Customers Fairly Dashboard
- Complaints
- Sales Delivery Quality
- Total number of policies in force
- Claims handled in the period

These KPIs are reviewed in the Chairman's Introduction, Chief Executive's Statement and Chief Financial Officer's Statement (see pages 4-11).

Employee Breakdown by gender at 31 December 2014 - Personal Group & Lets Connect Combined	Male	Female
Directors	17	2
Managers	8	10
Employees	62	82
Total	**87**	**94**

Our Business Model

Our Integrated Approach to Engagement



How We Work

Trust and Understanding: seeing eye to eye, standing shoulder to shoulder, dancing cheek to cheek. Solidarity, friendship, and passion has always been defined by close physical proximity.

Discounts: from holidays to supermarket shopping, gym memberships to eye tests, from cinema bookings to high street stores, we help make employment pay by making work and leisure less costly.

Employee Benefits

Face-to-Face

Health: whether confidential helplines, gym membership, or cycle to work schemes, our benefits bring help to improve wellbeing.

Technology: our home technology programme allows staff to sacrifice a portion of their pay toward a mobile device or PC - making it easier to keep in touch with family and friends.

Insight: since our beginning 30 years ago, we have based our business around the same insight. Why pick up a phone when you could meet in person? Why send an email when you could get your message across one-to-one?

Tradition: the first policy we sold in 1984 was sold in person, and as befits our name, the tradition continues to this day. The only way to obtain one of our policies is by meeting us. And the only way to purchase one, to this day, is with a friendly handshake.

Cash Plans: helping a little when it means a lot with our schemes for hospital cash plans, convalescence and death plan support.

Practical Health Cover: straightforward dental, optical and therapy cover to help employees meet the costs of everyday healthcare.

Insurance

Income Protection: giving staff support in case of illness or injury.

Embracing modern technology: we now offer discounts on the latest gadgets including tablets, laptops and personal computers to all employees.

Designing our own tablet app: allowing us to provide customers with an interactive and comprehensive look at their benefits options.

Innovation

Developing new standards: this year we launched our GREAT Training Academy to ensure staff are trained the Personal Group way - professional, proactive, personable.

Chief Information Officer's Statement

As stated earlier in the Chief Executive's Statement, the first half of 2014 saw the group invest heavily in re-writing the tablet application that is used to present the employee benefits programme in the face-to-face consultations with our customers. The goal was to produce a presentation that was more informative and engaging. It was also to re-architect the application so it was faster, more robust and easier to update for future software revisions. It's been a success on both counts. Since we introduced the new app we've seen a 15% reduction in early cancellation rates which we believe is a reflection of the clarity of the presentation. We now need to send less data to the app and this together with new 4G connections mean the consultants can be more productive, one of the reasons for the reduction in new business acquisition costs.

The new app is also bringing us a stronger digital connection to our customers. In more than 80% of presentations customers share with us their email addresses and mobile phone numbers. Since 2012 the number of customers that we have these details for has increased by approximately 25%. This will further accelerate with the implementation of our new web platform. If customers do share these details with us they receive email and SMS confirmation of web site registration and documentation relating to policies they have chosen often whilst still sitting with the consultant.

An indication of the group's historic technology capability is that until now the group paid all claims by cheque. We've changed this and customers now have the option of receiving payments directly into their bank account via a BACS credit. During 2015 we will look at utilising faster payment technology to clear payments in minutes rather than the few days that BACS require.

The main focus of the latter part of 2014 has been on the development of our new web platform. Historically we've relied on Sodexo (P&MM) providing us with a voluntary benefits platform that we then provide to our clients in a branded fashion. This will continue going forward, but their products will sit inside our own platform.

The goals of the new platform are:

- To provide a point of integration (a 'hub') for a number of electronically delivered/supported employee benefit products and services. The market is increasingly looking for this type of product and our competitors are also moving in this direction

- To strengthen the digital connection with our customers enabling us to maximise their use of the benefits we provide, but also as a channel for us to offer incremental services and associated revenues.

- Further to above, develop our own relationships with the major retailers who supply the voluntary benefit

platforms market. This will help us maximise the benefits to our customers, the retailers and ourselves.

- To reduce the friction related to the use of employee benefit discounts that the retailers offer, through the introduction of emerging payment technologies. A number of retailers now have e-vouchers that we want to offer and also introduce a debit/credit card 'tethering' cashback facility. Currently, the latter does not exist in the employee benefits market and I expect the group to be first to market with this technology. Simply speaking 'tethering' means that a customer identifies their bank card to us and we then search all transactions for them to see which garners cashback and then simply send them the cash. The end user has nothing to do except register their card at the inception of the program.

- To integrate more with our customers internal systems (i.e. HR & Payroll), to increase our clients efficiencies in the provision of benefits to their employees in a timely fashion. This integration will also help with our digital connection to our customers and potentially reduce payment timings for our insurance products.

- And finally, but significantly, the new platform will reposition us in the market. It will enable us to create customer web sites in minutes, opening up new market opportunities for us

The new platform will begin rolling out in Q2 2015, will include mobile optimisation as well as a separate app. A development program of further enhancements will continue through 2015 and into 2016.

When I joined the group in early 2013 it was clear that investment in customer facing technology had historically been limited, but a new level of investment had begun and this is now continuing. I'm very pleased with the results of the re-engineering of our tablet application, and very excited about what we'll be bringing to the market in 2015. My aim is to move Personal Group into a leading position in our market for use of technology, and in line with our strategy to bring as much benefit to our clients, and customers as we can.

Ashley Doody
Chief Information Officer
25 March 2015

The new platform will reposition us in the market. It will enable us to create customer web sites in minutes, opening up new marketing opportunities for us.

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 the financial services sector during 2014 the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA) took a proactive, judgment led and interventionist stance, used their new and existing powers to act before failures occurred and continued to place emphasis on credible deterrence through full use of enforcement powers.

Within the group our activity throughout 2014 ensured the implementation plans for Solvency II remained on schedule for full implementation by January 2016. Solvency II arises from an EU Directive that codifies and harmonises the EU insurance regulation. Primarily this concerns the amount of capital that EU insurance companies must hold to reduce the risk of insolvency. To this end our initial Own Risk and Solvency Assessment reports were completed and submitted to the Regulator in December 2014. We continue to work to deliver a proportionate control framework that meets regulatory requirements and protects our customers from the impact of risks.

During 2015 the focus will be on the residual Solvency II requirements and the recently proposed Senior Insurance Managers Regime.

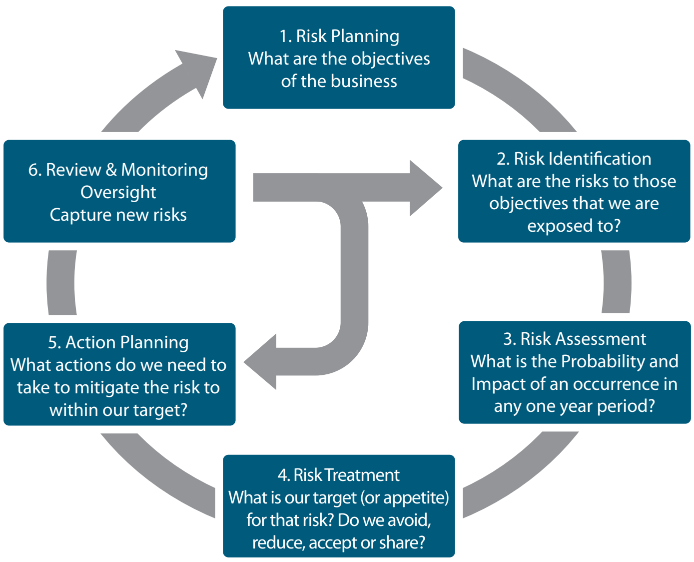
Meeting Regulatory Challenge

The group Risk Team has responsibility for capturing changes to the risk outlook (including regulatory, legal and environmental), changes to procedure and to deliver appropriate treatment before they crystallise. It 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. The group uses an Enterprise Risk Management Framework to meet these challenges.

