Personal Group

Personal Group Holdings Plc
Annual Report and Accounts 2019

Connecting and protecting your workforce

Personal Group

Personal Group is a leading provider of both traditional and digital employee services, including employee benefits and insurance products.

Q&A with Deborah Frost

Meet Personal Group's new Chief Executive "We are here to support the working backbone of the UK; we make sure that when tough times come along we are there for them".

See more **on page 16**

Our strategy in action

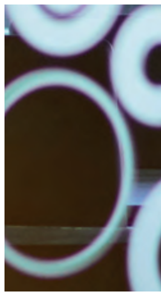
We implement engagement strategies tailor-made for workers on the move with an easy-to-use digital platform accessible anytime, anywhere.

See more **on pages 6, 28 and 50**

Engaging with our shareholders

We ensure that shareholders' views are brought into our decision making in the Boardroom through regular meetings, roadshows, updates and our Annual General Meeting.

See more **on page 24**



Overview

Strategic Report

Governance

Financial Statements

See more online at
www.personalgroup.com

Financial highlights

	Group Revenue
2019	£70.9m
2018	£55.3m
2017	£45.2m

Group Revenue

£70.9m

2018: £55.3m

	Adjusted EBITDA*
2019	£11.0m
2018	£11.4m
2017	£10.8m

Adjusted EBITDA*

£11.0m

2018: £11.4m

	Profit before tax
2019	£10.5m
2018	£10.2m
2017	£9.5m

Profit before tax

£10.5m

2018: £10.2m

	Basic EPS
2019	28.4p
2018	27.2p
2017	26.9p

Basic EPS

28.4p

2018: 27.2p

	Cash & deposits
2019	£17.0m
2018	£17.7m
2017	£16.2m

Cash & deposits

£17.0m

2018: £17.7m

	Dividend per share
2019	23.3p
2018	23.0p
2017	22.7p

Dividend per share

23.3p

2018: 23.0p

Operational highlights

- **Acquisition of Innecto**
  Successful integration of Innecto into the Group, enabling engagement with a different type of employer.
- **Refreshed strategy**
  Strategy refined and refreshed under the leadership of new Chief Executive, Deborah Frost; new website designed and implemented to reflect this.
- **PG Let's Connect performance**
  26% increase in revenue and 43% increase in adjusted EBITDA with no increase to headcount.
- **Increased adoption of Hapi**
  Now the benefits platform of choice for over 175 organisations and over 410,000 active users.
- **Increased SaaS revenue**
  146% increase driven by increased user spend on Hapi, following a successful transition to the servicing of e-vouchers and reloadable cards in-house.
- **ISO 27001 accreditation**
  Certification successfully achieved for the Group.

* Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation of intangible assets, goodwill impairment, share-based expense payments, corporate acquisition costs, restructuring costs, write back of contingent consideration and release of tax provision. This definition applies to all references to Adjusted EBITDA within this document. Details of the adjustments can be seen on page 18 and a reconciliation from PBT to this Adjusted EBITDA can be seen on page 21.

Personal Group at a Glance

We help businesses and employees across the UK improve their wellbeing with our range of employee services, benefits and products.

Our unique approach to delivering employee engagement brings together both digital and face-to-face communication to provide employees access to their company benefits, discounts, technology and services anytime, anywhere.

Protecting people

We provide insurance products to protect individual employees and their families – often for companies who don't provide death in service or sick pay benefits – we protect the unprotected.

See more **on page 9**

Our customers

Our heartland is working with large scale clients whose workforce doesn't sit at a desk and who traditionally have little access to financial services. We are now expanding our footprint into the wider economy and have developed services and solutions for the public sector, SMEs and talent driven businesses through PG Let's Connect and Innecto.

See more **on page 9**

Connecting people

We help employers by showing their employees how to access their benefits on a phone or laptop, one-to-one, face-to-face. We connect the unconnected.

See more **on page 8**

A wide reach

The rise of the zero-hours contract, contingent workforces and the gig economy have led us to expand our offering. We are working with large employers to make our products and services available to this vulnerable sector.

See more **on page 9**

You can lean on us

Our fair deal insurance products have been making a difference to the working backbone of the UK for over 35 years.

The rise of the gig economy, a challenging economic climate and changes to the National Living Wage have all contributed to increased pressure on payroll. We enable employers to offer additional benefits to their workforce at no extra cost to themselves, whilst protecting their workforce and their families.

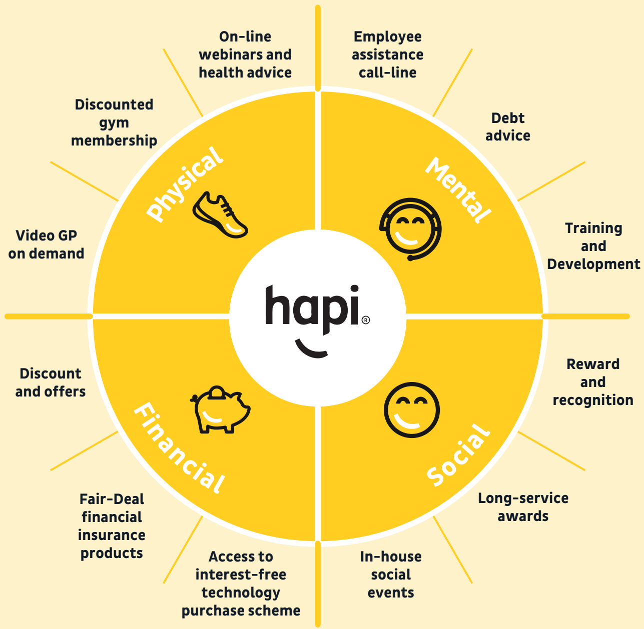
See more **on page 12**

Hapi, our employee experience platform

Hapi is our fully customisable employee experience platform which enables HR departments to streamline processes, connect with their employees and effectively communicate their employee benefits. Flexible and easy to use, Hapi allows businesses to connect all aspects of mental, physical, social and financial well-being with the benefits, communication and engagement tools they need to create an environment for their employees to succeed.

Hapi's flexibility also enables us to adapt our approach for different markets to make our offering as relevant as possible for their employees.

See more **on page 10**



Personal Group – markets

Large Industrial

Our core market is made up of the industrial heartlands of the UK, typically organisations where many employees don't sit behind a desk, are often low paid, and may not get the benefits package which other sectors expect.

Public Sector

Our NHS Trust offer is a customised platform, providing easy access to core NHS benefits like pension and employee helplines, all in one place, together with access to salary sacrifice products.

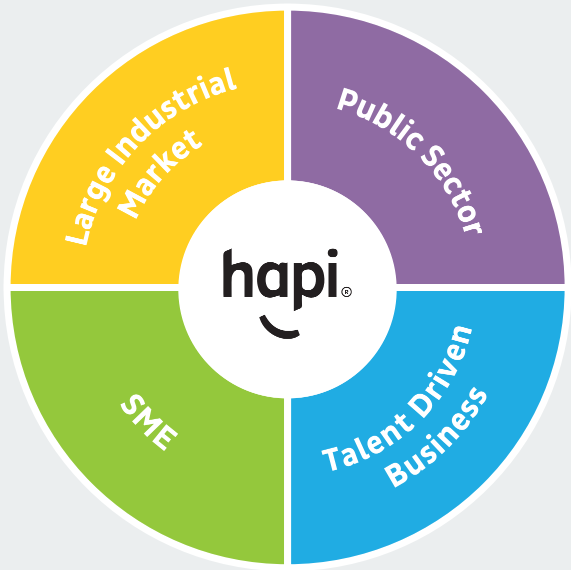
SME

We are currently accessing the SME market to provide a small business benefits package through our channel partner, Sage.

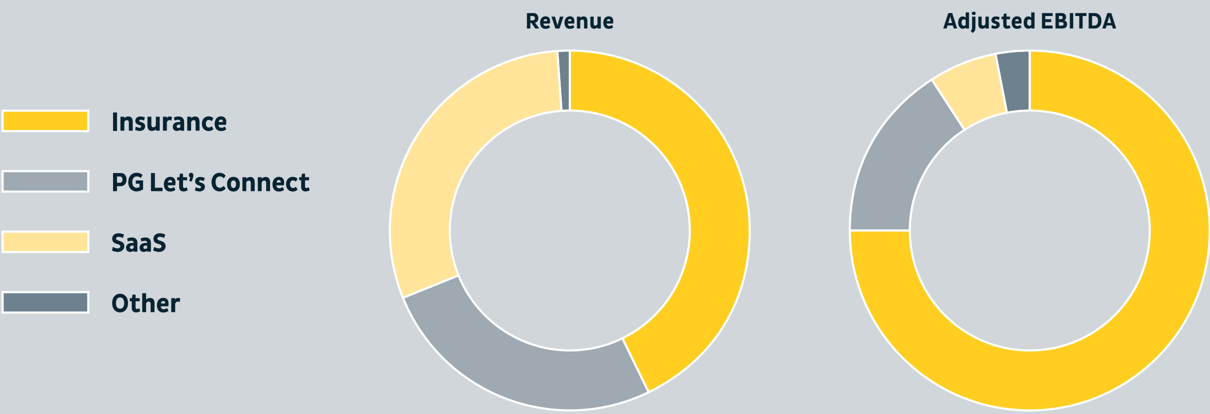
Talent Driven

Typically fast-growth organisations, where attracting and retaining talent is key to future success, accessed via Innecto.

See more **on page 8**



How we make our money



See more **on page 11**

Chairman's Statement

We continue to deliver benefits, both in financial terms and in peace of mind, to individual employees, many of whom make up the working backbone of the UK.

Personal Group has a rare consistency – we have again delivered a good profit from our operations."
Mark Winlow
Non Executive Chairman

Personal Group has a rare consistency – we have again delivered a good profit from our operations and, once again, increased our dividend to shareholders. We continue to deliver benefits, both in financial terms and in peace of mind, to individual employees, many of whom make up the working backbone of the UK. This is reflected in our refreshed mission to connect the unconnected, protect the unprotected and equip employers to engage and reward their employees.

Underneath this consistency, things are changing within our market. Our clients are more thoughtful in how they engage with their workforce to improve their well-being. Many have more involved and sophisticated procurement approaches to tackle this. Consequently, our engagement with our existing and prospective clients is changing. We are becoming more targeted and consistent in our account management. We have a much more integrated style which takes advantage of a more able marketing function within the Group and the strengths of our combined business propositions and salesforce. All of which is led by a new dynamic Chief Executive, Deborah Frost who, having been a Non Executive Director of the Group since September 2015, was appointed on 28 February 2019.

Some parts of our business have been able to respond quickly to the changes. Our home technology business, PG Let's Connect, has bounced back from the tax changes and the preceding uncertainty around salary sacrifice to deliver a 26% increase in revenue and a 43% increase in adjusted EBITDA. Increased usage of our benefits platform, Hapi, and the corresponding uplift in SaaS income, has been a key factor in our 28% increase in revenue, demonstrating the attractiveness of the platform. Innecto, the pay and reward consultancy, has only been with us for a year but has made the change to its new owner smoothly. Innecto has grown and, as envisaged, brought new clients to Personal Group, to the benefit of the Group more widely.

Our insurance business has needed more time to change. Our insurance premiums are down slightly on last year, held back by the elongated time and additional efforts needed to win new clients as a result of extended procurement approaches as well as more detailed consideration of the implications of GDPR. The changes to our approach and personnel put in place in 2019 have already led to major client contract negotiations at the start of 2020. In the past, our increased premium has masked a reduction in our policy numbers.

We are attacking the reducing numbers with new initiatives, such as a move to direct debit collection which allows those no longer on payroll, or who have never been on it, to enjoy the benefits of Personal Group even when premiums cannot be deducted from payroll. This will keep more, and attract more, policyholders. With changes in place, and new clients in train, we expect improvements in our insurance business contribution to result.

So, overall, our business delivered revenue up £16m (28%) from last year and profit before tax slightly improved. Pretty consistent. However, we consider Adjusted EBITDA to be a more appropriate measure of our performance as it has a consistent composition and does not include one-off elements that might distract from the underlying performance.

Adjusted EBITDA for 2019 was lower than 2018. This reduction was less than 4%, reflecting that the growth in revenue came predominantly from those areas of the business where the margin is, by nature, lower and costs that, whilst below budget, were higher than 2018. Increased investment also helped improve the marketing and sales capabilities and introduced some necessary credentials in system security - recognised by our ISO 27001 accreditation.

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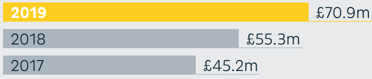


Group Revenue

£70.9m

2018: £55.3m

Adjusted EBITDA

£11.0m

2018: £11.4m

Profit before tax

£10.5m

2018: £10.2m

See our Business Model **on page 10**

See our Strategy **on page 12**

See our Board of Directors **on page 32**

As Chairman, I am pleased to confirm we have recently concluded a Board effectiveness review by Grant Thornton which was positive. I am also pleased to welcome Maria Darby-Walker to the Board and as Chair of the Remuneration Committee. Maria brings both financial services and major business experience from her work at Rolls Royce, Barclays, Birds Eye, Cadbury and Rio Tinto amongst others and was identified as one of the 'top 100 Women to Watch' by the Cranfield School of Management in 2018. I thank the entire Board for all their contributions in 2019.

Many people have contributed to the Personal Group throughout 2019, I and the Board thank all our colleagues for their continued enthusiasm and efforts. In addition, we do not take for granted the continued support of our shareholders large and small. Thank you all.

Fairness is an often-stated aspiration by companies, but making it happen is rarely discussed. Making aspects of financial security accessible to more people at a fair price is what Personal Group does, consistently. Our insurance products have been providing benefits for people in their time of need for over 35 years. Our hospital, convalescence and death benefit plans are designed to offer support and assurance and the discounts offered through our benefit platform help reduce the burden of cost on a daily basis. I'm confident our strong financial position and operational resilience will enable us to continue to fulfil these commitments during the current challenges caused by COVID-19.

Mark Winlow
Non Executive Chairman

20 April 2020

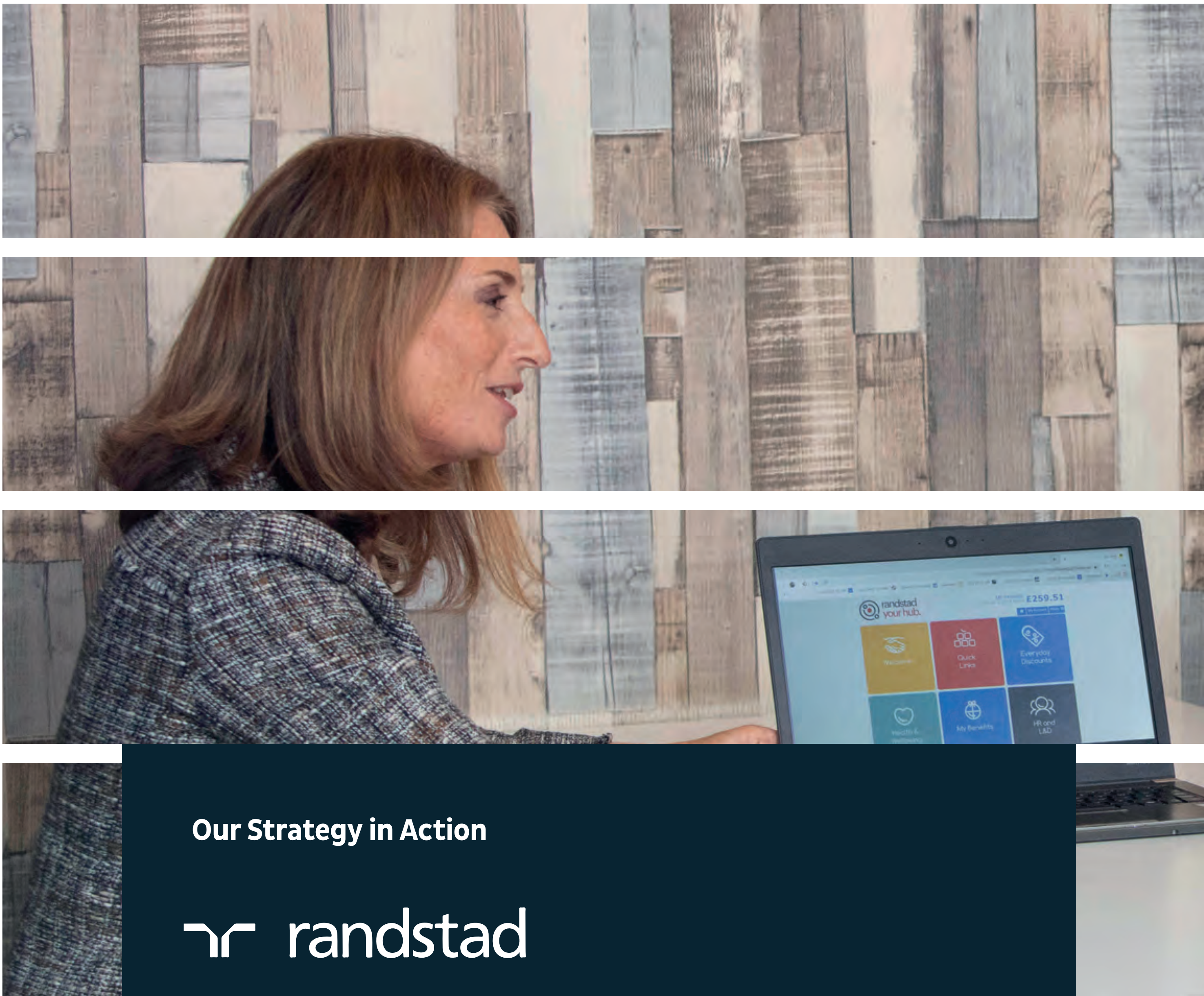
INNECTO

Innecto joined Personal Group in 2019 and brought with it an enviable client list across both highly commercial and not-for-profit organisations.

Jean-Christophe Fonfreyde, Head of Reward, Wellcome Trust

"Our goal was to develop a new simple pay architecture but were finding many of the frameworks offered by the larger agencies were too complex and didn't truly fit our needs. Our biggest challenge has been to reflect the diverse nature of the Trust - including our Collection (facing the heritage sector), Investments (facing the city), Grant makers (typically from academia/scientific backgrounds) and support roles (general industry wide) - and create a simple reward solution that meets the needs of all members of staff and feels fair. Innecto's innovative, nimble and agile approach has enabled us to create a solution that acknowledges we are One Wellcome, but also recognises our different cultural footprints, and we are now in the process of implementing and communicating this with Innecto's guidance. The breadth of experience and pragmatic approach of the Innecto team made them the perfect partner for us, and enabled us to reach the outcome we required."

wellcome



Our Strategy in Action

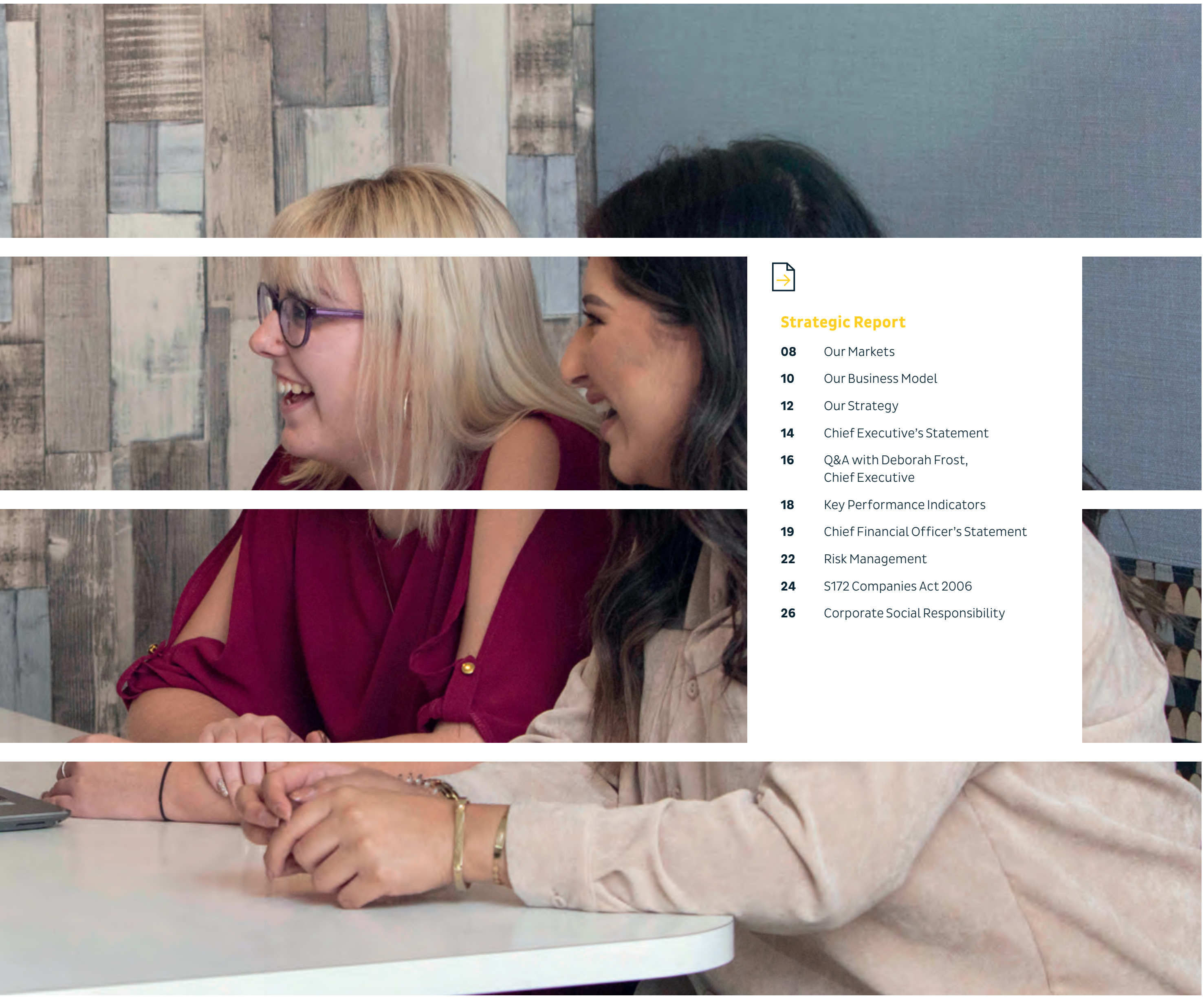
randstad

Description of the business:

Randstad is the largest recruitment company in the world, sending 668,800 candidates to work every day. Having built a strong foothold across the UK over the last 55 years, the company now has 1,400 employees working in over 70 branches throughout England, Scotland, Wales and Northern Ireland. Randstad prides itself on matching the right candidate with the right workplace and putting people at the heart of its process.

Be irresistible

We draw clients and customers towards us through better meeting their needs and adapting to changing environments.



Strategic Report

"Our biggest focus remains connecting and engaging with all our employees. We wanted our employee benefits programme to offer more than just discounts. Communicating our employee benefits offering to thousands of employees was proving tricky; many of our employees didn't even realise they had access to such a platform. We needed to find a way to engage them with us. That was going to be the key to future proofing our employee benefits programme.

Since day one, Personal Group has been an extension of the Randstad team. The product development team has absorbed all the feedback the team has given them, they go above and beyond to give us a tailored platform that fits our needs. What we have achieved alongside Personal Group has been amazing, and the fact that it's future proofed is even better."

Carolyn Walker
HR Operations Director, Randstad UK

What we did:

Brought together all of Randstad's multiple platforms into one single sign-on hub	**1,623 activated users**	**c40,000 logins**

Overview
Strategic Report
Corporate Governance
Financial Statements

Our Markets

Our unique blended approach of a competitive rewards and benefits package, a state-of-the-art native mobile app, and a UK wide face-to-face roll out and implementation team continues to drive exceptional engagement for our clients.

The UK Employee Benefits market continues to grow as higher awareness among both employers and employees increases both demand and expectations.

Attract, Retain and Engage

Employers continue to state their main objective in this area as employee engagement. However, with the introduction of substantial rises in the National Living Wage in 2020, we expect these drivers to change. As employers' payroll costs grow, we are experiencing increased demand for alternative benefit and reward proposals, at little or no cost to the employer. This is where Personal Group is perfectly poised to deliver against both objectives.

2019 saw record employment levels in the UK and more and more businesses implementing employee benefits programmes to attract and retain the best staff. This trend highlights the fact that employees are no longer focusing on salary alone, but on the broader business offer. This includes not just how it will impact their financial well-being but their social, mental and physical well-being too.

The ongoing uncertainty on Britain's position within the EU throughout 2019 added increased pressure on the labour market and on our heartland of lower-paid blue-collar employees. Many European workers within the UK labour market faced added insecurity and vulnerability which has continued into 2020 as we move into a transition period with the EU.

The effect of these pressures has led employers to compete for the best staff with both financial and non-financial benefits packages.

Our Approach

The Personal Group family provides a unique market proposition which enables us to leverage each brand within the Group to different sectors. While Personal Group continues to focus on the working backbone of the UK, PG Let's Connect have developed a strong offering in the public sector market and, in particular, the NHS. Alongside this Innecto is able to leverage the product and service offerings of both Personal Group and PG Let's Connect to their market as part of their wider Innecto Digital offering. Finally, the SME sector is addressed via our Sage partnership with more areas for development due to deliver in 2020.

This combined approach allows us to address every sector of UK business and offer relevant, timely and price appropriate benefits and services.

Increased awareness of wider well-being issues in the workplace, and the rise of the gig economy, has increased demand for services such as Employee Assistance Programmes and online GP services which, if held on a company computer only available during limited times, would see little or no uptake. Our ability to provide these on demand 24/7 has seen a huge increase in usage and engagement levels with the wider platform.

As employers struggle with balancing their payroll and supporting their staff our insurance products come to the fore. Offering employees access to our simple, low cost protection plans creates a much wider benefits offering at no cost to the employer whilst reducing presenteeism. Similarly, salary sacrifice schemes for technology products are very popular with the workforce and help drive engagement while being entirely cost neutral to the employer.

