Personal Group

Annual Report and Accounts

2016

Delivering employee services through powerful technology

Personal Group helps UK businesses improve their productivity through better employee engagement

How?
When people are happy they're more productive, 12% more productive*

*University of Warwick, Happiness and Productivity Report 2014

2016 Financial Highlights

Revenue (£million)

£53.6m

2016	53.6
2015	58.0
2014	47.0
2013	28.4

EBITDA* (£million)

£11.4m

2016	11.4
2015	12.6
2014	11.0
2013	8.8

Profit before tax (£million)

£10.5m

2016	10.5
2015	14.1
2014	9.2
2013	3.7

Earnings per share (pence)

23.9p

2016	23.9
2015	30.8
2014	25.1
2013	7.0

* EBITDA is defined as earnings before interest, tax, depreciation, amortisation of intangible assets, goodwill impairment, share-based expense payments, acquisition costs, restructuring costs, write back of contingent consideration and release of tax provision. This definition applies to all references to EBITDA within this document. A reconciliation from PBT to this adjusted EBITDA can be seen on p25.

View our latest investor relations at:
personalgroup.com/investors

At a Glance

When people feel like they make a difference, they do.

What we do

We are a technology enabled employee services business which works with employers to build employee engagement and drive productivity

Our suite of third party employee services is complemented with in-house propositions

In-house services

Insurance services including hospital and convalescence plans, death benefit and income protection

58% of revenues

Let's Connect home technology salary sacrifice schemes

38% of revenues

hapi employee services platform

Who we serve

550 businesses, reaching an employee base of more than 2m

Current Core: Bespoke **Hapi** build for large companies

Addressable Market 6m employees

Emerging Relationships: Standard **Hapi** build for large private and public sector employers

Addressable Market 5.5m employees

What we believe

We make people happier at work by offering them easy access to communications, insurance, benefits and rewards from their employer.

Third Party services

8,000 services from c.60 supply lines, including retail discounts, e-payslips, employee assistance programmes, salary sacrifice cars and bikes

3% of revenues

hapi employee services platform

Nascent Opportunity:
Standard **Hapi** build for small and medium sized entities (SMEs)

Addressable Market 15.6m employees

Case study: Partner

Sage partners with Personal Group to transform SME productivity.

See page 17

Case study: Employee

Why clients' employees rely on Personal Group.

See page 23

Case study: Employer

Using employee services to recruit, retain and engage the best talent.

See page 30

Our Investor Proposition

Why invest in Personal Group?

Established product & service offer fitting current & future client needs

- 8,000 – owned and third party products & services
- High value owned insurance, technology platform and product sales
- Network of 60 supply lines developed
- Easily accessible via proprietary technology platform
- Offer that fits with current and future client needs

Our **benchmark** for success

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* EBITDA is defined on page 1. A reconciliation from PBT to this adjusted EBITDA can be seen on p25.

With a strong platform for growth, Personal Group is positioned to realise the benefits of recent investments

Developed technology & IP provides platform for growth

- Creating higher value 'employee services' offer to clients
- Supports a flexible and scalable client offer to meet today's market needs
- Creates previously uneconomic market opportunities
- Driving new Software as a Service (SaaS) model and sales opportunities

Experienced, proven & successful board & management

- Senior team and Board with extensive experience and commercial contacts
- Complementary skill set, combining management, technology, finance and employee benefits
- Well established corporate governance and oversight

Solid financials underpin growth potential

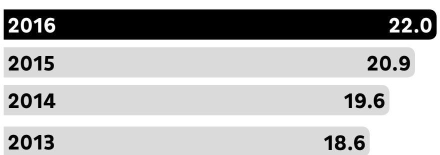
- Strong balance sheet and no debt
- Consistent recurring and growing revenues from core insurance products
- Highly cash generative, supporting progressive dividend policy
- Prudent cost control

Earnings per share (pence)

23.9p

Dividends paid (pence)

22.0p



Chairman's Statement

2016 was a challenging year for the Group

"There were several significant achievements, most notably in developing our products and services and expanding the addressable market."

The employee benefits market has changed markedly in recent years; clients and customers alike are increasingly demanding wider services, greater accountability, improved functionality and better accessibility.

The shape of Personal Group's business has duly changed and far better reflects the needs of the market we face today. The Group is well positioned to realise the benefits from its investments in products, services and the platform that has been built to deliver them. As a result, Personal Group is at the vanguard of an emerging employee services market, much broader and more demanding than the insurance market in which we started.

Business Review

2016 reflected the range of the changes we, employers and their employees are facing. The UK's economic boundaries are being re-drawn and the fiscal emphasis has resulted in changes to Insurance Premium Tax and Salary Sacrifice. The dominant mobile phone companies have changed the way they sell airtime contracts and handsets. Our biggest client, Royal Mail Group (RMG), has fundamentally revamped the type of benefits it offers its employees, how these are delivered and by whom. Consequently, 2016 was a challenging year for the Group. We cover the financial results in later sections of this report.

There were several significant achievements, most notably in developing our products and services and expanding the market addressable by the Company. The agreement with Sage, the international business software and services company, late in the year was a remarkable achievement; it represents the start of us being able to deliver Personal Group's products and services to a new and significant market of smaller companies. And throughout the year, we enjoyed the continued success of our face-to-face salesforce.

The year was also characterised by headwinds that were largely due to events outside the Group's direct control. Most significant of these was the Government's decision to undertake a review of Salary Sacrifice. While we firmly believe the results of the review have limited impact on the attractiveness of our offer, it did create an air of uncertainty for an extended period which resulted in some clients deferring commitments to renew contracts. We have absorbed an increase in Insurance Premium Tax rather than pass it on to existing policyholders.

We also took the decision to close our mobile phone business, PG Mobile. It had become increasingly evident that the mobile operators had decoupled the provision of handsets from their airtime contracts, changing the market that PG Mobile was planned to target. Consequently, the investment required by this part of our business exceeded the revised returns to the Group and we decided that such investment would be better focused elsewhere.

Where the Group has met with difficulties, I am proud to say the management team has acted decisively and quickly to ensure the business remains best placed for now and the future. An easy decision would have been to continue to invest in the PG Mobile business and see how we got on rather than act as we did. Elsewhere, we actively sought to make our voice heard among Government circles during the Salary Sacrifice review and at the same time took the opportunity to rework and improve our product offer, thereby placing Let's Connect in a better position for the longer term.

Our Marketplace

The marketplace we face today has changed beyond all recognition from the one we faced when the business started. It was recognition of that change that has driven the strategy we have adopted and have progressively delivered on since. Corporate clients are increasingly looking for efficiency, value and a recognisable return on the investment they make in their staff. At the same time, employees are increasingly looking for recognition and to be valued, while also having the support to allow them to focus on delivering at work rather than the inevitable distraction of financial, health or other worries.

Meeting these goals creates a very real business advantage, not just in terms of cost but more importantly staff satisfaction, that in turn supports improved efficiencies and productivity for our clients. It has been well documented that the UK has a relatively poor record of productivity when compared to many of its trading partners. Good staff and the skills they possess are in short supply across many industries. By making effective investments in their staff, companies give themselves the best possible advantage in attracting and keeping the people they need.

The development of our business over the last few years has reflected this changing market and has been achieved through a combination of organic growth, technology development and acquisition. Overall, these initiatives have proved successful, achieving our primary goals of creating an offer that meets our clients' needs, ensuring we can effectively and profitably deliver our offerings, and increase our access to new markets. As with any change, this journey brought with it an element of risk but it was risk we needed to take to develop the business to meet and succeed in the changing market place we face. Our future success will be built on these developments, our continued commitment to face to face contact and our core insurance business, which continues to underpin our wider plans.

The development of technology has had the most significant impact on both our offer and the way we run the business. The launch of our proprietary Hapi platform in 2015, gives us the ability to deliver the efficiencies our corporate clients are demanding, as well as the ability to create far greater value recognition of the benefits provided. It also allows us to provide bespoke benefits packages that meet specific client and individual employee needs on one platform that is easy to use and readily accessible.

At the same time, we have not lost sight of our unique approach of combining technology with face to face communication. We have a dynamic field based team that meets over 165,000 individuals a year. This approach not only supports a better take up of our products but also ensures better customer satisfaction, which in turn supports the quality of our revenue streams. The efforts of our salesforce in 2016 will bear fruit long into the future.

Prospects

Looking ahead we expect technology to continue to play a key role as the market develops from one of employee benefits to employee services. The value of an employee benefits offer will increasingly shift from the provision of certain benefits to being able to offer an effective means of engagement and support for corporate clients and their employees. It is this progressive shift away from pure employee benefits to employee and business services that is at the very heart of how the Group will support clients and employees alike - driving greater employee satisfaction, improved productivity, cost efficiencies and investment returns.

The business model we have developed provides us with the functionality and flexibility to be able to deliver for our clients; it is both an investment in our business today and central to our ability to grow the business into the future.

None of this would be possible without our people. I would like to thank every one of our staff for their continued commitment to Personal Group. I would also like to thank shareholders for their support as we develop, grow and deliver to our potential.

Mark Winlow
Non-Executive Chairman
27 March 2017

Strategic Report

Our Strategy

No other single company has the breadth or depth of capability we can provide.

The Group's aim is to achieve mass adoption of its employee services platform, with a majority share of the market in the UK.

Client offer

Our client offer is aimed at improving productivity, through employee engagement and a better motivated workforce. It appeals to different types of clients, large and small, and across different industries and geographies. Obsessive product innovation ensures the offer remains relevant and central to our client's business.

There is a well-established link between employee engagement and productivity in business. Employee services drive employee engagement, which in turn drives performance. Recent research we've undertaken shows leading CEOs, academics and industry luminaries support this view. We describe this work as 'The Business of Engagement' and have published a white paper with our findings.

Our offer is provided via our proprietary technology platform, Hapi. It offers clients a package of services including our owned and third party products. Personal Group owned services, which include personal insurance and salary sacrifice, are high value and individually drive Group revenue. Third party services create a more complete client offer, driving client interest in the Group owned services and platform. Our service supply chain comprises a network of over 60 supply lines, delivering over 8,000 products.

Through technology and our platform, we have evolved our business model so that in addition to our traditional insurance income streams there will be an increasing subscription component to our revenues from sales of the Hapi platform itself.

Our employee services offering in the market is unique. Over recent years, the demands of our market have increasingly moved towards our model and approach. No other single company has the breadth or depth of capability we can provide.

Delivery management

The key enabler in our strategy is technology. Hapi, is central to how we deliver our offer to clients today. It is also future proof, providing the flexibility to add further value to clients in the future.

The platform was developed to be intuitive and easily accessible, driving better engagement and allowing us to deliver services through App technology into the hand of our clients' employees.

Personal Group has also taken advantage of the proliferation of smartphones. This 'free' infrastructure allows us to leapfrog legacy products in the market to provide new and innovative solutions hitherto not available to our client.

Technology is also key to how we manage our business internally on a day-to-day basis, playing an essential role in all aspects of Personal Group. We estimate the adoption of technology in our core insurance sales activity has improved our productivity by as much as 20%.

We have evolved our business model so that in addition to insurance income there will be an increasing subscription component to our revenues

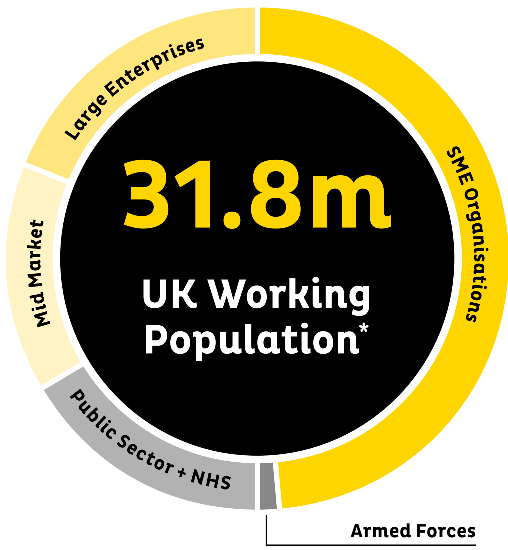
Market access

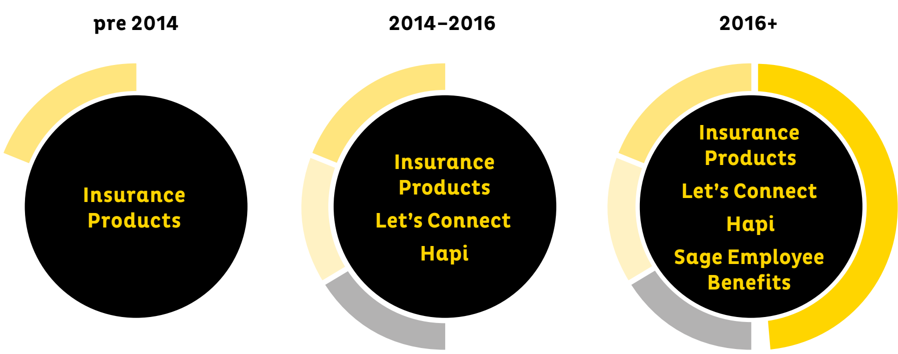
Personal Group has gained access to additional market opportunities through a combination of technology, partnerships and acquisitions. The market available to the Group has expanded from circa 6m employees in the UK to over 27m.