Our Enterprise Risk Management framework comprises:

- Our strategic objectives and company values
- The identification of threats to those objectives and values
- The assessment of any threats
- Establishing risk appetite for, and the treatment of, threats
- Action plans, where appropriate, to mitigate risks
- Review and assessment of existing risks and the capture of emerging risks

The Enterprise Risk Management Framework



The maturity of the Enterprise Risk Management Framework has enabled the embedding of part of the risk monitoring function within the sales team. This enhances the capabilities of the first line monitoring within the sales environment and supports the desire for consistent quality and the fair treatment of customers.

Meanwhile the Risk Team is responsible for second-line monitoring and directs resource towards activity that presents most risk to the group and conduct risk to customers.

It is also responsible for the day-to-day operation of the Enterprise Risk Management Framework which is 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 2014 included participation in the development of the sales presentations and related processes. The delivery of a high quality presentation enables good levels of customer engagement and supports the business in the achievement of its strategic objectives.

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. Any required mitigating actions are monitored through to completion.

The risks arising from the underwriting of insurance policies is limited as the majority of policies are very short term and no longer than one month.

Operational risk arises 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. To mitigate this risk 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 tested and assessed on a regular basis and the group has already, and continues to, enhance its documentation and assessment of these controls as part of its transition to the new regulatory regime being introduced by Solvency II.

During 2014 the group reviewed its Business Continuity and Disaster Recovery Plan. The previous plan had been very IT focussed with limited engagement from other stakeholders in the business. The review included working with department heads and managers to instil an awareness of business continuity in their daily operations. This included performing both desktop exercises with the teams as well as a successful off-site recovery test including their participation. As a result a key addition to the plan is a more detailed analysis of business processes, recovery priorities and the resources required to support them in the event of a disaster. The group now feels more confident in its plans and needs in any recovery scenario.

All employees receive appropriate training to ensure that they are fully competent and equipped to perform their duties to the highest possible standards. During 2014 the induction training for face-to-face sales staff was re-designed to include more practical experience and to better prepare them for their role. 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 achieving the right outcomes for our customers which again can have a significant impact on reputational risk. This commitment is particularly evidenced by the Chief Executive who reviewed every complaint received by the group.

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. For this reason a watching brief is maintained on the regulatory environment and any changes can be planned for well in advance.

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 2014 ("the Code") but notwithstanding this seeks to comply with those provisions. Personal Group Holdings plc is subject to the UK City Code on Takeovers and Mergers.

Board of Directors

The board presently consists of three executive and two non-executive directors. A third non-executive director, Deborah Rees, will join the board formally when her Approved Persons Status is confirmed by the FCA. 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 chief financial officer 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 M Winlow. 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 M Winlow. 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.

** Since the retirement of H Driver on 30 November 2014, these committees have comprised of two non-executive directors. The new appointee to the board, Deborah Rees, will join these committees formally when she receives confirmation from the FCA of her Approved Persons Status.*

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. More detail on these processes can be found on page 22.

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 welcomes Lets Connect

Lets Connect, the leading provider of home technology to companies as part of their salary sacrifice and employee engagement programmes, became part of Personal Group following the acquisition in March 2014.

As the leading provider of home technology schemes, Lets Connect have been operating since 2001 providing schemes to some of the biggest companies and public sector organisations in the UK.

A number of Personal Group's clients run additional benefit and employee savings programmes, including tax efficient schemes such as childcare vouchers, cycle to work and holiday buy/sell schemes. Lets Connect provide home technology notably tablets, laptops, desktops and smartphones to organisations, whom in turn allow their employees the use of them.

The ability for employers to offer the latest products from Apple, Samsung and HP, whilst also being able to deliver savings to both employee and employer, make home technology schemes a fast growing part of the employee benefits sector.

The Lets Connect scheme works as a salary sacrifice arrangement where employees give up the right to recieve a portion of salary, in exchange for the use of a home computer, television or tablet over a two or three year period.

let's connect
for your benefit

A compelling employee benefit – with significant benefits to employees

Simple to implement schemes

- Full project management
- Management and communications strategy
- Scheme reporting
- One-stop shop

Cost neutral to launch

- No upfront or hidden costs
- Included as part of cost-effective benefits programme
- No admin requirement to manage the scheme

Delighted Employees

- Convenient, accessible and affordable way to access the latest technology
- Benefits from the purchasing power of the employer
- No credit checks of up front deposits

Lets Connect have provided their programme to our staff since 2006. It has proved to be one of the most popular benefits we have offered to employees. In this time over 30% of National Grid employees gained the use of a PC provided by Lets Connect. Their approach is professional and efficient and they take pains to deal with issues and queries promptly and with courtesy.

nationalgrid

Caroline Adams
Employee Benefits Manager, *National Grid*

£1.6m
donated to charities nationwide
since 1993

£55,000
donated since 2001 to
Milton Keynes Christmas Party for the Elderly

£25,000
donated, per year for
17 years

£16,188
donated in 2014 to
Alzheimer's Society

£120,000+
pledged to complete a school
over the next 8 years

Community Involvement

Since its inception in 1993 Personal Assurance Charitable Trust (PACT) has been dedicated to giving money to charities close to Personal Group.

One of our biggest and longest running contributions has been to St John's Ambulance. We have donated £25,000 per year to this well-known and worthy charity for the past 17 years. Our contribution has enabled them to keep running the St John Ambulance National Schools' First Aid Competition. This competition sees schools across the UK learn about first aid and then compete against each other at national level. St John's aim is to have first aid taught in schools as part of the curriculum and this competition is a vital part of their work with schools.

We have also been donating to the Milton Keynes Christmas Party for the Elderly since 2001, contributing a total of £55,000. The event gives 130 single elderly people a Christmas Day. It's not just about the food, it's about keeping them company and ensuring they enjoy what could otherwise be a very lonely day for them. Going forward we will be encouraging our staff to volunteer and help out with the event.

Having raised over £16,000 for the Alzheimer's Society in 2014 we were keen to take on a new project that has longer term goals. We have since partnered with the Memusi Foundation and it is our aim to assist with building their next school in Kenya. The project will run for eight years and allow our employees to travel to Kenya and assist with the building project, or if this isn't in their skill set, they can work with the children to bring new skills to them. Mark Scanlon, CEO, travelled across Africa a number of years ago and the country left a lasting impression on him so when the opportunity with Memusi arose to help the children of Africa educate themselves out of poverty, he jumped at the chance.

Mark said: "We are pleased to be part of this great vision the Memusi Foundation has. They work with the local community so they are completely behind the school. It is built gradually to ensure it is sustainable and the funding is in place. As well as educating the children and housing the teachers, they also have a mobile medical centre which visits monthly. This has had a very positive impact on the village as a whole. This will be a great project for Personal Group to get behind. It will be a life experience for our staff who go to Kenya. I know I will be going to help with the build."

For more information please go to **www.memusifoundation.org.uk**.


Alzheimer's Society

Personal Group celebrated 30

2014 was the year that saw Personal Group turn 30 years old. Having started out from humble beginnings this really was an achievement and a testimony to Personal Group's founders. Their initial drive, vision, and innovation are still present 30 years on.