5.39m
people work in the UK Public Sector (Source: ONS)

UK manufacturing employs
2.7m
people in the UK (Source: The Manufacturer)

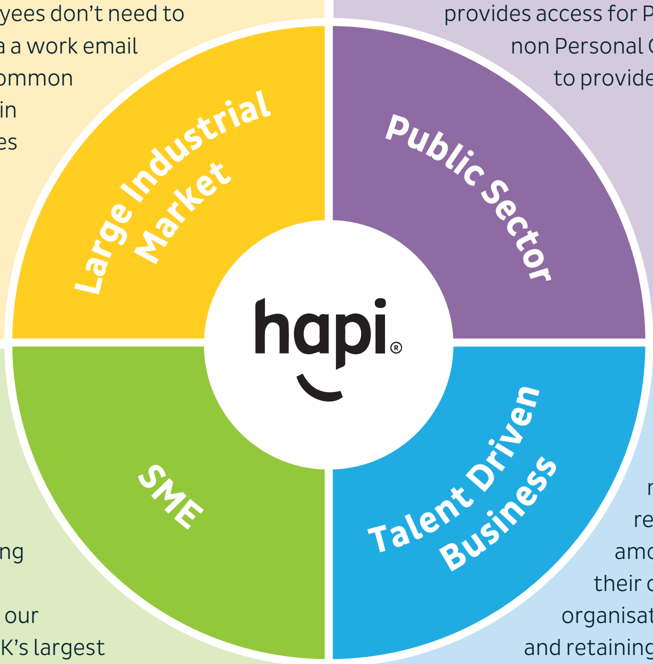
>99%
of the 5.9 million UK businesses are SME (Source: Merchant Savvy Co.)

Large Industrial

Our core market is made up of the industrial heartlands of the UK, typically organisations where many employees don't sit behind a desk, are often lower paid, and may not get the benefits package which other sectors expect. These roles in social care, food manufacture, transport and logistics and warehousing form the working backbone of the UK. We are proud to offer a benefits package and fair-value employee paid insurance protection, to ensure that these employees can cope with the financial impact of unexpected events through our Hospital Cash Plan, Convalescence Plan and Death Benefit. Our benefits platform is available on mobile phones, which means employees don't need to log-on to a work intranet, via a work email address, both of which are common access issues for employees in our core sector. Our field sales team meet with individuals on a 1-2-1 basis to help them download and access the App and offer our insurance products at work.

Public Sector

The NHS generally has better paid employees than our core markets, but little spare budget to invest in benefit platforms. This means that NHS employees can miss out on the discounts and offers that others take for granted, as well as salary sacrifice home technology, bikes and cars. Our NHS offer is a customised platform, providing easy access to core NHS benefits like pension and employee helplines, all in one place, on a mobile phone. Salary sacrifice schemes in the NHS create a small pension saving for the employer too which releases NHS Trusts' budget for other investment. We are providing a discounted platform for the NHS Trusts we are working with which provides access for PG Let's Connect and other non Personal Group third-party providers to provide salary sacrifice benefits.



SME

With 15.6m employees working in companies with fewer than 250 employees, the SME market in the UK is vast but fragmented. Reaching small employers at scale can be cost-prohibitive. Through our partnership with Sage, the UK's largest provider of payroll and accounting software for small businesses, we can reach significant numbers of smaller companies in the UK. We also have plans for widening our partnership offer to other organisations which work extensively with the SME market such as small business insurers, business services and membership organisations.

Talent Driven

Innecto work with organisations across sport, media, fin-tech, scientific research and technology among others. Typically their clients are fast-growth organisations, where attracting and retaining scarce talent is key to their future success. Innecto's blend of flexible, intelligent thought-leadership has built a strong reputation for consultancy and digital analysis solutions which help organisations understand their reward position better. They also provide consultancy in gender pay and other legislative-led transparency changes to reporting. With Innecto Digital re-platformed onto Personal Group's technology platform, we provide advice and services for larger businesses with the same high standards of data protection and security, and benefit from improved reporting tools. Innecto's clients typically are C-suite decision-makers in HR, Finance or the Chief Executive.

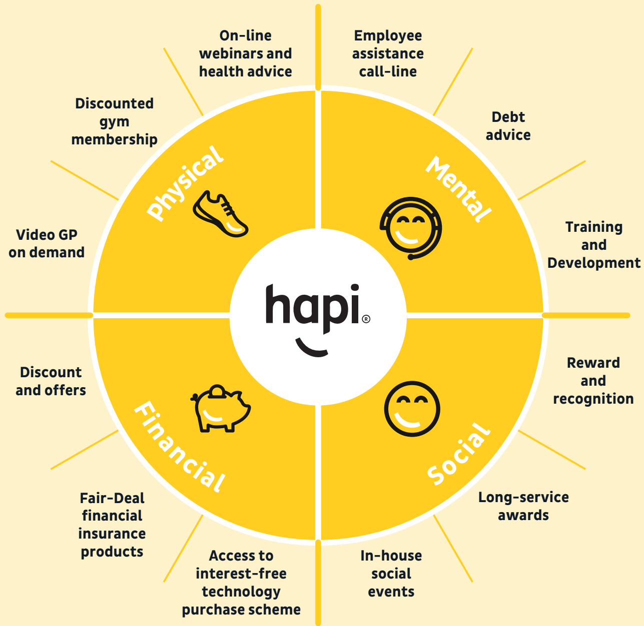
Our Business Model

Our business is built on one simple fact: happy people are more productive at work.

Hapi, our employee experience platform

Hapi is our fully customisable employee experience platform which enables HR departments to streamline processes, connect with their employees and effectively communicate their employee deal. Flexible and easy to use, Hapi allows businesses to connect all aspects of mental, physical, social and financial well-being with the benefits, communication and engagement tools they need to create an environment for their employees to succeed.

Hapi's flexibility also enables us to adapt our approach for different market segments to make our offering as relevant as possible for their employees.



Maximising that value

Clear strategy
To expand our footprint into different market segments.

Effective delivery
A strong and experienced management team.

Robust risk management
A strong and effective risk management culture.

Sound governance
An experienced Board with over 40 years combined experience of Personal Group.

Creating value for our stakeholders

Our clients
Bespoke, integrated and intuitive delivery of a broad and affordable suite of employee services to help employers to attract, motivate and retain staff.

Our customers
Peace of mind for policyholders with our fair deal insurance products and enhanced employee access to benefits and discounts via Hapi.

Our colleagues
An engaging and challenging environment for our 235 staff.

Our shareholders
A track record of a progressive dividend.

> **Hapi contains many features which improve employee communication and engagement beyond the provision of more traditional employee benefits"**

How we make our money

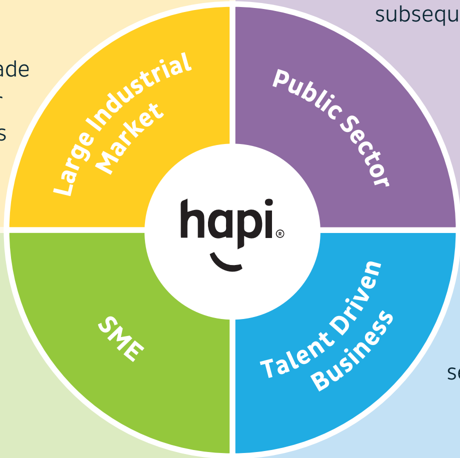
Large industrial

Employer paid Hapi subscriptions – employers pay monthly or annual subscriptions per employee for use of the hapi platform and app.

Employee paid insurance premiums – access to our insurance products is made available through an individual's wider employee benefits offering. Premiums are paid by the employee via a weekly or monthly payroll deduction.

Public Sector

Employer paid home technology salary sacrifice sales – employers pay upfront for their employees' technology purchases with employees making subsequent monthly salary sacrifice payments back to their employers.



SME

Employer paid Hapi subscriptions – employers pay monthly or annual subscriptions per employee for use of the Hapi platform and App through an SME channel partner.

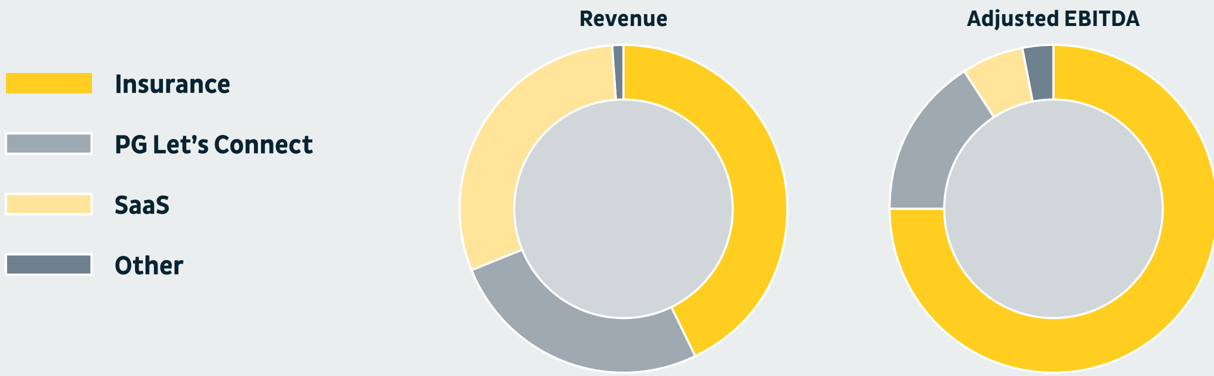
Talent Driven

Innecto consultancy income – employers pay for a full reward service – from pay benchmarking to the development of job evaluation and bonus schemes.

Innecto Digital subscriptions – employers pay an annual subscription for digital analysis and predictive SaaS tools for use in making pay decisions.

Commission on third-party transactions – we earn a margin on some of the discounted vouchers available to employees through Hapi and commission on any third-party financing arranged or employer purchases of partner solutions.

Non-revenue generating added value features of Hapi – these features drive usage of the platform by both employees and the HR function, establishing Hapi as a core component of the employers back office technology suite, which further enhances the "stickiness" of our offering to the corporate client.



Our Strategy

The Group's 2025 aspirations are to double EBITDA and have 1 million users of the Group's Hapi platform.

Our purpose is to connect the unconnected, protect the unprotected and to engage and reward employees with the provision of our services in the UK.

We recognise that our aspiration will only be achieved by the combination of a variety of approaches.

The higher margin insurance business will only be able to grow organically if we drive the business to think differently. We intend to grow this side of the business by widening its accessible markets to include the gig economy for current and new clients, improving the attractiveness of its offer to employers and policyholders and retaining more policyholders for longer.

We also recognise the requirements to expand our footprint into the wider economy and have developed services and solutions for the public sector, SMEs and talent-led businesses through PG Let's Connect and Innecto.

In addition, where we come across businesses which we consider will supplement our overall proposition, we will continue to consider acquisition.

PG Let's Connect in action

"The response to the SWBH Benefits programme has been fantastic and the results from the PG Let's Connect Technology Benefit have been a great success. We've been able to offer the latest home technology to our staff and seen fantastic take up. We've also been able to offer a wide array of benefits through Hapi and place it in the palm of our employees' hands and seen fantastic take up, which in turn has enhanced morale, reduced sickness and ensured we continue to retain and recruit the very best nurses – we couldn't ask for more!"

Amir Ali, Head of Engagement, Retention and Nurse Recruitment – Sandwell and West Birmingham NHS Trust

Our client proposition

Employee benefits & insurance

Our Hapi benefits solution is a market-leading platform, designed to be accessible, mobile first, fully customisable by clients and especially designed to work well for clients where their employees don't sit behind a desk all day. With employee well-being being top of most employers' lists, Hapi puts access to well-being into employees' pockets, on their phones, wherever they are.

Our employee-paid insurances are specifically helpful where employers are not able to provide financial support for unexpected events – a stay in hospital or a bereavement. Our fair-value products are simple, single rated, with no medical adjudication required and cost about the same as a cup of coffee each week.

Finally, we join the dots for employers – our field sales team sit down with employees face-to-face, and connect them to their benefits platform and talk about protecting them and their families.

PG Let's Connect

Our proposition offers access to technology through payroll with NIC savings for employees. Employees can choose from the latest technology and pay monthly through payroll with insurance bundled in. Employers are able to offer an attractive cost-saving for employees compared with the cost of a store credit card or bank loan. Employers value the added attraction and retention of employees through the benefit and pension savings.

SME

We offer a standard employee benefit offer through Sage for employees of companies of 250 or fewer. Priced competitively, it offers employees of smaller companies access to our discounts and offers, an online GP, Cycle to Work and an Employee Assistance Line.

Innecto

Innecto offers clients a full reward consultancy service – from pay benchmarking to the development of job evaluation and bonus schemes. 2019 clients include ITN, The Princes Trust, Arsenal FC and The British Library. Innecto has also developed a suite of digital analysis and predictive SaaS tools for use in making pay decisions.

> The Group has focused on maximising the accessible market opportunity and developing multiple routes to market."

Our 2019 progress	Our 2020 plans
– Our goal in 2018 was to take the discounts and offers operation in-house after a data breach at our third party provider. Early in 2019 we started operations and have enjoyed a very successful first year. We fulfil Hapi users' orders for vouchers and reloadable discount cards directly from our Head Office operation. In 2019 we delivered around £2.5m in discount value to our 410,000 active Hapi users. – We have re-shaped the Marketing team and re-developed our website to better reflect our client base and solutions, including several new client case-studies. We've also developed fresh sales collateral to get our message out to clients and emphasise the unique solution that Personal Group brings. – We have started developing a benefits and insurance solution for clients which addresses their contingent workforce – agency workers, temporary employees and zero hour contractors, in addition to their employed staff. We have completed a small successful pilot and intend to roll this out further. – We have also started working on enhancements to our products to reflect changes in the NHS and better meet our policyholder needs.	– Consider the development of new insurance products to appeal to a wider client/employee base. – Continue developing our entry into protecting the contingent worker economy through our current insurance products. – Expand our addressable market for insurance and build our book for future income streams. – Develop policyholder retention strategies from pilot testing.
– We increased profit by 43% and saw new Hapi propositions created for the NHS by PG Let's Connect. – We implemented a fully automated employee experience helping us to grow revenue by 26% with no increase in headcount.	– Extend the Hapi NHS product to more Trusts. – Widen the offer to include other public sector employers such as Fire Service, Police, University and Local Authority. – Expand the offer to include white goods.
– We have been working closely with Sage's team to develop their 'Perform at Your Best' campaign for their SME clients. This includes material to support small business owners and management teams to save time, make better decisions and improve the performance of their people. Sage's Employee Benefits solution, powered by Hapi, fits under the 'People' workstream. – We have also been working with Sage to develop a new sales approach to clients with existing Payroll and Accounting services.	– Sage builds on success of their Making Tax Digital campaign to launch new marketing to include the Sage Employee Benefits offer. – Sage underwrites Personal Group's platform costs.
– Acquiring a successful small company and maintaining their success through the transition can be challenging, but we have been delighted with the way the Innecto team have worked with their Personal Group counterparts. Innecto have brought a sharper sales focus, their high value client network and marketing knowledge to the wider business and are set for further growth in 2020 with the launch of the new Innecto Digital suite of pay and analysis tools. – We have recoded the SaaS product, Innecto Digital 2.0 onto the same platform as Hapi offering superior scalability, flexibility and data security. Reporting quality and data interrogation are also improved.	– Wrap up Innecto Digital Reward tools with Hapi platform for a UK market leading pay and benefits analysis solution. – Continue to develop consulting practice and further expand SaaS market penetration.

Chief Executive's Statement

Personal Group is a leading UK provider of employee services, including employee benefits and insurance products.

"We continue to build on our strategy to establish Personal Group as a leading provider of employee insurance, benefits and reward."

Deborah Frost
Chief Executive

Introduction

My appointment in February came with a clear set of instructions: 'Grow the business' – and I was excited to take over a company which has so many key components functioning well. But our growth has been steady rather than spectacular over the past few years, so I have issued a challenge to my senior team and our employees – "Let's double the profits by 2025" – this isn't a promise or a forecast but a way to help us think bigger, drive growth, and harness ambition for our future.

Core Insurance Business

Since my appointment we've spent time focussing on what is important in Personal Group. We provide insurance and employee benefits to hundreds of thousands of employees all over the UK, but what is our key purpose and unique offer in a crowded marketplace?

We have identified that the central purpose of the core insurance business is to 'connect the unconnected' and 'protect the unprotected'. Behind these two statements is a recognition that many of our policyholders are the working backbone of the UK. In their roles as bus drivers, food manufacture operatives, care home staff or retail employees, not all have employer-paid benefits if they are ill, need to attend hospital or, in the worst case, die. Our field sales team sit down 1-2-1 with over 73,000 employees a year to connect them to the benefits their employer offers them, via Hapi on a mobile phone app, and over 64,000 employees to talk about protecting themselves and their loved ones from the financial impact of an unexpected event. Personal Group's insurance business has been working with client organisations like these to ensure that workers can have access to simple, fair-value insurance products for over 35 years.

We believe in making it easy to claim, with our Milton Keynes Customer Relations team handling over 32,000 claims from policyholders in 2019. We've also been developing options for employers to offer our insurance products to their staff on temporary or zero-hours contracts and agency workers. In reflecting the reality of the UK workforce and including workers as well as employees on site visits, we can improve productivity of our field sales team and protect more people.

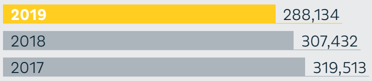
When I took over the business our insurance segment was starting to contract. Policyholder numbers have been reducing for a few years, but increases to premiums had meant that policy income remained static. In 2019, for the first time, premium income shrank slightly. I have made reversing this trend a major focus, and whilst significant improvement in the financial performance will not be immediate, we are very pleased with the foundations that we are laying to widen our opportunities.

But we've also recognised that the long-term sustainability of the business lies in expanding our footprint so that we compete beyond our heartland clients. Some of these jobs may be replaced by robots and AI over the next 15 years, so we're developing propositions to cover a wider part of the economy such as the public sector and talent-led businesses. My job has been to help my management team breathe new energy into these developing areas, and set challenging goals to grow the business beyond our insurance core.

"We have identified that the central purpose of the core insurance business is to 'connect the unconnected' and 'protect the unprotected."

SaaS

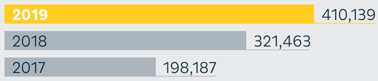
Our benefits platform Hapi provides a customisable platform where employers can combine all their current provision (pension, childcare vouchers etc) into our simple mobile and desktop product. They can then select from an array of other products and services: payslips, reward and recognition, salary sacrifice technology, cars and cycles as well as our offers and discounts to build the right benefit solution for their teams. Our technology, particularly the mobile app, is outstanding and is a great solution for clients where their teams aren't



Number of policies in force

288,134

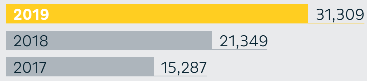
2018: 307,432



Activated employees on Hapi

410,139

2018: 321,463



PG Let's Connect shipments

31,309

2018: 21,349

See our markets **on page 08**

See our strategy **on page 12**

See our KPIs **on page 18**

sitting behind a desk all day. We've had real breakthroughs this year in working with new partners (ThinkMoney) and new clients (Prince's Trust through Innecto). The SaaS revenue from Hapi has grown significantly in 2019, from £1.8m to £3.1m, and the success of the Hapi solution is shown by the massive growth in our top-line revenue on discounts and offers. Our goal is to reach 1 million Hapi users by 2025 and we're well on the way with our active users up by 28% in 2019 to 410,139. Over 175 organisations use the Hapi platform for their employee benefits, customising it to meet their own branding and employee requirements. It's not always called Hapi – clients call it different names from 'Smile', 'The Benefits Room', 'MyHub' to 'The Pantry'.

Our access to the vast but fragmented SME market is primarily through Sage's employee benefits product (Sage Employee Benefits) for Sage customers. Sage's focus on Making Tax Digital for their clients in 2019 meant our re-launched project suffered delays, but a new management team within Sage, and significant internal support, have driven progress in developing this growth opportunity. A new marketing campaign in Q1 2020 by Sage should drive awareness and Sage have agreed to underwrite our cost of the platform for 2020 as part of their commitment to the roll-out.

Innecto have completed their first 10 months in the Personal Group family. Innecto Digital, their digital pay management suite, has been completely re-coded and re-launched on the Outsystems platform, bringing the same level of scalability, security and analytics as Hapi. Current clients are being migrated onto the new system in early 2020 and new opportunities are being lined up. They have continued to grow their consultancy business this year. Innecto's drive, growth mindset and client focus have brought new ideas into Personal Group too.

PG Let's Connect

Finally, PG Let's Connect have had a splendid year – both delivering on their commitment to their adjusted EBITDA number (+43% on 2018), with no increase in headcount, at the same time as developing new products to meet the requirements of the NHS. We're very excited about the opportunities we bring to NHS Trusts by simplifying their benefit offer, putting everything in one place, and into staff hands via the mobile app. The platform includes access to salary sacrifice home technology through PG Let's Connect, and cars and cycle to work schemes. We have also wrapped in access to their pension scheme, the excellent NHS employee support line, and their own discounts and offers. The NHS employs over one million workers in the UK. We are in final contract discussions with two Trusts and are working with others.

Team

Our Marketing team has been overhauled, with new faces and fresh ideas. We have recently launched a new website which places our 'protect the unprotected' offer front and centre, and includes real policyholder and client case studies. I'm happy that it reflects who we are and what we do.

Outlook

Despite the substantial global impact of the COVID-19 virus, which necessitates a significant degree of prudence for 2020, we remain positive in terms of the longer-term outlook for the business. We have implemented our contingency plans and almost all of our employees are currently working from home, in accordance with UK Government advice. We have considered the developing COVID-19 situation in detail and have modelled numerous scenarios. Whilst we expect that the ongoing impacts of the virus could have a material impact on EBITDA for 2020, and into 2021, we remain confident that the business will remain profitable with a strong balance sheet and no debt. In addition, we have significant headroom and are taking actions to protect the business.

These include furloughing a number of employees, setting up outbound sales activity with our field sales teams whilst continuing to process claims and serve our customers. The changes we have implemented this year will undoubtedly take time to bear fruit, and they will be joined by new developments in 2020, but at the end of my first year, I recognise the strength, resilience and determination of not just my senior team but the wider Personal Group family to create and drive the business forward into new and existing markets.

Whilst the current challenges being faced in the light of COVID-19 may temporarily change our focus in the short-term, they may also present longer-term opportunities to reinforce our central purpose of connecting the unconnected and protecting the unprotected further.

Deborah Frost
Chief Executive

20 April 2020

Q&A

with Deborah Frost, Chief Executive

Having been in the role for almost one year what has been your overall impression?

My overwhelming impression has been what a fantastic team we have here at Personal Group and how excited people are about the future. The team are also very loyal to Personal Group. Our employee engagement scores are very high, and as I have walked around the business and got to know people really well, I have been impressed with how committed they are, not just personally to the business but also to each other, our clients, and policyholders.

How do you feel the culture of Personal Group has changed in the past year?

I think we now have a lot more pride in what we do. We protect the unprotected and offer insurance products to people who don't find it easy to access financial services. Our policyholders are a group of people that the insurance industry has perhaps neglected. We are here to support the working backbone of Britain; we make sure that when tough times come along, we are there for them. This has culturally given us a sense of real purpose over the last year.

What are your top areas of focus within the business?

I am very keen that we continue to work hard on our values and behaviours, in particular, that we "run it like we own it."

There are some great ideas within the business, and I am encouraging people to take ownership of these. We have introduced a series of pilots to look at areas such as retention and expanding our footprint into new sectors. I am really keen that all staff get behind this value and that we all "run it like we own it" as we move forward together.

What surprised you when you joined the business?

One of the big surprises was that the messaging we had going out to the world was not really very clear and yet, within the business, we had developed a very clear purpose of what we do and how we do it. I have therefore spent a lot of time helping the team craft these messages and helping position ourselves with our client base so that they really understand what we can do for them.

What do you see as the main strengths of the business?

One of our key strengths is our fantastic user benefits platform - Hapi. It is very user friendly and helpful to businesses. One of my main goals is to really get this into the hands of more employers and their employees over the next two to three years. It is fully customisable and therefore extremely beneficial to organisations who have a lot of employees who don't sit behind a desk. Our key message to those employers is that we can provide a solution to help them reach their employees, communicate with them and provide them with a really good benefits suite for an affordable budget.

What are you most looking forward to in the next 12 months?

I am looking forward to seeing our plans develop and deliver. We have put a lot of things in train so whether this is expanding our footprint into new client areas, or the work we have done in opening up the NHS and other public sector bodies, there are some exciting commercial opportunities on the horizon.

> I am very proud of the new markets we have opened up this year as we continue to bring benefits to the UK workforce."

What do you see as the main opportunities for Personal Group?

I see many opportunities for the business, some key areas as below. Personal Group has always been focused on working with employed staff, and we have collected payments from our policyholders through payroll. Our opportunity now is to meet the changing needs of the British economy, which employs people on different terms such as self-employed, zero-hour, and temporary contracts. All of these workers could benefit from the opportunity to buy our fair value products and so we have expanded our remit to talk to and support people who are in a business on a contingent basis rather than simply the employed workforce.

In addition to our protection products we have also made changes to our Hapi platform and app. We are now able to offer this to contingent workers and policyholders who have changed employer. Stay-Hapi provides a streamlined version of the main platform which continues to provide everyday savings into the hands of our customers.

With the acquisition of Innecto, we are also now engaging with a different type of employer. Innecto deal with a white-collar market and we are able to bring the Hapi platform, as part of the much wider Innecto Digital Suite, to professional services type employers such as lawyers and architects alongside an impressive blue-chip client list.

And finally, Let's Connect have made great headway this year in working with the NHS and other Public Sector organisations. The Let's Connect offering into the NHS is extremely beneficial both to the Trusts in terms of National Insurance savings but also to the workforce who are one of the heroes of the UK economy.

I am very proud of the new markets we have opened up this year as we continue to bring benefits to the UK workforce.

How has Personal Group evolved in the last year, and what were the drivers behind this?

We have devised three ways of working that I believe have given structure to all that we do.

Be famous: We have a fantastic value proposition for our customers but, if no one knows about it then it is wasted. We have spent time developing our messaging to make sure people know who Personal Group is.

Be dependable: We have always been known as a dependable company, but I want to make sure that we always keep our promises. I want to make it easy for our customers to access their policies, find out more information or make a claim.

Be irresistible: We have focused this year on really looking at our policies, how they work, and how we can make them even better. We have looked at ways in which our Death Benefit Plan can pay early if, for example, someone is diagnosed with a terminal illness. We have introduced ways to make it easier for family members to cover funeral expenses, and we have taken on board the changes in the NHS to better align our Hospital Plan.