The development of our technology platform, Hapi, has allowed us access to the significant SME market, by changing the economics of how we can deliver our service to clients. Hapi is designed to serve a business with as little as one employee and, because the system is cloud hosted, it is very scalable.

Hapi allows us to quickly integrate with third parties like Sage as we establish sales channels in the SME marketplace. This capability fortifies our position in the market and further underlines the strategic advantage we have built over the past five years since we embarked on the digitisation of the business.

In addition to supporting our client offer, acquisitions have expanded the markets available to us. This has included access to new market segments, such as the NHS and local authority employees, as well as direct access to large private and public sector employers, creating cross selling opportunities for our client offer and platform model.





- SME Organisations: 1–1000 employees (15.6m)
- Large Enterprises: 5000+ employees (6.0m)
- Mid Market: 1000–5000 employees (4.7m)
- Public Sector + NHS: (5.3m)
- Armed Forces: (0.2m)

* 2016 ONS data

Our Business Model

Our key strengths

Industry leading Software as a Service (SaaS) platform allows user-friendly and customised access from multiple devices to a growing range of employee services

Long history with strong brand and reputation means we are trusted by clients and enjoy wide access to employees

50 strong face to face field based team allows us to interact in person with over 165,000 client employees per year, driving usage and facilitating cross-selling of insurance services

Unique, driven culture and motivated team are sources of competitive advantage

INPUTS

What we do

- **Our employee services platform, Hapi, provides a single point of integration of employee services,** to aid employee engagement for clients. Through either a customised or standard build, we are able to offer a suite of third party services as well as our two in-house propositions.
- **Our insurance products** include hospital and convalescence plans, death benefit and income protection which are underwritten by our fully authorised and regulated insurance subsidiaries and **account for 58% of our revenues.**
- **Our Let's Connect offering** provides our clients with home technology products from, amongst others, Apple, HP and Samsung for onward provision to their employees under salary sacrifice schemes and **account for 38% of our revenues.**

Who we serve

We currently work with 550 businesses in diverse sectors across the UK, reaching an employee base of more than 2 million however our services are applicable to 85% of the UK working population.

Why clients work with us

Employers (our clients)

The breadth of our offering, coupled with our ability to roll out our services to every employee and leave behind a digital connection in the form of our Hapi platform is a compelling point of differation for us.

Employees

Gain access to attractive discounts, Employee Assistance Program (EAP) and other services as well as our peace of mind insurance policies and salary sacrifice technology products.

REINVESTMENT

We help businesses across the UK to engage with their employees by offering employee services, benefits and employee-related insurance products. The value we create is shared with our stakeholders

How we create value

A combination of recurring and transactional revenues:

Insurance

Large companies: premiums are paid for by employees, via monthly or weekly payroll deduction; SMEs: premiums are paid for by employers.

Let's Connect

We earn a margin on home technology product sales, plus commission on 3rd party financing we arrange. We are paid upfront by employers for their employees' salary sacrifice purchases, while employees pay via monthly payments to their employer.

Hapi/Sage Employee Benefits

Clients pay monthly or annual SaaS subscriptions per employee for use of the platform. Currently, for SME's this subscription also includes provision of our insurance products.

OUTCOMES

How we share value with stakeholders

Clients

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

Client Employees

Peace of mind for circa 329,000 active policy holders, and easy access to savings on a wide range of purchases

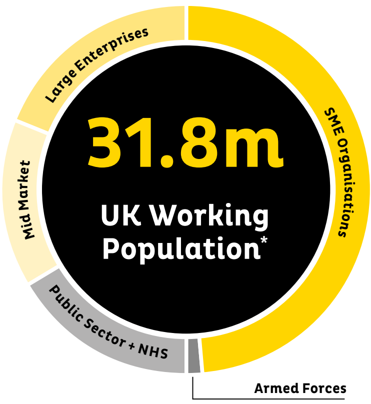
Our Team

An engaging and challenging environment for our 225 employees

Shareholders

A track record of progressive dividends

Our Markets



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* 2016 ONS data

We offer a unique model and offer to clients. We are a platform provider, offering a combination of our own and third party services and products through our propriety management and delivery technology.

We have limited direct corporate competition, tending instead to compete on a product level against multiple companies with largely different profiles.

Competition across platform providers has remained relatively static. This is primarily driven by barriers to entry, created by the upfront cost of the infrastructure needed to service a platform model.

Key movements in the market have been seen at the individual product provider level, most notably in areas such as discounts and wellbeing, with some of these 'pure play' suppliers creating simple platforms. Personal Group is well placed to benefit from this increased demand for technology platforms.

Traditionally, we saw single product or service providers of employee benefits. These providers are still very much around today, offering for example, cycle to work or wellbeing schemes. This approach forced clients or large corporates to seek multiple providers to create a completive and valued employee benefits proposition.

Today, clients are looking for a single platform that offers multiple services and products to their employees, supporting improved efficiencies, greater value recognition and participation. Gaining employee recognition for the investment made in providing a competitive employee benefits package is increasingly key to clients and has traditionally been difficult under a fragmented system.

Companies are under increasing pressure to show the return on investment in their employees. This tends to be either in terms of better employee retention or improved productivity achieved through greater employee satisfaction and engagement.

When we set our strategy in 2012, we saw this change in the market taking shape, and this was the genesis for the development of our highly successful technology platform, Hapi, which we launched in 2015.

Hapi is an aggregator of our offer to clients. It brings all of our proprietary and partner products and employee services together on one platform, improving the strength of the product offer as well as the experience to both clients and their employees.

Flexibility is key in allowing us to cater for changes in the market, ensuring we have the right products at the right time for our target clients and their employees.

Similarly, flexibility allows us to change the way we offer our services to clients to suit their needs. This includes providing our technology platform through a SaaS model. The SaaS approach opens the SME market to the Group for the first time and also has appeal to some of the Group's more traditional larger clients.

Flexibility is key in allowing us to cater for changes in the market ensuring we have the right products at the right time

Looking ahead, we expect to see the platform model develop further, moving the product offer away from the provision of employee benefits alone to a wider 'employee services' platform encompassing traditional benefits alongside broader engagement and communication modules. This would allow clients to better manage their employees, through a combination of improved efficiencies and communication, driving better relations, performance and productivity through a more engaged and happier workforce.

Furthermore, the platform model combined with the strength of our proprietary technology, Hapi, affords us the flexibility to adapt and expand our offer, as well as develop new market opportunities.

In tandem with developing our platform technology and product offer, the Group has had a strong focus on developing the market opportunity available to it. This has been achieved though a combination of organic growth, acquisitions and technology development; creating a total market opportunity available to the Group's products of over 27 million employees – over 85% of the UK's working population.

Prior to 2014, Personal Group served a core market of circa 6 million potential employees; offering primarily hospital insurance plans. Typical clients tended to be large employers, across core industries such as food manufacturing, care and logistics.

With the acquisition of Let's Connect in 2014, we not only added to our product offer, we also greatly increased our available market again; expanding it by a further 6 million potential employees. This brought the total market open to us to around 12 million.

In 2016, and through the flexibility afforded by the Hapi platform, we were able to target SMEs, bringing a further potential market opportunity of circa 16 million. Our approach to developing the SME market has been through signing a partnership agreement with Sage, the UK's largest listed technology business, which has strong and established links across that market.

> Today, clients are looking for a single platform that offers multiple services and products to their employees, supporting improved efficiencies, greater value recognition and participation.

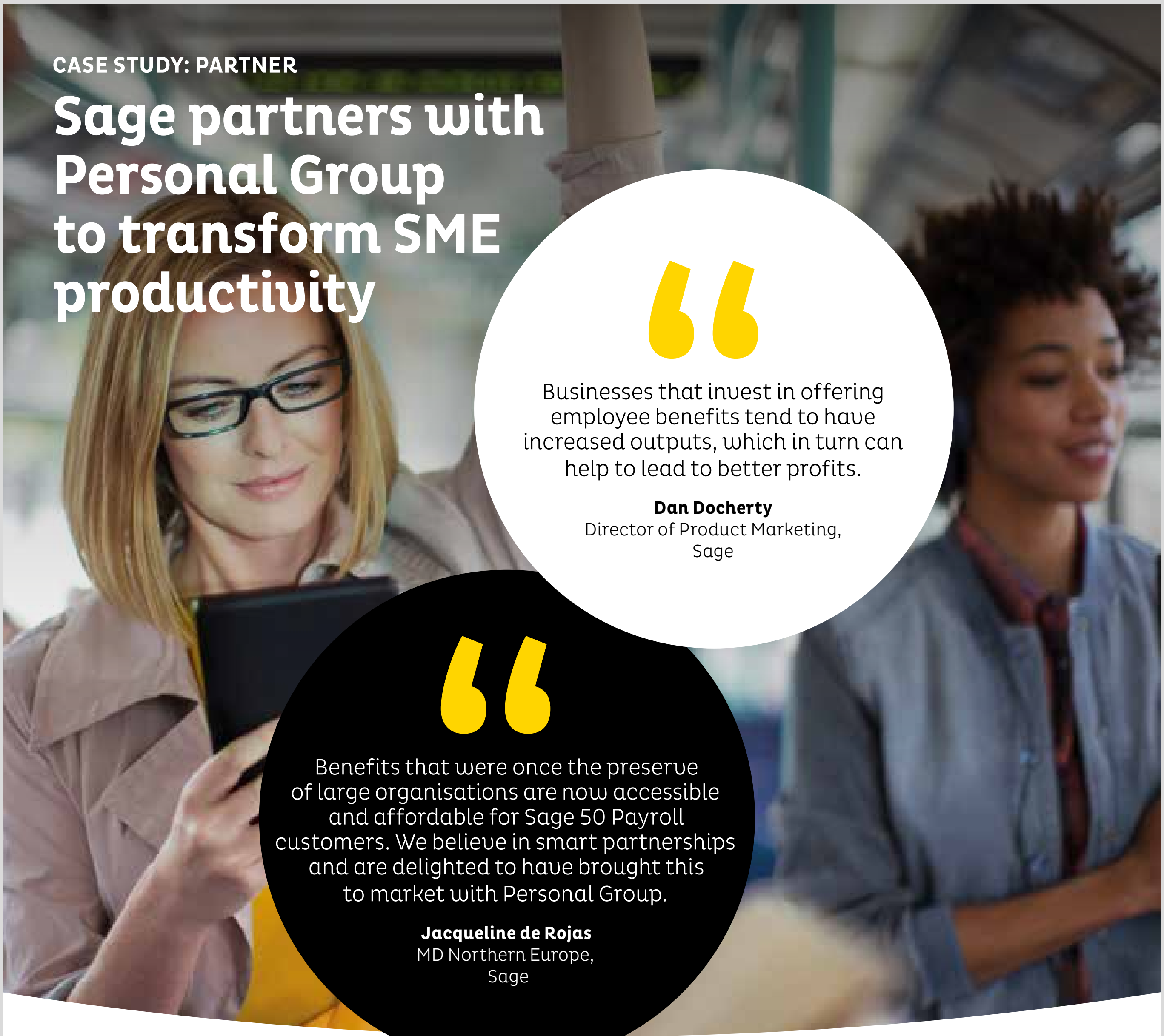
Work Happy

Our brand centres around the concept that happy employees are more productive employees. Academic research conducted by the University of Warwick demonstrated the links between employee happiness and productivity.

The phrase 'Work Happy' distils the core value proposition of our products and services. When people feel like they make a difference, they do. Employees feel more valued, and happier, when benefits are tailored to the things that matter to them and are clearly explained through personal interaction. They want to access and redeem their benefits easily, wherever they are.

Our rebrand went beyond the company logo and colour palette (although yellow is the colour most associated with happiness) and included an update of our employee benefits platform and 'Hapi' app, which was re-imagined alongside the brand repositioning. Everything we do is about making work happier for everyone – the front line employee, the HR manager and the CEO.

pg Personal Group



CASE STUDY: PARTNER

Sage partners with Personal Group to transform SME productivity

> Businesses that invest in offering employee benefits tend to have increased outputs, which in turn can help to lead to better profits.
>
> **Dan Docherty**
> Director of Product Marketing, Sage

> Benefits that were once the preserve of large organisations are now accessible and affordable for Sage 50 Payroll customers. We believe in smart partnerships and are delighted to have brought this to market with Personal Group.
>
> **Jacqueline de Rojas**
> MD Northern Europe, Sage

In November 2016 Personal Group and Sage partnered to launch Sage's first employee engagement product designed for the UK SME market.