During our 30 years there have been many achievements. Starting out with just seven staff, who worked from Christopher Johnston's house, that fledgling company is now 181 people strong. Headquartered in Milton Keynes, in John Ormond House which belongs to and was specifically designed for Personal Group, our strategy is to be an innovative, technologically enabled, employee engagement business of scale, underpinned by insurance products sold face-to-face.

Our insurance products were established alongside the business and they developed as Personal Group did. Our first employee discounts launched in 1998 and took the company in a new direction. We are now at the fore of the employee benefits and engagement industry. We also specialise in employee communication of benefits via our face-to-face method which sets us apart from the competition, and this method has been in place since the outset.

Technology remains a key strength and crucial element to our delivery of benefits, and since the introduction of the tablet, is an area we have developed and will continue to do so. One of our big steps in 2014 was the acquisition of Lets Connect, a leading provider of home technology benefits. We have already made huge strides forward with

years in business

them this year and are looking forward to our future with them onboard.

To celebrate our 30th year we had a party! Every member of staff was invited to Newmarket for an afternoon of horse racing followed by a performance from the Beach Boys. It was a very enjoyable day which will go down in the Personal Group history books. Personal Group is about people and that really shone through on the day.

With a strong team in place, a solid strategy and our technological edge, we look forward to our next 30 years in business.

over 2 million employees receive our benefit programmes

- *hospital cash plan*
- *death benefit*
- *discount programmes*
- *home technology*
- *convalescence plan*
- *income protection*

30 years experience
simple insurance
engaging employee **benefits**

95,000
face -to- face
presentations in 2014

57
new starters in 2014

headcount increased by
15.3%
in 2014

24,000
TV's, tablets and Laptops shipped in 2014

550+ clients

81%
of claims paid within
24 hours in 2014

696
policy holders in 1984

number of policy holders today:
248,112

531%
increase in market
cap since 2000 to
£142 million
as at 31 Dec 2014

7 to 181

from seven staff in 1984 to 181 in 2014

over
1000
people days into
tablet development
v3

£1.6m
in charitable donations since 1993

30 years thanks to...

Report of the Directors

The directors present their report together with the audited financial statements for the year ended 31 December 2014.

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.

Results and dividends

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

The profit for the year is £9,197,000 (2013: £3,730,000) before taxation of £1,653,000 (2013: £1,632,000). During the year ordinary dividends of £5,899,000 (2013: £5,556,000) 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 J P Barber and H H Driver who resigned as directors on 28 April 2014 and 30 November 2014 respectively.

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 2014 or date of appointment if later, and 31 December 2014 were as follows:

Ordinary shares of 5p each in Personal Group Holdings plc	At 31 December 2014	At 1 January 2014 or date of appointment if later
C J Curling (Non-Executive Chairman)	**25,756**	25,157
M W Scanlon (Group Chief Executive)	**152,599**	56,588
M I Dugdale	**811**	425
K W Rooney	**2,688**	3,333
H H Driver (Non-Executive, resigned as a director on 30 November 2014)	-	5,000
J P Barber (Resigned as a director on 28 April 2014)	-	348,967
M Winlow (Non-Executive)	-	-

At 31 December 2014 the mid-market closing share price was 467.50p per share.

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

Audited	Salary and fees 2014 £'000	Share based payment expense 2014 £'000	Pension contributions 2014 £'000	Compensation for loss of office 2014 £'000	Total 2014 £'000	Total 2013 £'000
C J Curling*	68	-	3	-	**71**	69
M I Dugdale	254	-	-	-	**254**	167
J Barber	59	-	5	220	**284**	166
K Rooney	181	-	13	-	**194**	289
M W Scanlon	353	734	23	-	**1,110**	502
H H Driver*	31	-	2	-	**33**	35
R M Green*	-	-	-	-	**-**	11
M Winlow*	33	-	-	-	**33**	19
Total	979	734	46	220	**1,979**	1,258

*Non-executive director fees.

On 3 April 2014 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	Excersice price pence per share	Earliest exercisable date
M W Scanlon	6,166	486.50	3 April 2017
M I Dugdale	6,166	486.50	3 April 2017

At 31 December 2014 options outstanding were as follows:

	Number of Shares	Excersice price pence per share	Earliest exercisable date
K W Rooney	5,228	345.00	10 October 2015
K W Rooney	2,882	415.00	31 October 2016
M W Scanlon	6,166	486.50	3 April 2017
M I Dugdale	6,166	486.50	3 April 2017

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.

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 £770,000 has been charged to the profit and loss account in 2014 for this scheme. During 2014, 185,455 new shares were issued under the LTIP scheme of which 150,643 were awarded to M W Scanlon with the remainder issued to other senior employees.

Charitable donations

Donations to charitable organisations amounted to £100,000 (2013: £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 2014 ("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 25.

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 Thursday 23 April 2015.

BY ORDER OF THE BOARD

M I Dugdale
Director
25 March 2015

Report of the independent auditor to the members of Personal Group Holdings Plc

We have audited the financial statements of Personal Group Holdings Plc for the year ended 31 December 2014 set out on pages 40 to 92.

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 38, 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 2014 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
1 St Peter's Square
Manchester
M2 3AJ

25 March 2015

Consolidated income statement

	Note	2014 £'000	2013 £'000
Gross premiums written		**24,189**	22,997
Outward reinsurance premiums		**(359)**	(358)
Change in unearned premiums		**233**	266
Change in reinsurers' share of unearned premiums		**(9)**	(333)
Earned premiums net of reinsurance	5	**24,054**	22,572
Other income:			
Insurance related	5	**4,501**	4,024
Non-insurance related	5	**18,202**	1,363
Investment property	5	**67**	103
Investment income	6	**210**	332
Revenue		**47,034**	28,394
Claims incurred	7	**(6,551)**	(5,820)
Insurance operating expenses	8	**(10,525)**	(11,368)
Impairment of non-financial assets	15	**-**	(2,100)
Other expenses:			
Insurance related		**(1,599)**	(1,296)
Non-insurance related	5	**(18,182)**	(2,504)
Share-based payment expenses	22	**(797)**	(1,474)
Investment property	17	**-**	(128)
Charitable donations		**(100)**	(100)
Amortisation of intangible assets	15A	**(275)**	-
Expenses		**(38,029)**	(24,790)
Results of operating activities		**9,005**	3,604
Finance costs	6	**-**	(1)
Share of profit of equity–accounted investee net of tax		**192**	127
Profit before tax	10	**9,197**	3,730
Tax	11	**(1,653)**	(1,632)
Profit for the year	12	**7,544**	2,098

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

	Note	2014 £'000	2013 £'000
Earnings per share as arising from total and continuing operations		**Pence**	**Pence**
Basic	13	**25.1**	7.0
Diluted	13	**24.4**	7.0

Consolidated statement of comprehensive income

	2014 £'000	2013 £'000
Profit for the year	**7,544**	2,098
Items that may be reclassified subsequently to the income statement		
Available for sale financial assets:		
Valuation changes taken to equity	**(65)**	110
Reclassification of gains and (losses) on available for sale financial assets on Derecognition	**(34)**	(3)
Income tax on unrealised valuation changes taken to equity	**14**	(25)
Total comprehensive income for the year	**7,459**	2,180