Tell us more about you

When I set up Innecto I wanted to create a business where people really wanted to come to work! We employed many part-time people and people from a variety of different backgrounds and we worked hard to create a very positive culture. I feel strongly that I can, and have, transferred the learning and skills from that experience to Personal Group. I want a team of people who are deeply proud of what they do, that connect to Personal Group and know that they work for an organisation that is doing something good in the world. We are, of course, a commercial business but I want us all to go home at night thinking "yes, I did a good job today."

That sense of doing good and doing the right thing is what drives me, and I'd be proud for our people to believe that working here is the best job they have ever had. When our people look back over their career in the future, I want them to be able to say "yes, we did some good stuff there!"

When our people feel this way, this will flow through to our clients, customers and policyholders. I want our customers to know that we value them and think about them all the time.

Key Performance Indicators

The Group uses a number of alternative performance measures as well as other KPIs when reviewing overall business performance.

Alternative performance measures

The Group uses a number of alternative (non-Generally Accepted Accounting Practice (non-GAAP)) financial measures when reviewing performance of the Group, evidenced by executive management bonus performance targets being measured in relation to Adjusted EBITDA* and Annualised new business insurance premiums. As such, these measures are important and should be considered alongside the IFRS measures.

In Adjusted EBITDA*, the adjustments taken into account, in addition to the standard IFRS measure, are those which are considered to be non-underlying to trading activities and which are significant in size. For example, goodwill impairment is a non-cash item relevant to historic acquisitions; share-based payment expenses are a non-cash item which have historically been significant in size, can fluctuate based on judgemental assumptions made about share price and have no impact on total equity; corporate acquisition costs and reorganisation costs are both one-off items which are not incurred in the regular course of business; and write-back of contingent consideration and the movement in the PG Let's Connect tax provision are both considered to be non-underlying items, relating to a liability inherited on acquisition of that business and have the potential to fluctuate and be of significant size.

Annualised new business premiums are a key performance indicator as, whilst no direct reconciliation to earned premiums for the year can be carried out, they are a primary driver of earned premiums in future years and, as such, are a key measure for the Group. For a weekly premium, the measure is calculated as the value of the premium (net of IPT) x 52; for a monthly premium, the value of the net premium (net of IPT) x 12.

2019	22.1%
2018	23.0%
2017	22.1%

Claims ratio (%)

22.1%

2018: 23.0%

2019	52%
2018	52%
2017	52%

Enrolled to presented (%)

52%

2018: 52%

2019	410,139
2018	321,463
2017	198,187

Activated employees on Hapi

410,139

2018: 321,463

2019	288,134
2018	307,432
2017	319,513

Number of policies in force

288,134

2018: 307,432

2019	£10.5m
2018	£10.2m
2017	£9.5m

Profit before tax (£m)

£10.5m

2018: £10.2m

2019	£9.0m
2018	£10.5m
2017	£10.8m

Annualised new business insurance premiums (£m)

£9.0m

2018: £10.5m

2019	£11.0m
2018	£11.4m
2017	£10.8m

Adjusted EBITDA* (£m)

£11.0m

2018: £11.4m

2019	31,309
2018	21,349
2017	15,287

PG Let's Connect shipments

31,309

2018: 21,349

* Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation of intangible assets, goodwill impairment, share-based payment expenses, corporate acquisition costs, reorganisation costs, write-back of contingent consideration and release of tax provision. This definition applies to all references to Adjusted EBITDA within these report and accounts. A reconciliation from PBT to this Adjusted EBITDA has been included on page 21.

Chief Financial Officer's Statement

The Group, with its strong balance sheet and broader portfolio of products and services, is well positioned for future growth.

Pleasingly PG Let's Connect grew its revenue by 26% and adjusted EBITDA* by 43% without an increase in headcount."

Mike Dugdale
Chief Financial Officer

Group results	2019 £000	2018 £000
Revenue	70,889	55,347
Adjusted EBITDA*	10,982	11,437
Operating profit	9,350	9,548
Profit before tax	10,487	10,210
Tax	1,649	1,819
Profit for the year	8,838	8,391

* Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation of intangible assets, goodwill impairment, share-based payment expenses, corporate acquisition costs, restructuring costs, write-back of contingent consideration and release of tax provision.

Revenue

Group revenue for the year increased by 28% to £70.9m (2018: £55.3m). The Group saw strong revenue growth from SaaS and PG Let's Connect whilst the insurance business was hindered by a slowdown of new client business wins resulting in fewer new policies written.

Group revenue growth in SaaS was driven by increased user spend on Hapi and the fact that the provision of products such as reloadable cards, e-vouchers and cinema tickets are now serviced largely in-house. An increase in paid-for Hapi subscriptions and the addition of consultancy income following the acquisition of Innecto have also helped to drive this growth.

PG Let's Connect significantly improved its year-on-year performance. The Company expects this growth to continue following a positive reaction to the new proposition created for the NHS.

Personal Group remains well placed to benefit from the continued growth and development of the employee services market and the associated increasing pressure on businesses to improve productivity and attract and retain staff in a tightening labour market.

Adjusted EBITDA*

Adjusted EBITDA* for the year has dropped to £11.0m (2018: 11.4m), despite increased revenue. The improved trading performances from PG Let's Connect of £0.5m and SaaS of £0.4m which, by nature, are lower margin businesses, were offset by the insurance business, being £1.5m down on last year. Insurance continues to contribute the majority of Adjusted EBITDA* and the reduced contribution reflects the reducing policy numbers.

The Group continued to retain a prudent focus on costs, which were below budget for the year but up on the prior year. The increase in costs includes the planned investment in sales and marketing to drive additional sales opportunities to reverse the current decline in the insurance business and additional legal costs incurred in pursuing the damages from a long standing judgement, awarded to the Group in October 2014, which is expected to come to a successful conclusion early in 2021..

Adjusted EBITDA* remains the most appropriate measure of performance, reflecting the underlying profitability of the business. This is due to the impact of one-off items, as a result of past acquisitions, on the Group's reported Profit Before Tax. A further explanation of this can be found on page 21.

Profit before and after tax

Profit before tax was £10.5m during the year (2018: £10.2m). This increase was predominantly due to the £1.3m (2018: £0.6m) release of the tax provision and the increase in trading performance in PG Let's Connect and SaaS, offset by reduced contribution from the insurance business. The tax charge for the year was £1.6m (2018: £1.8m), resulting in profit after tax for the year of £8.8m (2018: £8.4m).

Chief Financial Officer's Statement continued

> Revenue from the Group's SaaS business was up significantly again in 2019, reflecting a growing Hapi user base, Sage Employee Benefits and the acquisition of Innecto."

EPS

Basic EPS was 28.4p (2018: 27.2p). The calculation is detailed in note 13.

Dividend

The Company paid a total dividend of 23.3p per share over the year (2018: 23.0p), representing a 1.3% increase over the prior year. The Group's core insurance business retains its strong profitability, despite facing new business challenges, and continues to underpin the dividend and support investment across the wider business. Whilst profits remain relatively flat, the Company has sufficient distributable reserves to support a progressive dividend policy as the Group works towards implementing its strategy. The first quarterly dividend for 2020, of 5.9p per share reflects this policy and represents a 1.3% increase over the corresponding period in 2019. The dividend was paid to shareholders on 27 March 2020.

Balance sheet

The Group's balance sheet remains strong, with cash and deposits at the year end of £17.0m (2018: £17.7m) and no debt.

The slight reduction in cash balances in the year was due to a combination of Group trading, the decision to sell two properties held by the Company realising £0.5m, the purchase of Innecto for cash consideration of £3.2m (see note 35) and the receipt of £1.1m for newly created shares purchased at fair market value by two Directors of Innecto, including Deborah Frost.

The Group's main underwriting subsidiary, Personal Assurance Plc (PA), continues to maintain a conservative solvency ratio of 259% (unaudited), with a surplus over its Solvency Capital Requirement of £6.6m. The Company has consistently maintained a prudent position in relation to its Solvency II requirement.

Insurance

The Group's core insurance business saw revenue reduce £1.0m with last year to £30.2m (2018: £31.2m). Revenue reduction was driven by a lower number of new policies written following a slowdown of new client business wins. When we do present our insurance products over 52% of employees decide to purchase a policy reflecting the continued appeal of the insurance offer. As a consequence, the number of policies in force shows a small decline of 3.9% (2018: 3.8%), as the new policies written are on average at a higher premium than those that are lapsing, the impact on earned premium is less.

Adjusted EBITDA* for insurance was down £1.5m on the prior year at £8.3m (2018: 9.8m). The reduction to prior year was driven by lower earned premium, combined with a marginal reduction in the claims ratio and the investment in IT, sales and marketing activities.

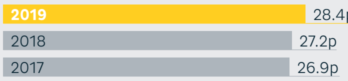
The Group's insurance income remains a high quality and relatively stable revenue stream to the Group. It is based on a small number of products that are simple, low cost and, as such, continue to resonate strongly across the employees of long established and new corporate clients. As part of the strategic review we are planning to enhance our current product offering during 2020 to further strengthen this position.

At the time of issuing this report the UK is in the 'delay' phase of dealing with the Coronavirus (COVID-19) which the Group considers to be a non-adjusting event. While there has been minimal impact on the Group to date, the claims ratios of the Group's Hospital, Convalescence and Death Benefit plans are all likely to be impacted by the situation in the short-term and the extent of this will be dependent on both the percentage of the population contracting the virus as well as the impact of government actions to help ensure that hospitalisation and death rates are contained. Various stress and scenario testing have taken place to assess the potential impact on the Group, considering the potential impact on premiums, claims and solvency ratios for the insurance subsidiaries, together with liquidity and other non-insurance activities for the wider Group. The Group has put into place business continuity plans and has near full capability to support both its customers and policyholders and maintain business operations. Our insurance subsidiaries hold significant surpluses above their capital resource requirements and, with its strong balance sheet, the Group is well placed to withstand such an event.

SaaS

Revenue from the Group's SaaS business was up significantly again in 2019. The increase in the SaaS revenue line reflects growing income generated via the Hapi platform, combined with a small contribution from Sage Employee Benefits (SEB) licences and the addition of Innecto.

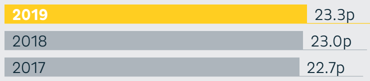
The acquisition of Innecto has been particularly pleasing, not only in delivery of its own revenue growth but also introducing several new opportunities with cross-selling potential and strengthening the Group's position.



Earnings per share

28.4p

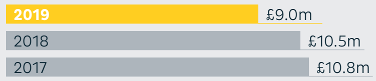
2018: 27.2p



Dividend per share

23.3p

2018: 23.0p



Annualised new business insurance premiums

£9.0m

2018: £10.5m

The relationship with Sage continues to progress following the launch of Sage Employee Benefits on 2 September 2019 and a new extensive marketing campaign is planned by Sage for Q1 2020. This is a stand-alone product, rather than being embedded in other Sage SaaS products. This full launch is later than originally planned, however, early indications are positive.

Adjusted EBITDA* for SaaS for the year was ahead of the prior year at £0.6m (2018: £0.2m). This reflected an improved trading performance in paid-for Hapi subscriptions and the inclusion of Innecto offset by the cost of providing the platform for Sage for the full year ahead of the delayed launch in September.

Growth in SaaS sales, and the opportunity it represents, provides the Group with another high quality and very scalable revenue stream.

PG Let's Connect

PG Let's Connect saw revenues increase 26% to £18.8m (2018: £15.0m). PG Let's Connect continues to benefit from Royal Mail Group's (RMG) decision to run the offer to its employees all year round, partially reducing the dependence on the Christmas period. Pleasingly, £1.6m of revenue came from new clients and the Company had its best ever sales week over Black Friday.

Adjusted EBITDA* for PG Let's Connect increased substantially in 2019 over the prior year, at £1.7m (2018: £1.2m). This increase was driven by the continued improved trading performance, which with a relative fixed expense base results in a greater percentage of revenue dropping to the bottom line. PG Let's Connect is undoubtedly bouncing back as hoped, post clarity around the changes made by the government to the rules around salary sacrifice in 2017. In addition to contributing to Group revenue and profit, the business is a strategic support to the Group. It strengthens the client proposition, helps create access to new markets and, among other things, supports client retention and creates cross-selling opportunities.

Mike Dugdale
Chief Financial Officer

20 April 2020

Profit before tax	**2019 £000**	**2018 £000**
Profit before tax	10,487	10,210
Finance costs	131	148
Depreciation	970	797
Acquisitions – amortisation of intangible assets	224	330
Amortisation (other)	265	331
Share-based payment expense	19	117
Corporate acquisition costs	145	150
PG Let's Connect – release of tax provision	(1,259)	(646)
Adjusted EBITDA*	10,982	11,437

Segmental results

Total Revenue	**2019 £000**	**2018 £000**
Insurance	30,208	31,210
PG Let's Connect	18,794	14,970
SaaS	21,468	8,742
Other	419	425
Total	70,889	55,347
Adjusted EBITDA*		
Insurance	8,283	9,777
PG Let's Connect	1,748	1,226
SaaS	596	196
Other	355	238
Total	10,982	11,437

Risk Management

The Board recognises that the effective management of risks and opportunities is fundamental to achieving the Group's strategic objectives.

It is important that there is a strong risk management culture throughout the Group, and that we identify, assess and appropriately mitigate the key risks to the Group achieving its objectives.

The Board is responsible for prudent oversight of the Group and ensures it is conducted in accordance with sound business principles and within applicable law and regulation. The Board approves the risk appetite and tolerance levels and regularly reviews the effectiveness of the risk management system.

The risk environment is managed in a two pronged approach being top down risks that threaten the Strategic Plan and bottom up risks identified within business areas. The risks are captured on a risk register where the inherent risk is identified, and the residual risk rated after identifying controls and mitigating actions. Responsibility to maintain the register as well as to implement and monitor mitigating actions sits with each member of the SMT. Each month an SMT risk forum is held where the key risks, both current and emerging, are discussed. Mitigating activities are agreed so that the Group can continue to achieve its strategic objectives. The risks facing the business are discussed at each Board meeting and in greater detail at the quarterly Risk and Compliance Committee meeting. The Board is satisfied that, through the processes set out above, it can effectively identify, assess and manage risk.

Risk Governance

In accordance with recognised good practice, the Group operates a 'three lines of defence' approach to governance The Group's risk governance is overseen by a Risk function headed by the Chief Financial Officer who is a Board Director, but with independence assured through direct and separate access to the Chair of the Risk and Compliance Committee.

The Group's risk management framework and Own Risk and Solvency Assessment ('ORSA') processes are proportionate to the risks that the business faces.

Risk Management Environment

First line:

Risk ownership and risk management

Management of risk is delegated to business operations management, known as the First Line. They are responsible for identifying, establishing, maintaining and monitoring controls to manage the risks the Group faces.

Second line:

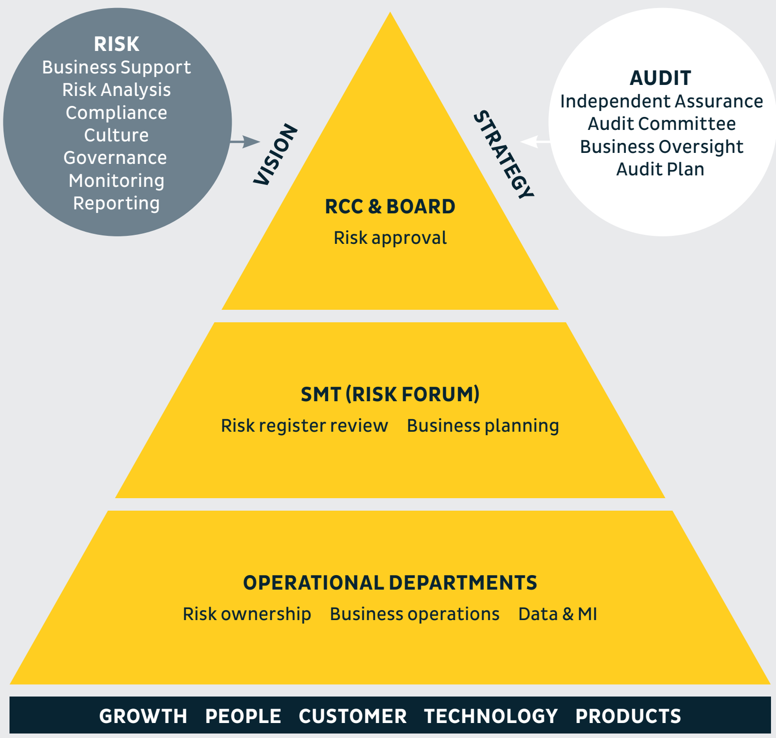
Overseeing risk

The Risk Team, operating as the Second Line, develops and maintains effective risk management within risk appetite, and reports risks to the Board.

Third line:

Independent assurance

The Group Internal Audit function, fulfilled by RSM, provides an independent assessment to the Board as to whether all significant risks are identified, adequately controlled and appropriately reported by management to the Board, including the effectiveness of the risk management framework.



The risk strategy, appetite and framework are set out in a suite of policies covering the material risks in the business. Each policy is subject to annual review and approval.

Below follows a description of the key risks the Group has dealt with during 2019:

Key to Change in risk <> No Change ^ Higher

Key Risks with an impact of £500k+ within the next year	**Current and emerging**	**Mitigating Activities**	**Change in risk**
Impact of coronavirus (COVID-19)	The claims ratios of the Group's Hospital, Convalescence and Death Benefit plans are all likely to be impacted by the situation in the short-term and the extent of this will be dependent on both the percentage of the population contracting the virus as well as the government plans to contain the hospitalisation and death rates. In addition, there is likely to be an impact on the Group's ability to undertake face-to-face insurance sales as well as a currently less known impact on the PG Let's Connect and Innecto businesses.	Both our insurance subsidiaries hold significant surpluses above their capital resource requirements and scenario and stress testing has been carried out to assess any potential impact on the Group. Strong business continuity capability exists to enable the Group to maintain business operations to support its customers and policyholders. The Group is utilising Government initiatives where appropriate to mitigate costs eg, furloughing of staff whose roles cannot currently be performed. Alternative routes for sale of insurance products are currently being investigated.	^ Higher
Loss of the payroll slot at a major customer	The Group collects the majority of its insurance premiums by way of payroll deduction. In nearly all cases the employer is contractually obliged to continue collecting these premiums even when Personal Group ceases to provide services to the employer. One of the Group's major customers does not have an agreement to do this beyond Q3.	Personal Group expects to have a new agreement negotiated and in place for Q3 2020.	<> No Change
Ineffective sales and marketing impacting sales potential	A lack of awareness in the market of Personal Group's capability and range of products has resulted in an under achievement of the potential for sales opportunities with potential new and existing clients.	Investment has been made in restructuring the sales and marketing teams. The way that we engage with our existing and prospective clients has been changed. The website and sales collateral have all been refreshed. The combination of the actions is expected to result to open new sales opportunities and to consolidate existing opportunities.	<> No Change
Threats to information and to physical security arrangements	Poor or weak technology systems and arrangements lead to disruptive cyber-attacks, security breaches and/or fines, or restrict business innovation.	IT systems are regularly tested for security from attack. The systems are backed up regularly and hosted on third-party data centres. Disaster recovery plans are in place and tested annually. In addition, ISO 27001 accreditation has been achieved.	<> No Change

S172 Companies Act 2006

The Directors are aware of their duty under s.172 of the Companies Act 2006 to act in the way they would consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole and, in doing so, to have regard (amongst other matters) to:

- the likely consequences of its decisions in the long-term;
- the interests of the Group's employees;
- the need to foster the Group's business relationships with suppliers, customers and others;
- the impact of the Group's operations on the community and the environment;
- the desirability of the Group maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Group.

The Company Secretary sets out the text of s172 Companies Act 2006 on every Board agenda by way of a reminder.

The Board has been actively engaged with the review of the potential impacts of COVID-19 on the Group, reviewing the stress and scenario tests that have been performed by management on a regular basis.

Why we engage

Our Customers

Our policyholders are key to the long-term success of the Group. The retention of existing and attraction of new policyholders is equally important.

We aim to make any interaction with Personal Group as positive and easy as possible.

Provision of suitable employee benefits to our relevant market sectors.

Our Clients

Our purpose is to help companies improve their effectiveness and profitability by improving their staff engagement and retention. Improving such metrics in turn improves our customer retention and encourages new business.

Our Colleagues

The Group's long-term success is predicated on the commitment of our employees to our purpose and demonstration of our values. In order to deliver great customer service and improve our already high staff engagement scores we need to ensure that we provide an appropriate environment to attract and retain great people.

Our Suppliers

Our suppliers are fundamental to the quality of our products and to ensuring that as a business we meet the high standard of conduct that we set ourselves. Our Hapi platform contains numerous third-party offerings which add value to the overall proposition. It is important that we ensure good working relationships with those suppliers but also choose partners that allow the Group to do its day to day operations to deliver our products and services to the best standard possible.

Our Community and Environment

The Board recognises the importance of leading a Group that not only generates value for shareholders but also contributes to the wider society.

Our Shareholders

Our shareholders are key to the long-term success of the business. Through our investor engagement activities, we strive to obtain investor buy-in into our strategic objectives and how we plan to deliver on them. We create value for our shareholders by generating strong sustainable profits and a progressive dividend.

> We take into account both our wider stakeholder views and our social responsibilities, together with their implications for long-term success."

	How we engage	What matters to the Group
	We provide individual face-to-face presentations of our products to potential and existing policy holders at their place of work. We have updated the website to make it easier to share information and make a claim. Ongoing enhancements of the customer journey and experience including a dedicated claims handler in the case of claims for death. In 2019 our Customer Relations Team in Milton Keynes took over 90,000 calls and dealt with over 66,000 emails and online queries.	– Our products are relevant and provide cost effective protection – Fair and consistent pricing – Efficient and sympathetic processing of claims – Ease of access to customer service – Strong net promoter score – Retention rates
	We engage and build our relationships with our customers and clients in several ways from face-to-face interaction to holding industry and other business forums and producing white papers on topics that are relevant for their businesses. We also recognise the importance of system security for our customers and their employees and are delighted to have now achieved ISO 27001 accreditation across the whole Group.	– Product range price and quality – Convenience and accessibility – Customer service – Fair marketing – Responsible use of personal data – Ethics and sustainability
	We have an open, collaborative, and inclusive management structure and engage regularly with our employees. We do this through an appraisal process, structured career conversations, employee surveys, our Hapi site, Company presentations, regular floor huddles and away days. We remunerate with market based pay, rewards and benefits and our employee engagement scores reflect our committed and passionate team.	– Fair employment – Fair pay and benefits – Training, development and career opportunities – Health and safety – Responsible use of personal data – Ethics and sustainability
	We regularly engage in open and two way conversations with our largest suppliers. Key suppliers are invited to attend and present at our client conferences or workshops.	– Long term partnerships – Collaborative approach – Open terms of business – Fair payment terms
	We encourage all our employees to engage in the local community and help our local charity of the year. In addition, since 2015 we have supported the Memusi foundation as detailed on page 27. We are conscious of the need for our business to focus on long-term sustainability and carried out our first Energy Savings Opportunities Scheme Assessment in 2019. We will be working on the recommendations of the report during 2020.	– Reduce environmental impact – Invest in local community – Promote environmental offerings on platform, i.e. Cycle to work – Supporting local community by creating jobs and providing work experience and apprenticeships
	Through our investor relations programme which includes regular updates, meetings, roadshows and our Annual General Meeting we ensure that shareholders views are brought into the Boardroom and considered in our decision making.	– Financial performance – Strategy and business model – Dividend – Reputation of the Group

Corporate Social Responsibility

Our business is driven by a passion to make people happy. And that goes beyond our day-to-day work, impacting our approach to business, to the environment and the community around us.

Our Business

Our values are simple and demonstrate our personality. Being trustworthy and delivering quality solutions are at the heart of what we do. We are:

Solid: Trustworthy, respected and dependable. We keep our promises and get it right the first time – time after time.

Driven: Motivated, ambitious and determined, delivering what our clients and customers need in an ever-changing landscape.

Engaging: Genuine, approachable and passionate, ensuring people feel comfortable and confident when talking to us.

Expert: Professional, precise, knowledgeable, learning all the time to make sure we are delivering viable, quality solutions to our clients.

We strive to live our values of "walk the walk" and "run it like you own it" which requires that we act with honesty, integrity and transparency in all areas. We aim to nurture a culture of respect and fairness within the Group and have a number of policies which underpin this approach including our Code of Conduct and policies covering Financial Crime Policy (which addresses both anti-corruption and anti-bribery policies of the Group), Credit Risk, Data and Treating Customers Fairly. We continually reinforce the messages around behaviours and have a Whistleblowing policy and procedure to assist with bringing any issues to our attention.

We expect our suppliers to adhere to our standards and values and thus have developed a Procurement and Supplier Management Policy and regularly review our standard terms and conditions. We also require all staff to successfully complete Anti-Modern Slavery training as part of their induction in order to embed these principles in our wider business model. Our Anti-Modern Slavery statement has once again been published on our website.

Our Community

We work to make employees happy, our employees and those of our clients. We focus on the entire person, inside and outside of work. We recognise that the workplace is changing and, as employers, we all have a responsibility to not just our permanent employees, but our contingent workforce too. We strive to ensure that our clients can connect their entire workforce to ensure their well-being and enable them to be truly present at work.

Within Personal Group we encourage our employees to "Run it like you own it" which has created many new projects and initiatives. Our staff truly engage and are constantly looking at ways to help both each other and the local community.

PACT

Personal Assurance Charity Trust (PACT) has donated £2m to charitable causes since it was founded in 1993. The Group gives £100,000 a year to the Trust to help individuals and communities in need – from building schools and developing education programmes in Africa, to helping adults and children with life-limiting illnesses in hospices a little closer to home.

Our dedicated Charity Action Team looks after the relationship with our Charity of The Year. In 2019 this was our local Milton Keynes Food Bank and, as well as a donation from PACT, Personal Group employees ran many internal fundraisers throughout the year to help make a difference.

Power to Our People

Every Personal Group employee gets £100 each year to donate from PACT to a charity of their choice, and, as well as this, we match any fundraising that they do outside of work with an additional donation of up to £250.