Sage Employee Benefits is a first-of-its-kind product to be integrated into Sage's product portfolio, and is positioned to directly serve the 15.6 million people who are employed in Small and Medium Sized Enterprises (SMEs) in the UK.

Sage Employee Benefits offers a range of key advantages to business owners, offering their employees unrivalled access to savings and discounts across hundreds of retailers, salary sacrifice options, insurance and protection, a hospital cash plan and health and wellbeing support.

Based on Personal Group's own proprietary platform Hapi, the Sage Employee Benefits platform allows Personal Group to profitably and effectively deliver its services to the SME market, through a monthly SaaS subscription.

sage

Our Growth Plan

Progress in 2016

Organic growth

In 2016 we again successfully developed the Company's product mix and expanded the market available to us. This has been a core strand of our strategy, since it was set out in 2012.

Personal Group is now able to provide clients with a package of 8000 offers, from circa 60 supply lines, including our own insurance and Let's Connect services. At the same time, the available market has grown from a core of 6 million employees to over 27 million, representing over 85% of the UK workforce.

Technology

Technology has been a core element of our strategy.

The development of the Hapi platform has not only strengthened our offer to clients, it has opened new market opportunities and changed the way we deliver our services. It has transformed Personal Group from a traditional insurance company to a technology driven business with a core in insurance.

Acquisition

Acquisitions have played a key part in developing our product mix and available market over the last four years.

Naturally developing the business through acquisition brings faster growth but also an added element of risk. The Let's Connect acquisition is expected to pay back in under four years and has seen significant growth. Where opportunities have proved more challenging, we have acted decisively, ensuring the Group's long term position is supported and maintained. This was our experience with PG Mobile, which we elected to close during the year.

Focus in 2017

In 2017, our focus is in delivering the value potential of the platform we have built over the last few years.

A key focus for the Group will be to develop and expand into the SME market. The agreement signed with Sage provides us with a strong and ideal partner to support this growth.

A key focus will be expanding the Software as a Service (SaaS) model of delivery. This service is aimed at both smaller SME companies as well as our more traditional larger employer market. The service provides access to our proprietary technology platform, bringing together bespoke packages of employee benefits and the flexibility to add additional services and functionality.

The Group will continue to look at acquisition opportunities as they arise over the coming year. Acquisitions, however, are not expected to be a key driver for growth in 2017, with any focus more on bolt-on acquisitions. With the progress that has been made over recent years, the Group is now well positioned to realise the potential value from the platform that has been created. We look forward to capitalising on the opportunity this presents.

Our growth plan is based on three key elements; organic growth, technology and acquisition

Risk

- The entry into the SME market takes longer to reach scale than anticipated.
- A lack of interest from clients in the combined face-to-face and technology proposition.
- Lower accessibility to clients.
- Cost pressures due to National Living Wage salary increases reduce the propensity of clients to fund employee schemes.

- Clients want to simply take an employee benefit platform rather than increasing their investment in an engagement approach.
- SaaS becomes commoditised over time with competitors offering products and services at significantly reduced rates.
- Clients will continue to procure and deploy disparate platforms for the suite of services we offer, rather than aggregate and gain the efficiency savings.

- Targets with suitable criteria unable to be identified.
- Capital difficult to obtain through external fund raising.
- Lower-cost competitors adversely affecting the growth potential of Let's Connect.
- The lack of clarity from HMRC in relation to salary sacrifice may cause customers to delay entering into schemes.

KPIs

Annualised new business insurance premiums over the last 3 years (£m)

£10.8m +1.9%

2016	10.8
2015	10.6
2014	10.2

% of new business insurance premiums in respect of new clients over last 3 years (%)

21% -25.0%

2016	21%
2015	28%
2014	25%

Number of clients migrated to Hapi – from 2015 only

69 +165.4%

2016	69
2015	26
2014	n/a

Amount of new business premiums issued on the iPad over last 4 years (£m)

£10.8m +5.9%

2016	10.8
2015	10.2
2014	10.2

Turnover of Let's Connect since acquisition (£m)

£20.1m -21.2%

2016	20.1
2015	25.5
2014	17.0

EBITDA of Let's Connect since acquisition (£m)

£1.8m -21.7%

2016	1.8
2015	2.3
2014	1.4

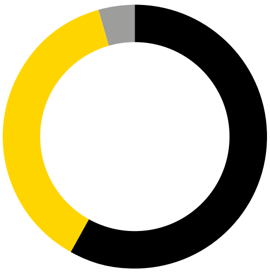
Chief Executive's Statement

We are now at the point we planned to be with an industry leading platform, a strong and comprehensive supply chain which we can now aim at a significantly expanded market as a consequence.

2016 Group Revenue

£53.6m

(2015: £58.0m)



- Insurance (£31.2m)
- Let's Connect (£20.1m)
- Other (£2.3m)

The Group's core insurance business continued to perform extremely well, achieving its fourth year of record sales results. At the same time, Let's Connect was impacted by the HMRC review into Salary Sacrifice and, in line with our strategy, we also again successfully developed our available market.

Where we faced challenges, we acted decisively, to ensure Personal Group was best placed to succeed.

Delivering our strategy

A core part of our strategy since 2012 has been to develop both our product mix, including those provided directly and through third parties, and to expand the market available to us. Over the course of the four years we have achieved that through a combination of technology, acquisitions and organic growth. We are now at the point we planned to be with an industry leading platform, a strong and comprehensive supply chain which we can now aim at a significantly expanded market as a consequence.

As we intended our technology is now a tremendous enabler for us and our clients. Through the development of our proprietary platform, Hapi, it has not only increased the value of our product offer to clients, it has also allowed us to adapt our offer to better suit specific client needs. As we extend our SaaS sales model which complements our core insurance business this will open up both large traditional clients and smaller SME's alike.

This development is a step change in our business that greatly expands our available market to circa 27 million UK employees, over 85% of the UK working population. Combined with this, we have a product offer to suit almost every possible client, comprising of over 8,000 offers from circa 60 supply lines, including our own insurance and Let's Connect products. We bring all of this together in one simple and easy to use platform that is readily accessible whether by App, PC or tablet. We are now better placed than ever to realise the opportunities these developments mean for our customers and our Company.

Group performance

Group revenue from continuing operations for the period was £53.6m (2015: £58.0m). This was driven by another strong result from our core insurance business offset by weaker revenue from Let's Connect, due to the short term impact of the HMRC review. EBITDA was 9.5% lower at £11.4m (2015: £12.6m) again due to the HMRC review and upfront investment in developing the SME market opportunity, the first deployment of which is with Sage. As detailed on p26, profit before tax was £10.5m (2015: £14.1m). During the year, we again increased the dividend, taking it to 22p or a 5.3% increase, providing a yield of 4.9%, based on average share price for the year. This increase is part of our progressive dividend policy and is based on continued strong cash generation. It is also a reflection of our confidence in the future potential of the business.

The core insurance business achieved its fourth record year in succession in new sales. This saw revenue increasing by 2.3% to £31.2m (2015: £30.5m). This performance was based on the continued

strength of our client base, which comprises many of the UK's largest and best known employers, and the successful development of new clients; demonstrating the attractiveness of these products to both employers and employees. Through a process of being highly selective and investing in our people, we have a team with tremendous energy and drive that met over 165,000 people in person throughout the year to offer our products.

The success of the Insurance business is based on our approach of face to face sales and the speed with which we manage claims, keeping the client and policy holder at the centre of everything we do. This approach drives a sales uptake of 51%, which is unique across our industry. It also, we believe, leads to low cancellation rates, with the average length of a policy of 5 years, leading to lower costs and better quality of earnings.

We have invested in ensuring greater client satisfaction through a system of post insurance sales surveys. The response rates have been more than 30%, demonstrating the level of engagement and interest we achieve. This insight combined with a regular review of complaints is used to guide the actions we take to improve our services.

Let's Connect had a more challenging year, seeing revenue decrease by 21.2% to £20.1m (2015: £25.5m). Nonetheless, as an acquisition it has been highly successful, paying itself back in less than four years and growing revenues by over 18% since it was acquired in 2014.

The key attractions of the Let's Connect offer is a combination of convenience, access to finance via their employer, no upfront costs, affordability and trusted provision from the employer. On this basis, we have every confidence of seeing this business return to growth. Testament to this was the signing of our largest contract against challenging deadlines, with Royal Mail Group, in October 2016.

The key challenge facing the Let's Connect business during the year was the impact of the HMRC review into Salary Sacrifice. Although we believe the review, and changes now outlined in the Finance Bill, have minimal impact on the Let's Connect offer, the uncertainty created by the review caused a number of clients to delay contract decision. This unfortunately came at a key point in the sales cycle, having a disproportionate impact.

Although frustrating in the short run, we look forward to growing this business into the future. During the review process, we worked hard to ensure the Group's perspective was highlighted, working alongside industry bodies and making direct representation to Government to make our voice heard at the highest level.

At the same time, we successfully took the opportunity to re-craft our product offer, making it easier to understand for both the employee and employer, making the product again more attractive and driving improved take up. The focus of this work was around product retention and final payments.

The agreement signed with Sage, the UK's largest listed technology company, represents a significant opportunity for both companies. It provides Personal Group with an effective means of targeting and developing the SME market through Sage's existing product offer and strength across that market. Sage have shown real commitment to supporting the agreement, with Personal Group employees seconded directly to work alongside them at their offices in Newcastle. With over 15.6m people employed by SME's in the UK, we look forward to seeing this relationship and opportunity develop over the course of this year and beyond.

As announced in the interim results, in July 2016 we took the decision to close our Mobile Virtual Network Operator, PG Mobile which had been established in 2015. Whilst this was disappointing, we felt it important to act quickly, which we did.

Outlook

We started 2017 in a strong position to again see the business grow in the year ahead. There remains a number of uncertainties, including the rate of take-up of our SME offer, but with a strong offer to clients we have already seen an uptick in our Let's Connect business and sales performance in our core insurance continues to perform well.

Strategic report

The contents of the Strategic report covered in pages 10 to 31 have been agreed and approved by the Board as at 27 March 2017.

Mark Scanlon
Chief Executive
27 March 2017

Key Performance Indicators

EBITDA* (£million)

£11.4m

2016	11.4
2015	12.6
2014	11.0
2013	8.8

Profit before tax (£million)

£10.5m

2016	10.5
2015	14.1
2014	9.2
2013	3.7

Claims ratio (%)

23.4%

2016	23.4
2015	25.4
2014	27.2
2013	25.8

The reduction in the claims ratio is primarily as a result of the Group underwriting death benefit policies from April 2015.

Solvency II ratio (%)

207%

2016	207
2015	259
2014	264
2013	n/a

Solvency II came into effect on 1 January 2016. These numbers are currently estimated and subject to audit.

Number of policies in force

329,098

2016	329,098
2015	339,986
2014	248,112
2013	247,285

2015 policy numbers reflect the fact that death benefit policies have underwritten by the Group since April 2015

Number of claims handled

51,550

2016	51,550
2015	49,089
2014	44,475
2013	41,223

Enrolled to presented (%)

51%

2016	51
2015	54
2014	55
2013	55

The % of people who decide to take out one of our insurance policies following a face to face presentation.