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 2014

	Note	2014 £'000	2013 £'000
ASSETS			
Non-current assets			
Goodwill	15	**10,575**	-
Intangible assets - Customer value	15A	**1,373**	-
Property, plant and equipment	16	**4,850**	4,790
Investment property	17	**1,070**	940
Equity–accounted investee	33	**591**	399
Financial assets	18	**11,610**	15,038
		30,069	21,167
Current assets			
Trade and other receivables	19	**16,783**	4,200
Reinsurance assets	20	**351**	325
Inventories		**623**	-
Cash and cash equivalents	21	**4,433**	6,991
		22,190	11,516
Total assets		**52,259**	32,683

	Note	2014 £'000	2013 £'000
EQUITY			
Equity attributable to equity holders of Personal Group Holdings Plc			
Share capital	22	**1,516**	1,507
Capital redemption reserve		**24**	24
Amounts recognised directly into equity relating to non-current assets held for sale		**(24)**	61
Other reserve		**(548)**	(264)
Profit and loss reserve		**26,080**	23,835
Total equity		**27,048**	25,163
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	23	**255**	111
Current liabilities			
Provisions	24	**23**	34
Trade and other payables	25	**21,313**	3,667
Insurance contract liabilities	26	**2,784**	2,854
Current tax liabilities		**836**	854
		24,956	7,409
Total liabilities		**25,211**	7,520
Total equity and liabilities		**52,259**	32,683

The financial statements were approved by the board on 25 March 2015.

M I Dugdale ***M W Scanlon***

Company number: 3194991

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

Company balance sheet at 31 December 2014

	Note	2014 £'000	2013 £'000
ASSETS			
Non-current assets			
Investment in subsidiary undertakings	27	**23,602**	11,602
Investment property	17	**130**	-
Financial assets	18	**100**	2,596
		23,832	14,198
Current assets			
Trade and other receivables	19	**3,764**	4,681
Cash and cash equivalents	21	**96**	351
		3,860	5,032
Total assets		**27,692**	19,230

	Note	2014 £'000	2013 £'000
EQUITY			
Equity attributable to equity holders of Personal Group Holdings Plc			
Share capital	22	**1,516**	1,507
Capital redemption reserve		**24**	24
Other reserve		**(548)**	(264)
Profit and loss reserve		**9,502**	11,563
Total equity		**10,494**	12,830
LIABILITIES			
Current liabilities			
Trade and other payables	25	**17,198**	6,400
Total liabilities		**17,198**	6,400
Total equity and liabilities		**27,692**	19,230

The financial statements were approved by the board on 25 March 2015.

M I Dugdale ***M W Scanlon***

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 2014

Equity attributable to equity holders of Personal Group Holdings Plc

	Share capital £'000	Capital redemption reserve £'000	Available for sale financial assets £'000	Other reserve £'000	Profit and loss reserve £'000	Total equity £'000
Balance as at 1 January 2014	1,507	24	61	(264)	23,835	25,163
Dividends	-	-	-	-	(5,899)	(5,899)
Employee share-based compensation	-	-	-	-	797	797
Proceeds of AESOP* share sales	-	-	-	-	349	349
Cost of AESOP shares sold	-	-	-	537	(537)	-
Cost of AESOP shares purchased	-	-	-	(821)	-	(821)
Nominal value of LTIP** shares issued	9	-	-	-	(9)	-
Transactions with owners	9	-	-	(284)	(5,299)	(5,574)
Profit for the year	-	-	-	-	7,544	7,544
Other comprehensive income						
Available for sale financial assets:						
Valuation changes taken to equity	-	-	(65)	-	-	(65)
Transfer to income statement	-	-	(34)	-	-	(34)
Current tax on unrealised valuation changes taken to equity	-	-	14	-	-	14
Total comprehensive income for the year	-	-	(85)	-	7,544	7,459
Balance as at 31 December 2014	**1,516**	**24**	**(24)**	**(548)**	**26,080**	**27,048**

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

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 £'000	Capital redemption reserve £'000	Available for sale financial assets £'000	Other reserve £'000	Profit and loss reserve £'000	Total equity £'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**

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 2014

Equity attributable to equity holders of Personal Group Holdings Plc

	Share capital £'000	Capital redemption reserve £'000	Other reserve £'000	Profit and loss reserve £'000	Total equity £'000
Balance as at 1 January 2014	1,507	24	(264)	11,563	12,830
Dividends	-	-	-	(5,899)	(5,899)
Employee share-based compensation	-	-	-	797	797
Proceeds of AESOP share sales	-	-	-	349	349
Cost of AESOP shares sold	-	-	537	(537)	-
Cost of AESOP shares purchased	-	-	(821)	-	(821)
Nominal value of LTIP shares issued	9	-	-	(9)	-
Transactions with owners	9	-	(284)	(5,299)	(5,574)
Profit for the year	-	-	-	3,238	3,238
Balance as at 31 December 2014	1,516	24	(548)	9,502	10,494

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 £'000	Capital redemption reserve £'000	Other reserve £'000	Profit and loss reserve £'000	Total equity £'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.

Consolidated cash flow statement

	Note	2014 £'000	2013 £'000
Net cash from operating activities (see opposite)		**5,998**	7,132
Investing activities			
Additions to property, plant and equipment	16	**(412)**	(248)
Proceeds from disposal of property plant and equipment		**72**	537
Purchase of own shares by the AESOP		**(821)**	(257)
Proceeds from disposal of own shares by the AESOP		**349**	630
Purchase of financial assets		**(246)**	(5,842)
Proceeds from disposal of financial assets		**3,655**	7,399
Additions to investment property	17	**(130)**	-
Interest received	6	**131**	222
Dividends received	6	**21**	19
Net cash used in investing activities		**2,619**	2,460
Acquisition and disposal activities			
Payment to acquire Lets Connect	35	**(6,000)**	-
Net cash acquired with trading	35	**724**	-
Net cash from acquisition and disposal activities		**(5,276)**	-
Financing activities			
Proceeds from bank loans		**-**	257
Repayment of bank loans		**-**	(316)
Interest paid		**-**	(1)
Dividends paid	14	**(5,899)**	(5,556)
Net cash used in financing activities		**(5,899)**	(5,616)
Net change in cash and cash equivalents		**(2,558)**	3,976
Cash and cash equivalents, beginning of year	21	**6,991**	3,015
Cash and cash equivalents, end of year	21	**4,433**	6,991

	Note	2014 £'000	2013 £'000
Operating activities			
Profit after tax		**7,544**	2,098
Adjustments for			
Depreciation	16	**385**	529
Goodwill impairment	15	**-**	2,100
Amortisation of intangible assets	15A	**275**	-
Impairment of investment property	17	**-**	128
Profit on disposal of property, plant and equipment		**(34)**	(42)
Realised and unrealised net investment losses	6	**(31)**	-
Interest received	6	**(131)**	(222)
Dividends received	6	**(21)**	(19)
Interest paid		**-**	1
Share of profit of equity–accounted investee, net of tax	33	**(192)**	(127)
Share-based payment expenses	22	**797**	1,474
Taxation expense recognised in income statement	11	**1,653**	1,632
Changes in working capital			
Trade and other receivables		**(12,283)**	489
Trade and other payables		**10,366**	1,004
Inventories		**(472)**	-
Taxes paid		**(1,858)**	(1,913)
Net cash from operating activities		**5,998**	7,132

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 25 March 2015.

2 Accounting policies

These financial statements of Personal Group Holdings Plc are for the year ended 31 December 2014. 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 2014.

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).
- IFRS 9 Financial Instruments (effective date to be confirmed).
- IFRIC Interpretation 21 Levies (endorsed 13 June 2014 but not mandatory for the year ended 31 December 2014)

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:

- 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).
- Intangible assets valuation

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 2016. 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 2014. 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.