45
Different charities supported in 2019

£553,000
Donated in last five years

£7,700
Donated this year via employee nominations

The Memusi Foundation

MEMUSI FOUNDATION

Since 2015, Personal Group has supported the Memusi Foundation – a charity that works to provide children in Kenya with access to quality education, providing a safe place for children to learn and giving support to the surrounding community. We pledged that over a decade we would provide £0.5m to build and develop a school, known as Memusi B. The doors to the school have already opened and students are performing well, with one student recently receiving a mean grade of 500/500 – an unheard of standard in the country. Once complete, the school will be the biggest education institution in Kajiado County with a capacity for 800 children.

Twice a year, we send a group of Personal Group employees to volunteer at Memusi B school and the schools in the area that Memusi Foundation supports. Over 50 people from our organisation have made the trip so far, making a real difference on the ground and truly making it count.

As well as the school, we support Memusi Foundation with funding for providing free school meals for children who may otherwise not have a chance to eat, free healthcare, dental support and medicine for children and adults in the community, education and practical help for girls' health, development and education for empowering women and young girls who would otherwise miss out on life-changing education, evening courses for adult education to improve community literacy, and have bought chickens to help provide food and a sustainable source of income for the schools.

Our Environment

At Personal Group we are working towards reducing our carbon footprint and in 2019 we carried out our first Energy Saving Opportunities Scheme assessment. Two-thirds of our total energy consumption currently derives from mileage from our field-based sales team and in 2020 we will putting action plans in place to reduce the amount of travel undertaken wherever possible. The remaining third is generated from our offices in Milton Keynes and Bromsgrove and we will be looking to address the recommendations of the report to reduce this consumption over the coming year.

Our living roof is now well established and continues to encourage wildlife, including a bug house and planted area. We have also upgraded our kitchen and cooking facilities to encourage staff to eat more healthily and have created a separate break-out area to enable staff to take much needed breaks and mealtimes.

Our Strategy in Action

oxford bus company

About the company:

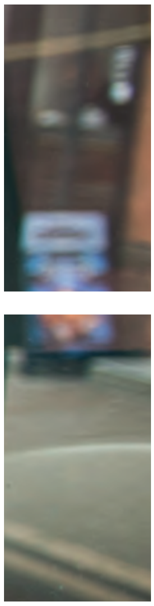
Oxford Bus Company is a subsidiary of the Go-Ahead Group, a FTSE-listed public transport provider. It has kept the people of Oxford moving for over 136 years.

The company employs 950 people in the UK, including part-time staff. Most of these staff members are constantly on the move and behind a wheel.

Be dependable

We keep our promises and get it right first time – time after time.

Governance



Through our existing insurance and benefits partnership with Go North East, a subsidiary of the Go-Ahead Group, we were introduced to Luke and his team. It became clear that we needed to implement an engagement strategy tailor-made for workers on the move, as well as an easy-to-use, digital platform that was accessible anywhere, anytime.

"Hapi has helped us show our employees we have different values to other bus companies in the area. It differentiates us. Our benefits and engagement offering has helped us attract and retain staff. It has been a huge support over the last few years when we've acquired other companies. The first things we were able to offer our new recruits were free bus passes and immediate access to Hapi. Working for other small businesses, they had never had that before. It helped get everyone onside quickly and really break the ice."

Luke Marion
Finance and Commercial Director, Oxford Bus Company

What we delivered

85% of staff are not office based	**Discounts used on c£66,000 of everyday spending**	**Engagement at 81% up from 20% before Hapi**

Corporate Governance

An experienced Board with over

40 years

combined service on Personal Group Board

“During the year the Board has undergone an external Board effectiveness review carried out by Grant Thornton.”

Mark Winlow
Independent Non Executive Chairman

Chairman’s Introduction

Dear Shareholder

My role as Chairman of Personal Group is to ensure that the Board is performing its role effectively. This means making sure the Directors have the capacity, ability, structure, diversity and support to respond to the opportunities being created for us, whilst having consideration of our responsibilities under s172 of the Companies Act 2006.

I also have responsibility for ensuring the robust governance of the Group through challenge and direction of the Senior Management Team. Good governance should enhance performance and deliver positively for our shareholders, staff, customers, suppliers and other stakeholders whilst still enabling achievement of the Company’s strategic aims.

The Board continues to have a significant role to play in establishing the culture of the business, ensuring that it is consistent with our business model and suitably cascaded through the Group. This is monitored through engagement with the wider investor community, through involvement of the Board Committees and by use of the wide-ranging experience, skills and capabilities of Board members. As noted in my Chairman’s report earlier in this document, in June 2019 we augmented these skills with the appointment of Maria Darby-Walker as a Non Executive Director, who brings both financial services and large company business experience.

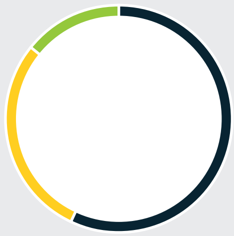
In November 2019 we engaged Grant Thornton to undertake an external Board effectiveness review from both a compliance and performance optimisation perspective. This was executed using a combination of structured interviews, Board and Committee meeting observations, a web-based questionnaire and a desktop review of Board documentation. The overall outcome was positive, and compared favourably with similar sized firms in the industry. However, it also identified some key areas necessary to enhance our overall performance as a Board. We intend to address all the points raised during 2020.

In 2019 we continued to develop our governance processes to improve adherence to the Quoted Companies Alliance (QCA) Corporate Governance Code which the Group adopted in 2018. The Board does not consider that it departs from any of the principles of the Code and we continue to monitor our performance against each of the 10 principles. The Board is able to deliver effective decision making and subsequent drive of value for shareholders, based on the quality information which it receives.

The Board met 10 times in 2019 and the number of meetings each Director attended can be seen on page 32 and 33. In addition, the reports of the Audit, Risk and Compliance and Remuneration Committees can be seen later in this section.

Mark Winlow
Independent Non Executive Chairman

Governance at a glance

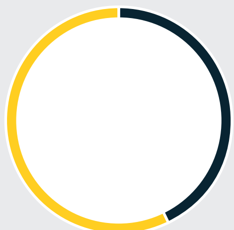


Board experience

- 0–5 years – 57%
- 6–10 years – 29%
- Over 10 years – 14%

Board Gender Diversity

- Male – 71%
- Female – 29%



Board independence

- Independent – 43%
- Non-Independent – 57%

See more online at
www.personalgroup.com

2019 Committee Meeting dates

Board	30 Jan	27 Feb	19 Mar	02 May	30 May	25 Jun	16 Jul	30 Sep	22 Oct	26 Nov
Audit			14 Mar					10 Sep		26 Nov
Risk & Compliance			14 Mar				16 Jul	10 Sep		26 Nov
Remuneration			14 Mar				16 Jul	02 Sep	22 Oct	

See our Board of Directors on page 32

QCA Code Compliance

Principle 1
Establish a strategy and business model, which promote long-term value for shareholders.

Personal Group is a leading provider of both traditional and digital employee services, including employee benefits and insurance products. During 2019 we refined our central purpose to be to connect the unconnected, protect the unprotected and to engage and reward employees with the provision of our services in the UK. Details of the current business model and strategy can be seen in the Strategic Report section of these Report and Accounts.

Principle 2
Seek to understand and meet shareholders' needs and expectations.

Regular dialogue takes place with shareholders through initiatives including the Annual General Meeting, investor roadshows, regulatory announcements and the Report and Accounts. During 2019 we invested in our corporate website, updating our investor section making access to company information more accessible than ever before. Our Chief Executive, CFO, Chairman and other Non Executive Directors met with several key investors during the year.

Principle 3
Take into account wider stakeholder and social responsibilities and their implications for long-term success.

As a Board we understand our duty to promote the success of the Company whilst considering the views of, and impact on, our wider stakeholder group of customers, policyholders, suppliers, colleagues and our community and environment as well as our shareholders. A more detailed summary of the Group's engagement with all our stakeholders can be seen on page 24.

Principle 4
Embed effective risk management, considering both opportunities and threats, throughout the organisation.

The Board is responsible for identifying and mitigating risks to the Group achieving its strategic objectives. It addresses risk management through an "Enterprise Risk Management Framework", and a system of risk governance, including a Risk and Compliance Committee. During 2019, a risk based internal audit function was again provided by RSM. For further details see pages 22 and 37.

Principle 5
Maintain the Board as a well-functioning, balanced team led by the Chair.

The Group maintains, and is satisfied that, the Board has a suitable balance of independence and knowledge, with Directors encouraged to challenge all matters. The Board meets regularly, with a formal schedule of matters for its approval. The Board is supported by regular engagement with the Senior Management Team, and a system of formal Board committees. Directors are required to devote sufficient time to carry out their role.

Principle 6
Ensure that between them the Directors have the necessary up to date experience, skills and capabilities.

The background and experience of the Board ensures there is an effective and appropriate balance of skills and knowledge. Additional training is provided where needed and Board members are encouraged to maintain their professional development. In 2019, post the transition of Deborah Frost to Chief Executive, a skills gap analysis was carried out prior to the appointment of Maria Darby-Walker as a Non Executive Director.

Principle 7
Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.

Board members are each set annual objectives, with performance feedback provided by corresponding Executive and Non Executive members. Board evaluation is the responsibility of the Chairman. Internal Board effectiveness reviews are undertaken yearly, with independent reviews at least every three years. In 2019 an external Board effectiveness review was undertaken by Grant Thornton. For further details see page 30.

Principle 8
Promote a corporate culture that is based on ethical values and behaviours.

The Board believes Group culture is set from the top of the organisation. The Board promotes a culture based around four values: we have fun, run it like we own it, be the best we can be, we walk the walk. These values form a core part of how the business is managed, from recruitment to training, and ongoing reward and recognition. An employee satisfaction survey is carried out on an annual basis, with the results fed back to the Board.

Principle 9
Maintain governance structures and process that are fit for purpose and support good decision-making by the Board.

The Board is collectively responsible for the long-term success of the Group and for setting and executing the business strategy. It fulfils this responsibility through Board and other Committee meetings held regularly throughout the year. The meetings held in 2019 for the Board and other Committees can be seen above.

Principle 10
Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

The Group communicates through a variety of regular digital and traditional communications. These include face-to-face meetings, the Annual Report and Accounts, Interim Results, investor news announcements and information provided on the Group's website.

Board of Directors

Together we work hard to find new ways to move our business forward.




	Mark Winlow Non Executive Chairman	**Ken Rooney** Non Executive Director and Deputy Chairman	**Maria Darby-Walker** Non Executive Director	**Bob Head** Non Executive Director
Appointed date	May 2016 (Non Executive October 2013)	July 2000 (Non Executive since July 2015)	June 2019	November 2016
Experience	Over 35 years' experience in financial services in the UK and internationally, including time at Zurich Financial Services as Managing Director of Zurich's UK consumer business. Previous partner in audit and advisory firms KPMG and EY.	Over 40 years' experience in financial services, including running his own company until 1998. Joined Personal Group in 1999 and served as Chief Executive from 2004 to 2009, and again as interim in 2011. Retired from his Executive position in July 2015.	Starting in the financial services sector, became a Partner and Board Director of Lansons – a consumer financial PR agency. Responsible for the launch of the Churchill Insurance brand before joining Barclays as Group PR Director. Other posts include time at Rolls-Royce before forming her own consultancy.	Over 30 years' experience in the financial services industry in the UK and internationally including co-founder of egg, first CEO of smile and Director of Prudential's International Division. More recently, interim CFO of South African Airways.
Skills, personal qualities & capabilities	Investor relations, regulatory knowledge, strong and effective leadership, entrepreneurship and innovation.	Regulatory knowledge, historic knowledge of Personal Group.	Technical and industry qualifications, networker, influencer, leadership coach and mentor. Merger, acquisition and brand communications specialist.	Chartered accountant as well as FCIB and ACII.
External Appointments	Chairman of insurer Ageas and Senior Independent Director at Starling Bank.	None	Board Governor at University of Central Lancashire.	Non Executive Director at Alexander Forbes and Chair of Audit and Remcom committees at Equals Group and Mirriad.
No of Board meetings attended	10 of 10	8 of 10	4 of 4	10 of 10

Independence key:

Ⓘ Independent

Committee Membership key:

Audit Committee · Remuneration Committee · Risk and Compliance Committee · Chair of Committee

			
Deborah Frost Chief Executive	**Mike Dugdale** Chief Financial Officer	**Andy Lothian** Managing Director PGB Sales	**Sarah Mace** Group Financial Controller and Company Secretary
September 2015 (Appointed CEO 28 February 2019)	January 2013	July 2017 (employee since 1998)	April 2014
Co-founder and CEO of Innecto People Consulting, a specialist pay and reward consultancy. Diverse background in industry and consultancy, working for both Marks & Spencer and Nationwide Building Society before joining Towers Perrin in 2000.	Previously Finance Director at Virgin Care. Prior experience includes Finance Director roles at Reebok, in both UK and Canada, and BUPA's UK insurance business as well as Group Financial Controller at BUPA and Guardian Royal Exchange Plc.	Career in sales with Personal Group Benefits, first as a Group Account Executive followed by Development Manager, Regional Manager and then National Sales Manager.	Previously Head of Finance for private equity owned Chicago Leisure Ltd. Various roles in life assurance and pensions as well as Cable & Wireless Communications.
Reward and performance expert, specialism of working in high growth businesses, Chartered Fellow of CIPD.	Chartered accountant with experience in the Healthcare, FMCG and Financial Services sectors.	Sales management experience, currently manages the insurance growth strategy.	Certified accountant, also has responsibility for the customer relations team.
None	None	None	None
10 of 10	10 of 10	10 of 10	10 of 10

Senior Management Team

Meet our Senior Management Team.

Deborah Frost joined as Chief Executive in February 2019, bringing with her unparalleled industry knowledge, strong leadership skills, and creative commerciality. A business graduate and Chartered Fellow of CIPD, Deborah is a respected and ground-breaking thought-leader in reward, performance and high growth businesses.

Deborah Frost
Chief Executive

Mike Dugdale joined in January 2013 as Chief Financial Officer. Previous experience includes Finance Director roles at Virgin Care, Reebok, and BUPA's UK insurance business, as well as, Group Financial Controller at Guardian Royal Exchange Plc. Mike is a Chartered Account.

Mike Dugdale
Chief Financial Officer

Andy Lothian joined Personal Group in 1998 as a Group Account Executive focusing on new business sales and client servicing. His passion for excellence has seen him go from strength to strength. His journey at Personal Group has evolved greatly culminating in his becoming Managing Director of Personal Group Benefits, a position that he has held with pride for the past 10 years.

Andy Lothian
Managing Director PGB

Sarah Mace joined Personal Group in January 2014 as Group Financial Controller and Company Secretary. Previously Head of Finance for Chicago Leisure Ltd she has experience in a range of industries including roles at Cable and Wireless and various life and pensions companies. Sarah is a Fellow of the Association of Chartered Certified Accountants and has a Master's degree in mathematics from Oxford University.

Sarah Mace
Group Financial Controller and Company Secretary

Ashley Doody joined Personal Group in 2014 as Chief Information Officer. He and his team are responsible for everything technology related, including the development of our employee engagement platform and app, Hapi. An innovative technologist by education and trade, Ashley's background is in electronic engineering and big systems development.

Ashley Doody
Chief Information Officer

Rebekah Tapping, Group HR Director has been a core part of the Personal Group team for more than five years. She is responsible for the full HR strategy, incorporating HR, ER, learning & development, recruitment, reward & benefits, health & safety as well as fleet and facilities. Rebekah is a Chartered Fellow of CIPD and is also qualified to Psychological Society Level A & B.

Rebekah Tapping
Group HR Director

Lee Williams joined Personal Group in 2018 as Director of Client Operations before becoming Chief Commercial Officer in May 2019. His role involves heading up and developing innovative strategies for the future for the account management, location management and client solutions teams. Lee has doctorate and master's degrees in Business Administration and has lectured at Normandy and Manchester Business Schools.

Lee Williams
Chief Commercial Officer

Risk and Compliance Committee Report

The role of the Committee is to oversee compliance in conjunction with the overall approach to governance and risk management.

"2019 saw the Committee oversee the extension of the Senior Managers and Certification Regime to the relevant companies across the Group."

Ken Rooney
Non Executive Director and Deputy Chairman

Dear Shareholder

I am pleased to present the Risk and Compliance Committee Report for the year ended 31 December 2019.

Objectives

The role of the Committee is to oversee compliance with Prudential Regulation Authority and Financial Conduct Authority requirements, as well as other appropriate regulations which impact the Group, in conjunction with the overall approach to governance and risk management, including setting the Group's risk appetite and monitoring and reviewing the impact of business decisions upon the capital held by the Group.

Composition

The Risk and Compliance Committee currently has seven members; three independent Non Executive Directors, the Chief Executive, the Chief Financial Officer, the Managing Director of Personal Group Benefits Limited and is chaired by Non Executive Director, Ken Rooney. The Head of Risk and the Company Secretary are normally also in attendance at each meeting.

Activity during the year

The Committee's Chairman reports formally to the Board on its proceedings after each meeting and during the year the Committee met four times, overseeing significant Group-wide projects which included:

- An extensive review of the risks to the Group in relation to the strategy led by the incoming Chief Executive.
- The extension of the Senior Managers and Certification Regime to the relevant companies within the Group.
- The benchmarking of the Group's insurance products, confirmation of consumers' demand and needs for those products and consideration of how the insurance companies within the Group keep in touch with policyholders.
- Updating and further developing the Own Risk and Solvency Assessment (ORSA) for Personal Assurance Plc.

In addition to the above, other work undertaken during the year comprised:

- Oversight of the further embedding of GDPR related arrangements.
- The continued monitoring of the adequacy and effectiveness of the Group's risk management including emerging and focus risks being informed by data from our Treating Customers Fairly (TCF) and Conduct Risk dashboards.
- The ongoing review, consideration and approval of the existing Group policies used across the business.
- Consideration of management information which confirms levels of quality and compliance.

Ken Rooney
Non Executive Director and Deputy Chairman

Audit Committee Report

The objective of the Audit Committee is to provide oversight and governance to the Group's financial reporting process on behalf of the Board of Directors.

"EY LLP have been appointed as external auditor for the year ended 31 December 2019, following a formal tender process."

Bob Head
Non Executive Director

Dear Shareholder

The Committee oversees the appointment of, and relationship with, the external auditor and ensures compliance with other regulatory requirements that are relevant to the Group, as well as gaining reassurance that the control environment is fit for purpose. The internal audit function is currently outsourced to a third-party, and the Committee is also responsible for overseeing the effectiveness of internal audit in line with the Chartered Institute of Internal Auditors (IIA's) Guidance on Effective Internal Audit.

Key responsibilities

In accordance with its terms of reference, which are reviewed annually, the Audit Committee is required, among other things, to:

- Monitor the integrity of the financial statements of the Group, reviewing any significant reporting issues and judgements.
- Ensure compliance with applicable accounting standards and review the consistency of methodology applied.
- Advise on the clarity of disclosures and information contained within the financial statements.
- Review the adequacy and effectiveness of the Group's internal controls.
- Oversee the relationship with the external auditor, confirming independence, reviewing performance and advising the Board on their appointment and remuneration.
- Agree the scope of and review internal audit's and management's reports on the effectiveness of systems for internal financial control, financial reporting and risk management, together with monitoring management's responsiveness to their findings.

Membership and meetings

The Audit Committee comprises three Non Executive Directors and meets at least twice a year. During 2019 the Committee comprised:

- Bob Head (Chairman)
- Mark Winlow
- Deborah Frost (to 28 February 2019)
- Maria Darby-Walker (from 28 June 2019)

Three meetings were held during 2019 and all committee members were in attendance when they were members. Additionally, the remaining Board members, Head of Risk and Company Secretary were present at all meetings.

The meetings of the Committee are designed to facilitate and encourage communication among the Committee, the Group, the Group's internal audit function and the appointed external auditor. The Committee meets with the internal auditors and the external auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Group's internal control and the overall quality of the Group's financial reporting.

Activities of the Audit Committee during the year

The Committee discussed with the Group's internal and external auditors the overall scope and plans for their respective audits. In addition, the key work undertaken by the Committee during the year under review and up to the date of this annual report included:

- Appointment of EY LLP as external auditors to the Group.
- Review and approval of the 2018 Annual Report and Accounts and 2019 Interim Results statement.
- Approval of Solvency and Financial Condition Report.

- **Review of internal audits carried out by RSM.** During 2019 RSM undertook audits, in line with the agreed scope, over areas including financial promotions, financial crime and whistleblowing, IT resilience, Solvency II and regulatory returns and IT governance, as well as completing an advisory review of the Group's implementation of the Senior Managers and Certification Regime activities.
- The Committee received reports from the internal auditors throughout the year and was satisfied with the effectiveness of internal controls and risk mitigation. It supports the recommendations made by the internal auditors and is satisfied with the plans in place and the actions taken by management in response to these recommendations and monitors the clearance of the items raised to ensure that they are resolved on a timely basis.
- **Agreement of 2020 internal audit strategy to be delivered by RSM.** The approach in developing the internal audit plan was based on analysing the corporate objectives, risk profile and assurance framework of the Group, as well as other factors affecting the Group. The aim is to cover all significant risk areas at least once every three years.

Significant reporting issues and judgements

In fulfilling its oversight responsibilities, the Committee has reviewed and discussed the audited consolidated financial statements and the related schedules within the annual report with Group management, including a discussion of the appropriateness of the accounting principles, the reasonableness of significant judgements and the clarity of disclosures in the financial statements.

The Committee reviewed the recommendations of the finance function and received reports from the external auditor on their findings. The significant reporting matters and judgements the Committee considered during the year included:

- The accounting treatment for the acquisition of Innecto People Consulting Ltd. The Group engaged Grant Thornton to provide an independent fair value assessment of the intangible assets as at the acquisition date and to perform a purchase price allocation for financial reporting purposes in accordance with IFRS 3. The Committee reviewed the report prepared by Grant Thornton and were satisfied that the assessment was reasonable.
- The carrying value of goodwill and other intangible assets to determine whether any impairment had been required. The Committee reviewed the key financial assumptions underpinning cash flow projections, the discount and long-term growth rates applied thereto and the results of sensitivity analyses. The Committee was satisfied that, considering the sufficient headroom available, no impairment was required, and appropriate disclosure has been made (see note 15 to the financial statements for details).
- The presentation of "Adjusted EBITDA" alongside statutory profit. The Committee considered the approach adopted and was satisfied that the approach continues to help provide a clearer and more balanced view of the underlying performance of the business. It also concluded that the approach is being applied consistently from year to year and the rationale is clearly presented and reconciled back to the IFRS published numbers.

External audit

The Committee considers a number of areas when reviewing the external auditor appointment, namely their performance in discharging the audit, the scope of the audit and terms of engagement, their independence and objectivity, and their reappointment and remuneration.

The external auditor reports to the Committee on actions taken to comply with professional and regulatory requirements and is required to rotate the lead audit partner every five years. There is also an active, ongoing dialogue between the Committee and the external auditor on actions to improve the effectiveness and efficiency of the external audit process. In addition the Committee considers risk areas that might inform the audit strategy and discuss this with the external auditors.

EY LLP have been appointed as external auditor for the year ended 31 December 2019, following a formal tender process. The Committee has confirmed it is satisfied with the independence, objectivity and effectiveness of EY LLP during its first year as auditor and will support a resolution to retain them at the forthcoming Annual General Meeting.

No non-audit services were provided during this financial year.

Bob Head
Independent Non Executive Director

Remuneration Committee Report

The Committee's overall objective is to align reward for everyone with the delivery of profitable sustainable growth through the Group's remuneration framework.

> **The policy of the Group is to set levels of remuneration to attract, retain and motivate Executive Directors and key senior staff."**
> **Bob Head**
> Non Executive Director

Dear Shareholder

This is both my first and my last report as Chair of Remuneration Committee having taken up the role in the interim period of Deborah Frost becoming CEO and the appointment of Maria Darby-Walker as Chair of the Committee. 2019 was a year where we experienced significant change at a senior level coupled with business challenges and a changing mix of business within the Group. The work of the Remuneration Committee for the year reflected this.

The policy of the Group is to set levels of remuneration to attract, retain and motivate Executive Directors and key senior staff.

Aims of the Remuneration Committee

The primary purpose of the Remuneration Committee is to oversee, monitor and determine the Group's framework for remuneration.

The Committee's overall objective is to align reward for everyone with the delivery of profitable sustainable growth through the Group's remuneration framework which:

- Offers competitive salary packages that attract, retain and motivate talented people.
- Operates straightforward, transparent, and effective reward schemes that incentivise delivery of stretching annual targets and delivery of our longer-term business strategy.
- Offers the chance for all employees to participate in share schemes so that everyone thinks and acts to "run it like we own it" – one of our key values.
- Oversees and reviews the commission and bonus arrangements for customer-facing insurance sales employees to ensure a proper balance between motivating staff whilst making sales of the highest quality (i.e. beyond simple regulatory compliance).

To that end, we currently operate the following remuneration framework:

- Annual salary and associated benefits (all employees)
- Defined contribution pension scheme and other benefits such as life cover, private medical insurance (all employees)
- Performance based annual bonus linked to delivering stretching financial and service-oriented targets (selected employees)
- Commission, bonus schemes and incentives for the customer-facing insurance teams (selected sales and sales support employees)
- Share schemes:
  - PG Share Ownership Plan (all employees)
  - Company Share Option Plan (selected employees)
  - Long Term Incentive Plans (LTIPs) (selected employees – see below for further details)

We have continued to consider comparisons of senior employees of similar sized public companies in related sectors when establishing the levels of packages set and an Executive benchmarking exercise is currently underway, the last having taken place in October 2017.

Composition of the Remuneration Committee

The Remuneration Committee consists of three Independent Non Executive Directors, with the Non Executive Deputy Chairman (who is not considered independent due to his previous Executive role in the business). The Chief Executive and HR Director can be invited to be in attendance at times. The Remuneration Committee operates within defined terms of reference. It met four times in 2019.

None of the Committee has any personal financial interest (other than as shareholders), conflicts of interests arising from cross Directorships, or day-to-day involvement in running the business and, as such, the Committee is deemed to be independent.

The Board determines the remuneration of the Non Executive Directors after considering external market research. Non Executive Directors do not participate in the bonus schemes or the LTIPs.

Performance for the year

As has been reviewed elsewhere in the Report in 2019 the business achieved a solid profit performance, as well as putting some of the building blocks in place to accelerate growth in the coming year. The Remuneration Committee approved bonus payments for the Senior Management Team (SMT) under the annual bonus scheme as detailed below. Other employees also received part bonus payments for both achieving their personal objectives, together with the overall Group profit element.