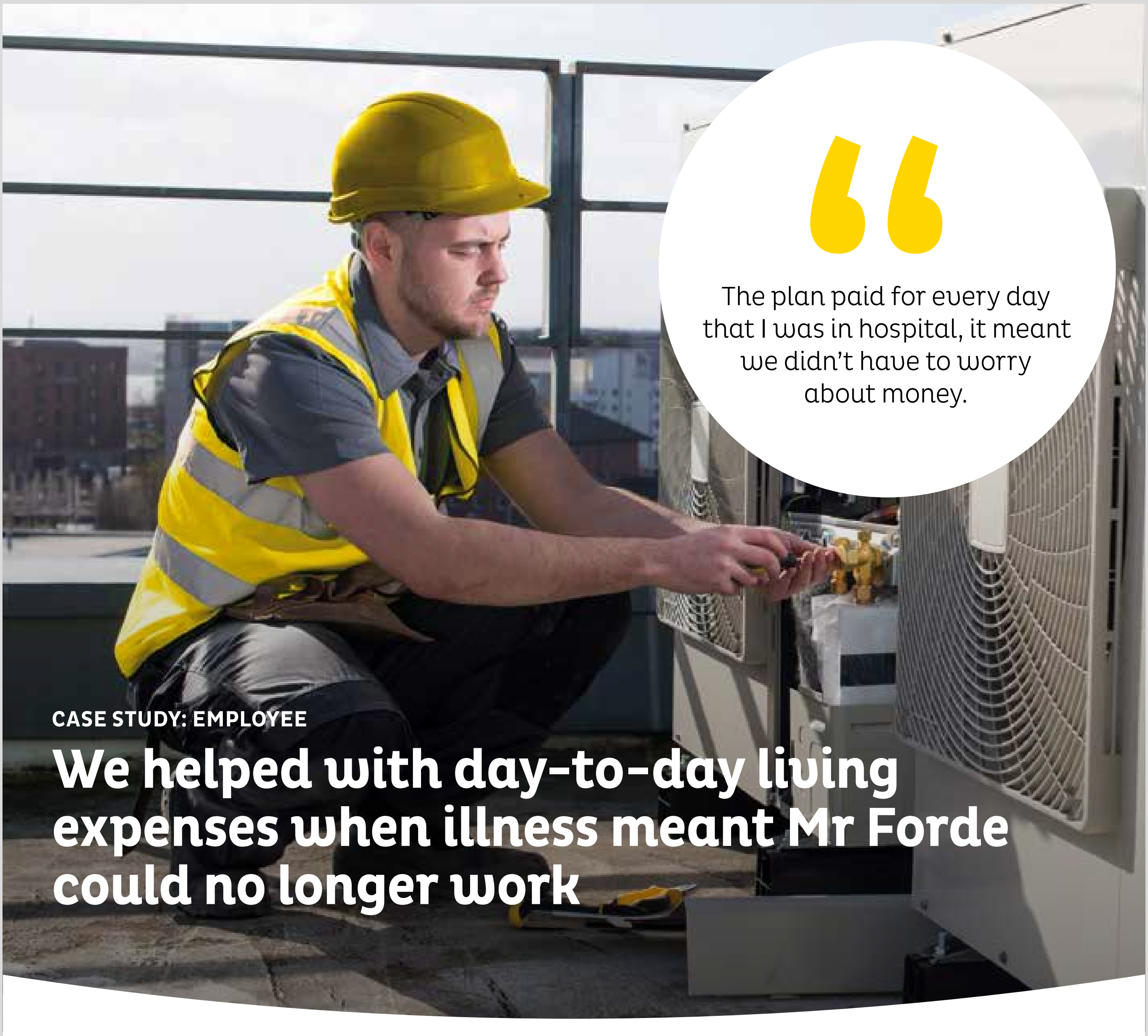
Acquisition cost per £1 of Annual Premium written (pence)

72p

2016	72
2015	72
2014	66
2013	78

The upfront sales costs associated with writing each £1 of Annual premium.

* EBITDA is defined as earnings before interest, tax, depreciation, amortisation of intangible assets, goodwill impairment, share-based payment expenses, acquisition costs, reorganisation costs, write-back of contingent consideration and release of tax provision. This definition applies to all references to EBITDA within these report and accounts. A reconciliation from PBT to this adjusted EBITDA has been included on p25.



> The plan paid for every day that I was in hospital, it meant we didn't have to worry about money.

CASE STUDY: EMPLOYEE

We helped with day-to-day living expenses when illness meant Mr Forde could no longer work

Mr Forde became ill very suddenly suffering a haemorrhagic stroke which left him in hospital for four months. He received £10,415 from his hospital plan which helped with day-to-day living costs at a difficult time.

Mr Forde said: "I'd not considered cover like this until there was a lady at work promoting it and it seemed like a good idea. I'm really glad I took it out as I suffered an aneurism while at work which lead to a stroke. I had two and a half months of bed rest in hospital before they were able to start on rehabilitation. I've been very lucky as I only have short term memory problems now, I've pretty much made a full recovery."

"Personal Group have been helpful throughout the whole process. The claims team were lovely and very good. My partner had to call up on my behalf as I couldn't. She called up for a claim form and we received the money the very next week. The plan paid for every day that I was in hospital, it meant we didn't have to worry about money. This is the first time I've used a product like this and it really has been beneficial, the payment has helped with day-to-day living and more."

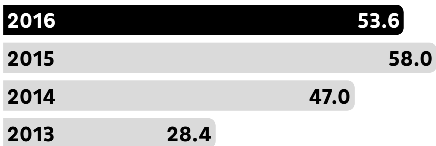
"I'd definitely recommend this sort of cover. It's so cheap you won't even miss what you pay out. I was unable to work for four months so it was worth it. It really is good value for money."

Chief Financial Officer's Statement

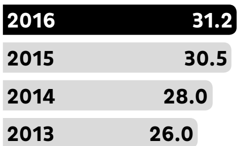
A solid financial performance to support future growth

Revenue

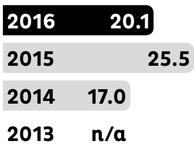
£53.6m



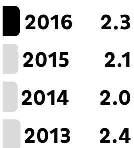
Insurance



Let's Connect (LC)



Other



Discontinued*

* PG Mobile was acquired in 2015

Group results	2016 £000	*2015 £000
Continuing operations		
Revenue	53,620	58,035
EBITDA**	11,396	12,632
Operating profit	10,257	10,534
Profit before tax	10,521	14,098
Tax	1,479	1,148
Profit for the year	9,042	12,950
Discontinued operations		
Loss for the year	(1,758)	(3,649)

* Restated to reflect discontinued operations

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

Revenue

Group revenue for the year from continuing operations was £53.6m (2015: £58.0m). Revenues were primarily driven by a fourth successive year of record new sales and earned premium in our core insurance business, combined with sales at our Let's Connect business, which were impacted during the period by the HMRC review into Salary Sacrifice. Revenue was also effected by the change in the relationship with Royal Mail Group (RMG), with the cessation of face to face sales to their employees by all insurance providers and the winning of RMG as a very significant new client for Let's Connect.

During the year we saw a further increase in Insurance Premium Tax ('IPT'), from 9.5% to 10% in October, and experienced the full year impact of the prior year increase from 6% to 9.5%. We took the decision at the time not to pass the tax increase onto existing policy holders, which impacted top line revenue.

EBITDA

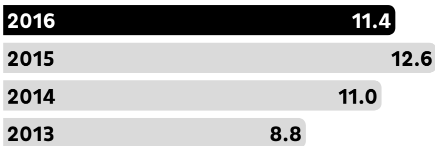
The Group believes EBITDA to be the most appropriate measure of performance, reflecting the underlying profitability of the business. As a result of the acquisitive nature of the Group, Profit before Tax has been impacted by one off items, both positive and negative over recent years and therefore does not reflect the underlying performance.

EBITDA was £11.4m (2015: £12.6m), reflecting the higher margin and resilience of the core insurance business and the decrease in revenue from the lower margin Let's Connect business. EBITDA was also impacted by a one off upfront cost of supporting the Sage contract, which we announced in November 2016.

With a strong platform of products and services now in place to support future growth, we focused during the year on building the capacity to manage the anticipated future growth of the business. The main focus of that activity was investment in IT infrastructure, most notably support for the Hapi technology platform. Other key areas of investment were in the Customer Relations Team, where we brought on additional capacity to ensure the quality of service is maintained, and the rebranding of the Group to reflect the development and future growth of the business.

EBITDA

£11.4m



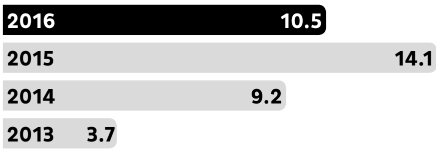
Continuing operations	2016 £000	*2015 £000
Profit before tax	10,521	14,098
LC – consideration write-back	–	(2,684)
LC – tax provision	(270)	(825)
LC – amortisation of intangible assets	330	330
Share-based payments	222	1,289
Depreciation	419	327
Amortisation (other)	174	97
EBITDA	11,396	12,632

* Restated to reflect discontinued operations

Chief Financial Officer's Statement continued

Profit Before Tax

£10.5m



Profit before tax

Profit before tax decreased from £14.1m in 2015 to £10.5m during the year. This included a £0.3m release (2015: £0.8m) of the tax provision which is held to cover potential tax liabilities arising from compensation schemes for the Directors of Let's Connect prior to acquisition. The benefit seen in 2015 of a £2.7m write-back of the Let's Connect contingent consideration was not repeated.

Profit after tax

The tax charge for the year was £1.5m (2015: £1.1m). The resulting profit after tax for the year from continuing operations was £9.0m (2015: £13.0m); post discontinued operations the profit after tax was £7.3m (2015: £9.3m).

Dividend

The Group continues to maintain a progressive dividend policy, paying a total dividend of 22.0p per share over the year (2015: 20.9p). The dividend is underpinned by the core insurance business, which has produced consistent solid results. Our first quarterly dividend for 2017 of 5.675p has already been announced and was paid on 27 March. If business continues as anticipated we expect to pay further dividends of the same amount in June, September and December 2017.

Balance sheet

The Group's balance sheet remains strong and we continue to carry no debt.

Our underwriting subsidiary, Personal Assurance Plc (PA), had a conservative Solvency ratio of 207% (unaudited), with a surplus over its Solvency Capital Requirement of £4.6m.

EPS

Basic EPS from continuing operations was 23.9p (2015: 30.8p). The calculation is detailed in note 14.

Segmental results

Continuing operations	2016 £000	*2015 £000
Total Revenue		
Insurance	31,209	30,505
Let's Connect	20,069	25,460
SME	–	–
Other	2,342	2,070
Total	53,620	58,035
EBITDA		
Insurance	8,911	9,480
Let's Connect	1,806	2,334
SME	(715)	–
Other	1,394	818
Total	11,396	12,632

Discontinued operations	2016 £000	*2015 £000
Revenue	2,024	1,524
EBITDA	(1,157)	(1,075)

* Restated to reflect discontinued operations

Insurance

The core insurance business produced another set of record results, with its fourth consecutive year of increased new sales growth. This saw revenues increase again by 2.3% to £31.2m (2015:£30.5m). This increase in revenue was despite the impact of the loss of the RMG contract and increase in IPT and reflects the ongoing interest in the Group's insurance products from both existing and new clients.

Death Benefit, which represents circa 20% of the insurance business, saw sales increase as well as an improvement in margin as the Group benefitted from the full year effect of underwriting that product. Hospital Plans also saw sales increase, due to yet another record year from our sales team.

The quality of the Group's insurance revenue remains strong; with an increasing split across an extensive and diversified list of clients. Furthermore, the client relationship is both at the corporate and individual employee level, supporting ongoing revenues despite any change that may take place at a corporate level.

Let's Connect

The Let's Connect business saw revenues decrease from £25.5m to £20.1m. As widely mentioned already, this was primarily driven by the impact of the HMRC review into Salary Sacrifice offset by the winning of the RMG contract late in the year. The impact of the HMRC review came at a time of year that is key for the Let's Connect business and as a result had a disproportional impact.

With the clarity provided by the Autumn Statement and the clear drivers for the Let's Connect product being factors outside salary sacrifice, we remain confident that the impact will be short term and we look forward to growing this business in the future.

SME

Looking to the future we expect SaaS sales to become an increasingly important part of the overall sales mix. Part of that increase will come through targeting the SME sector and the agreement we have put in place with Sage, but we are also seeing the appeal of this offer across our traditional larger client base. Costs relating to the initial set up of the Sage contract of £0.7m were incurred in 2016 reflecting our confidence in this proposition.

Other

Sales of Hapi as a subscription product increased substantially, with 69 clients now taking the service, representing an increase of 43 additional clients. Investment income and income from our financial services business, Berkeley Morgan Ltd, both declined; the transfer of our small book of PMI business to AXA is due to complete by June 2017.

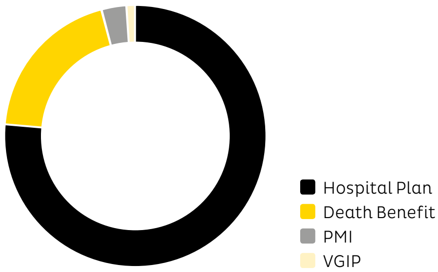
Discontinued operations – PG Mobile

As announced in July 2016, following a review of PG Mobile, the Group's Mobile Virtual Network Operator ("MVNO"), the Group concluded that the potential market had changed and was no longer receptive to the product offering and, as such, decided to close the business by the end of 2016. This was successfully completed by the end of the year and no further costs in respect of this business are anticipated for 2017.