2.5 Joint ventures

Abbeygate Developments (Marlborough Gate 2) Limited is the only jointly controlled entity within the group and has been accounted for under IFRS 11 Joint Arrangements.

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.

Intangible assets meeting the relevant recognition criteria are initially measured at cost and amortised on a systematic basis over their useful lives.

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.

Income from the provision on salary sacrifice technology products is recognised when the goods are dispatched.

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.

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.

Amortisation and depreciation

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

Intangible assets	Economic Useful Life
Freehold properties	50 years
Motor vehicles	3 - 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 properties are properties 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.

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.

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.

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.

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:

	2014 £'000	Group 2013 £'000	2014 £'000	Company 2013 £'000
				(*Restated)
Trade receivables	**3,333**	2,982	**-**	-
Reinsurance assets	**351**	325	**-**	-
Other receivables	**11,891**	863	**-**	-
Accrued interest	**37**	43	**-**	-
Loan to joint venture	**-**	2,596	**-**	2,596
Amounts due from subsidiary undertakings	**-**	-	**3,743**	4,676
Investment bond	**100**	-	**100**	-
Cash and cash equivalents	**4,433**	6,991	**96**	351
Bank deposits	**10,859**	11,743	**-**	-
	31,004	25,543	**3,939**	7,623

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 2014 the counterparties were as follows: The Co-operative Bank plc, Santander UK 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 group is also exposed to the recoverability of receivables from reinsurers. At 31 December 2014 the two reinsurance counterparties were Swiss Re Europe S.A., United Kingdom Branch and Munich Reinsurance Company, United Kingdom General 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.

* Note amended to include company cash and cash equivalents.

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:

	2014 £'000	2013 £'000
Available for sale financial assets:		
Independently managed equity portfolio	**651**	699
	651	699

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 2014 totalled £21,000 (2013: £19,000).

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 2014 would result in a deduction to equity of approximately £65,000. A 10% increase in the value of these assets at 31 December 2014 would result in an addition to equity of approximately £65,000.

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 2014 amounts on short term deposits exceeded borrowings by £15,292,000.

As at 31 December 2014 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 2014					
Trade and other payables	**14,266**	**203**	**-**	**533**	**15,002**
Borrowings (including interest payable in following periods)	**-**	**-**	**-**	**-**	**-**
	14,266	**203**	**-**	**533**	**15,002**
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
Company					
At 31 December 2014					
Amounts owed to subsidiary undertakings	**11,121**	**-**	**-**	**-**	**11,121**
Borrowings (including interest payable in following periods)	**-**	**-**	**-**	**-**	**-**
	11,121	**-**	**-**	**-**	**11,121**
At 31 December 2013					
Amounts owed to subsidiary undertakings	6,343	-	-	-	6,343
Borrowings (including interest payable in following periods)	-	-	-	-	-
	6,343	-	-	-	6,343

Cash flow and fair value interest rate risk

At 31 December 2014 bank deposits exceeded borrowings by £15,292,000. If UK interest rates increased by 2% net finance income would increase by approximately £306,000 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 2014, represent 91.6% (2013: 90.1%) 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 2014 was 22.8% (2013: 22.5%). The loss ratio has remained relatively consistent over the period of time 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 £91,750 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 2014 was 244,673 (2013: 243,367) and the total annualised premium value of these policies was £24,022,000 (2013: £22,834,000). The average amount paid per claim in 2014 was £154 (2013: £159).

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). 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 2014 these policies represent 5.9% (2013: 7.0%) of PA's gross premiums written. The gross loss ratio (excluding claims handling costs) on these policies at 31 December 2014 was 70.5% (2013: 64%).

The total number of these individual policies in force at 31 December 2014 was 1,223 (2013: 1,058) and the average amount paid per claim in 2014 was £2,374 (2013: £1,808)

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 2014 these policies represent 2.5% (2013: 2.9%) of PA's gross premiums written. The gross loss ratio (excluding claims handling costs) on these policies at 31 December 2014 was 24.7% (2013: 16.3%). The total number of these individual policies in force at 31 December 2014 was 2,216 (2013: 2,860) and the average amount paid per claim in 2014 was £1,928 (2013: £2,117).

For the year ended 31 December 2014 the gross claims ratio of Personal Assurance Plc was 27.5% (2013: 26.9%). A 2% increase in the claims ratio would increase claims incurred by approximately £481,000.

4 Capital management and requirements

The group's capital management objectives are:

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

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

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

The carrying amount of the group's equity has shown growth from £12,319,000 at 31 December 2001 (first year after AIM listing) to £27,150,000 at 31 December 2014.

At 31 December 2014 the group's capital resources in excess of the group's capital resources requirement was £5,680,000 (2013: £15,281,000). The reduction in surplus represents the acquisition of Lets Connect IT Solutions Limited in March 2014.

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 2014, the group maintained these capital resources as required.

At 31 December 2014 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	4,000	8,147	4,147
Personal Assurance Services Limited	67	3,372	3,305
Personal Group Benefits Limited	32	695	663
Berkeley Morgan Limited	73	1,216	1,143

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 2014 admissible assets in excess of market and counterparty limits were £4,185,000 (2013: £4,677,000), 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.

Non-insurance related income includes income derived from the sale of benefit books, consultancy services, the provision of salary sacrifice technology products and property rental income. Non-insurance related expenses include costs relating to those sales, and also acquisition costs. Non-insurance income and expenses have increased in 2014 due to the additional sales and purchases made subsequent to the acquisition of Lets Connect IT Solutions Limited.

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.

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					
2014					
Revenue					
Earned premiums net of reinsurance	24,054	-	-	-	24,054
Other income:					
Insurance related	4,007	494	-	-	4,501
Non-insurance related	18,202	-	-	-	18,202
Investment property	-	-	67	-	67
Investment income	210	-	-	-	210
Total revenue	46,473	494	67	-	47,034
Net result for year before tax	9,361	347	67	(770)	9,005
Segment assets	38,694	677	940	11,948	52,259
Segment liabilities	24,829	382	-	-	25,211
Depreciation and amortisation	376	-	-	284	660

	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

6 Investment income and finance costs

	2014 £'000	2013 £'000
Investment income		
Loans and receivables:		
Income from unlisted investments	**31**	96
Interest income from cash on deposit	**131**	222
Financial assets designated as at fair value through profit or loss:		
Unrealised gains/(losses)	**-**	3
Available for sale:		
Income from listed investments	**21**	19
Realised gains	**36**	11
Realised losses	**(5)**	(10)
Realised gains transferred from other comprehensive income	**-**	(3)
Investment management expenses	**(4)**	(6)
	210	332
Finance costs		
Interest expense on AESOP bank loan	**-**	1

7 Claims incurred

	2014 £'000	2013 £'000
Claims paid	**6,144**	5,582
Reinsurance recoveries	**(131)**	(470)
Claims handling expenses paid	**410**	394
	6,423	5,506
Increase in claims provision	**162**	234
Reinsurers' share	**(34)**	77
Increase in provision for claims handling costs	**-**	3
	128	314
	6,551	5,820

8 Insurance operating expenses

	2014 £'000	2013 £'000
Acquisition costs	**5,679**	6,451
Increase/(decrease) in deferred acquisition costs	**27**	(10)
Incurred acquisition costs	**5,706**	6,441
Administration expenses	**4,819**	4,955
Reinsurance commission	**-**	(28)
	10,525	11,368

Total commission incurred during the year in respect of direct insurance was £1,352,000 (2013: £1,353,000).