2019 annual bonus

The annual bonus for the SMT was based on delivery of Adjusted EBITDA and new premium sales targets, together with various non-financial SMT objectives. This year the SMT bonus was a collective bonus to reinforce the need to work together. We may vary this in future years but we believed it was important that in the first year of a new CEO there should be an emphasis for the SMT to operate as one team.

Each SMT member achieved 75% of their potential bonus amount.

Retention bonus

Following the appointment of the new Chief Executive, in the absence of an effective LTIP, the Remuneration Committee agreed a number of retention payments to ensure smooth transition by retaining key individuals within the business. These payments are due in July 2020 and will not pay out to anyone who has given or received notice at any time during the preceding 18 months. The payments have been effective in retaining key individuals for the key changeover period.

Other Committee activities for the year

The Committee reviewed commission payments and scheme outcomes for insurance sales employees. Field-based employees received commission-based payments for achieving set levels of new premium sales. Attention was paid to the criteria used to assess whether sales met the highest standards (beyond regulatory compliance) and that there were appropriate penalties to variable pay where the standards were either not met or partially not met.

We also considered informal gender pay gap findings (we are not required to complete this research as we are currently under 250 employees).

The employee engagement scores which remain exceptionally high and the committee reviewed the actions to preserve and even enhance the working environment.

The business is relatively small but the Committee also regularly reviews succession planning at board and senior management level.

The year ahead

Much of the work in the coming year will be similar to prior years. Work will continue in completing the new LTIP referred to in last year's annual report. In addition, the Committee will be focusing in more detail on the gender pay gap to determine what action, if any, needs to be taken.

The Remuneration Committee remains focused on aligning reward with delivering long-term sustainability and growth of the business, combined with our on-going progressive dividend policy. Where any material changes are made to the Remuneration policy we will continue to discuss our intentions with our major shareholders and give them the opportunity to comment.

Service contracts

The Executive Directors have service contracts that can be terminated on 12 months' notice. These provide for termination payments equivalent to 12 months' basic salary and contractual benefits.

The Non Executive Directors have letters of appointment that can be terminated on six months' notice.

Remuneration Committee Report continued

Membership of Board and Directors' interests

The membership of the Board throughout the year is set out below.

The interests of the Directors and their families (including transactions committed to before the year end and shares held in the PGH employee share ownership plan) in the shares of the Company as at 1 January 2019 or date of appointment if later, and 31 December 2019, were as follows:

	Ordinary shares of 5p each in Personal Group Holdings Plc	
	At 31 December 2019	At 31 December 2018
Deborah Frost (Chief Executive – Independent Non Executive until 28 February 2019)	300,042	568
Mike Dugdale (Chief Financial Officer)	41,353	39,843
Andrew Lothian (Managing Director PGB Sales)	38,092	38,064
Mark Winlow (Independent Non Executive Chairman)	–	–
Ken Rooney (Non Executive Deputy Chairman)	2,698	2,176
Bob Head (Independent Non Executive)	–	–
Maria Darby-Walker (Independent Non Executive)	–	–
Mark Scanlon (Chief Executive – Resigned 28 February 2019)	–	2,765

At 31 December 2019, the mid-market closing share price was 335.00p per share (31 December 2018: 446.00p).

Directors' remuneration

The components of the Executive Directors' remuneration packages are currently a basic salary, annual bonus, Long Term Incentive Plan (LTIP), non-matching pension contributions and life cover.

The remuneration of the Directors listed by individual Director is as follows:

	Salary and fees 2019 £'000	Bonus 2019 £'000	Share-based gains on exercise of options 2019 £'000	Pension contributions 2019 £'000	Total 2019 £'000	Total 2018 £'000
Deborah Frost *	260	127	–	9	396	40
Mike Dugdale	207	71	–	–	278	367
Andrew Lothian	188	65	–	9	262	162
Mark Winlow	76	–	–	–	76	76
Ken Rooney	44	–	–	–	44	40
Bob Head	43	–	–	–	43	40
Maria Darby-Walker	21	–	–	1	22	–
Mark Scanlon**	74	–	–	5	79	440
Total	913	263	–	24	1,200	1,165

* Deborah Frost was a Non Executive Director during 2018 and up until her appointment as Chief Executive on 28 February 2019.

**Mark Scanlon resigned as the Chief Executive of the Group and left the business effective on 28 February 2019.

Directors' share options

At 31 December 2019 options outstanding were as follows:

	Number of shares	Exercise price pence per share	Earliest exercisable date
Mike Dugdale	6,166	486.50	3 April 2017
Andy Lothian	6,028	498.00	14 February 2017

Long Term Incentive Plans

LTIP2

LTIP2 was designed to reward Directors and certain other senior employees in a way that aligns the interests of LTIP participants with the interests of shareholders, as well as with the Group's long-term strategic plan. LTIP2 is Market Capitalisation based and becomes reward bearing above a Company Market Capitalisation of £183.7m. It also has a yearly EPS performance criterion through its life which can be adjusted by the Remuneration Committee.

Under the LTIP2 incentive arrangements the following employee shareholder status shares in Personal Group Limited were awarded during 2015 (ESS Shares). Participants had immediate PAYE and NIC charges on the associated UK tax market value of the ESS Shares.

	ESS Shares awarded
Mike Dugdale	4,000
Andrew Lothian	2,000
Other senior employees	9,500
Total	15,500

As of 31 December 2019, three employees who were awarded shares have left the Group and currently 28,500 shares are available for allocation.

The ESS Shares are split equally into four classes, namely A, B, C and D shares each of which carry a put option which allows the participants to exchange their ESS Shares for Personal Group Holdings Plc ordinary shares in tranches on reaching or exceeding the hurdles of market capitalisation and Annual EPS. Awards can be made annually starting in March 2017 (A shares) through to March 2020 (D shares) based on market capitalisation growth of the Company up to a market capitalisation of £350m and upon achieving the Annual EPS growth targets. The awards will be paid out as 20%, 40%, 70% and 100% cumulatively of the eligible share of growth in market capitalisation for A, B, C and D shares respectively. The maximum potential dilution assuming all the ESS Shares are converted into ordinary shares in the Company would be approximately 4.1% of the enlarged issued share capital of the Company.

The maximum amount payable by the Company over five years was £15m with the participating Board members being Mike Dugdale and Andy Lothian who are entitled to a maximum of £1.7m and £0.9m respectively based on their ESS holdings above.

There have been no awards made to date under LTIP2 and, as the current business strategy is more aligned with achievement of profit targets, a further LTIP is anticipated to be put in place in 2020.

Group employee breakdown by gender as at 31 December 2019

	Male*	Female
Directors	4	2
Managers	25	28
Employees	83	93
	112	123

* Excludes the one (male) Director who is not an employee of the Group

Bob Head
Non Executive Director

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 December 2019.

Principal activities

The Group is principally engaged in providing employee services, including short-term accident and health insurance, SaaS products and the provision of salary sacrifice technology products in the UK.

Results and dividends

A review of the year's results is given in the Chief Financial Officer's Statement (see pages 19-21).

The profit from continuing operations for the year is £10,487,000 (2018: £10,210,000) before taxation of £1,649,000 (2018: £1,819,000). During the year ordinary dividends of £7,244,000 (2018: £7,087,000) were paid.

Directors

The membership of the Board at the end of the year is set out in the Remuneration Report on page 38. The Remuneration Committee Report also includes details of the Directors' remuneration and interests in the ordinary shares of the Company. During the year all Directors and officers were covered by third party indemnity insurance.

Political contributions

Neither the Company nor any of its subsidiaries made any political donation or incurred any political expenditure during the year (2018: £nil).

Charitable donations

Donations to charitable organisations amounted to £100,000 (2018: £100,000).

Principal risks and uncertainties

The principal risks and uncertainties facing the Group, along with the risk management objectives and policies are discussed in the Audit Committee report and Note 3 of these financial statements.

Capital requirements

See Note 4 of these financial statements.

Corporate governance

The Board of Personal Group Holdings Plc supports the principles and is committed to achieving high standards of corporate governance and has adopted the Quoted Companies Alliance Corporate Governance Code in its entirety. The Board's report on the Group's corporate governance procedures is set out on pages 30-31.

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 Group'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 Group's auditor is aware of that information.

Auditor

EY LLP have expressed willingness to continue in office. In accordance with section 489 (4) of the Companies Act 2006 a resolution to both formally appoint and reappoint EY LLP will be proposed at the Annual General Meeting to be held on Wednesday 29 April 2020.

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report.

In arriving at their conclusion that the Group's accounts should be prepared on a going concern basis, the Directors' have considered the potential impact of COVID-19, over the next 12 months based on review of a variety of possible stress and scenario tests.

BY ORDER OF THE BOARD

M Dugdale
Director

20 April 2020

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the Group and parent Company Financial Statements in accordance with applicable law and regulations.

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 Group and parent Company 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. Under the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs as adopted by the EU) and applicable law and they 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, relevant and reliable.
- State whether they have been prepared in accordance with IFRSs as adopted by the EU.
- Assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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.

Independent Auditor's Report

Opinion

In our opinion:

- Personal Group Holdings Plc's Group financial statements and Parent Company financial statements (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 2019 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 European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Personal Group Holdings Plc which comprise:

Group	Parent company
The statement of consolidated financial position as at 31 December 2019	The statement of financial position as at 31 December 2019
The consolidated income statement for the year then ended	The statement of changes in equity for the year then ended
The consolidated statement of comprehensive income for the year then ended	The statement of cash flows for the year then ended
The consolidated statement of changes in equity for the year then ended	Related notes 1 to 36 to the financial statements including a summary of significant accounting policies
The consolidated statement of cash flows for the year then ended	
Related notes 1 to 36 to the financial statements (except for note 4 which is marked as unaudited), including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards to the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

First year audit considerations

In the preparation for our first year audit of the 31 December 2019 financial statements, we performed a number of transitional procedures. Following our selection as statutory auditor, we undertook procedures to establish our independence of the Group. We used time prior to commencing any audit work to gain an understanding of the business issues and meet with key management.

We reviewed 2018 audit work papers of the former auditor KPMG LLP ('KPMG') and gained an understanding of their risk assessment and key judgments. We held a number of meetings with management to understand the key judgments made for the 31 December 2018 year end.

In October 2019, we held our team planning event attended by the audit partners and senior staff responsible for auditing the main business function and the Guernsey component of the Group. This provided the opportunity for the entire team to agree our first year audit approach. Our audit team has deep knowledge of the insurance industry and has been involved in the audits of large International financial services companies.

The transition activities, including walkthroughs of the Group's significant processes, allowed us to gain an understanding of the Group's key processes and controls over financial reporting. We used the understanding the audit team had formed to establish our audit base and assist in the formalisation of our audit strategy for the 2019 Group audit.

Overview of our audit approach	
Key audit matters	• Valuation of PG Let's Connect goodwill • Valuation of goodwill and other intangible assets arising on acquisition of Innecto People Consulting • COVID-19 impact

Audit scope	• We performed full scope audit of five components of the Group:
	  • UK core insurance (Personal Assurance plc),
	  • Guernsey core insurance (Personal Assurance (Guernsey) Limited),
	  • IT salary sacrifice (PG Let's Connect IT Solutions Limited),
	  • Software as a service (Personal Management Solutions Limited), and
	  • Software as a service (Innecto People Consulting Limited).
	• These components accounted for 99% of the Group revenue and 99% of the Group profit before tax.

Materiality	• Group materiality of £525,000 representing 5% of consolidated profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report continued

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of PG Let's Connect Goodwill (2019: £10.6m, 2018: £10.6m) *Refer to the accounting policies page (page 64); and Note 15 of the financial statements (page 82 to 84)* The PG Let's Connect goodwill arising on consolidation represents the excess of the costs of acquisition over the Group's interest in the fair value of the identified assets and liabilities at the date of acquisition of Let's Connect in 2014. The PG Let's Connect goodwill balance as at 31 December 2019 is significant based on its size relative to the total assets of the Group. We consider the valuation of PG Let's Connect goodwill to be a significant risk for the Group, specifically due to the reliance on cash flow forecasts, incorporating key management assumptions, to support the recoverability of goodwill. These involve significant judgment about future events for which small changes can result in a material impact to the resultant valuation and therefore leads to a greater risk of material misstatement.	To obtain sufficient audit evidence to conclude on the valuation of PG Let's Connect goodwill, we performed the following procedures: • Examined and assessed the appropriateness of management's impairment model, including an identification of the cash generating unit ('CGU') and attributable cashflows, an assessment of discounted cash flows, and understanding of the significant assumptions used in the impairment test for the identified CGU; • Challenged the future cash flow projections of the CGU, including the appropriateness of the applied short-term and long-term growth rates; • Engaged EY valuation specialists to assess the reasonableness of the discount rate by considering the CGU's specific circumstances as well as comparable companies; • Performed sensitivity analysis to assess the impact of certain key variables on levels of headroom, including discount rate and growth assumptions; and • Considered whether the applied accounting treatment is in compliance with IFRS and the Group's accounting policy and the Group disclosure is in line with the required reporting framework.	We are satisfied that there is no impairment and the carrying value of the goodwill is appropriate as at 31 December 2019. However, this assumes that the material Let's Connect's customer contract (disclosed in Note 15 of the financial statements) renews. Loss of the contract could have a significant adverse impact on the future cash flows of the PG Let's Connect CGU and may affect the future carrying value of the goodwill.
Valuation of goodwill and other intangible assets arising on acquisition of Innecto People Consulting (2019: £2.9m, 2018: £nil) *Refer to the accounting policies page (page 64); and Note 35 of the financial statements (page 82 to 84)* On 28 February 2019, the Group acquired 100% of the issued share capital of Innecto People Consulting Limited (Innecto) for £3.2m cash consideration. We consider the valuation of intangible assets relating to the Innecto acquisition to be a significant risk as it involves significant judgments in respect of the identification and valuation of the intangible assets arising from acquisition (intangible assets related to customer relationships, technology platforms, trade name and technology trademarks). The fair value assessment of the acquired intangible assets involves consideration of a number of judgmental and sensitive assumptions such as discount rate, growth rate and profitability projections. This subjects value of these intangible assets to a higher risk of material misstatement. As required management performed an impairment assessment on the Innecto goodwill as at 31 December 2019 to satisfy themselves that the carrying value remains appropriate. The impairment assessment of goodwill involved the consideration of a number of judgmental assumptions such as the discount rate and short-term and long-term growth rates, which heightens the risk of material misstatement.	To obtain sufficient audit evidence to conclude on the valuation of intangible assets arising on acquisition of Innecto and the valuation of goodwill at the year end, we performed the following procedures: *Valuation of intangible assets arising on acquisition of Innecto* • Examined the Innecto Sale and Purchase Agreement to understand terms and conditions and their impact on the acquisition accounting; • Assessed appropriateness of the identified intangible assets and cash flows identified as attributable to these assets; • Reviewed the valuation report of management's expert and assessed the methodology and assumptions adopted by management for calculating the fair values of intangible assets arising on acquisition; • Engaged EY valuation specialists to assess the reasonableness of the key assumptions by considering Personal Group's (Innecto's) specific circumstances as well as comparable companies; • Assessed completeness of the intangible assets arising from acquisition; • Assessed appropriateness of the identified CGU and challenged the profitability projections of the CGU, specifically growth rate, royalty rates and obsolescence assumptions; and • Considered whether the applied accounting treatment is in compliance with IFRS and the Group's accounting policy, and the Group disclosures are in line with the required reporting framework. *Valuation of goodwill at the year end* • Assessed appropriateness of the impairment model and challenged the key assumptions applied by management, specifically discount rate and short-term and long-term growth rates; and • Considered whether the Group disclosures are in line with the required reporting framework.	We are satisfied that the intangible assets arising from the acquisition of Innecto are appropriately identified and accounted for and their valuation at the acquisition date is materially correct. We are satisfied that there is no impairment and the carrying value of the goodwill is appropriate as at 31 December 2019. However, this assumes the high growth expected, particularly in the digital platform (disclosed in Note 15 of the financial statements). Delay in the growth of the digital platform could have a significant adverse impact on the future cash flows of the Innecto CGU and may affect the future carrying value of the goodwill. In addition, we are satisfied that the acquisition and goodwill related disclosures are in compliance with the applicable accounting framework.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
COVID-19 impact *Refer to Note 2.1 Basis of preparation (page 63) and Note 36 Post balance sheet events (page 100) of the financial statements* The global outbreak of COVID-19 presents operational and financial risks to the Group. COVID-19 is considered to be a non-adjusting post balance sheet event and as such no adjustments have been made to the results and the financial position of the Group for the year ended 31 December 2019. The Directors have performed an assessment of the impact of COVID-19 on the profitability, liquidity and capital position of the Group. They have modelled the Group's results and solvency position to reflect • the risk of increased level of claims of the Group hospital, convalescence and death benefit plans, and • the potential impact of COVID-19 on the Group's ability to undertake face-to-face sales. Based on these analyses the Directors do not consider that COVID-19 gives rise to a material uncertainty over the going concern of the Group. Due to the significant level of judgment applied, there is a higher risk around the appropriateness of modelling performed by the Group and whether the Directors have drawn appropriate conclusions regarding the going concern basis. In addition, there is a risk that the disclosures in the financial statements are inadequate or inappropriate.	We read, assessed and challenged the Directors' going concern assessment, including their expectation of the impact of COVID-19 on the operations, liquidity and capital position of the Group. In particular: • We obtained the profitability forecasts prepared by the Group and assessed the appropriateness of assumptions applied in the modelled stress scenarios; • We challenged whether the base forecasts of the claims ratios and the revenue growth were realistic based on our understanding of the business and the available information on the COVID-19 development; • We tested that the modelled stress scenarios had been accurately applied in the solvency and liquidity forecasts; • We considered whether management actions identified by the Group were realistically achievable, based on our knowledge of the business; • We considered management's assessment of the operational impact of COVID-19 on the business by reference to the measures they have currently implemented or plan to put in place; and • We read the financial statement disclosures in respect of going concern in note 2.1 and the post balance sheet impact of COVID-19 in note 36, to determine whether they were consistent with the results of management's forecasts and in accordance with the requirements of the applicable reporting framework.	We concluded that the Directors had an appropriate basis on which to make the assessment that COVID-19 does not give rise to material uncertainty over the going concern of the Group. We consider that the financial statement disclosures in respect of the impact of COVID-19 are appropriate and consistent with the requirements of IFRS.

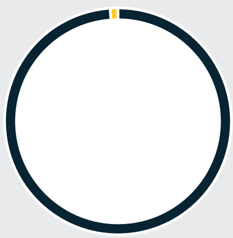
An overview of the scope of our audit

Tailoring the scope

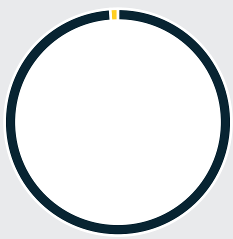
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group, changes in the business environment and other factors when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we identified six reporting components of the Group. Of the six identified components, we performed a full scope audit of five components ("full scope components") which were selected based on their size or risk characteristics. The full scope components are UK core insurance (Personal Assurance plc), Guernsey core insurance (Personal Assurance (Guernsey) Limited), IT salary sacrifice (PG Let's Connect IT Solutions Limited), Software as a service (Personal Management Solutions Limited), and Software as a service (Innecto People Consulting Limited). These components accounted for 99% of the Group revenue and 99% of the Group profit before tax.

The charts below illustrate the coverage obtained from the work performed by our audit teams.



Profit Before Tax
- Full scope components – 99%
- Other procedures – 1%



Revenue
- Full scope components – 99%
- Other procedures – 1%

See more online at **www.personalgroup.com**

Independent Auditor's Report continued

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from the EY global network firms operating under our instruction.

Of the five full scope components, audit procedures were performed on four of these directly by the primary audit team, EY UK, whilst the remaining one component (Personal Assurance (Guernsey) Limited) was audited by the component audit team, EY Guernsey. We provided detailed audit instructions to EY Guernsey which included guidance on areas of focus, including the relevant risks of material misstatement, and set out the information required to be reported to us. We held discussions with the component team throughout the audit and reviewed their key working papers.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £525,000 (2018 KPMG: £490,000), which is 5% of the consolidated profit before tax. The Group has been profitable over a number of years and we judge the focus of shareholders to be the Group's profitability and earning per share. Therefore, we have determined that profit before tax is the most appropriate basis to determine materiality for the Group.

We determined materiality for the Parent Company to be £270,000 (2018 KPMG: £382,000), which is 1% of the Parent Company equity. We have used the capital based measure for determining materiality due to the Parent Company being a holding company.

During the course of our audit, we reassessed the Group initial materiality of £450,000 and updated it to £525,000 due to an increase in the consolidated profit before tax between the interim forecast amount (upon which the initial materiality was based) and the year end actual. We considered the impact of this on the extent of our audit procedures.

We also reassessed initial materiality for the Parent Company from £180,000 to £270,000 due to an increase in the Parent Company equity between 31 December 2018 (upon which our initial material was based) and the 31 December 2019. We considered the impact of this on the extent of our audit procedures.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment and due to the first year of audit of the Group, our judgment was that performance materiality was 50% of our planning materiality, namely £262,000.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component.

In the current year, the range of performance materiality allocated to components was £26,000 to £198,000.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £26,000 for the Group and in excess of £14,000 for the Parent Company, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 43, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which 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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 43, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

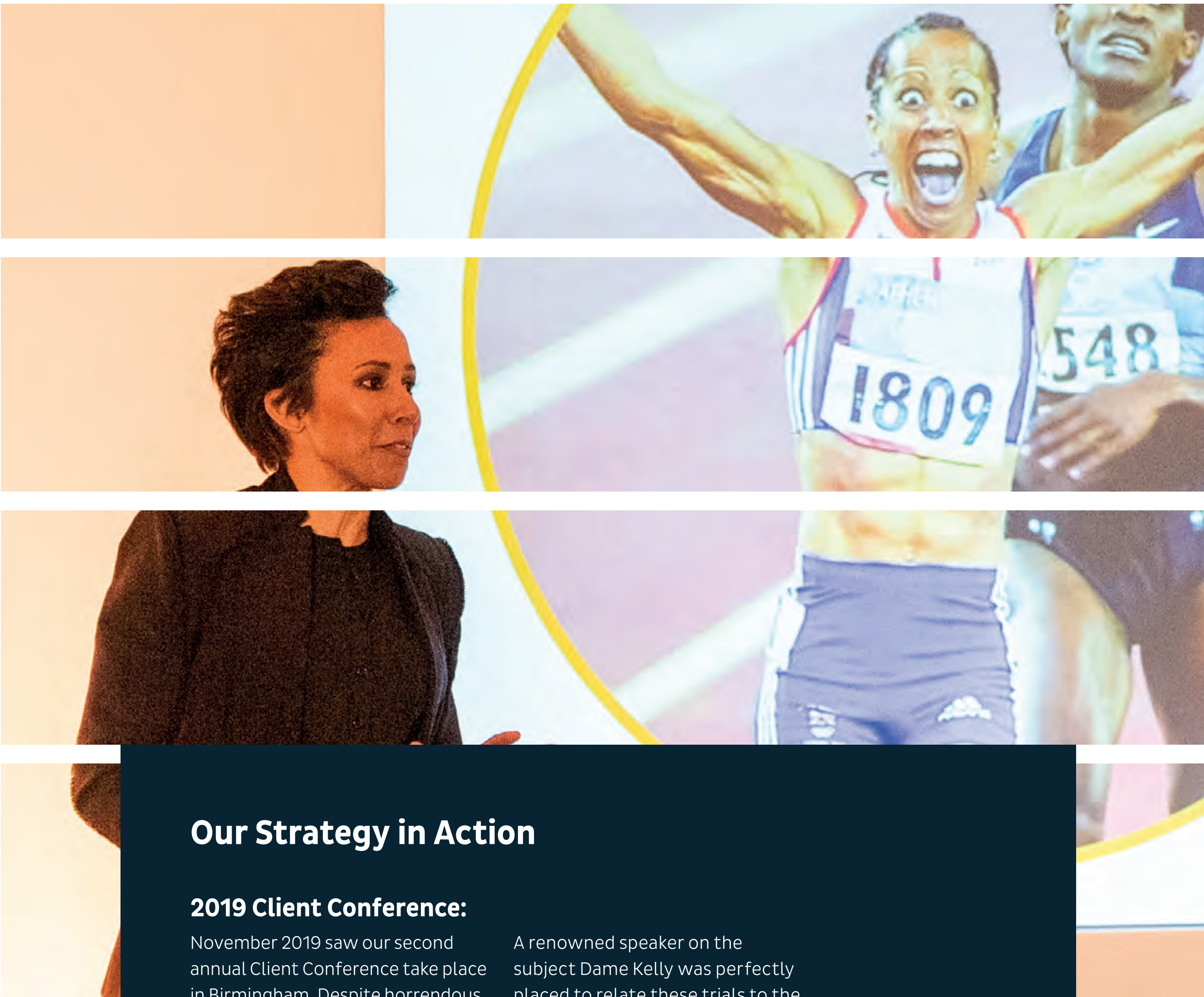
Robert Bruce (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
London

20 April 2020

Notes:

1. The maintenance and integrity of the Personal Group Holdings Plc web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Our Strategy in Action

2019 Client Conference:

November 2019 saw our second annual Client Conference take place in Birmingham. Despite horrendous weather conditions on the day we saw many clients brave the elements and attend to hear the latest news and developments in the Reward and Benefits sector.

However, the star of the day was Col. Dame Kelly Holmes MBE (mil) who spoke for over an hour detailing her own experiences with mental health and personal challenges.

A renowned speaker on the subject Dame Kelly was perfectly placed to relate these trials to the workplace and how even the most “in control” employee can be facing personal struggles.

Dame Kelly was hugely generous with her time and stayed to chat to clients and suppliers alike. Personal Group was proud to have hosted such an inspirational and high profile speaker who resonated so well with the audience.

Be famous

We create impact in the market by thinking differently and acting differently to become a valued client partner.