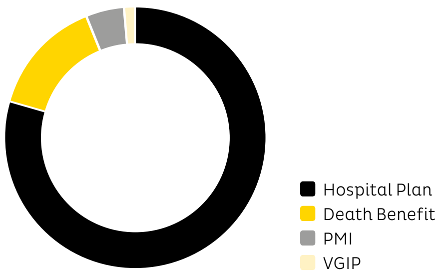
Insurance Revenue (£m)

2016	31.2
2015	30.5
2014	28.0
2013	26.0

Earned Premium 2016



Earned Premium 2015



Risk Management

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 identifiy, assess and appropriately mitigate the key risks to the Group achieving its objectives.

Risk vision and strategy

To achieve its objectives as well as sustainable profitability, the Group will pursue opportunities that give rise to risk. Therefore we have adopted an Enterprise Risk Management Framework as part of our decision-making and business management processes. 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 risk environment and, each year, after the approval of the Group's strategy and business plans.

Enterprise Risk Management Framework

We define the risks the Group is exposed to in a number of key risk categories:

Credit risk

The risk of loss or of adverse change in the Group's financial situation, resulting from fluctuations in the credit standing of counterparties or debtors it is exposed to.

Market risk

The risk of loss or of adverse change in the Group's financial situation arising, directly or indirectly, from fluctuations in the level and volatility of market prices of assets or income from assets, and financial instruments such as interest rates and equity prices.

Insurance risk

The risk arising from fluctuations in the timing, frequency and severity of insured events or claims settlements, relative to expectations at the time of underwriting.

Liquidity risk

The risk that, though solvent, the Group has insufficient financial resources, or cannot realise investments and other assets, to meet its obligations as they fall due, or can do so only at excessive cost.

Operational risk (including regulatory risk)

The risk of loss arising from failed or inadequate internal processes, or from personnel and systems, or from external events.

The Board has defined risk appetite statements for each of these categories to describe the level of risk the Group is willing to take to meet the strategic objectives.

The Enterprise Risk Management Framework, shown below, comprises 'Three Lines of Defence' to manage risk across the Group:

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, known 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 Group, 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 Enterprise Risk Management Framework

Risk governance

To support the Board and provide risk governance, the Risk and Compliance Committee considers all risk-related matters for the Group. The Committee comprises four Non Executive Directors, the Chief Executive and the Chief Financial Officer with the Head of Risk in attendance.

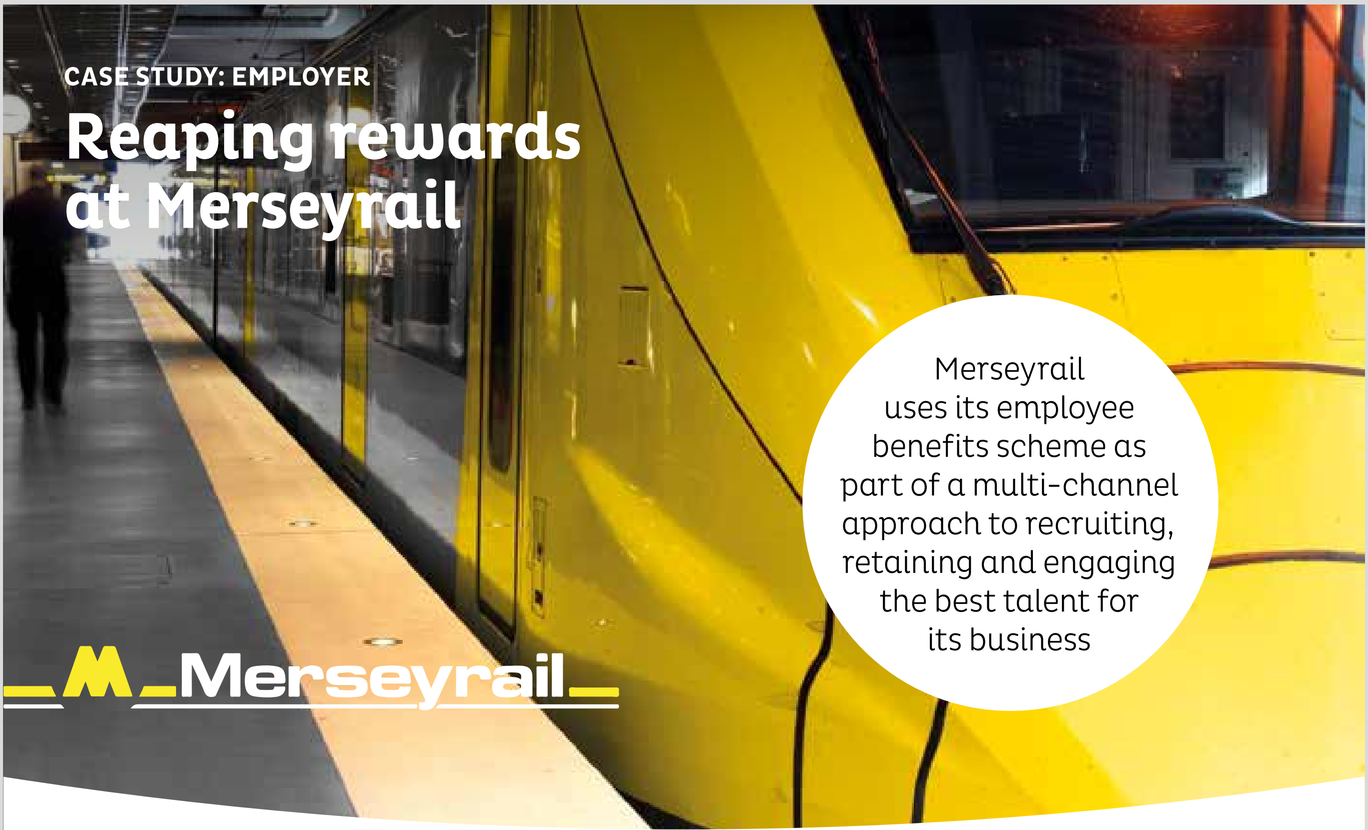
The Head of Risk also compiles and circulates a formal report each month that is considered at every Board meeting, covering all areas of risk management.

Key risks and potential impact	Mitigation	
Changes to salary sacrifice rules The UK Government announced a change to the rules regarding salary sacrifice arrangements. While we firmly believe the results of the review have little impact on the attractiveness of our schemes it created an air of uncertainty, which resulted in Clients deferring their commitments to renew contracts. We believe the impact is short term although it came at a key point in the sales cycle and had a disproportionate impact on the sales figures.	A new product offering has been put together for Let's Connect which is easier for both the employee and employer to understand, with the focus of the changes being around product retention and final payments, to ensure alignment with the latest legislation.	→
Insurance Premium Tax (IPT) changes Insurance Premium Tax now stands at 10% and it will rise to 12% in June 2017. This is a significant rise from 6% as recently as October 2015. There is still the potential for it to increase, potentially to 20%.	A premium price rise was implemented in January 2017 on new business, but the cost of the increase as it relates to the existing book of business is being absorbed. Personal Group is updating many of its processes which will enable it to implement a price increase to the existing book of business if deemed necessary.	→
Cyber crime Personal Group collects significant amounts of personally identifiable and sensitive information about individuals to enable products and services to be offered to the employees of its Clients. The risk profile of cyber crime and of data security continues to increase and no business is immune to the current threats. Personal Group is very aware that any breach could have a material impact on its business, to its Clients and to their employees.	The security of information is always high on the agenda and policies and procedures are constantly evolving to ensure they remain current and practical. Personal Group's strategy for keeping information safe and secure has supported the Hapi platform and its attractiveness to Clients. External consultants have also been engaged.	→
Brexit As the UK's Government prepares to invoke Article 50 of the Treaty on the European Union the impact on the economy is uncertain. A number of the Group's Clients employ workers from overseas, including from the EU. If the number of EU workers decreases as a direct result of Brexit, or because of the uncertainty about their long term status in the UK, the Group could lose some of its current customers.	The close relationship between the Group and its Clients provides early information about the challenges they face. Any changes to the composition of the workforce facilitates the opportunity to introduce the product range to new employees and therefore to replace lost business.	↑
Inflationary pressures Linked to the uncertainties surrounding the impact of Brexit is the expectation that the UK economy will start to see inflationary pressures. The Group expects the impact to be felt by all Clients and that providers of care homes, where it has a significant presence, may be particularly hit. A consequence could be the consolidation of providers and therefore changes to the client-base.	As businesses look to manage their overheads the provision of a flexible employee benefits scheme can carry a significant financial value. The Group's range of schemes was expanded in 2016 to include an offering specifically tailored for small and medium sized enterprises. It supplements the range of schemes already available to larger firms. The Group believes it is well placed to serve its existing Clients and new Clients, and to diversify and expand into the SME market.	↑

→ no change ↑ increased risk

CASE STUDY: EMPLOYER

Reaping rewards at Merseyrail



Merseyrail uses its employee benefits scheme as part of a multi-channel approach to recruiting, retaining and engaging the best talent for its business

Merseyrail, part of the Abellio Group, employ around 1,300 staff. The Company believes that keeping its employees happy and engaged, reduces staff turnover and creates a significant financial return.

Andrew Parry, Head of Engagement and Reward at Merseyrail, said: "Although we do it solely for the benefit of our employees, the first thing we check is, are our employees achieving savings that justify the costs of running the scheme, and we absolutely outstrip that."

The Employee Engagement App

Merseyrail uses its employee benefits scheme as part of a multi-channel approach to recruiting, retaining and engaging the best talent for its business. Employees use the Hapi App to access up-to-the-minute company news and announcements, access company benefits, learn about salary sacrifice, rewards and recognition, health information, employee handbook and more. Their staff discount scheme, 'Benefits for you', as well as giving employees access to offers including cinema vouchers, holiday discounts and reloadable cards, is also used as a way of driving employee engagement and increasing discretionary effort.

Andrew said: "The only asset we have is our employees. If we want to reward our employees and make them feel wanted, then we try and give them the best offer we can, be it salary, benefits and everything else that comes with that, to make them feel that the business values them. The 'Benefits for you' scheme is an additional piece that helps us towards that goal."

Merseyrail has seen more than 90% of employees register for the scheme since its launch. While the benefits are an important talent management tool for the organisation, Merseyrail is aware that it also has to be beneficial to the business.

Technology Salary Sacrifice

Back in 2014, Merseyrail took the decision to introduce Let's Connect to their benefits offering. The company had anticipated around 12% of staff would participate in the first window, but were overwhelmed with a 27% response rate in the first two weeks of the roll out. By using more technology at home Merseyrail expects staff to become more proficient at using digital equipment in the workplace. "We want to improve their ability to communicate with one another. The best way to do that is via new technology, social media and smart phone technology," Andrew said.

Merseyrails investment in their employee services is reflected in their employee engagement scores and staff retention rates. Merseyrail's most recent engagement score rose from 665 to 705 – its highest ever score and the highest in the rail industry at that time. Further analysis of the scores showed the reward aspect of its engagement model had the greatest improvement, with reward increasing by 17% from the previous year, with the score improving from 107 to 128 points.

Corporate Social Responsibility

£250k
pledged to the Memusi Foundation over 7 years

Personal Group is driven by a passion to make people happy. And that goes beyond our day-to-day work.

We truly believe that when people feel like they make a difference, they do. This goes for our customer's employees as well as our own. Within Personal Group we empower our employees to make a difference in all parts of their life – at work, in their local communities and across the world.

Our CSR programme offers staff from across all parts of the business, from the Senior Management Team to our customer service team to our warehouse managers, a unique opportunity to work together, to get to know the wider team and themselves often in a completely unique setting. Our employee-led charity committee plan, promote and execute each of our CSR activities. As a result, what we've seen from each member of staff as they return from the school we are helping to build in Shompole, Kenya, or from a local fundraising event in Milton Keynes, is a much stronger bond and a greater level of commitment, both to their teams and the Company as a whole.

When it comes to CSR, we do more than write a cheque. We support charities at home and in Africa, giving our staff the opportunity to get involved and make a real difference.

MEMUSI FOUNDATION

£42k
donated to employee recommended charities via Annual nomination & charity matching in the last 5 years

£500k
total donations in the last 5 years

Corporate Governance

Board of Directors

Mark Winlow
Non Executive Chairman

Mark joined the Board of Personal Group as a Non Executive Director in October 2013, becoming Chairman in May 2016. His other roles include Chairman of insurer Ageas and broker RFIB, as well as Audit and Risk chair at reinsurer TransRe, life insurer AIG Life and Starling Bank. Mark has over 30 years of experience in financial services in the UK and internationally, including time at Zurich Financial Services where he was Managing Director of Zurich's UK consumer business. Mark has also been a partner in audit and advisory firms KPMG and EY.