9 Directors' and employees' remuneration

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

	2014 £'000	2013 £'000
Wages and salaries	**7,465**	6,459
Share based payments expense	**797**	1,456
Social security costs	**971**	903
Other pension costs	**293**	514
	9,526	9,332

Average number of employees was as follows:	2014 Number	2013 Number
Administration	**71**	73
Sales and marketing	**110**	98
	181	171

b) Directors remuneration:

	2014 £'000	2013 £'000
Emoluments	**1,212**	863
Share based payments expense	**734**	246
Pension contributions to group and self invested personal pension schemes	**46**	149

During the year, 5 directors (2013: 6 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.

	2014 £'000	2013 £'000
Emoluments	**353**	238
Share based payments expense	**734**	246
Pension contributions to self invested personal pension scheme	**23**	18
	1,110	502

Details of individual director's remuneration are given in the report of the directors (see page 36). The company does not incur employee remuneration.

Key management of the group are the directors of Personal Group Holdings Plc together with the members of the Senior Management Team (SMT). Key management personnel remuneration includes the following expenses:

	2014 £'000	2013 £'000 (restated*)
Short term employee benefits:		
Salaries including bonuses	**1,807**	1,280
Social security costs	**319**	220
Share based payments expense	**875**	271
	3,001	1,771
Post-employment benefits:		
Defined contribution pension plans	**68**	171
Total remuneration	**3,069**	1,942

*During 2014 the group extended their definition of key management to include the SMT. The 2013 note has been restated to include these additional costs.

10 Profit before tax

	2014 £'000	2013 £'000
Profit before tax is stated after:		
Auditor's remuneration (inclusive of non-recoverable VAT):		
Audit services:		
Audit of company financial statements	**49**	45
Audit of subsidiary undertakings	**77**	60
Non-audit services:		
Taxation and other advice	**21**	23
Review of regulatory returns	**16**	15
Other assurance services	**214**	10
Acquisition services	**119**	-
Depreciation of property, plant and equipment	**385**	529
Rental income receivable	**98**	196
Operating lease rentals – land and buildings	**-**	26
Operating lease rentals – motor vehicles	**421**	110

11 Tax

The relationship between the expected tax expense based on the effective tax rate of Personal Group Holdings Plc at 21.49% (2013: 23.25%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2014 £'000	2013 £'000
Profit before tax	**9,197**	3,730
Share of profit of equity-accounted investee net of tax	**(192)**	(127)
Profit before tax excluding equity-accounted investee	**9,005**	3,603
Tax rate	**21.49%**	23.25%
Expected tax expense	**1,935**	838
Adjustment for marginal tax rate differences	**(2)**	(2)
Adjustment for non deductible expenses	**142**	795
Adjustment for tax exempt revenues	**(343)**	-
Other adjustments		
Tax charge in respect of prior years	**(75)**	6
Utilisation of losses not provided for	**(4)**	(5)
Actual tax expense	**1,653**	1,632
Comprising		
Current tax expense	**1,930**	1,716
In respect of prior year	**(75)**	6
Deferred tax		
Origination and reversal of temporary differences	**(202)**	(88)
Change in tax rate	**-**	(2)
	1,653	1,632

Reduction in the UK corporation tax rate from 24% to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2012. 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 2014 has been calculated based on the rate of 20% 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 £3,238,000 (2013: £1,832,000).

13 Earnings per share

			2014			2013
	Earnings £'000	Weighted average number of shares	Pence per share	Earnings £'000	Weighted average number of shares	Pence per share
Basic	**7,544**	**30,066,390**	**25.1**	2,098	29,886,673	7.0
Dilutive effect of shares in Employee Share Based Schemes	**-**	**834,637**	**(0.7)**	-	44,594	-
Diluted	**7,544**	**30,901,027**	**24.4**	2,098	29,931,267	7.0

The weighted average number of shares shown above excludes unallocated own company shares held by Personal Group Trustees Ltd.

14 Dividends

	2014 Pence per share	2013 Pence per share	2014 £'000	2013 £'000
Equity dividends				
Ordinary shares paid in year				
March	**4.90**	-	**1,477**	-
April	**-**	4.65	**-**	1,398
June	**4.90**	4.65	**1,477**	1,398
September	**4.90**	4.65	**1,477**	1,398
December	**4.90**	4.65	**1,485**	1,398
			5,916	5,592
Less: amounts paid on own shares			**(17)**	(36)
	19.60	18.60	**5,899**	5,556

15 Goodwill

All of the goodwill at the year end results from the acquisition of Lets Connect IT Solutions Limited in March 2014. The carrying amount of goodwill which has been allocated to those cash-generating units can be analysed as follows:

			2014			2013
	£'000	£'000	£'000	£'000	£'000	£'000
	Berkeley Morgan	**Lets Connect**	**Total**	Berkeley Morgan	Lets Connect	Total
Cost						
At 1 January	**9,433**	**-**	**9,433**	9,433	-	9,433
Additions in the year	**-**	**10,575**	**10,575**	-	-	-
At 31 December	**9,433**	**10,575**	**20,008**	9,433	-	9,433
Amortisation and impairment						
At 1 January	**9,433**	**-**	**9,433**	7,333	-	7,333
Impairment charge for year	**-**	**-**	**-**	2,100	-	2,100
At 31 December	**9,433**	**-**	**9,433**	9,433	-	9,433
Net book value at 31 December	**-**	**10,575**	**10,575**	-	-	-

The net carrying value at 31 December 2014 has been assessed for impairment and no impairment was deemed necessary.

15A Intangible assets - Customer value

All of the customer value results from the acquisitions of Lets Connect IT Solutions Limited in March 2014.

	2014 £'000	2013 £'000
Cost		
At 1 January	-	-
Additions in the year	1,648	-
At 31 December	1,648	-
Amortisation and impairment		
At 1 January	-	-
Amortisation charge for year	275	-
At 31 December	275	-
Net book value at 31 December	1,373	-

The customer value is being amortised through the consolidated income statement over a 5 year period; the charge for the period to 31 December 2014 was £275,000.

16 Property, plant and equipment

For the year ended 31 December 2014	Freehold land and properties £'000	Motor vehicles £'000	Computer equipment £'000	Furniture fixtures and fittings £'000	Lease Improve-ments £'000	Other £'000	Total £'000
Cost							
At 1 January 2014	5,478	145	841	931	-	-	7,395
Acquisition	-	1	29	7	15	59	111
Additions	-	168	206	38	-	-	412
Disposals	-	(145)	(16)	(6)	-	-	(167)
At 31 December 2014	5,478	169	1,060	970	15	59	7,751
Depreciation							
At 1 January 2014	1,222	103	536	744	-	-	2,605
Acquisition	-	1	13	4	4	19	41
Provided in the year	94	22	221	36	4	8	385
Eliminated on disposals	-	(109)	(15)	(6)	-	-	(130)
At 31 December 2014	1,316	17	755	778	8	27	2,901
Net book amount at 31 December 2014	**4,162**	**152**	**305**	**192**	**7**	**32**	**4,850**
Net book amount at 31 December 2013	4,256	42	305	187	-	-	4,790

For the year ended 31 December 2013	Freehold land and properties £'000	Motor vehicles £'000	Computer equipment £'000	Furniture fixtures and fittings £'000	Lease Improve-ments £'000	Other £'000	Total £'000
Cost							
At 1 January 2013	5,478	1,088	823	1,045	-	-	8,434
Acquisition	-	-	-	-	-	-	-
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
Acquisition	-	-	-	-	-	-	-
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

17 Investment property

For the year ended 31 December 2014	£'000
Cost	
At 1 January 2014	1,068
Additions	130
At 31 December 2014	1,198
Impairment	
At 1 January 2014	128
Provided in the year	-
At 31 December 2014	128
Net book amount at 31 December 2014	1,070
Net book amount at 31 December 2013	940

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 2014	128
Net book amount at 31 December 2013	940
Net book amount at 31 December 2012	1,068

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

18 Financial assets

		Group		Company
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Bank deposits	**10,859**	11,743	**-**	-
Investment bond	**100**	-	**100**	-
Loans and receivables	**-**	2,596	**-**	2,596
Financial assets:				
Designated at fair value through profit and loss	**-**	-	**-**	-
Available for sale	**651**	699	**-**	-
	11,610	15,038	**100**	2,596

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.
Loans and receivables (as at 31 December 2013), held at amortised costs, were short-term trade receivables and the carrying amount is a reasonable approximation of fair value. The loans and receivables were secured by a charge over the Milton Keynes property shown within note 33.