Financial Statements

“

It had a really good theme and all the presentations fitted perfectly with that”
Carolyn Walker
HR Operations Director

“

Guest speaker Dame Kelly Holmes was fantastic. Her openness was truly inspiring”
Suzanne Foody
Benefits & Rewards Manager

“

Dame Kelly was a fantastic speaker and it was a fantastic way to end the day. The pitch was just right – inspirational and thought provoking without being too heavy”
Helen Tester
Well-being Development Lead

What we delivered

>90% of attendees scored the event 8 out of 10 or above

Travel, logistics and registration process scored 9 out of 10

Consolidated Income Statement

	Note	2019 £'000	2018 £'000
Gross premiums written		30,369	31,445
Outward reinsurance premiums		(204)	(231)
Change in unearned premiums		59	28
Change in reinsurers' share of unearned premiums		(10)	(10)
Earned premiums net of reinsurance	5	30,214	31,232
Other insurance related income	5	191	218
IT salary sacrifice income	5	18,794	14,970
SaaS income	5	21,459	8,729
Other non-insurance income	5	100	115
Investment income	6	131	83
Revenue		70,889	55,347
Claims incurred	7	(6,670)	(7,175)
Insurance operating expenses	8	(15,964)	(15,073)
Other insurance related expenses		(210)	(261)
IT salary sacrifice expenses	5	(17,157)	(13,851)
SaaS costs	5	(20,930)	(8,561)
Share-based payment expenses	23	(19)	(117)
Charitable donations		(100)	(100)
Amortisation of intangible assets	16	(489)	(661)
Expenses		(61,539)	(45,799)
Operating profit		9,350	9,548
Finance costs		(131)	(148)
Release of provisions	25	1,259	646
Share of profit of equity–accounted investee net of tax	34	9	164
Profit before tax	10	10,487	10,210
Tax	11	(1,649)	(1,819)
Profit for the year	13	8,838	8,391
The profit for the year is attributable to equity holders of Personal Group Holdings Plc			
Earnings per share		**Pence**	**Pence**
Basic	13	28.4	27.2
Diluted	13	28.4	27.2

There is no other comprehensive income for the year and, as a result, no statement of comprehensive income has been produced. All operations are classed as continuing activities.

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

Consolidated Balance Sheet

at 31 December 2019

	Note	2019 £'000	2018 £'000
ASSETS			
Non-current assets			
Goodwill	15	12,696	10,575
Intangible assets	16	1,301	500
Property, plant and equipment	17	5,984	6,040
Investment property	18	–	130
		19,981	17,245
Current assets			
Financial investments	19	2,565	2,530
Trade and other receivables	20	18,549	16,532
Equity-accounted investee	34	–	50
Reinsurance assets	21	121	187
Inventories	12	746	643
Cash and cash equivalents	22	14,476	15,148
		36,457	35,090
Total assets		56,438	52,335

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

Consolidated Balance Sheet continued

at 31 December 2019

	Note	2019 £'000	2018 £'000
EQUITY			
Equity attributable to equity holders of Personal Group Holdings Plc			
Share capital	23	1,561	1,544
Share premium		1,134	–
Capital redemption reserve		24	24
Other reserve		(230)	(210)
Profit and loss reserve		35,526	33,937
Total equity		38,015	35,295
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	24	302	102
Trade and other payables	26	290	356
Current liabilities			
Provisions	25	–	1,259
Trade and other payables	26	15,043	12,233
Insurance contract liabilities	27	2,104	2,376
Current tax liabilities		684	714
		17,831	16,582
Total liabilities		18,423	17,040
Total equity and liabilities		56,438	52,335

The financial statements were approved by the Board on 20 April 2020.

M Dugdale **D Frost**

Company number: 3194991

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

Company Balance Sheet

at 31 December 2019

	Note	2019 £'000	2018 £'000
ASSETS			
Non-current assets			
Investment in subsidiary undertakings	28	25,041	25,022
Investment property	18	–	130
		25,041	25,152
Current assets			
Trade and other receivables	20	3,070	156
Cash and cash equivalents	22	165	169
		3,235	325
Total assets		28,276	25,477
EQUITY			
Equity attributable to equity holders of Personal Group Holdings Plc			
Share capital	23	1,561	1,544
Share premium	23	1,134	–
Capital redemption reserve		24	24
Other reserve		(230)	(210)
Profit and loss reserve		24,601	16,770
Total equity		27,090	18,128
LIABILITIES			
Current liabilities			
Trade and other payables	26	1,186	7,349
Total liabilities		1,186	7,349
Total equity and liabilities		28,276	25,477

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 £15,080,000 (2018: £7,582,000).

The financial statements were approved by the Board on 20 April 2020.

M Dugdale **D Frost**

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 2019

Equity attributable to equity holders of Personal Group Holdings Plc

	Share capital £'000	Share Premium £'000	Capital redemption reserve £'000	Other reserve £'000	Profit and loss reserve £'000	Total equity £'000
Balance as at 1 January 2019	1,544	–	24	(210)	33,937	35,295
Dividends paid	–	–	–	–	(7,244)	(7,244)
Employee share-based compensation	–	–	–	–	19	19
Proceeds of SIP* share sales	–	–	–	–	20	20
Cost of SIP shares sold	–	–	–	44	(44)	–
Cost of SIP shares purchased	–	–	–	(64)	–	(64)
Shares issued in the year	17	1,134	–	–	–	1,151
Transactions with owners	17	1,134	–	(20)	(7,249)	(6,118)
Profit for the year	–	–	–	–	8,838	8,838
Total comprehensive income for the year	–	–	–	–	8,838	8,838
Balance as at 31 December 2019	1,561	1,134	24	(230)	35,526	38,015

* PG Share Ownership Plan (SIP)

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 2018

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 2018 as previously reported	1,540	24	85	(310)	32,417	33,756
Adjustment on initial adoption of IFRS 9	–	–	(85)	–	85	–
Restated balance as at 1 January 2018	1,540	24	–	(310)	32,502	33,756
Dividends paid	–	–	–	–	(7,087)	(7,087)
Employee share-based compensation	–	–	–	–	94	94
Proceeds of SIP* share sales	–	–	–	–	132	132
Cost of SIP shares sold	–	–	–	179	(179)	–
Cost of SIP shares purchased	–	–	–	(79)	–	(79)
Deferred tax reserve movement (see note 24)	–	–	–	–	88	88
Nominal value of LTIP** shares issued	4	–	–	–	(4)	–
Transactions with owners	4	–	–	100	(6,956)	(6,852)
Profit for the year	–	–	–	–	8,391	8,391
Total comprehensive income for the year	–	–	–	–	8,391	8,391
Balance as at 31 December 2018	1,544	24	–	(210)	33,937	35,295

* PG Share Ownership Plan (SIP)

**Long Term Incentive Plan (LTIP)

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 2019

Equity attributable to equity holders of Personal Group Holdings Plc

	Share capital £'000	Share Premium £'000	Capital redemption reserve £'000	Other reserve £'000	Profit and loss reserve £'000	Total equity £'000
Balance as at 1 January 2019	1,544	–	24	(210)	16,770	18,128
Dividends paid	–	–	–	–	(7,244)	(7,244)
Employee share-based compensation	–	–	–	–	19	19
Proceeds of SIP* share sales	–	–	–	–	20	20
Cost of SIP shares sold	–	–	–	44	(44)	–
Cost of SIP shares purchased	–	–	–	(64)	–	(64)
Shares issued in the year	17	1,134	–	–	–	1,151
Transactions with owners	17	1,134	–	(20)	(7,249)	(6,118)
Profit for the year	–	–	–	–	15,080	15,080
Balance as at 31 December 2019	1,561	1,134	24	(230)	24,601	27,090

* PG Share Ownership Plan (SIP)

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 2018

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 2018	1,540	24	(310)	16,232	17,486
Dividends paid	–	–	–	(7,087)	(7,087)
Employee share-based compensation	–	–	–	94	94
Proceeds of SIP* share sales	–	–	–	132	132
Cost of SIP shares sold	–	–	179	(179)	–
Cost of SIP shares purchased	–	–	(79)	–	(79)
Nominal value of LTIP** shares issued	4	–	–	(4)	–
Transactions with owners	4	–	100	(7,044)	(6,940)
Profit for the year	–	–	–	7,582	7,582
Balance as at 31 December 2018	1,544	24	(210)	16,770	18,128

* PG Share Ownership Plan (SIP)

** Long Term Incentive Plan (LTIP)

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

Consolidated Cash Flow Statement

	Note	2019 £'000	2018 £'000
Net cash from operating activities (see next page)		8,668	8,325
Investing activities			
Additions to property, plant and equipment	17	(734)	(1,024)
Additions to intangible assets	16	(266)	(178)
Proceeds from disposal of investment property		188	–
Proceeds from disposal of property, plant and equipment		398	9
Purchase of financial assets		(34)	(105)
Proceeds from disposal of financial assets		–	2,056
Interest received		131	82
Dividends received from equity accounted investee	34	59	750
Dividends received		–	8
Acquisition of subsidiary, net of cash acquired	35	(2,714)	–
Net cash from investing activities		(2,972)	1,598
Financing activities			
Proceeds from the issue of shares		1,151	–
Interest paid		(2)	(28)
Purchase of own shares by the SIP*		(64)	(79)
Proceeds from disposal of own shares by the SIP*		20	132
Payment of lease liabilities		(229)	(354)
Dividends paid		(7,244)	(7,087)
Net cash used in financing activities		(6,368)	(7,416)
Net change in cash and cash equivalents		(672)	2,507
Cash and cash equivalents, beginning of year	22	15,148	12,641
Cash and cash equivalents, end of year	22	14,476	15,148

* PG Share Ownership Plan (SIP)

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

Consolidated Cash Flow Statement

	Note	2019 £'000	2018 £'000
Operating activities			
Profit after tax		8,838	8,391
Adjustments for			
Depreciation	17	970	797
Amortisation of intangible assets	16	489	661
(Profit) / loss on disposal of property, plant and equipment		(127)	59
Profit on disposal of investment property		(60)	–
Realised net investment loss		–	10
Interest received		(131)	(82)
Dividends received		–	(8)
Interest charge		131	148
Share of profit of equity-accounted investee, net of tax	34	(9)	(164)
Share-based payment expenses	23	19	94
Taxation expense recognised in income statement	11	1,649	1,819
Changes in working capital			
Trade and other receivables		(1,520)	(1,920)
Trade and other payables		1,406	865
Provisions	25	(1,259)	(646)
Inventories		(103)	(83)
Taxes paid		(1,625)	(1,616)
Net cash from operating activities		8,668	8,325

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

Company Cash Flow Statement

	Note	2019 £'000	2018 £'000
Net cash from operating activities (see below)		(10,055)	(1,465)
Investing activities			
Sale of financial assets		–	100
Dividends received		16,000	8,421
Proceeds from disposal of investment property		188	–
Net cash used in investing activities		16,188	8,521
Financing activities			
Proceeds from share issue		1,151	–
Purchase of own shares by the SIP*		(64)	(79)
Proceeds from disposal of own shares by the SIP*		20	132
Dividends paid		(7,244)	(7,087)
Net cash used in financing activities		(6,137)	(7,034)
Net change in cash and cash equivalents		(4)	22
Cash and cash equivalents, beginning of year	22	169	147
Cash and cash equivalents, end of year	22	165	169
Operating activities			
Profit after tax		15,080	7,582
Changes in working capital			
Trade and other receivables		(2,912)	1,849
Trade and other payables		(6,163)	(2,475)
Dividends received		(16,000)	(8,421)
Profit on disposal of investment property		(60)	–
Net cash from operating activities		(10,055)	(1,465)

* PG Share Ownership Plan (SIP)

The parent Company has cash and cash equivalents at 31 December 2019 totalling £88,000 (2018: £58,000). PGT, the employee-based trust, has a cash balance which has decreased by £34,000 to £77,000 in the year to 31 December 2019 (decreased by £34,000 to £111,000 in the year to 31 December 2018) as a result of the purchase and sale of SIP shares.

The accompanying accounting policies and notes form an integral part of these 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 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 23 March 2020.

2 Accounting policies

These financial statements of Personal Group Holdings Plc are for the year ended 31 December 2019. 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 2019.

The following IFRS standards have become applicable for accounting periods commencing on or after 1 January 2019 and the appropriate adjustments have been made:

- IFRS 16 – Leases

This was early adopted as of 1 January 2018 and the impact of transition was laid out in the publicly available financial statements to 31 December 2018.

The Group is aware that IFRS 17 – Insurance Contracts is potentially going to be effective for periods from 1 January 2022. Based on a review of the current public information it is not believed that the accounting for the Group's insurance contracts will change materially due to the short tail nature of those contracts although further disclosures are likely to be required.

2.1 Basis of preparation

The functional and presentational currency of the Group is sterling. These statements and the prior year comparatives have been presented to the nearest thousand, unless otherwise stated.

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

- Agent vs principal (2.25) – whether the sale of discounted vouchers should be treated as a principal or agency transaction.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the year ending 31 December 2019 is included in the following notes:

- Goodwill valuation (Note 15) – key assumptions underlying recoverable amounts.
- Establishing the value of claims outstanding (Note 27); – key assumptions regarding the provisions for claims.
- Value of intangible assets recognised on the acquisition of Innecto (Note 35).

Going concern

The financial statements are prepared on a going concern basis. In considering going concern, the Directors have reviewed the Group's and Company's future cash requirements, earnings projections and capital projections over the next twelve months. Various stress and scenario tests have taken place to assess the potential impact on the Group of COVID-19, considering the potential impact on premiums, claims and solvency ratios for the insurance subsidiaries, together with liquidity and other non-insurance activities for the wider Group. 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 over the next 12 months from the date of signing the financial statements.

Having prepared and considered these stress scenarios the Directors have concluded that the Group and Company will be able to operate without requiring any external funding and therefore believe it is appropriate to prepare the financial statements of the Group and Company on a going concern basis. This is supported by the Group's and Company's liquidity position at the year end.

2 Accounting policies continued

2.2 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised income and expenses arising from these transactions, are eliminated on consolidation. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2.3 Joint ventures

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

The joint venture is equity accounted further information for which can be found in Note 34.

2.4 Goodwill and acquired intangibles

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.

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

2.5 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.

The IFRS 15 considerations for the most significant revenue streams have been disclosed in order to validate that the treatment is compliant with IFRS 15.

Earned premium

Earned premium is recognised in the period in which the Group is legally bound through a contract to provide insurance cover, which is typically a week or a month in length and renews on an evergreen basis. It represents the full amount of premiums receivable under the contract. These are deferred as a provision for unearned premiums until recognised as revenue principally computed on a monthly or daily pro-rata basis. The unearned premium reserve is typically small as a large proportion of policies are weekly renewals.

Net earned premiums are stated net of amounts passed to reinsurers. Premiums are shown before deduction of commission and exclude any sales-based taxes or duties.

Insurance income is outside the scope of IFRS 15 and hence the implementation of this standard has not impacted this revenue stream.

Other Insurance related

Commission receivable on the renewal of previously written insurance policies is recognised by the Group as the renewal takes place with the underwriter.

IT Salary sacrifice

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

IFRS 15 – IT Salary Sacrifice Income

Performance Obligations	Provision of IT goods to employer companies. Goods are acquired by the Group from various suppliers and held as inventory until sold to customers at an agreed price.
Transaction Price	Purchase price varies dependant on product purchased but is clearly indicated.
Allocation of Price	Prices are allocated by product, volumes and values.
Satisfaction of Obligations	Revenue is recognised on dispatch as Group has met its performance obligation as per the contracts in place.

SaaS income

SaaS income, including that derived from Hapi, 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.

IFRS 15 – SaaS Income	
Performance Obligations	Ongoing access to Hapi platform with each relevant month access is provided being considered a separate performance obligation.
Transaction Price	Prices are on a by employee rate and are agreed with each client individually.
Allocation of Price	Price allocated evenly to each period / performance obligation.
Satisfaction of Obligations	Recognised straight-line over period of agreement of service as the performance obligation is deemed to be met each month as the contract progresses.

Voucher income, which is also included in SaaS income, derives from customers ordering retail vouchers through the Hapi platform. E-vouchers are fulfilled and made available instantly to the customer while, for reloadable cards, customers receive these several working days after placing the order. Income from the sale of reloadable cards and e-vouchers is recognised as orders are fulfilled by the Group. In the vast majority of these transactions the Group acts as principal. Refer to 2.25 for further details of agent vs principal assessment.

IFRS 15 – Voucher Income	
Performance Obligations	Provision of voucher to individuals / companies.
Transaction Price	Prices are based on each retailer's discount on purchase into the Group.
Allocation of Price	Whole price allocated to the sole performance obligation.
Satisfaction of Obligations	Recognised on dispatch of voucher as this is the point at which the Group has fulfilled its part of the agreed contract.

With the acquisition of Innecto People Consulting Limited in the year (see Note 35), the Group now receives income from its provision of HR consultancy services to corporate clients. Consultancy income is recognised in the profit and loss account at the relevant charge out rates of the consultants and based on the chargeable time spent on each client project.

IFRS 15 – Consultancy Income	
Performance Obligations	Provision of consultancy services, typically based on an agreed number of consultant hours.
Transaction Price	Prices are based on each contractual client agreement, dependant on the level and duration of consultant hours spent.
Allocation of Price	Each chargeable hour will have an agreed price dependant on the level and experience of the consultant.
Satisfaction of Obligations	Each consultant hour charged is considered a separate performance obligation and recognition is recorded periodically (typically monthly) based on chargeable hours in that period.

Other income

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

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. The effect of any rent-free period is spread over the life of the lease.

Costs incurred to fulfil a contract

Costs incurred to fulfil a contract under IFRS 15 are recognised as an asset under certain conditions laid out in IFRS 15.95. The capitalised contract costs are amortised on a systematic basis that is consistent with the Company's transfer of the related goods or services to the customer. Capitalised contract costs are subject to an impairment assessment at the end of each reporting period. Impairment losses are recognised in the profit or loss. There are no contracts in the Group for which these conditions are met and, as such, no assets have been recognised.

Investment income

Interest income is recognised on an effective interest rate method.

2 Accounting policies continued

2.6 Reinsurance

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 is 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.

2.7 Deferred acquisition expenses

Prior to 2018, costs incurred in acquiring general insurance contracts were deferred where appropriate. Acquisition costs included 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 represented the proportion of acquisition costs corresponding to the proportion of gross premiums written that was unearned at the balance sheet date. During 2018, management reviewed this process and decided due to the short tail nature of the policies underwritten that, for clarity and simplicity in the financial statements, this immaterial deferral would no longer be required.

2.8 Claims recognition and claims provisions

The provision for claims represents the gross estimated liability arising from claim episodes in the current and preceding financial years which have not given rise to claims paid. The provision includes an allowance for claims management and handling expenses.

The provision for claims is estimated based on current information, and the ultimate liability may vary as a result of subsequent information and events.

Adjustments to the amount of claims provision for prior years are included in the income statement in the financial year in which the change is made.

In setting the provisions for claims outstanding, a best estimate is determined on an undiscounted basis and then a margin of prudence is added such that there is confidence that future claims will be met from the provisions. The level of prudence set is one that provides an appropriate degree of confidence.

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.

2.9 Property, plant and equipment and intangible assets

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

Research and development

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group intends, and has the technical ability and sufficient resources to, complete development, future economic benefits are probable and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes.

The expenditure capitalised includes the cost of materials, external consultancy costs and salary costs where a distinct product has been created. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

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 tangible assets 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:

Freehold properties	50 years
Motor vehicles	3 – 4 years
Computer equipment	2 – 4 years
Furniture, fixtures and fittings	5 – 10 years
Computer software and development	2 – 4 years
Internally generated intangibles	3 – 5 years
Intangible assets	3 – 5 years
Right of Use Assets	Term of Lease

2.10 Leases

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 Leases.

Under IFRS 16, with the exception of short-term or low value leases, all operating and finance leases are accounted for in the balance sheet. On inception of the lease, the future payments, including any expected end of life costs, are discounted based on the implicit interest rate in the specific lease. A "Right of Use" asset is created at an equal value depreciated over the life of the lease which is determined by the contract with any break clauses being reviewed as to the expected use at the time of inception and at each following year end. Payments made to the lessor are debited to the balance sheet and the income statement is charged with monthly depreciation and interest which is included as finance costs in the accounts.

Low value leases or short life leases of less than one year are expensed directly into the income statement account on a straight line over the life of the lease.

2.11 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.

2.12 Investment property

The investment property was held to earn rentals and/or for capital appreciation. The Group measured its investment property in accordance with IAS 40 requirements for the cost model.

The investment property was 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.

The Investment Property was sold during 2019, the profit for which has been included within admin expenses within insurance operating expenses in the consolidated income statement.

2.13 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 Accounting policies continued

2.14 Financial assets

Financial assets include; bank deposits (as defined below); loans and other receivables. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which they were acquired.

A financial asset is measured at amortised cost if it is both: held within a business model whose objective is to hold assets to collect contractual cash flows; and its contractual terms give rise to cash flows that are solely payments of principal and interest on the amount outstanding. For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition, and "interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument, including any terms which may affect the timing or amount of contractual cash flows.

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.

There are no financial assets categorised as at fair value through profit and loss following the sale of the equity investments.

In assessing impairment requirements on financial assets, the Group considers the rate of historic losses on similar assets in conjunction with expected future losses and credit losses as a result of potential defaults. This will, as mandated by IFRS 9, continue to be reassessed as and when further information becomes available or when conditions change.

A financial asset is de-recognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred, and that transfer qualifies for de-recognition. 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 de-recognition 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.

Impairment of financial assets

The Group assesses on a forward-looking basis, the expected credit losses ("ECL") associated with its debt instrument assets carried at amortised costs. The Group calculates the lifetime ECL as a practical expedient for short term receivables. A loss allowance is recognised for such losses at each reporting date. The Group measures ECL on each balance sheet date according to a three stage ECL impairment model:

Stage 1 – from initial recognition of the financial asset to the date on which the asset has experienced a significant increase in credit risk (SICR) relative to its initial recognition, a loss allowance is equal to the credit loss expected to result from default occurring over 12 months following the reporting date.

Stage 2 – following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognised equal to the credit losses expected over the remaining lifetime of the asset. Where an SICR is no longer observed, the instrument will move back to Stage 1.

Stage 3 – when the financial asset is considered to be credit impaired, a loss allowance is recognised equal to the credit losses expected over the remaining life of the asset. Interest and revenue is calculated based on the gross carrying amount of the asset, net of the loss allowance.

The measurement of the ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information that is available without undue cost and effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Insurance receivables, which are outside the scope of IFRS 9, are subject to a lapses provision calculated based on historic loss data.

2.15 Financial liabilities

Financial liabilities are classified as measured at amortised cost or fair value through profit and loss ("FVTPL"). A financial liability is classified as at FVTPL if it is classified as held-for-trading or it is designated as such on initial recognition.

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 de-recognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

2.16 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 2.14 fixed interest rate bank deposits with the maturity date of three months or more from the date of acquisition are classified as financial assets.

2.17 Investments in subsidiary undertakings and joint ventures

Company investments in subsidiary undertakings and joint ventures held in the Company Balance Sheet are shown at cost less impairment provisions.

Impairment testing is completed on an annual basis or as and when an indicator for impairment under IAS 36 arises.

2.18 Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Share premium account" represents the amount paid on issue for equity shares in excess of their nominal value.
- "Capital redemption reserve" represents the nominal value of its own equity shares purchased, and then cancelled, by the Company.
- "Other reserve" represents the investment in own Company shares by the Employee Benefit Trust.
- "Profit and loss reserve" represents retained profits.

2.19 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.

2.20 Share-based payment

Equity-settled share-based payment

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.

2.21 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 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.

2 Accounting policies continued

2.22 Shares held in an employee benefit trust

Transactions of the Company sponsored EBT are treated as being those of the Company and are therefore, reflected in these financial statements.

2.23 Inventories

Inventories are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving items. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

2.24 Provisions

A provision is recognised in the balance sheet when the Group has a present legal, or constructive, obligation as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

2.25 Agent vs Principal

The sale of discounted vouchers, be it physical or electronic, represents the majority of SaaS revenue for the Group. The Group has a mixture of relationships with retailers and third-party suppliers, depending on the offering. Some offerings require purchasing inventory in advance while others require the maintaining of cash floats with suppliers and others require the settlement of supplier invoices as they are received.

Depending on the contractual relationship and the nature of the transactions with the relevant suppliers, the Group has made a judgement on whether the offerings constitute agency or principal transactions. This judgement is significant in nature as it has a material impact on the revenue and cost of sales of the Group.

In the majority of circumstances, the Group, either physically or via its IT systems, takes possession and ownership of the vouchers, has control over their use and resale price and, as a result, these transactions are deemed to be principal in nature. In such cases, the sale of vouchers, and their relevant cost of sales, are presented gross in the income statement for the year.

Where a contractual relationship exists with the supplier that classifies the relationship as that of an agency, this is deemed to supersede the factors discussed above. As a result, the voucher sale and their relevant cost of sales have been presented net as agency income in the income statement for the period.

3 Risk management objectives and policies

The Board recognises that the effective management of risks and opportunities is fundamental to achieving the Group's strategic objectives. As a result, it is important there is a strong risk management culture throughout the Group, and that we identify, assess and appropriately mitigate the key risks to the Group achieving this strategy.

To achieve its objectives as well as sustainable profitability, the Group may pursue the opportunities that gave rise to risk. Therefore, we have adopted an Enterprise Risk Management Framework as part of our decision making and business management process. As a result of this rigorous approach, the Group can maintain financial security, produce good outcomes and the fair treatment of customers, and meet the needs of other parties such as shareholders, employees, suppliers and regulators.

We review the risk management strategy regularly, particularly after any significant change to the change environment and, each year, after the approval of the Group's strategy and business plans.

The most significant financial risks to which the Group and Company are exposed under normal circumstances are described below.

In addition to those risks identified, the recent Coronavirus (COVID-19) outbreak is likely to have a short- term impact on the claims ratios of the Group's Hospital, Convalescence and Death Benefit plans. The extent of this will be dependent on both the percentage of the population contracting the virus as well as the impact of government actions to help ensure that hospitalisation and death rates are contained. In addition, there is likely to be an impact on the Group's ability to undertake face-to-face insurance sales as well as a currently less known impact on the PG Let's Connect and Innecto businesses.

However, the impact to the Group is mitigated by the fact that both insurance subsidiaries hold significant surpluses above their capital resource requirements and strong business continuity capability exists to enable the Group to maintain business operations to support both its customers and policyholders through the situation.

In addition, the Group is currently utilising Government initiatives where appropriate to mitigate costs eg, furloughing of staff and alternative routes for sale of insurance products are currently being investigated.