Mark W Scanlon
Chief Executive

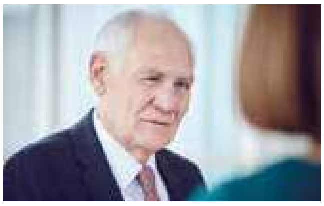
Mark was appointed Group Chief Executive in December 2011. For four years prior to joining Personal Group, he was Managing Director and latterly Chief Executive at FMG Support, an outsourced service provider to the fleet industry. Mark has spent most of his career in growing businesses. Having gained a degree in electronics from the University of Limerick in 1990, he spent time working for Schlumberger Industries, Viasystems, BAE Systems and Dyson, where he established and then led their Commercial Division.

Mike I Dugdale
Chief Financial Officer

Mike was appointed Chief Financial Officer in January 2013. Prior to joining Personal Group he was Finance Director of Virgin Care Limited. Mike qualified as a Chartered Accountant with Ernst & Whinney in 1983. He spent eight years with Reebok in the UK and Canada in a variety of roles, latterly as international Finance Director for everything outside of North America. In 1996 he joined Guardian Royal Exchange Plc as Group Financial Controller and in 2001 joined BUPA, initially as Group Financial Controller and subsequently as Finance Director of its UK insurance business.

Sarah Mace
Company Secretary

Sarah joined Personal Group in January 2014 as Group Financial Controller and Company Secretary. Prior to joining Personal Group, Sarah was Head of Finance for private-equity-backed Chicago Leisure Limited. Having gained a degree in mathematics from Oxford University, she qualified as a Certified Accountant in 1992. The early part of Sarah's career was spent in life assurance and pensions, followed by various roles in Cable & Wireless Communications.



Ken W Rooney
Non Executive Deputy Chairman
Chair of the Risk and Compliance Committee

Ken has been part of Personal Group for 17 years, joining the Company in 1999. In 2003, he succeeded founder Christopher Johnston to become Chief Executive of the Group, a role he carried out for six years and again for an interim period before the appointment of Mark Scanlon. He retired from his Executive position in July 2015, but remains within the Group as a Non Executive Director, and Deputy Chairman and is currently Chair of the Risk and Compliance Committee. His 40 years' experience in financial services includes running his own company until 1998.

Deborah Rees
Non Executive Director
Chair of Remuneration Committee

Deborah joined the Board of Personal Group as a Non Executive Director in September 2015. She is CEO of Innecto Reward Consulting, a specialist pay-and-reward consultancy firm, where she specialises in working with high growth businesses. Deborah uses her specialist knowledge to chair the Remuneration Committee, and her detailed background in pay and benefits provides commercial insight into our key customer offering Deborah started her career with Marks and Spencer, worked with Nationwide Building Society as Head of Reward and then spent a couple of years as a Senior Consultant with Towers Perrin, before establishing Innecto 15 years ago.

Robert Head
Non Executive Director
Chair of the Audit Committee

Bob joined the Board of Personal Group as a Non Executive Director in November 2016 and is currently Chair of the Audit Committee. His other roles include Non Executive Director at Fair FX where he is also chairs the Audit Committee. Bob is a Chartered Accountant as well as an FCIB and ACII and has over 30 years of experience in financial services in the UK and internationally. He was the co-founder of egg plc, the first CEO of smile.co.uk, a Director of Prudential's International Division and has held several key roles working for Old Mutual (including CEO of African businesses and Skandia group). His most recent full time job was Special Adviser to the Commissioner of the South African Revenue Service.

- Audit Committee
- Remuneration Committee
- Risk and Compliance Committee

Senior Management Team

1 Mike Dugdale
Chief Financial Officer

See biography left.

2 Andrew Lothian
Managing Director Personal Group Benefits

Andy became Personal Group Benefits' Managing Director in 2010 and currently manages the insurance sales growth strategy. Andy joined Personal Group in 1998 as a Group Account Executive and steadily progressed through the Company. He stepped up to the Development Manager role in 2001 and then to Regional Manager, overseeing two record-breaking years of Personal Group insurance sales. He was promoted further in 2004 to National Sales Manager and enjoyed a further period of record new business growth.

3 Ashley Doody
Chief Information Officer

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

4 David Walker
Chief Commercial Officer

David joined Personal Group in July 2012. As Group Chief Commercial Officer he oversees all client development, marketing, supply chain, business development, and product design and structure activity for the Group. In addition to his Commercial role, David was Managing Director of Let's Connect from January 2015 to May 2016. Prior to joining Personal Group, David was Managing Director of Dyson's B2B operation in the USA. David also previously held roles within Corporate Banking at Barclays and was Head of Commercial Sales at BSkyB.

5 Rebekah Tapping
HR Director

Rebekah was appointed as Group HR Director in January 2015. Her previous role was for Huntingdon Life Sciences where she developed their HR function following an acquisition that had doubled their size and made them a global business. She started her career in operational management before progressing through various HR roles in the retail and public sectors. Her first HR Director role was in B2B telecoms for Daisy Group, a highly acquisitive, rapidly growing business.

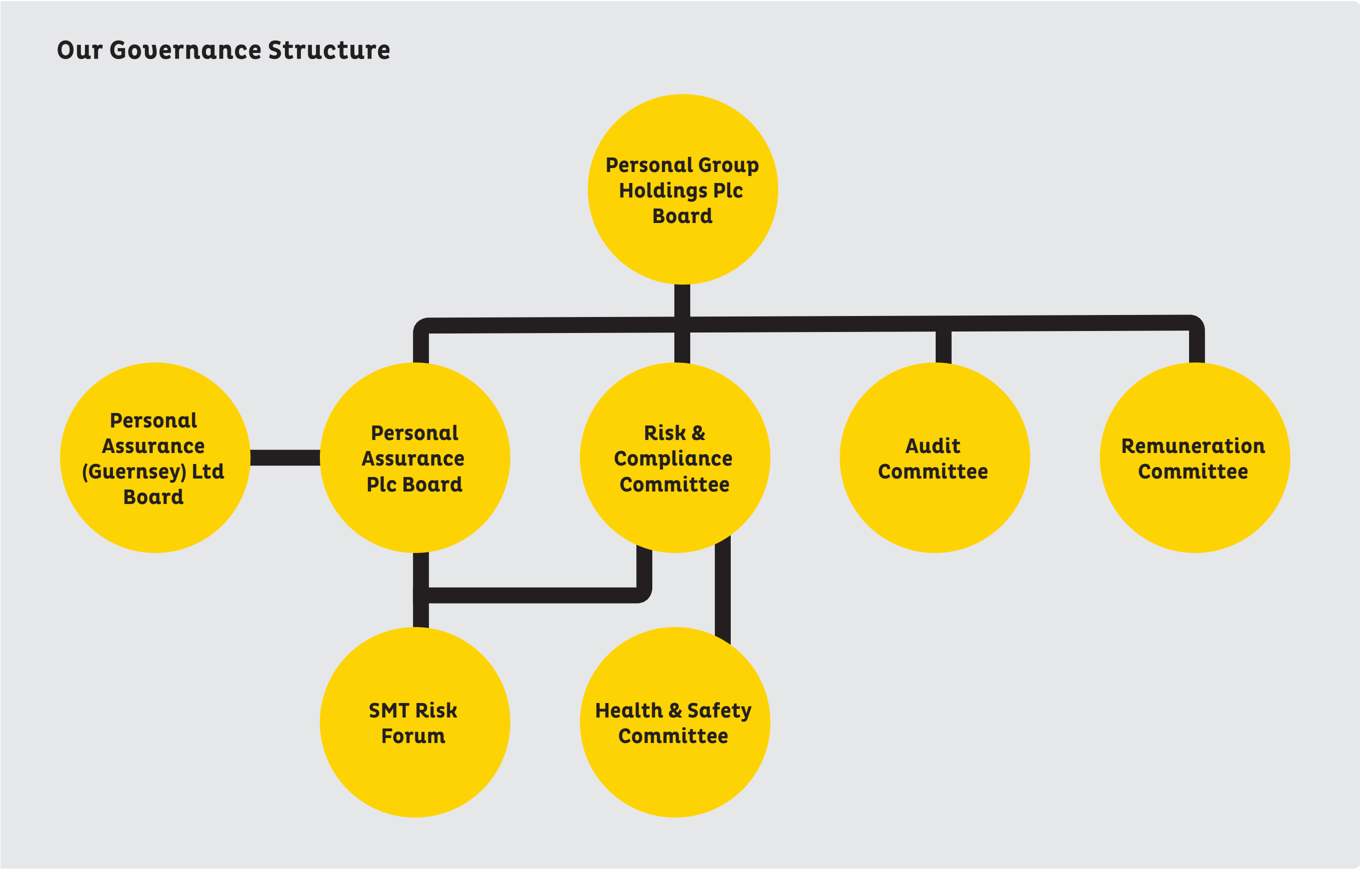
6 Mark Scanlon
Chief Executive

See biography left.

7 Neil Stride
Managing Director Let's Connect

Neil joined Personal Group as Managing Director, Let's Connect in May 2016. Prior to joining he served nine years at Vodafone Plc, holding several General Management roles, most recently, as Commercial Director of the Enterprise Business as well as MD roles of acquired companies, including Central Telecom, Aspective Ltd and the M2M business. He also created the transformational consulting programme entitled Better Ways of Working, which focused on GB Plc and transforming the productivity of how Britain Worked. Neil also previously held several senior European and Global roles at Nortel Networks Plc and roles at Periphonics Plc in sales, operations and product marketing.

Corporate Governance



General principles

The Board of Personal Group Holdings Plc supports the principles of, and is committed to, achieving high standards of corporate governance. As an AIM-listed company, Personal Group does not need to comply with the UK Corporate Governance Code 2014 (the Code) but nevertheless looks to do so. Personal Group Holdings is subject to the UK City Code on Takeovers and Mergers.

Board of Directors

The Board consists of two Executive and four Non Executive Directors. It meets regularly and is responsible for Group strategy and development, and the efficient management of its resources.

Before meetings, members are supplied in good time with information on financial, business and corporate matters, enabling them to fulfil their duties. All Directors have access to the advice and services of the Company Secretary and are given appropriate training when required. There are also procedures in place for the Non Executive Directors to obtain independent legal or other professional advice at the Group's expense.

The Group has a formal schedule of matters reserved for decision by the Board. In addition, the Board has committees with written terms of reference, to fulfil specific functions as set out below. The matters reserved for the Board include the appointment of Directors and Senior Executives, meaning it does not consider a separate Nominations Committee necessary.

Audit Committee

The Audit Committee comprises four Non Executive Directors and is chaired by Bob Head. It meets at least twice a year, with the Chief Executive, the Chief Financial Officer and auditor usually in attendance. Its key responsibilities are to review accounting matters, financial reporting and internal controls (including the internal audit function), together with the interim and annual results announcements. It also agrees the scope of services provided by the internal audit function.

Remuneration Committee

The Remuneration Committee comprises four Non Executive Directors with the Chief Executive in attendance, and is chaired by Deborah Rees. It meets when required, but not less than once a year. Its key responsibilities are to review and make recommendations to the Board for the terms and conditions of employment of the Executive Directors (including performance-related bonuses, share options and incentive plans), and to set the framework for the remuneration of other Senior Executives.

The remuneration of the Non Executive Directors is fixed by the Board as a whole, but Non Executive Directors do not participate in discussions about their own remuneration.

It also reviews appropriate remuneration of front line sales in the insurance business.

Risk and Compliance Committee

The Risk and Compliance Committee (RCC) comprises four Non Executive Directors, the Chief Executive, and Chief Financial Officer with the Head of Risk normally in attendance. It is chaired by Ken Rooney. It meets as required, but not less than four times a year. It is responsible for overseeing the risk management and compliance function of the Group, and reports to the Board on a range of compliance and operational activities of the Group as a whole.

The Committee has also considered, challenged and reviewed the Own Risk and Solvency Assessment for the Group's general insurance underwriter.

Auditor independence

The Audit Committee reviews the nature and extent of non-audit services supplied by the external auditor to the Group, looking to balance objectivity and value for money. In determining the policy, the Audit Committee takes into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, and does not agree to the auditor providing a service if, having regard to the ethical guidance, the result is that:

- The external auditor audits its own firm's work.
- The external auditor makes management decisions for the Group.
- A mutuality of interests is created.
- The external auditor is put in the role of advocate for the Group.

Internal control

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

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

More detail on these processes can be found on page 28. During the year, RSM continued to provide an internal audit function that is risk-based and focused on key areas agreed with the Board.

Relationship with shareholders

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

Remuneration Report

The Directors present the remuneration report for the year ended 31 December 2016.

Composition of the remuneration committee

The remuneration committee comprises the four Non Executive Directors, with the Chief Executive in attendance, and is chaired by Deborah Rees. The Remuneration Committee operates within defined terms of reference. It met three times this year.