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.

The investment bond subscribed to during 2014 is held in Criticaleye Investments plc and has a fixed three-year initial term. Interest is paid at 8% gross per annum. The bond was aquired late in 2014 and the carrying value is a reasonable approximation of fair value.

19 Trade and other receivables

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Loans and receivables:				
Trade receivables arising out of direct insurance operations	**3,333**	2,982	**-**	-
Other receivables due within one year	**11,891**	863	**-**	-
Amounts due from subsidiary undertakings	**-**	-	**3,743**	4,676
Accrued interest	**37**	43	**-**	-
Deferred acquisition costs	**39**	67	**-**	-
Other prepayments and accrued income	**1,483**	245	**21**	5
	16,783	4,200	**3,764**	4,681

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:

	2014 £'000	2013 £'000
Not more than 3 months	**3,234**	3,080
More than 3 months but not more than 6 months	**72**	6
More than 6 months	**55**	-
	3,361	3,086

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:

	2014 £'000	2013 £'000
At 1 January	**67**	85
Deferred acquisition costs	**39**	67
Amortisation	**(67)**	(85)
At 31 December	**39**	67

20 Reinsurance assets

	2014 £'000	2013 £'000
Claims incurred	**184**	149
Unearned premiums	**167**	176
	351	325

21 Cash and cash equivalents

		Group		Company
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Cash at bank and in hand	**4,433**	5,991	**96**	351
Short term investments/cash equivalents	**-**	1,000	**-**	-
	4,433	6,991	**96**	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

	2014 £'000	2013 £'000
Authorised		
200,000,000 ordinary shares of 5p each	**10,000**	10,000
Allotted, called up and fully paid 30,320,851 (2013: 30,135,396) ordinary shares of 5p each	**1,516**	1,507

In 2014 the company issued 185,455 5p ordinary shares under the LTIP scheme (12,216 shares issued on 28 July 2014 and 173,239 shares issued on 4 December 2014).

The total number of own shares held by the Employee Benefit Trust at 31 December 2014 was 168,347 (2013: 172,772). Of this amount there are 69,015 (2013: 107,681) AESOP shares that have been unconditionally allocated to employees.

As at 31 December 2014 the group maintained two share-based payment schemes for employee compensation.

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

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

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

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

	Number	2014 Weighted average exercise price pence	Number	2013 Weighted average exercise price pence
Outstanding at 1 January	**226,416**	316.5	**375,285**	301.1
Options granted in year	**130,165**	480.0	**33,408**	432.2
Options exercised in year	**(101,754)**	285.0	**(182,277)**	306.0
Outstanding at 31 December	**254,827**	412.6	**226,416**	316.5

The weighted average exercise price of 60,512 (2013: 48,534) share options exercisable at 31 December 2014 was 297.5 pence per share.

The fair values of options which were granted during 2014 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 480p 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 480 pence per share.

The weighted average remaining contracted life of outstanding options at 31 December 2014 was 7 years and 11 months (2013: 7 years and 0 months).

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

In total, £27,000 of employee compensation by way of share based payment expense has been included in the consolidated income statement for 2014 (2013: £18,000). The corresponding credit is taken to equity. No liabilities were recognised due to share-based transactions.

b) Long Term Incentive Plan (LTIP)

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

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

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 £770,000 (2013: £1,456,000) has been charged to the profit and loss account in 2014 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 remaining payments to calculate the expense for each individual under their remaining tranches, taking into account the maximum cap on the payout to all individuals in the scheme of £10,000,000.

Given that the estimate is highly sensitive to share price movement, the following scenarios have been considered:

- If the share price were to increase to a lower level than assumed the charge for the year would have increased by £124,000
- If the share price were to remain static for the remainder of the plan the charge for the year would have reduced by £415,000
- If the share price were to reduce over the remainder of the plan there would have been no charge for the year.

23 Deferred tax

	2014 Deferred tax assets £'000	2014 Deferred tax liabilities £'000	2013 Deferred tax assets £'000	2013 Deferred tax liabilities £'000
Non-current assets and liabilities				
Property plant and equipment	**53**	**51**	46	171
Investment property	**-**	**-**	-	11
Intangible assets*	**-**	**275**	-	-
Current assets				
Share options	**18**	**-**	25	-
	71	**326**	71	182
Offset	**(71)**	**(71)**	(71)	(71)
	-	**255**	-	111

*Arising from acquisition of Lets Connect (see note 35)

	2014 £'000	2013 £'000
At 1 January	**111**	176
Acquisition	**346**	-
Movement in provisions credited to income statement (see note 11)	**(202)**	(65)
At 31 December	**255**	111

At 31 December 2014 the group had tax losses of £1,000,000 (2013: £1,018,000) 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.

24 Provisions

	2014 £'000	2013 £'000
At 1 January	**34**	63
Movement in provisions charged to income statement	**55**	63
Utilised during the year	**(66)**	(92)
At 31 December	**23**	34

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
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Financial liabilities measured at amortised cost:				
Amounts owed to subsidiary undertakings	**-**	-	**11,121**	6,343
Other creditors	**17,859**	1,023	**6,049**	-
Accruals and deferred income	**3,454**	2,644	**28**	57
	21,313	3,667	**17,198**	6,400

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

26 Insurance contract liabilities

	2014 £'000	2013 £'000
Claims reported	**838**	726
Claims incurred but not reported	**625**	575
Claims settlement expenses	**58**	58
Unearned premiums	**1,263**	1,495
	2,784	2,854

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

a) Claims	Gross	Reinsurance	2014 Net	Gross	Reinsurance	2013 Net
Claims reported	**726**	**(59)**	**667**	766	(226)	540
Claims incurred but not reported	**575**	**(90)**	**485**	301	-	301
Claims settlement figures	**58**	**-**	**58**	66	-	66
At 1 January	**1,359**	**(149)**	**1,210**	1,133	(226)	907
Claims paid during the financial year	**(6,144)**	**131**	**(6,013)**	(5,954)	470	(5,484)
Increase/(decrease) in liabilities:						
Arising from current year claims	**6,399**	**(210)**	**6,189**	6,161	(530)	5,631
Arising from prior year claims	**(93)**	**44**	**(49)**	19	137	156
Total movement	**162**	**(35)**	**127**	226	77	303
Claims reported	**838**	**(94)**	**744**	726	(59)	667
Claims incurred but not reported	**625**	**(90)**	**535**	575	(90)	485
Claims settlement expenses	**58**	**-**	**58**	58	-	58
At 31 December	**1,521**	**(184)**	**1,337**	1,359	(149)	1,210

b) Unearned premiums	Gross	Reinsurance	2014 Net	Gross	Reinsurance	2013 Net
At 1 January	**1,495**	**(176)**	**1,319**	1,762	(509)	1,253
Increase in the financial year	**24,189**	**(359)**	**23,830**	22,996	(358)	22,638
Release in the financial year	**(24,422)**	**368**	**(24,054)**	(23,263)	691	(22,572)
Movement in the financial year	**(233)**	**9**	**(224)**	(267)	333	66
At 31 December	**1,262**	**(167)**	**1,095**	1,495	(176)	1,319

27 Company investment in subsidiary undertakings and joint venture

	Shares in subsidiary undertakings	
	2014 £'000	**2013 £'000**
Cost		
At 1 January	**24,042**	24,042
Acquired in the year	**12,000**	-
At 31 December	**36,042**	24,042
Amounts written off		
At 1 January	**12,440**	10,322
Impairment provision in year	**-**	2,118
At 31 December	**12,440**	12,440
Net book amount at 31 December	**23,602**	11,602

The amounts written off in 2013 relate to Berkeley Morgan Group Limited, along with the impairment of dormant and loss making subsidiary undertakings.