Credit risk

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

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Insurance receivables	2,701	3,034	–	–
Reinsurance assets	121	187	–	–
Trade debtors	14,240	11,753	–	–
Accrued interest	6	28	–	–
Cash and cash equivalents	14,476	15,148	165	169
Bank deposits	2,565	2,530	–	–
	34,109	32,680	165	169

A significant proportion 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.

Due to the seasonal nature of the PG Let's Connect business the year end receivables balance is heavily weighted towards salary sacrifice technology; these receivables are due from the employers of the individuals who place the order. The vast majority of these employers pay the receivable balance within two months of receiving the consolidated invoice for their scheme. Included within trade debtors are £10.8m (2018: £10.5m) relating to PG Let's Connect sales.

The use of payroll deductions by a "host company employer" would not be permitted where the Board believed there may be a significant credit risk. Receivables past their due date are summarised within Note 20. The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are all regulated in the UK by the PRA. At 31 December 2019 the counterparties were as follows: The Co-operative Bank plc, Santander UK plc, Bank of Scotland Plc, HSBC Bank Plc, Lloyds 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 & Poor's) (2018: A to B- rating range).

The Group is also exposed to the recoverability of receivables from reinsurers. At 31 December 2019, the only reinsurance counterparty was Swiss Re Europe S.A., United Kingdom Branch. Credit ratings for this reinsurer range from A+ to AA-.

All subsidiary undertakings are 100% owned by the Company or subsidiaries thereof. 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 19.

Market risk

The Group was exposed to market risk, in the form of equity price risk, in respect of its financial assets which were measured as available for sale assets until 31 December 2017 and as fair value through profit and loss thereafter until their sale in April 2018. These assets were traded on UK regulated markets and so were valued via directly observable inputs (level 1 inputs). The assets were managed by an independent third-party fund manager on a discretionary basis, subject to certain conditions imposed by the Board.

As of the sale of the equity portfolio management do not believe the Group is subject to market risk.

No value was attributable to these assets at either balance sheet date.

Dividends from the equity portfolio in 2019 totalled £nil (2018: £10,000).

3 Risk management objectives and policies continued

Interest rate risk

The Group is not exposed to any financial liabilities with an interest element aside from the interest element intrinsic in leases.

At 31 December 2019 bank deposits and cash and cash equivalents exceeded borrowings by £17,041,000 (2018: £17,678,000). If UK interest rates increased by 2% net finance income would increase by approximately £340,000 with a corresponding increase to equity.

Liquidity risk

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

As at 31 December 2019, 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 2019					
Trade and other payables	14,431	156	509	237	15,333
Insurance Contract Liabilities	1,654	–	–	450	2,104
	16,085	156	509	687	17,437
At 31 December 2018					
Trade and other payables	12,282	119	141	367	12,909
Insurance Contract Liabilities	1,809	–	–	567	2,376
	14,091	119	141	934	15,285
Company					
At 31 December 2019					
Amounts owed to Group undertakings	904	–	–	–	904
	904	–	–	–	904
At 31 December 2018					
Amounts owed to subsidiary undertakings	6,755	–	–	–	6,755
	6,755	–	–	–	6,755

* Non-cash items relate to unearned premiums or unearned revenue across the different business segments.

Currency risk

The Group is not exposed to any currency risk as all business is conducted in GBP and all bank accounts were held in GBP in both 2019 and 2018.

Insurance claim and related risks

During the year, Personal Assurance Plc (PA) underwrote two categories of business and Personal Assurance (Guernsey) Ltd (PAGL) a third, which are described in detail below:

Hospital cash plans and other personal accident and sickness policies

These have been PA's core products since 1984 and, at 31 December 2019, represent 99.3% (2018: 98.5%) 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 2019 was 20.9% (2018: 22.4%). 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 £91,375 (2018: £91,375) 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 2019 was 214,945 (2018: 230,622) and the total annualised premium value of these policies was £24,442,000 (2018: £25,340,000). The average amount paid per claim in 2019 was £159 (2018: £140).

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 2019 these policies represent 0.7% (2018: 1.5%) of PA's gross premiums written. The gross loss ratio (excluding claims handling costs) on these policies at 31 December 2018 was 22.2% (2018: 21.1%). The total number of these individual policies in force at 31 December 2019 was 978 (2018: 1,211) and the average amount paid per claim in 2019 was £6,898 (2018: £4,563).

Death benefit policies

Death benefit policies have been underwritten by PAGL since March 2015. These policies are sold primarily to individuals at their place of work in the same way as the hospital cash plans.

The gross loss ratio (excluding claims handling costs) on these policies at 31 December 2019 was 21.7% (2018: 15.1%). The total number of these individual policies in force at 31 December 2019 was 72,211 (2018: 75,599) and the average amount paid per claim in 2019 was £6,127 (2018: £7,682).

Group Loss Ratio

For the year ended 31 December 2019 the gross claims ratio of the Group was 22.0% (2018: 23.0%). A 2% increase in the claims ratio would increase claims incurred by approximately £607,000.

There are no material individual claims and open claims over 12 months old are also immaterial. As a result, the Group has elected to not disclose claims development tables.

4 Capital management and requirements

The Group's capital management objective is to maintain sufficient capital to safeguard the Group's ability to continue as a going concern and to protect the interests of all of its customers, investors, regulator and trading partners while also efficiently deploying capital and managing risk to sustain ongoing business development. The Group manages its capital resources in line with the Group's Capital Management Policy, which is reviewed on an annual basis. The Group's capital position is kept under constant review and is reported monthly to the Board.

Since 1 January 2016, Personal Assurance Plc (PA) has been subject to the requirements of the Solvency II ("SII") Directive and must hold sufficient capital to cover its Solvency Capital Requirement ("SCR"). In addition, PA maintains a buffer in excess of this capital requirement, specified in line with the capital risk appetite agreed by the Board. The SCR is calculated in accordance with the Standard Formula specified in the SII legislation.

At least annually, the Group carries out an Economic Capital Assessment (ECA) in which it makes its own quantification of how much capital is required to support its risks. The ECA is used to assess how well the Standard Formula SCR reflects the Group's actual risk profile.

4 Capital management and requirements continued

The ECA forms part of the Own Risk and Solvency Assessment (ORSA) which comprises all the activities by which PA establishes the level of capital required to meet its solvency needs over the planning period given the Company's strategy and risk appetite. The conclusions from these activities are summarised in the ORSA Report which is reviewed by the Risk Committee, approved by the Board and submitted to the Prudential Regulation Authority (PRA) at least annually.

PA's unaudited Eligible Own Funds, determined in accordance with the SII valuation rules, were £10.8m (2018: £11.3m) which was in excess of the estimated SCR of £4.2m (2018: £4.3m). This represented an estimated solvency coverage ratio of 259% (2018: 261%). The movement year on year remains consistent and is in line with the Boards risk appetite.

Other than disclosed above there have been no changes to what is managed as capital or the Group's capital management objectives, policies or procedures during the year.

At 31 December 2019, the requirements of the Group's regulated companies were as follows:

	Relevant regulatory body	Capital resources requirement unaudited £'000	Capital resources unaudited £'000	Surplus over capital resources requirement unaudited £'000
Company				
Personal Assurance Plc	FCA, PRA	4,156	10,755	6,599
Personal Assurance Services Limited	FCA	57	4,720	4,663
Personal Group Benefits Limited	FCA	34	633	599
Berkeley Morgan Limited	FCA	87	203	116
Personal Assurance (Guernsey) Limited	GFSC	604	2,432	1,828

In order to maintain its capital resources requirement, Personal Assurance Plc maintains the majority of its assets in cash and 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.

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

5 Segment analysis

The segments used by management to review the operations of the business are disclosed below.

1) Core Insurance

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.

Personal Assurance (Guernsey) Limited (PAGL), a subsidiary within the Group, is regulated by the Guernsey Financial Services Commission and has been underwriting death benefit policies since March 2015.

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

2) IT Salary Sacrifice

IT salary sacrifice refers to the trade of PG Let's Connect, a salary sacrifice technology Company purchased in 2014.

3) SaaS

Revenue in this segment relates to the annual subscription income and other related income arising from the licensing of Hapi, the Group's employee benefit platform. This includes sales to both the large corporate and SME sectors. Also included in this segment, from 1 March 2019, is consultancy and licence income derived from selling Innecto digital platform subscriptions.

4) Other

The other operating segment consists exclusively of revenue generated by Berkeley Morgan Group (BMG) and its subsidiary undertakings along with any investment and rental income obtained by the Group.

	Core Insurance £'000	IT Salary Sacrifice £'000	SaaS £'000	Other £'000	Group £'000
Operating segments					
2019					
Revenue					
Earned premiums net of reinsurance	30,205	–	9	–	30,214
Other insurance related income	3	–	–	188	191
Other income – IT salary sacrifice	–	18,794	–	–	18,794
Other income – Platform	–	–	3,104	–	3,104
Other income – Transactional and Commission	–	–	18,355	–	18,355
Other income	–	–	–	100	100
Investment income	–	–	–	131	131
Total revenue	30,208	18,794	21,468	419	70,889
Net result for year before tax	7,322	2,764	219	182	10,487
PG Let's Connect – Tax provision	–	(1,259)	–	–	(1,259)
Amortisation – Acquisition Intangibles	–	53	171	–	224
Acquisition costs	–	–	–	145	145
Interest	91	23	17	–	131
Share based payments	–	–	–	19	19
Depreciation	791	112	58	9	970
Amortisation (other)	79	55	131	–	265
Adjusted EBITDA *	8,283	1,748	596	355	10,982
Segment assets	25,195	12,023	4,669	14,551	56,438
Segment liabilities	7,948	7,045	3,430	–	18,423
Depreciation and amortisation	870	220	360	9	1,459

* Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation of intangible assets, goodwill impairment, share-based payment expenses, corporate acquisition costs, restructuring costs, write-back of contingent consideration and release of tax provision.

5 Segment analysis continued

	Core Insurance £'000	IT Salary Sacrifice £'000	SaaS £'000	Other £'000	Group £'000
Operating segments					
2018					
Revenue					
Earned premiums net of reinsurance	31,219	–	13	–	31,232
Other insurance related income	(9)	–	–	227	218
Other income – IT salary sacrifice	–	14,970	–	–	14,970
Other income – Platform	–	–	1,800	–	1,800
Other income – Transactional and Commission	–	–	6,929	–	6,929
Other income	–	–	–	114	114
Investment property	–	–	–	1	1
Investment income	–	–	–	83	83
Total revenue	31,210	14,970	8,742	425	55,347
Net result for year before tax	8,869	1,350	29	(38)	10,210
PG Let's Connect – Tax provision	–	(646)	–	–	(646)
PG Let's Connect – Amortisation of intangibles	–	330	–	–	330
Acquisition costs	–	–	–	150	150
Interest	110	28	10	–	148
Share based payments	–	–	–	117	117
Depreciation	665	108	15	9	797
Amortisation (other)	133	56	142	–	331
Adjusted EBITDA	9,777	1,226	196	238	11,437
Segment assets	25,403	12,567	2,612	11,753	52,335
Segment liabilities	6,947	8,035	1,883	175	17,040
Depreciation and amortisation	798	494	157	9	1,458

All income is derived from customers that are based in the UK.

	IT Salary Sacrifice £'000	SaaS £'000
2019		
Non-insurance related expenses		
Cost of sale – IT salary sacrifice	15,519	–
Cost of sale – Platform	–	360
Cost of sale – Transactional and Commission	–	18,445
Cost of sale – Consultancy	–	7
Admin expenses	1,526	2,059
Depreciation and amortisation	112	59
Total expenses	17,157	20,930

	IT Salary Sacrifice £'000	SaaS £'000
2018		
Non-insurance related expenses		
Cost of sale – IT salary sacrifice	12,298	–
Cost of sale – Platform	–	734
Cost of Sale – Transactional and Commission	–	6,874
Admin expenses	1,446	938
Depreciation and amortisation	107	15
Total expenses	13,851	8,561

6 Investment income

	2019 £'000	2018 £'000
Investment income		
Income from unlisted investments	–	3
Interest income from cash on deposit	131	82
Income from listed investments	–	10
Realised losses	–	(10)
Investment management expenses	–	(2)
	131	83

7 Claims incurred

	2019 £'000	2018 £'000
Claims paid	6,148	6,573
Reinsurers' share of claims paid	(87)	(49)
Claims handling expenses paid	708	698
	6,769	7,222
Increase in claims provision	(155)	(29)
Reinsurers' share of movements in claims provision	56	(18)
	(99)	(47)
	6,670	7,175

8 Insurance operating expenses

	2019 £'000	2018 £'000
Incurred acquisition costs	7,455	7,621
Administration expenses	8,509	7,452
	15,964	15,073

Total commission incurred during the year in respect of direct insurance was £1,130,000 (2018: £1,500,000).

9 Directors' and employees' remuneration

a) Staff costs (excluding Non Executive Directors' fees) during the year were as follows:

	2019 £'000	2018 £'000
Wages and salaries	10,413	8,866
Share based payments expense	19	117
Social security costs	1,222	1,057
Other pension costs	455	407
	12,109	10,447

Average number of employees was as follows:

	2019 Number	2018 Number
Administration	135	123
Sales and marketing	100	98
	235	221

b) Directors' remuneration:

	2019 £'000	2018 £'000
Emoluments	1,133	746
Amounts paid to third parties in respect of Directors' services	43	62
Share based payments benefit (fair value)	–	336
Pension contributions to Group and self-invested personal pension schemes	25	21

During the year, two Directors (2018: two 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.

	2019 £'000	2018 £'000
Emoluments	387	286
Share based payments gains on exercise of options	–	153
Pension contributions to Group and self-invested personal pension schemes	10	12
	397	451

Details of individual Director's remuneration are given in the Remuneration Report (on page 40). 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:

	2019 £'000	2018 £'000
Short-term employee benefits:		
Salaries including bonuses	1,696	1,243
Social security costs	234	172
Share based payments expense	–	353
	1,930	1,768
Post-employment benefits:		
Defined contribution pension plans	54	48
Total remuneration	1,984	1,816

10 Profit before tax

	2019 £'000	2018 £'000
Profit before tax is stated after:		
Auditor's remuneration (inclusive of non-recoverable VAT):		
Audit services:		
Audit of Company financial statements	78	41
Audit of subsidiary undertakings	114	133
Non-audit services	–	–
Depreciation of property, plant and equipment	970	797
Amortisation	489	661
Rental income receivable	99	105
Operating lease rentals – motor vehicles (short term leases)	–	102

The 2019 audit fees are payable to Ernst and Young LLP and the 2018 fees were payable to KPMG LLP.

11 Tax

The relationship between the expected tax expense based on the effective tax rate of Personal Group Holdings Plc at 19.00% (2018: 19.00%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2019 £'000	2018 £'000
Profit before tax		
Continuing operations	10,478	10,046
Share of loss of equity-accounted investee net of tax	9	164
Profit before tax excluding equity-accounted investee	10,487	10,210
Tax rate	19.00%	19.00%
Expected tax expense	1,992	1,940
Adjustment for non-deductible expenses	130	246
Adjustment for tax exempt revenues	(479)	(410)
Other adjustments		
Tax credit in respect of prior years	32	43
Adjustment for previously non-deductible expenses	(26)	–
Utilisation of losses not provided for	–	–
Actual tax expense	1,649	1,819
Continuing operations	1,649	1,819
Comprising		
Current tax expense	1,569	1,607
In respect of prior year	31	43
Deferred tax		
Origination and reversal of temporary differences	49	169
Change in tax rate	–	–
	1,649	1,819

The standard rate of tax applied to reported profit on ordinary activities is 19.00% (2018: 19.00%). A further reduction to 17.00% is due from 1 April 2020 which was substantively enacted on 15 September 2016. These will reduce future tax charges accordingly.

The tax rates used to calculate deferred tax are 19.00% and 17.00%, dependent on the rates that are expected to be in place when the tax impact crystallises.

12 Inventories

Inventories in the Group relate primarily to IT equipment held for sale as part of the PG Lets Connect IT sacrifice business and vouchers (both digital and physical) held for sale in the SaaS division of the business.

Inventories held are classified as the below:

	2019 £'000	2018 £'000
Finished Goods	746	643
Total	746	643

13 Earnings per share

	2019			2018		
	Earnings £'000	Weighted average number of shares	Pence per share	Earnings £'000	Weighted average number of shares	Pence per share
Basic	8,838	31,118,589	28.4	8,391	30,798,840	27.2
Dilutive effect of shares in Employee Share Based schemes	–	3,547	(0.0)	–	7,421	(0.0)
Diluted	8,838	31,122,136	28.4	8,391	30,806,261	27.2

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

14 Dividends

	2019 Pence per share	2018 Pence per share	2019 £'000	2018 £'000
Equity dividends				
Ordinary shares paid in year				
March	5.825	5.750	1,814	1,771
June	5.825	5.750	1,814	1,776
September	5.825	5.750	1,814	1,776
December	5.825	5.750	1,813	1,776
	23.300	23.000	7,255	7,099
Less: amounts paid on own shares			(11)	(12)
	23.300	23.000	7,244	7,087

15 Goodwill

The carrying amount of goodwill which has been allocated to those cash-generating units can be analysed as follows:

	PG Let's Connect £'000s	Innecto £'000s	Total £'000s
Cost			
At 1 January 2019	10,575	–	10,575
Additions in the year	–	2,121	2,121
Disposal	–	–	–
At 31 December 2019	10,575	2,121	12,696
Impairment charged			
At 1 January 2019	–	–	–
Impairment charge for year	–	–	–
At 31 December 2019	–	–	–
Net book value at 31 December 2019	10,575	2,121	12,696

	PG Let's Connect £'000	Innecto £'000	Total £'000s
Cost			
At 1 January 2018	10,575	–	10,575
Additions in the year	–	–	–
Disposal	–	–	–
At 31 December 2018	10,575	–	10,575
Impairment charged			
At 1 January 2018	–	–	–
Impairment charge for year	–	–	–
At 31 December 2018	–	–	–
Net book value at 31 December 2018	10,575	–	10,575

The net carrying values at 31 December 2019 have been reviewed for impairment.

PG Let's Connect

The first cash generating unit (CGU) considered was the PG Let's Connect business as a whole and its recoverable amount was based on value in use, determined by discounting the future cash flows to be generated from continued trading of PG Let's Connect. As the value in use was found to be in excess of the carrying amount of £10,575,000, no impairment was recorded in the year.

For the purpose of the value in use model, the CGU value is comprised of the Goodwill allocated, the carrying value of the intangible asset recognised on acquisition and the assets of the CGU such that the carrying amount of the CGU has been determined on a basis consistent with the way the recoverable amount of the CGU is determined.

Five years of future cash flows were included in the discounted cash flow model. The long-term growth rate into perpetuity was determined as 2.5% (30-year average of UK consumer price index). The cash flows were then discounted using a post-tax discount rate of 13% (2018; 13%) based on Lets Connect's weighted average cost of capital, using the capital asset pricing model.

Given the impact of the changes in the salary sacrifice market on PG Let's Connect's revenue over the past two years, an expected cash flow approach, based on five different scenarios, was used, as management believe this method to most appropriately address the fact that the timing and scale of Let's Connect's future growth is currently uncertain. Each of the scenarios was given a probability expectation, based on management's best view and historic performance, and the weighted average net present value (NPV) derived from these calculations was then determined as the value in use. Budgeted EBITDA was based on expectations of future outcomes considering past experience as well as existing contracts in place.

As at 31 December 2019, there is one material customer contract which is due for renewal in the coming year. The cessation of this contract could have a significant impact on the future cash flows of the CGU which may affect the future carrying value of the goodwill. This uncertainty has been accounted for in the current projections using management's best estimate of the current prevailing business conditions.

Key Assumptions

Given that NPV is sensitive to several key assumptions which have been used, the following have been highlighted as being the most sensitive with sensitivities performed.

Discount Rate

Management's approach to determining the 13% discount rate to apply to the value in use model is explained above.

Cash flow revenue projections

Management applied an expected cash flow approach to the value in use model for revenue forecasting, using the weighted average of a number of scenarios to determine the expected future revenues of Let's Connect. The scenarios used, and the probabilities applied, represent the possible future outcomes and management's best estimate as to their likelihood.

In assessing the sensitivity of this assumption, it was found that, were revenue in 2020 to replicate that of 2019, with actual results and growth thereafter being proportionally consistent with current expected growth, an impairment would still not be required.

Gross Profit Margin

Management applied an expected gross margin of 15.6% on its future revenue projections, in line with actual results for the year ended 31 December 2019.

The recoverable amount was based on value in use, determined by discounting the future cash flows to be generated from continued trading of Let's Connect. As the carrying amount of £10,575,000 was lower than the recoverable amount, no impairment was deemed necessary.

There is a potential impact of the outbreak of COVID-19 as discussed earlier in these financial statements on PG Let's Connect's future trading, creating a level of additional uncertainty on the future cash flows projections.

Below is a table showing the sensitivity of the key assumptions and the impact of a +/- 5% change (in base point terms) has on the headroom.

Sensitivity Analysis – Impact on Headroom	- 5% £'000s	Base £'000s	+ 5% £'000s
Discount Rate	19,604	5,717	966
Year on year growth rate	2,241	5,717	10,262
Gross Profit Margin	(2,016)	5,717	13,450

15 Goodwill continued

Innecto

The second cash generating unit (CGU) considered was the Innecto business as a whole. For the purpose of the value in use model, the CGU value is comprised of the goodwill allocated, the carrying value of the intangible assets recognised on acquisition and the assets of the CGU such that the carrying amount of the CGU has been determined on a basis consistent with the way the recoverable amount of the CGU is determined.

An expected cash flow approach, similar to that applied to PG Let's Connect, was used applying multiple scenarios and affixed probabilities that were deemed to be appropriate under management's best understanding of the business.

Key Assumptions

Five years of future cash flows were included in the discounted cash flow model including a long-term growth rate of 10%. The terminal growth rate is greater than that used in the PG Let's Connect workings to reflect the additional growth built into the forecasts and the long-term continuation. These cash flows were then discounted using a risk mitigating post-tax discount rate of 49.5% based on Innecto's weighted average cost of capital, using the capital asset pricing model with a risk premium in line with the risks associated with the uncertainties around the forecasted growth.

Sensitivity

While management are confident that Innecto will generate the income they recognise that there is an inherent uncertainty within the forecasted cash flows used in the impairment model due to the high growth expected, particularly in the digital platform. In addition, there is a potential impact of the outbreak of COVID-19, as discussed earlier in these financial statements, on Innecto's future trading, creating additional uncertainty on the future cash flows projections.

Below is a table showing the sensitivity of the key assumptions and the impact of a +/- 5% change (in base point terms) has on the headroom.

Sensitivity Analysis – Impact on Headroom	– 5% £'000s	Base £'000s	+ 5% £'000s
Discount Rate	1,060	464	12
Year on year Growth Rate	(22)	464	983
Terminal Growth Rate	337	464	627

Management are confident that there is no cause for an impairment in either PG Let's Connect or Innecto. In addition to the future benefits built into each CGU, there are benefits of each to the wider Group as a result of improved market penetration, marketing expertise and additional cross-selling opportunities made available.

16 Intangible assets

For the year ended 31 December 2019

	Customer value £'000	Innecto Customer value and tradename £'000	Innecto Technology £'000	Computer software and development £'000	Internally Generated Computer Software £'000	WIP £'000	Total £'000
Cost							
At 1 January 2019	1,648	–	–	855	506	–	3,009
Acquisition	–	726	298	–	–	–	1,024
Additions	–	–	–	142	–	124	266
Disposals	–	–	–	(24)	–	–	(24)
At 31 December 2019	1,648	726	298	973	506	124	4,275
Depreciation							
At 1 January 2019	1,595	–	–	602	312	–	2,509
Provided in the year	53	121	50	110	155	–	489
Disposal	–	–	–	(24)	–	–	(24)
At 31 December 2019	1,648	121	50	688	467	–	2,974
Net book amount at 31 December 2019	–	605	248	285	39	124	1,301
Net book amount at 31 December 2018	53	–	–	253	194	–	500

For the year ended 31 December 2018

	Customer value £'000	Innecto Customer Book and Tradename £'000	Innecto Technology £'000	Computer software and development £'000	Internally Generated Computer Software £'000	WIP £'000	Total £'000
Cost							
At 1 January 2018	1,648	–	–	758	428	–	2,834
Additions	–	–	–	100	78	–	178
Disposals	–	–	–	(3)	–	–	(3)
At 31 December 2018	1,648	–	–	855	506	–	3,009
Depreciation							
At 1 January 2018	1,265	–	–	428	155	–	1,848
Provided in the year	330	–	–	174	157	–	661
Disposal	–	–	–	–	–	–	–
At 31 December 2018	1,595	–	–	602	312	–	2,509
Net book amount at 31 December 2018	53	–	–	253	194	–	500
Net book amount at 31 December 2017	383	–	–	330	273	–	986

The Innecto customer values, trademark and technologies are being amortised through the consolidated income statement over a five-year period. The net carrying value at 31 December 2019 has been assessed for impairment and no impairment was deemed necessary. The assets form part of the SaaS reportable segment and as such was reviewed in conjunction with the goodwill value in Note 15.

17 Property, plant and equipment

For the year ended 31 December 2019

	Freehold land and properties £'000	Motor vehicles £'000	Computer equipment £'000	Furniture fixtures & fittings £'000	Lease Improvements £'000	Right of use assets £'000	WIP assets £'000	Total £'000
Cost								
At 1 January 2019	5,478	213	716	1,022	38	1,088	844	9,399
Transfers	44	–	(37)	1,332	–	–	(1,339)	–
Acquisition	–	–	13	–	–	–	–	13
Additions	–	–	202	37	–	446	495	1,180
Disposals	(232)	(111)	(63)	(34)	–	(102)	–	(542)
At 31 December 2019	5,290	102	831	2,357	38	1,432	–	10,050
Depreciation								
At 1 January 2019	1,694	115	536	640	22	352	–	3,359
Acquisition	–	–	5	–	–	–	–	5
Provided in the year	95	21	126	261	7	460	–	970
Eliminated on disposals	(76)	(59)	(55)	(20)	–	(58)	–	(268)
At 31 December 2019	1,713	77	612	881	29	754	–	4,066
Net book amount at 31 December 2019	3,577	25	219	1,476	9	678	–	5,984
Net book amount at 31 December 2018	3,784	98	180	382	16	736	844	6,040

For the year ended 31 December 2018

	Freehold land and properties £'000	Motor vehicles £'000	Computer equipment £'000	Furniture fixtures & fittings £'000	Lease Improvements £'000	Right of use assets £'000	WIP assets £'000	Total £'000
Cost								
At 31 December 2017	5,478	214	828	1,238	31	–	–	7,789
IFRS 16 Transition	–	–	–	–	–	363	–	363
At 1 January 2018	5,478	214	828	1,238	31	363	–	8,152
Additions	–	15	155	3	7	766	844	1,790
Disposals	–	(16)	(267)	(219)	–	(41)	–	(543)
At 31 December 2018	5,478	213	716	1,022	38	1,088	844	9,399
Depreciation								
At 1 January 2018	1,599	79	644	702	18	–	–	3,042
Provided in the year	95	41	147	132	4	378	–	797
Eliminated on disposals	–	(5)	(255)	(194)	–	(26)	–	(480)
At 31 December 2018	1,694	115	536	640	22	352	–	3,359
Net book amount at 31 December 2018	3,784	98	180	382	16	736	844	6,040
Net book amount at 31 December 2017	3,879	135	184	536	13	–	–	4,747

Included within fixed assets during the year was work in progress relating to a refurbishment of the Company's head office. This was completed in Q1 of 2019 and transferred between land and buildings, fixtures and fittings and leasehold improvements in accordance with the bill of works schedule relating to the project.