The policy of the Group is to set levels of remuneration to attract, retain and motivate Executive Directors and key senior staff. The packages are designed to be competitive and geared towards performance achievement. We have considered comparators of senior employees of similar sized public companies in related sectors when establishing these levels. It is the Board's policy to align the interests of our business leaders with those of our shareholders by linking long-term performance of the business with long-term share-based incentive plans (LTIPs 1 and 2). We also offer an annual bonus based on the achievement of key performance metrics relating to the main operational focus of the year, including targets for revenue and profits.

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 Board as a whole 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.

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.

Membership of Board and Directors' interests

The membership of the Board at the end of the year is set out below. All Directors served throughout the year with the exception of Bob Head who was appointed on 17 November 2016 and Chris Curling who retired on 5 May 2016.

The interests of the Directors and their families (including transactions committed to before the year end and shares held in the all employee share ownership plan) in the shares of the Company as at 1 January 2016 or date of appointment if later, and 31 December 2016, were as follows:

	Ordinary shares of 5p each in Personal Group Holdings Plc	
	At 31 December 2016	**At 31 December 2015**
Mark Winlow (Non Executive Chairman)	–	–
Mark Scanlon (Group Chief Executive)	131,741	27,799
Mike Dugdale (Chief Financial Officer)	58,907	16,864
Ken Rooney (Non Executive)	11,948	1,811
Deborah Rees (Non Executive)	–	–
Bob Head (Non Executive)	–	–

At 31 December 2016 the mid-market closing share price was 370.00p per share.

Directors' remuneration

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

	Salary and fees 2016 £'000	Share-based payment expense 2016 £'000	Pension contributions 2016 £'000	Total 2016 £'000	Total 2015 £'000
Chris Curling***	24	–	1	25	75
Mark Scanlon	318	–	19	337	2,132
Mike Dugdale	211	192	–	403	298
Ken Rooney*	37	–	–	37	87
Mark Winlow*	61	–	–	61	37
Deborah Rees*	37	–	–	37	10
Bob Head**	5	–	–	5	–
Total	693	192	20	905	2,639

*Non Executive Director fees (Ken Rooney's remuneration includes Executive fees from 1 January 2015 to 30 June 2015 and Non Executive fees from 1 July 2015).

** Appointed 17 November 2016.

*** Retired 5 May 2016

Directors' share options

At 31 December 2016 options outstanding were as follows:

	Number of shares	Exercise price pence per share	Earliest exercisable date
Ken Rooney	2,882	415.00	31 October 2016
Mark Scanlon	6,166	486.50	3 April 2017
Mike Dugdale	6,166	486.50	3 April 2017

Long Term Incentive Plans

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. The awards are satisfied in shares, or at the discretion of the remuneration committee wholly or partly in cash in accordance with the Plan rules. It is the Remuneration Committee's intention to settle these awards in shares.

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

Remuneration Report continued

The maximum amount payable by the Company over five years was originally £10m with the only participating Board members being Mark Scanlon and Mike Dugdale who were entitled to a maximum of 5% (£5m) and 1% (£1m) respectively of the increase in market capitalisation. The start date for Mark Scanlon was 25 November 2011 and for Mike Dugdale was 2 January 2013 when the market capitalisation was £81.55m and £96.96m respectively.

As LTIP1 started to mature at the end of 2016, in July 2015 a further scheme (LTIP2) was put in place to take effect from 30 July 2015 (see below). In conjunction with the introduction of this scheme LTIP1 was amended to:

- Include a maximum cap on market capitalisation of £183.7m. This had the effect of reducing the maximum amount payable by the Company over the five years to £8.3m and the maximum amounts payable to Mark Scanlon and Mike Dugdale to £5.0m and £0.9m respectively.
- Grant options rather than shares at each vesting date such that PAYE and NI liabilities will only arise at the date of the exercise of the option.

A further amendment to the scheme was made in November 2016 when the duration was extended from 5 years to 6 years for Mark Scanlon and another senior employee who had enterded the scheme in November 2011.

During 2016, 425,124 new shares were issued under LTIP1 of which 35,771 were awarded to Mike Dugdale and 305,793 were issued to Mark Scanlon in respect of options issued in 2015. The remaining shares were issued to other senior employees. No LTIP1 share options were outstanding at 31 December 2016.

LTIP2

As with LTIP1, LTIP2 is 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 is 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 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
Mark Scanlon	20,000
Mike Dugdale	4,000
Other senior employees	12,000
Total	36,000

A further 4,000 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 4.2%. of the enlarged issued share capital of the Company.

The maximum amount payable by the Company over five years is £15m with the only participating Board members being Mark Scanlon and Mike Dugdale who are entitled to a maximum of £8.3m and £1.7m respectively based on their ESS holdings above.

Group employee breakdown by gender as at 31 December 2016

	Male*	Female
Directors	9	2
Managers	18	20
Employees	86	83
	113	105

* Excludes the two Directors who are not employees of the Group

Report of the Directors

The Directors present their report together with the audited financial statements for the year ended 31 December 2016.

Principal activities

The Group is principally engaged in transacting employee services, including insurance 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 24 to 27).

The profit from continuing operations for the year is £10,521,000 (2015: £14,098,000) before taxation of £1,479,000 (2015: £1,148,000). During the year ordinary dividends of £6,697,000 (2015: £6,325,000) 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 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 or any of its subsidiaries made any political donations or incurred any political expenditure during the year.

Charitable donations

Donations to charitable organisations amounted to £100,000 (2015: £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 note 3 to the consolidated financial statements.

Capital requirements

See note 4 to the consolidated financial statements.

Corporate governance

The Board of Personal Group Holdings Plc supports the principles, and is committed to achieving high standards, of corporate governance. As an AIM listed company it is not required to comply with the UK Corporate Governance Code 2014 ("the Code") but notwithstanding this seeks to comply with those provisions which are most appropriate given the size of the Group and the nature of its operations. The Board's report on the Group's corporate governance procedures is set out on pages 36 and 37.

Disclosure of information to auditor

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

Auditor

KPMG LLP have expressed willingness to continue in office. In accordance with section 489 (4) of the Companies Act 2006 a resolution to reappoint KPMG LLP will be proposed at the Annual General Meeting to be held on Wednesday 26 April 2017.

By Order of the Board

M I Dugdale
Director
27 March 2017

Statement of Directors' Responsibilities

in respect of the strategic report, Directors' report and the financial statements

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Report of the Independent Auditor

to the members of Personal Group Holdings Plc

We have audited the financial statements of Personal Group Holdings Plc for the year ended 31 December 2016 set out on pages 46 to 91. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 42, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

Jessica Katsouris
Senior Statutory Auditor for and on behalf of KPMG LLP
Statutory Auditor, Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE

27 March 2017

Financial Statements

Consolidated Income Statement

	Note	2016 £'000	2015 £'000
Continuing Operations			
Gross premiums written		31,393	29,463
Outward reinsurance premiums		(310)	(259)
Change in unearned premiums		160	204
Change in reinsurers' share of unearned premiums		(20)	(38)
Earned premiums net of reinsurance	5	**31,223**	**29,370**
Other insurance related income	5	555	1,778
IT Salary Sacrifice income	5	20,069	25,460
Platform Subscriptions and Other income	5	1,621	1,243
Investment property	5	59	63
Investment income	7	93	121
Revenue		**53,620**	**58,035**
Claims incurred	8	(7,318)	(7,451)
Insurance operating expenses	9	(12,689)	(10,834)
Other insurance related expenses		(712)	(1,577)
IT Salary Sacrifice expenses	5	(18,281)	(23,142)
Platform Subscriptions and Other expenses	5	(2,795)	(2,682)
SME operating expenses	5	(741)	–
Share-based payment expenses	24	(222)	(1,289)
Charitable donations		(100)	(100)
Amortisation of intangible assets	17	(505)	(426)
Expenses		**(43,363)**	**(47,501)**
Operating profit from continuing operations		**10,257**	**10,534**
Contingent consideration write back	37	–	2,684
Release of provisions	26	270	825
Share of (loss) / profit of equity-accounted investee net of tax	35	(6)	55
Profit before tax from continuing operations	11	**10,521**	**14,098**
Tax	12	(1,479)	(1,148)
Profit for the year from continuing operations	13	**9,042**	**12,950**
Loss from discontinued operation	6	(1,758)	(3,649)
Profit		**7,284**	**9,301**
The profit for the year is attributable to equity holders of Personal Group Holdings Plc			
Earnings per share		**Pence**	**Pence**
Basic	14	23.9	30.8
Diluted	14	23.4	28.5
Earnings per share – continuing operations		**Pence**	**Pence**
Basic	6, 14	29.7	42.9
Diluted	6, 14	29.0	39.7

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

Consolidated Statement of Comprehensive Income

	2016 £'000	2015 £'000
Profit for the year	7,284	9,301
Items that may be reclassified subsequently to the income statement		
Available for sale financial assets:		
Valuation changes taken to equity	(6)	62
Reclassification of (gains) and losses on available for sale financial assets on derecognition	24	(13)
Income tax on unrealised valuation changes taken to equity	(8)	(5)
Total comprehensive income for the year	**7,294**	**9,345**

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

Consolidated Balance Sheet
at 31 December 2016

	Note	2016 £'000	2015 £'000
ASSETS			
Non-current assets			
Goodwill	16	10,575	10,575
Intangible assets	17	1,478	1,360
Property, plant and equipment	18	5,096	5,007
Investment property	19	1,070	1,070
Equity-accounted investee	35	639	646
Financial assets	20	6,137	9,182
Deferred tax asset	25	3	781
		24,998	28,621
Current assets			
Trade and other receivables	21	20,200	21,975
Reinsurance assets	22	310	307
Inventories		428	390
Cash and cash equivalents	23	7,206	5,591
		28,144	28,263
Total assets		**53,142**	**56,884**

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

	Note	2016 £'000	2015 £'000
EQUITY			
Equity attributable to equity holders of Personal Group Holdings Plc			
Share capital	24	1,540	1,518
Capital redemption reserve		24	24
Amounts recognised directly into equity			
relating to non-current assets held for sale		30	20
Other reserve		(330)	(386)
Profit and loss reserve		31,061	30,687
Total equity		**32,325**	**31,863**
LIABILITIES			
Current liabilities			
Provisions	26	1,912	2,190
Trade and other payables	27	15,426	19,408
Insurance contract liabilities	28	3,239	3,140
Current tax liabilities		240	283
		20,817	25,021
Total liabilities		**20,817**	**25,021**
Total equity and liabilities		**53,142**	**56,884**

The financial statements were approved by the board on 27 March 2017.

M I Dugdale **M W Scanlon**

Company number: 3194991

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

Company Balance Sheet
at 31 December 2016

	Note	2016 £'000	2015 £'000
ASSETS			
Non-current assets			
Investment in subsidiary undertakings	29	24,780	24,599
Investment property	19	130	130
Financial assets	20	100	100
		25,010	24,829
Current assets			
Trade and other receivables	21	2,177	5,419
Cash and cash equivalents	23	157	82
		2,334	5,501
Total assets		27,344	30,330
EQUITY			
Equity attributable to equity holders of Personal Group Holdings Plc			
Share capital	24	1,540	1,518
Capital redemption reserve		24	24
Other reserve		(330)	(386)
Profit and loss reserve		6,258	8,490
Total equity		7,492	9,646
LIABILITIES			
Current liabilities			
Trade and other payables	27	19,852	20,684
Total liabilities		19,852	20,684
Total equity and liabilities		27,344	30,330

The financial statements were approved by the Board on 27 March 2017.