At 31 December 2014 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
Lets Connect IT Solutions Limited*	Employee benefits salary sacrifice technology products

* Directly owned by Personal Group Holdings Plc

At 31 December 2014 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 2014 the allotted share capital of Abbeygate Developments (Marlborough Gate 2) Limited was 2 £1 ordinary shares (see note 33).

28 Capital commitments

The group had no capital commitments at 31 December 2014 and 31 December 2013.

29 Contingent liabilities

There were no contingent liabilities at 31 December 2014 and 31 December 2013.

30 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.

31 Leasing commitments and rental income receivable

Total operating lease payments due until the end of the lease, or the first break clause, total £1,223,000 (2013: £1,126,000). An analysis of these payments due is as follows:

	Motor vehicles	
	2014 £'000	**2013 £'000**
Total operating lease payments falling due on leases:		
Within one year	**418**	302
Within one to two years	**418**	302
Within two to five years	**387**	522
	1,223	1,126

Total operating rent receivable payments due until the end of the lease or the first break clause, total £295,000 (2013: £345,000). An analysis of these receivable payments due is as follows:

	2014 £'000	**2013 £'000**
Future minimum lease payments:		
Within one year	**213**	213
Within one to two years	**82**	118
Within two to five years	**-**	14
	295	345

32 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:

	2014 Receivable £'000	2014 Payable £'000	2013 Receivable £'000	2013 Payable £'000
Personal Assurance Plc	**2,358**	**-**	4,039	-
Personal Assurance Services Limited	**-**	**6,641**	-	4,508
Personal Group Benefits Limited	**-**	**666**	-	42
Personal Assurance Financial Services Plc	**-**	**137**	-	137
Multiplelisting Limited	**-**	**100**	-	100
John Ormond House Limited	**-**	**-**	-	-
Personal Management Solutions Limited	**680**	**-**	634	-
Mutual Benefit Limited	**-**	**12**	-	12
ParTake Services Limited	**3**	**-**	3	-
Berkeley Morgan Group Limited	**-**	**3,565**	-	1,544
Lets Connect IT Solutions Limited	**702**	**-**	-	-
	3,743	**11,121**	4,676	6,343

33 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 was 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	2014 £'000	2013 £'000
Rent receivable	**210**	354
Profit on disposal of apartments	**388**	159
Administration expenses	**(84)**	(100)
	514	413
Operating profit		
Interest payable	**(30)**	(95)
Profit on ordinary activities before taxation	**484**	318
Tax on profit on ordinary activities	**(99)**	(65)
Profit for the financial year retained	**385**	253
Personal Group Holdings share of profit	**192**	127

Balance Sheet	2014 £'000	2013 £'000
Current assets		
Inventories	**1,236**	3,341
Debtors	**98**	156
Cash at bank and in hand	**18**	12
	1,352	3,509
Creditors: amounts falling due within one year	**(170)**	(2,712)
Net current assets	**1,182**	797
Capital and reserves		
Called up share capital	**-**	-
Profit and loss account	**1,182**	797
Shareholders' funds	**1,182**	797
Personal Group Holdings share of net assets	**591**	399

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 £30,494 (2013: £95,253). Personal Group Holdings Plc had a charge over the development whilst the loan was outstanding.

At 31 December 2014 the amount outstanding on the loan was £Nil (2013: £2,596,428).

34 Cash flows from insurance contracts

During the year £23,858,000 (2013: £22,910,576) 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.

35 Acquisition note

Acquisitions in the current period

On 7 March 2014 the Group acquired 100% of the equity interest of Lets Connect IT Solutions Limited for £6m satisfied in cash plus a further contingent consideration (see below). Lets Connect IT Solutions Limited is an Employee Benefits leader, specialising in salary sacrifice technology products. The acquisition provides the Group with an enhancement to its existing salary sacrifice offering as well as an opportunity to cross sell its own products to Lets Connect's blue chip customer base of over 100 companies. In the period to 31 December 2014 the business contributed net profit of £1.1m. If the acquisition had occurred on 1 January 2014 revenue would have been an estimated £17.6m and net profit would have been an estimated £1.0m. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2014.

The Group has agreed to pay the vendors additional consideration of up to £6.0m based on achieving certain profit targets over the period to 31 December 2015 plus a bonus additional consideration should these targets be exceeded. The Group has included £6m as contingent consideration representing the fair value assessment of the amount believed to be payable. This is based on a weighted average of possible outcomes which indicate a 96% likelihood of the profit targets being achieved and a 4% likelihood that they will not be met.

Effect of acquisition

The acquisition had the following effect on the Company's assets and liabilities.

	*Recognised Values on Acquisition £'000
Acquiree's net assets at the acquisition date:	
Customer value	1,648
Property, plant and equipment	70
Inventories	151
Trade and other receivables	77
Cash and cash equivalents	724
Trade and other payables	(900)
Deferred tax liabilities	(345)
Net identifiable assets and liabilities	1,425
Consideration paid:	
Initial cash price paid	6,000
Contingent consideration at fair value	6,000
Total consideration	12,000
Goodwill on acquisition	10,575

*The recognised values above have been determined on a book basis with the exception of customer value which represents an assessment of the fair value based on future anticipated income.

A significant proportion of the purchase price represents goodwill on acquisition. This is because the majority of the future profitability of the business is expected to arise from the procurement of new customers rather than from the existing customer base. The acquisition provides the Group with an enhancement to its existing salary sacrifice offering and offers great potential to introduce Lets Connect products to the Group's existing customer base. Post acquisition synergies will consequently enable an increased penetration rate into the market place and the Board is therefore comfortable with the level of goodwill that has been created in the transaction.

The customer value is being amortised through the consolidated income statement over a 5 year period after which the majority of its value will have been extinguished; the charge for the period to 31 December 2014 was £0.3m.

The Group incurred acquisition related costs of £0.3m related to due diligence and advisers fees. These costs have been included in administrative expenses in the Group's consolidated income statement.

36 Post balance sheet events

On 18 December 2014 Personal Assurance (Guernsey) Limited (PAGL) was incorporated and became a wholly owned subsidiary of Personal Group Holdings Plc on 12 January 2015. PAGL was incorporated with the purpose of underwriting Death Benefit policies and began to underwrite new policies from 1 February 2015 and will underwrite existing policies from 1 April 2015.

On 30 January 2015 Personal Group Limited was incorporated as a wholly owned subsidiary of Personal Group Holdings Plc as part of a reorganisation of the group.

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Secretary:	S A Mace
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 1 St Peter's Square Manchester M2 3AE
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