In line with IFRS 16, right of use ("ROU") assets relate to Motor Vehicles and Building leases, a breakdown for which can be found in Note 32.

18 Investment property

For the year ended 31 December 2019

	Group £'000	Company £'000
Cost		
At 1 January 2019	130	130
Additions	–	–
Disposals	(130)	(130)
At 31 December 2019	–	–
Impairment		
At 1 January 2019	–	–
Provided in the year	–	–
Disposed in the year	–	–
At 31 December 2019	–	–
Net book amount at 31 December 2019	–	–
Net book amount at 31 December 2018	130	130

For the year ended 31 December 2018

	Group £'000	Company £'000
Cost		
At 1 January 2018	130	130
Additions	–	–
Disposals	–	–
At 31 December 2018	130	130
Impairment		
At 1 January 2018	–	–
Provided in the year	–	–
Disposed in the year	–	–
At 31 December 2018	–	–
Net book amount at 31 December 2018	130	130
Net book amount at 31 December 2017	130	130

The investment property was sold for a profit of £59,000 during the year.

19 Financial investments

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Bank deposits	2,565	2,530	–	–
	2,565	2,530	–	–

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).

Bank deposits, held at amortised cost, are due within six months and the amortised cost is a reasonable approximation of the fair value. These would be included within Level 2 of the fair value hierarchy.

20 Trade and other receivables

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Loans and receivables:				
Insurance receivables	2,701	3,034	–	–
Other receivables due within one year	14,240	11,753	–	–
Amounts due from subsidiary undertakings	–	–	2,918	3
Accrued interest	6	28	–	–
Deferred acquisition costs	–	–	–	–
Other prepayments and accrued income	1,602	1,717	152	153
	18,549	16,532	3,070	156

All of the Group's insurance receivables and other receivables due within one year have been reviewed for indicators of impairment. IFRS 9 compliant credit loss provisions have been made where applicable and the values shown above are net of those provisions.

A weighted average ageing of the expected loss provision is shown below:

	Trade/Insurance Debtor £'000	Weighted Average Provision	Credit Loss Provision £'000
Not Invoiced	3,817	0.3%	9
Current	12,548	0.1%	9
30 Days	273	1.0%	3
60 Days	208	2.1%	4
90 Days	152	5.9%	9
150 Days	80	35.6%	28
Total	17,078	0.4%	62

	Credit Loss Provision £'000
Stage 1	–
Stage 2	62
Stage 3	–
Total	62

Set out below is the movement in the allowance for expected credit losses of trade receivables and contracted assets:

	2019 £'000	2018 £'000
At 1 January	95	–
Provision for expected credit losses	45	95
Provision release	(78)	–
At 31 December	62	95

Insurance receivables and other receivables are also held at amortised cost and the carrying amount is a reasonable approximation of fair value which in the case of the insurance receivables contains a lapse provision of £75,000.

In the past, the Group has not incurred significant bad debt write offs 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:

	2019 £'000	2018 £'000
At 1 January	–	57
Deferred acquisition costs	–	–
Amortisation	–	(57)
At 31 December	–	–

Management have determined that the deferred acquisition cost adjustment is immaterial to the financial statements due to short tail nature of the insurance policies sold and have taken the action to no longer defer acquisition costs.

21 Reinsurance assets

	2019 £'000	2018 £'000
Reinsurers share of claims incurred	53	109
Reinsurers share of unearned premiums	68	78
	121	187

22 Cash and cash equivalents

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Cash at bank and in hand	10,476	10,866	165	169
Short-term deposits	4,000	4,282	–	–
	14,476	15,148	165	169

23 Share capital

	2019 £'000	2018 £'000
Authorised 200,000,000 ordinary shares of 5p each	10,000	10,000
Allotted, called up and fully paid 31,219,207 (2018: 30,888,519) ordinary shares of 5p each	1,561	1,544
Share Premium	1,134	–

Each ordinary share is entitled to one vote in any circumstance.

Share premium relates to amounts paid in excess of the nominal share value of shares issued to Deborah Frost and another Innecto Director. Deborah Frost subscribed to 299,237 shares whilst the other Innecto Director subscribed to 31,451.

In 2019, the Company issued no 5p ordinary shares under the LTIP scheme (2018: 88,628).

The total number of own shares held by the Employee Benefit Trust at 31 December 2019 was 87,366 (2018: 91,462). Of this amount, there are 35,198 (2018: 45,212) SIP shares that have been unconditionally allocated to employees.

As at 31 December 2019, 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 three-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:

	2019		2018	
	Number	Weighted average exercise price Pence	Number	Weighted average exercise price Pence
Outstanding at 1 January	134,539	472.50	156,193	470.53
Options granted in year	34,284	350.00	–	–
Options exercised in year	–	–	(21,654)	459.60
Options cancelled or lapsed	(7,166)	486.50	–	–
Outstanding at 31 December	161,657	446.00	134,539	472.50

The weighted average exercise price of 120,873 (2018: 127,539) share options exercisable at 31 December 2019 was 471.83 pence per share (2018: 472.50).

The fair values of options which were granted during 2019 were determined by using the Black-Scholes valuation model. The fair value of these options was 42 pence per share. Significant inputs into the calculation include a weighted average share price of 350p and exercise prices as illustrated above. Furthermore, the calculation takes into account future dividends of 6.5% 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 three and ten 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 2019 was five years and nine months (2018: six years and seven 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, £nil of employee compensation by way of share-based payment expense has been included in the consolidated income statement for 2019 (2018: £nil). The corresponding credit is taken to equity. No liabilities were recognised due to share-based transactions.

b) Long Term Incentive Plan (LTIP)

LTIP1

During 2012 the Company adopted a discretionary Long-Term Incentive Plan (LTIP1) for the benefit of selected Directors and senior employees of Personal Group.

The Plan provided 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. All awards made under the scheme were satisfied in shares, although the Remuneration Committee had discretion to satisfy the awards wholly or partly in cash in accordance with the Plan rules.

When LTIP1 started to mature at the end of 2016, a further scheme (LTIP2) was put in place to take effect from 30 July 2015 (see below).

During 2018, 88,628 new shares were issued under LTIP1. No new shares were issued in 2019.

All outstanding LTIP1 options have now been exercised and, as at 30 April 2018, this scheme is considered closed.

LTIP2

As with LTIP1, LTIP2 was designed to reward Directors and certain other senior employees in a way that aligns the interests of LTIP participants with the interests of shareholders, as well as with the Group's long-term strategic plan. As was the case with LTIP1, LTIP2 is Market Capitalisation based and becomes reward bearing above a Company Market Capitalisation of £183.7m. It also has a yearly EPS performance criterion through its life which can be adjusted by the Remuneration Committee.

Under the LTIP2 incentive arrangements 35,500 employee shareholder status shares in Personal Group Limited were awarded during 2015 (ESS Shares). Participants had immediate PAYE and NIC charges on the associated UK tax-market value of the ESS Shares. As of 31 December 2018, two employees who were awarded shares have left the Group and currently 8,500 shares are available for allocation. In addition, a further 20,000 shares will be available on the departure of Mark Scanlon.

The ESS Shares are split equally into four classes, namely A,B,C and D shares, each of which carry a put option which allows the participants to exchange their ESS Shares for Personal Group Holdings Plc ordinary shares in tranches on reaching or exceeding the hurdles of market capitalisation and Annual EPS. Awards can be made annually starting in March 2017 (A shares) through to March 2020 (D shares) based on market capitalisation growth of the Company up to a market capitalisation of £350m and upon achieving the Annual EPS growth targets. The awards will be paid out as 20%, 40%, 70% and 100% cumulatively of the eligible share of growth in market capitalisation for A, B, C and D shares respectively.

An amount of £19,000 (2018: £94,000) has been charged to the income statement in 2019 for this scheme based on the fair values determined by using a Log-normal Monte-Carlo stochastic model. Significant inputs to the model include the closing share price at grant date, a risk-free rate of return of 1.32%, a dividend yield of 4.49% and a share price volatility of 15.78%. 10,000 iterations of the model were run to accurately represent the log-normal nature of returns to equity investments. The corresponding credit is taken to equity. No liabilities were recognised as this is an equity settled share-based payment.

In addition to the charges above the related employer's national insurance charge of £nil (2018: £23,000) has been classified as share-based expenses on the face of the income statement.

24 Deferred tax

	2019		2018	
	Deferred tax assets £'000	Deferred tax liabilities £'000	Deferred tax assets £'000	Deferred tax liabilities £'000
Non-current assets and liabilities				
Property plant and equipment	24	187	30	118
Accruals	5	–	–	–
Intangible assets	–	144	–	14
	29	331	30	132
Offset	(29)	(29)	(30)	(30)
	–	302	–	102

	2019 £'000	2018 £'000
At 1 January	(102)	(21)
Movement in provisions charged/(credited) to income statement (see note 11)	(49)	(169)
Acquisition of Innecto	(151)	–
Movement in provisions direct to reserves	–	88
At 31 December	(302)	(102)

At 31 December 2019 the Group had tax losses of £955,000 (2018: £960,000) 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 whether they will be utilised given the trade is no longer a significant component of the Group.

25 Provisions

2019	PG Let's Connect PAYE £'000	Total £'000
At 1 January	1,259	1,259
Movement in provisions charged/(credited) to income statement	(1,259)	(1,259)
Utilised during the year	–	–
At 31 December	–	–

2018	PG Let's Connect PAYE £'000	Total £'000
At 1 January	1,905	1,905
Movement in provisions charged/(credited) to income statement	(646)	(646)
Utilised during the year	–	–
At 31 December	1,259	1,259

As at 31 December 2019, the provision has been reduced to £nil. The release of £1,259,000 is as a result of the remaining liability being settled directly with HMRC by the previous Directors of Let's Connect.

26 Trade and other payables

Current	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Financial liabilities measured at amortised cost:				
Amounts owed to subsidiary undertakings	–	–	904	6,755
Other creditors	10,040	7,964	78	482
Right of use creditor	483	435	–	–
Accruals	4,114	3,326	204	112
Deferred income	406	508	–	–
	15,043	12,233	1,186	7,349

Non-Current	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Right of use creditor	290	356	–	–
	290	356	–	–

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

27 Insurance contract liabilities

	2019 £'000	2018 £'000
Provision for claims	1,569	1,724
Claims settlement expenses	85	85
Unearned premiums	450	567
	2,104	2,376

The provision for claims represents the gross estimated liability arising from claim episodes in the current and preceding financial years which have not given rise to claims paid. It is estimated based on current information, and the ultimate liability may vary as a result of subsequent information and events. Adjustments to the amount of claims provision for prior years are included in the Income Statement in the financial year in which the change is made.

The valuation of the provision for claims outstanding in the Group's subsidiary, Personal Assurance Plc, of £1,119,000 (2018: £1,338,000) is estimated by using a Chain Ladder method and the main assumption underlying this technique is that the Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. A change of 5% in the past claims development experience would result in a change of £56,000 (2018: £67,000) in the provision of outstanding claims for Personal Assurance Plc.

It is estimated that the majority of all claims will be paid within 12 months and therefore claims development information is not disclosed.

In setting the provision for claims outstanding, a best estimate is determined on an undiscounted basis and then a margin of prudence is added such that there is confidence that future claims will be met from the provisions. The level of prudence set is one that provides an appropriate degree of confidence.

27 Insurance contract liabilities continued

a) Claims

	2019			2018		
	Gross £'000	Reinsurance £'000	Net £'000	Gross £'000	Reinsurance £'000	Net £'000
Provision for claims at 1 January	1,724	(109)	1,615	1,753	(91)	1,662
Claims paid during the financial year	(6,148)	87	(6,061)	(6,573)	49	(6,524)
Increase/(decrease) in liabilities:						
Arising from current year claims	6,347	(50)	6,297	6,838	(134)	6,704
Arising from prior year claims	(354)	19	(335)	(294)	67	(227)
Total movement	(155)	56	(99)	(29)	(18)	(47)
Provision for claims at 31 December	1,569	(53)	1,516	1,724	(109)	1,615

b) Unearned premiums

	2019			2018		
	Gross £'000	Reinsurance £'000	Net £'000	Gross £'000	Reinsurance £'000	Net £'000
At 1 January	567	(78)	489	664	(89)	575
Increase in the financial year	30,369	(204)	30,165	31,445	(231)	31,214
Release in the financial year	(30,486)	214	(30,272)	(31,542)	242	(31,300)
Movement in the financial year	(117)	10	(107)	(97)	11	(86)
At 31 December	450	(68)	382	567	(78)	489

28 Company investment in subsidiary undertakings and joint venture

	Shares in subsidiary undertakings	
	2019 £'000	2018 £'000
Cost		
At 1 January	37,920	37,826
Acquired in the year	–	–
Share based expenses	19	94
At 31 December	37,939	37,920
Amounts written off		
At 1 January	12,898	12,898
Impairment provision in year	–	–
At 31 December	12,898	12,898
Net book amount at 31 December	25,041	25,022

At 31 December 2019 the Company held 100% of the allotted share capital of the following trading companies, all of which were incorporated in England and Wales, with the exception of Personal Assurance (Guernsey) Limited which is incorporated in Guernsey, and have been consolidated in the Group financial statements. The registered address of all Group entities is John Ormond House, 899 Silbury Boulevard, Central Milton Keynes, MK9 3XL, with the exception of Personal Assurance (Guernsey) Limited whose registered address is Level 5, Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 1EJ.

	Nature of business
Personal Group Limited	Intermediate holding Company
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
Personal Assurance (Guernsey) Limited*	Death insurance underwriting services
Personal Group Mobile Limited*#	Mobile phone and contract services
Let's Connect IT Solutions Limited*	Employee benefits salary sacrifice technology products
Innecto People Consulting Limited	HR consultancy and technology providers
Multiplelisting Limited	Dormant
Mutual Benefit Limited	Dormant
John Ormond House Limited	Dormant
Partake Services Limited	Dormant
Personal Assurance Financial Services Plc	Dormant
Berkeley Morgan Healthcare Limited+	Dormant
B M Agency Services Limited+	Dormant
Berkeley Morgan Property Limited+	Dormant
Summit Financial Solutions Limited+	Dormant
Summit Financial Holdings Plc+	Dormant
Berkeley Morgan Trustees Limited+	Dormant

* Indirectly owned by Personal Group Holdings Plc via Personal Group Limited

\+ Indirectly owned by Personal Group Holdings Plc via Personal Group Limited and Berkeley Morgan Group Limited

\# Exempt from audit under parental guarantee

The following subsidiaries of the Group are exempt from the requirements of the Companies Act 2006 ('the Act') relating to the audit of individual accounts by virtue of s479A. The parent undertaking, Personal Group Holdings Plc, gives a guarantee to these subsidiaries under section 479C in respect of the year ending 31 December 2019.

- Personal Assurance Services Limited – 3194988
- Personal Group Benefits Limited – 3195037
- Berkeley Morgan Group Limited – 3456258
- Universal Provident Limited – 2950642
- John Ormond House Limited – 3792225
- Personal Group Mobile Limited – 9522023

At 31 December 2019, the Group 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 2019 the allotted share capital of Abbeygate Developments (Marlborough Gate 2) Limited was two £1 ordinary shares (see Note 34).

29 Capital commitments

The Group has no capital commitments at 31 December 2019. The Group had capital commitments of £228,000 relating to the completion of the refurbishment of John Ormond House at 31 December 2018.

30 Contingent liabilities

There were no contingent liabilities at 31 December 2019 and 31 December 2018.

31 Pensions

Group and self-invested personal pension schemes.

The Group operates a defined contribution Group personal pension scheme for the benefit of certain Directors and employees. The scheme is administered by Aegon UK plc and the funds are held independent of the Group. In addition, the Group makes contributions to certain Directors' self-invested personal pension schemes.

These schemes are administered by independent third-party administrators and the funds are held independent of the Company.

32 Leasing commitments and rental income receivable

Amounts recognised in the balance sheet

Following the adoption of IFRS16 the balance sheet at 31 December 2019 includes assets and liabilities relating to Right of Use (ROU) assets as detailed below:

2019 – Right of use Assets & Lease Liabilities

	Net Book Value of Assets £000's	Lease Liability £000's
Motor Vehicles	568	631
Buildings	110	142
Total	678	773

2018 – Right of use Assets & Lease Liabilities

	Net Book Value of Assets £000's	Lease Liability £000's
Motor Vehicles	658	709
Buildings	78	82
	736	791

The initial valuation of the asset is equal to the discounted lease liability on the inception of the lease and this is depreciated over the shorter of either the life of the asset or the lease term.

Amounts recognised in the consolidated statement of profit or loss

	Depreciation Charges £000's	Interest Expense £000's
Motor Vehicles	386	112
Buildings	74	17
Total	460	129

Total operating lease payments due until the end of the lease, or the first break clause, total £899,000 (2018: £1,007,000).

An analysis of these payments due is as follows:

	2019 £'000	2018 £'000
Total lease payments falling due:		
Within one year	609	459
Within one to two years	206	482
Within two to five years	84	66
	899	1,007

Total operating rent receivable payments due until the end of the lease or the first break clause, total £124,000 (2018: £234,000). An analysis of these receivable payments due is as follows:

	2019 £'000	2018 £'000
Future minimum lease payments:		
Within one year	110	110
Within one to two years	14	110
Within two to five years	–	13
	124	233

Below is a reconciliation of changes in liabilities arising from financing activities:

	1 January 2019 £'000	Cash Flows £'000	New leases £'000	Other £'000	31 December 2019 £'000
Current lease liabilities	435	(542)	94	496	483
Non-current lease liabilities	356	–	352	(418)	290
Total liabilities from financing activities	791	(542)	446	(76)	773

The "Other" column includes the effect of reclassification of non-current leases to current due to the passage of time, the effect of the disposal of lease assets with their related creditors and the effect of the unwinding of the discounted ROU creditors over time.

33 Related party transactions

Personal Group Holdings Plc holds a bank account with Lloyds bank PLC which it uses for payments to Group company specific creditors. During 2019 the Company paid its own dividends and expenses and during 2018 expenses of £748,000 and dividends to shareholders of £7,099,000 were paid by the Company's subsidiaries on its behalf.

A list of intercompany balances that are outstanding at the balance sheet date with subsidiary undertakings is as follows:

	2019		2018	
	Receivable £'000	Payable £'000	Receivable £'000	Payable £'000
Personal Assurance Plc	–	118	–	–
Personal Assurance Services Limited	–	2	–	–
Personal Assurance Financial Services Plc	–	137	–	137
Multiplelisting Limited	–	100	–	100
Personal Management Solutions Limited	–	8	–	–
Mutual Benefit Limited	–	12	–	12
Partake Services Limited	3	–	3	–
Personal Group Limited	2,915	527	–	6,506
	2,918	904	3	6,755

All balances are repayable on demand. None of the balances are secured. All balances relate to intercompany funding balances.

33 Related party transactions continued

Transactions with Directors

During the year the following transactions were undertaken with Directors, or companies in which Directors were key decision makers.

The purchase of Innecto People Consulting Limited, the majority shareholder of which was Deborah Frost, was completed on 28 February 2019. This has been discussed further in note 35. This was an arms length transaction at an open market value following an independent due diligence exercise being undertaken.

The subscription of 299,237 shares undertaken by Deborah Frost, as discussed in note 23, were purchased during the year at an agreed five day average share price prior to the subscription.

Mark Scanlon rented a flat owned by Personal Group Holdings during the year until the end of February 2019 when he vacated the property. The lease is on the same commercial terms as similar flats in the building and generated income to Personal Group Holdings Plc of £1,387 (2018: £8,316). At year end no money was due to Personal Group.

Ken Rooney invoiced the Group for consulting services in relation to contractual issues being dealt with by the Group. The total expense to PGH of this consulting was £4,500 (2018: £500) in 2019.

34 Equity-accounted investee

During 2004, the Company entered into a joint venture agreement with Abbeygate Developments Limited to construct a freehold joint office and residential property development on land adjacent to John Ormond House. A joint venture Company called Abbeygate Developments (Marlborough Gate 2) Limited was established and incorporated in the UK with a purpose to construct the property.

During 2018 the property was sold to a third party; the joint venture now has no principal trade. Dividends totalling £59,000 were paid out to each of the joint venture partners in order to distribute the remaining reserves and the Company will therefore become dormant in 2020.

This Company is owned equally by Personal Group Holdings Plc and Abbeygate Developments Limited and is accounted for using the equity method in the Personal Group Holdings Plc financial statements.

The income statement and balance sheet for this joint venture Company are as follows:

Income Statement	2019 £'000	2018 £'000
Profit on disposal of property	–	418
Rent receivable	2	44
Administration expenses	13	(57)
Profit on ordinary activities before taxation	15	405
Tax on profit on ordinary activities	3	(77)
Profit for the financial year retained	18	328
Personal Group Holdings share of profit	9	164

Balance Sheet	2019 £'000	2018 £'000
Current assets		
Inventories	–	–
Debtors	–	188
	–	188
Creditors: amounts falling due within one year	–	(88)
Net current assets	–	100
Capital and reserves		
Called up share capital	–	–
Profit and loss account	–	100
Shareholders' funds	–	100
Personal Group Holdings share of net assets	–	50

35 Acquisition of Innecto

Summary of acquisition

On 28 February 2019, the Group acquired 100% of the issued share capital of Innecto People Consulting Limited, a provider of HR Consultancy and HR Digital Platforms. The acquisition has increased the Group's offering in the employee benefits market and complements the Group's existing SaaS division.

Details of the purchase consideration, the net assets acquired, and goodwill are as follows:

	2019 £'000
Purchase consideration	
Cash Paid	3,189
Total purchase consideration	3,189

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair Value £'000
Intangible assets – Customer relationships	567
Intangible assets – Technology platforms	232
Intangible assets – Innecto trade name	160
Intangible assets – Technology trademarks	42
Intangible assets – Innecto website	24
Tangible fixed assets	8
Cash	475
Trade debtors	420
Other debtors	11
Trade creditors	(29)
Other creditors and accruals	(508)
Deferred income	(183)
Deferred tax asset	27
Deferred tax liability recognised on acquisition	(178)
Net identifiable assets acquired	1,068
Goodwill	2,121
Net assets acquired	3,189

35 Acquisition of Innecto continued

The goodwill is attributable to the workforce, the high profitability of the acquired business and the future synergies expected within the wider SaaS business of the Group. It will not be deductible for tax purposes.

There were no acquisitions in the year ending 31 December 2018.

Intangible Asset Recognition

In assessing the value of separable intangible assets acquired on acquisition, Personal Group engaged independent experts to perform the valuation using forecast information available at the time of the acquisition. Assets were recognised only when separately identifiable and where a reasonable valuation and proportion of the purchase price could be allocated to them.

The values of the intangible assets were calculated using several valuation methods including the multi-period excess earnings method and the relief from royalty method. Both required use of the acquisition forecasts and appropriate discount rates.

The recognised intangibles have been amortised through the income statement over five years and the combined charge for the 10 months to 31 December 2019 was £171,000.

Acquired Receivables

The fair value of acquired trade receivables is £420,000. The gross contractual amount for trade receivables due was £431,000, of which £11,000 was expected to be irrecoverable.

Revenue and Profit Contribution

The acquired business contributed revenues of £1,411,000 and net profit of £310,000 to the Group for the period from 1 March to 31 December 2019. If the acquisition had occurred on 1 January 2019, the Group's consolidated pro-forma revenue and profit for the year ended 31 December 2019 would have been £71,234,000 and £10,705,000 respectively.

These amounts have been calculated using the subsidiary's results and adjusting them for:

- differences in the accounting policies between the Group and the subsidiary, and
- the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2019, together with the consequential tax effects.

Purchase Consideration – Cash Outflow

	2019 £'000	2018 £'000
Cash consideration paid	3,189	–
Less: Cash balances acquired	(475)	–
Net outflow of cash – investing activities	2,714	–

Acquisition-related costs

In the period, acquisition-related costs of £145,000 that were not directly attributable to the issue of shares are included within expenses in profit or loss and in operating cash flows in the statement of cash flows.

36 Post balance sheet events

At the time of issuing this report the UK is in the 'delay' phase of dealing with the Coronavirus (COVID-19) which the Group considers to be a non-adjusting event. While there has been minimal impact on the Group to date, the claims ratios of the Group's Hospital, Convalescence and Death Benefit plans are all likely to be impacted by the situation in the short term and the extent of this will be dependent on both the percentage of the population contracting the virus as well as the availability of hospital beds. Various stress and scenario testing have taken place to assess the potential impact on the Group, considering the impact on premiums, claims and solvency ratios for the insurance subsidiaries, together with liquidity and other non-insurance activities for the wider Group. The Group has put into place business continuity plans and has near full capability to support its customers and policyholders and maintain business operations. Our insurance subsidiaries both hold significant surpluses above their capital resource requirements and, with a strong balance sheet supported by cash and deposit balances of £17m.

Company Information

Company registration number:

3194991

Registered office:

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D Frost – Chief Executive
K Rooney – Non Executive Deputy Chairman
M Dugdale – Chief Financial Officer
B Head – Non Executive Director
M Darby-Walker – Non Executive Director
A Lothian – Managing Director PGB Sales

Secretary:

S Mace

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