M I Dugdale **M W Scanlon**

Company number: 3194991

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

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 2016	1,518	24	20	(386)	30,687	31,863
Dividends	–	–	–	–	(6,697)	(6,697)
Employee share-based compensation	–	–	–	–	213	213
Proceeds of AESOP* share sales	–	–	–	–	103	103
Cost of AESOP shares sold	–	–	–	95	(95)	–
Cost of AESOP shares purchased	–	–	–	(39)	–	(39)
Nominal value of LTIP** shares issued	22	–	–	–	(22)	–
Transactions with owners	22	–	–	56	(6,498)	(6,420)
Profit for the year	–	–	–	–	7,284	7,284
Deferred tax reserve movement	–	–	–	–	(412)	(412)
Other comprehensive income						
Available for sale financial assets:						
Change in fair value of assets classified as held for sale	–	–	(6)	–	–	(6)
Transfer to income statement	–	–	24	–	–	24
Current tax on unrealised valuation changes taken to equity	–	–	(8)	–	–	(8)
Total comprehensive income for the year	–	–	10	–	6,872	6,882
Balance as at 31 December 2016	1,540	24	30	(330)	31,061	32,325

*All Employee Share Option Plan (AESOP)

**Long Term Incentive Plan (LTIP)

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2015

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 2015	1,516	24	(24)	(548)	26,814	27,782
Dividends	–	–	–	–	(6,325)	(6,325)
Employee share-based compensation	–	–	–	–	988	988
Proceeds of AESOP* share sales	–	–	–	–	195	195
Cost of AESOP shares sold	–	–	–	287	(287)	–
Cost of AESOP shares purchased	–	–	–	(125)	–	(125)
Nominal value of LTIP** shares issued	2	–	–	–	(2)	–
Transactions with owners	2	–	–	162	(5,431)	(5,267)
Profit for the year	–	–	–	–	9,301	9,301
Deferred tax reserve movement	–	–	–	–	3	3
Other comprehensive income						
Available for sale financial assets:						
Change in fair value of assets classified as held for sale	–	–	62	–	–	62
Transfer to income statement	–	–	(13)	–	–	(13)
Current tax on unrealised valuation changes taken to equity	–	–	(5)	–	–	(5)
Total comprehensive income for the year	–	–	44	–	9,304	9,348
Balance as at 31 December 2015	1,518	24	20	(386)	30,687	31,863

*All Employee Share Option Plan (AESOP)

**Long Term Incentive Plan (LTIP)

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

Company Statement of Changes in Equity

for the year ended 31 December 2016

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 2016	1,518	24	(386)	8,490	9,646
Dividends paid	–	–	–	(6,697)	(6,697)
Employee share-based compensation	–	–	–	181	181
Proceeds of AESOP share sales	–	–	–	103	103
Cost of AESOP shares sold	–	–	95	(95)	–
Cost of AESOP shares purchased	–	–	(39)	–	(39)
Nominal value of LTIP shares issued	22	–	–	(22)	–
Transactions with owners	22	–	56	(6,530)	(6,452)
Profit for the year	–	–	–	4,298	4,298
Balance as at 31 December 2016	1,540	24	(330)	6,258	7,492

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 2015

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 2015	1,516	24	(548)	11,609	12,601
Dividends paid	–	–	–	(6,325)	(6,325)
Employee share-based compensation	–	–	–	948	948
Proceeds of AESOP share sales	–	–	–	195	195
Cost of AESOP shares sold	–	–	287	(287)	–
Cost of AESOP shares purchased	–	–	(125)	–	(125)
Nominal value of LTIP shares issued	2	–	–	(2)	–
Transactions with owners	2	–	162	(5,471)	(5,307)
Profit for the year	–	–	–	2,352	2,352
Balance as at 31 December 2015	1,518	24	(386)	8,490	9,646

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

Company and Consolidated Cash Flow Statement

	Note	2016 £'000	2015 £'000
Net cash from operating activities (see next page)		6,395	7,151
Investing activities			
Additions to property, plant and equipment	18	(828)	(669)
Additions to intangible assets	17	(624)	(318)
Proceeds from disposal of property plant and equipment		231	80
Purchase of financial assets		(139)	(97)
Proceeds from disposal of financial assets		3,177	2,540
Interest received	7	53	92
Dividends received	7	20	24
Net cash used in investing activities		1,890	1,652
Acquisition and disposal activities			
Payment to acquire PG Mobile	37	-	(1,390)
Net cash from acquisition and disposal activities		-	(1,390)
Financing activities			
Purchase of own shares by the AESOP		(39)	(125)
Proceeds from disposal of own shares by the AESOP		66	195
Interest paid		-	-
Dividends paid	15	(6,697)	(6,325)
Net cash used in financing activities		(6,670)	(6,255)
Net change in cash and cash equivalents		1,615	1,158
Cash and cash equivalents, beginning of year	23	5,591	4,433
Cash and cash equivalents, end of year	23	7,206	5,591

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

Company and Consolidated Cash Flow Statement continued

	Note	2016 £'000	2015 £'000
Operating activities			
Profit after tax		7,284	9,301
Adjustments for			
Depreciation	18	448	349
Intangible impairment	17	-	942
Goodwill impairment	16	-	45
Amortisation of intangible assets	17	505	796
Profit on disposal of property, plant and equipment		61	(11)
Realised net investment losses	7	17	6
Interest received	7	(53)	(92)
Dividends received	7	(20)	(24)
Interest paid		-	-
Share of loss / (profit) of equity-accounted investee, net of tax	35	6	(55)
Share-based payment expenses	24	222	1,289
Taxation expense recognised in income statement	12	1,479	1,148
Changes in working capital			
Trade and other receivables		1,772	(5,078)
Trade and other payables		(4,171)	220
Inventories		(38)	288
Taxes paid		(1,117)	(1,973)
Net cash from operating activities		6,395	7,151

The parent company has no cash or cash equivalents and there has been no movement in cash or cash equivalents in the current or the prior year. Personal Group Trustees, the employee based trust, has a cash balance which has increased by £75,000 to £157,000 in the year to 31 December 2016 (decreased by £14,000 to £82,000 in the year to 31 December 2015) as a result of the purchase and sale of AESOP shares.

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

Notes to the Financial Statements

1 General information

The principal activities of Personal Group Holdings Plc ('the Company') and subsidiaries (together 'the Group') include transacting short term accident and health insurance, and providing employee benefits related business 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 27 March 2017.

2 Accounting policies

These financial statements of Personal Group Holdings Plc are for the year ended 31 December 2016. 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 2015.

2.1 Basis of preparation

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

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

Such knowledge has been used to determine the following:

- goodwill valuation (note 16);
- intangible assets valuation (note 17);
- establishing the value of claims outstanding (note 28);
- long term incentive plan (note 24); and
- presentation and carrying value of certain property as investment property (note 2.13 and note 19).

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

Going concern

The financial statements are prepared on a going concern basis. In considering going concern, the Directors have reviewed the Group's and Company's future cash requirements, earnings projections and capital projections for the period up to 31 March 2018. The Directors believe these forecasts have been prepared on a prudent basis and have also considered the impact of a range of potential changes to trading performance. The Directors have concluded that the Group 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.

2.2 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. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. 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 Business combinations completed prior to date of transition to IFRS

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

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

2 Accounting policies continued

2.4 Joint ventures

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

2.5 Goodwill and 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.

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

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

2.6 Revenue

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

Premium earned

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

Written premiums exclude insurance premium tax.

Other income

a) Insurance related

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

b) Non-insurance related

IT Salary Sacrifice

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

Mobile Salary Sacrifice

Fee income relating to Personal Group Mobile represents amounts chargeable, net of value added tax, in respect of sales of goods and services to the customer. Sales of handsets and accessories are recognised on delivery to the customer while commissions receivable under revenue sharing agreements with networks are recognised as they become receivable.

Other Non-insurance related

Non-insurance related fee 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.

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

c) Investment property

Rental income arising from investment property is recognised on a straight line basis over the lease term. The leases are classified as operating leases as the Group has substantially all the risks and rewards related to the ownership of the leased asset. The effect of any rent free period is spread over the life of the lease.

Investment income

a) Interest and dividend income

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

b) Investment management expenses

Investment management expenses are recognised on an accruals basis.

c) Realised gains and losses

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

d) Unrealised gains and losses

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

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

2.7 Reinsurance premiums and claims recoveries

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

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

2.8 Deferred acquisition expenses

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

2.9 Claims recognition and claims provisions

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

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

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

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

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

2.10 Tangible 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 Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company 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

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 16 for further details on the impairment testing of goodwill.

2.12 Leased assets

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

Notes to the Financial Statements continued

2 Accounting policies continued

2.13 Investment property

The investment properties are properties held to earn rentals and/or for capital appreciation. The Group measures its investment property in accordance with IAS 40's requirements for the cost model.

The investment property is stated at cost less accumulated depreciation and provision for impairment. Depreciation is based on cost less residual value. As residual value currently exceeds cost less impairment no depreciation is being provided.

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

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

2.14 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.

2.15 Financial assets

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

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

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.

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

Other financial assets include quoted and unquoted equity shares. These assets are not considered to be current assets and have been classified as long term financial assets and are treated as available for sale.

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

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

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

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

2.16 Financial liabilities

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

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

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

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

2.17 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 2.15 fixed interest rate bank deposits with the maturity date of three months or more from the date of acquisition are classified as financial assets.

2.18 Investments in subsidiary undertakings and joint ventures

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

2.19 Equity

Equity comprises the following:

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

2.20 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.

2.21 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.

Notes to the Financial Statements continued

2 Accounting policies continued

2.22 Employee Benefit Trust

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

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

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

3 Risk management objectives and policies

The Board 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 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 will 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 of 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 are described below.

Credit risk

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

	Group		Company	
	2016 £’000	**2015 £’000**	**2016 £’000**	**2015 £’000**
Insurance receivables	3,218	3,269	–	–
Reinsurance assets	310	307	–	–
Trade debtors	15,442	17,130	–	–
Accrued interest	19	21	–	–
Amounts due from subsidiary undertakings	–	–	2,153	5,403
Investment bond	100	100	100	100
Cash and cash equivalents	7,206	5,591	157	82
Bank deposits	5,365	8,421	–	–
	31,660	34,839	2,410	5,585

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

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 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 one month of the completion of the salary sacrifice scheme.

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 21. 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 2016 the counterparties were as follows: The Co-operative Bank plc, Santander UK plc, Bank of Scotland plc, HSBC Bank plc, Lloyds TSB Bank Plc, National Westminster Bank Plc, Close Brothers Ltd, Barclays Bank Plc and Clydesdale Bank Plc. Long term rate credit ratings for these counterparties range from A to B- (ratings sourced from Fitch, and Standard & Poors).

The Group is also exposed to the recoverability of receivables from reinsurers. At 31 December 2016 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 20.

Market risk

The Group is exposed to market risk in respect of its financial assets which are measured as available for sale assets. These assets are traded on UK regulated markets and so are valued via directly observable inputs (level 1 inputs). The available for sale assets are managed by an independent third party fund manager on a discretionary basis, subject to certain conditions imposed by the Board.

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

	2016 £'000	**2015 £'000**
Available for sale financial assets:		
Independently managed equity portfolio (Level 1 assets)	672	661
	672	661

Dividends from the equity portfolio in 2016 totalled £20,000 (2015: £24,000).

Unrealised gains and losses on available for sale financial assets are recognised in equity. A 10% decrease in the value of these assets at 31 December 2016 would result in a deduction to equity of approximately £67,000. A 10% increase in the value of these assets at 31 December 2016 would result in an addition to equity of approximately £67,000.

Operational risk

The Group is exposed to the risk of loss arising from failed or inadequate internal processes, from personnel and systems and from external events, including the effect of regulatory changes. In particular, the Group is impacted by adverse changes in Insurance Premium Tax (IPT). In recent years IPT has increased from 6% to 10% with a further rise to 12%, effective from June 2017, being announced in the 2016 Autumn Statement.

3 Risk management objectives and policies continued

Liquidity risk

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

At 31 December 2016 amounts on short term deposits exceeded borrowings by £12,671,000 (2015: £14,012,000).

As at 31 December 2016 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 2016					
Trade and other payables	15,173	186	81	418	15,858
	15,173	186	81	418	15,858
At 31 December 2015					
Trade and other payables	17,950	28	123	685	18,786
	17,950	28	123	685	18,786
Company					
At 31 December 2016					
Amounts owed to subsidiary undertakings	19,395	–	–	–	19,395
	19,395	–	–	–	19,395
At 31 December 2015					
Amounts owed to subsidiary undertakings	20,025	–	–	–	20,025
	20,025	–	–	–	20,025

Cash flow and fair value interest rate risk

At 31 December 2016 bank deposits exceeded borrowings by £12,671,000. If UK interest rates increased by 2% net finance income would increase by approximately £253K with a corresponding increase to equity.

Insurance claim and related risks

PA currently underwrites three categories of business and PAGL a fourth which are described in detail below:

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

These have been PA's core products since 1984 and, at 31 December 2016, represent 96.0% (2015: 92.8%) of PA's gross premiums written. The vast majority of these policies are sold to individuals at their place of work as part of an employee benefits package introduced by PGH on behalf of the employer. The gross loss ratio (excluding claims handling costs) on these policies at 31 December 2016 was 22.4% (2015: 23.7%). 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 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 2016 was 248,493 (2015: 259,953) and the total annualised premium value of these policies was £25,335,000 (2015: £24,821,000). The average amount paid per claim in 2016 was £163 (2015: £152).

b) Private Medical Insurance policies (PMI)

On 1 July 2011 PA commenced the underwriting of PMI policies sold by one of the group's insurance intermediaries, Universal Provident Ltd (UP). This private medical business traditionally has a significantly higher gross claims ratio. In order to manage this new insurance risk the Board took out quota share and stop loss reinsurance policies to exclusively cover this part of the business. The stop loss reinsurance policy was terminated by the reinsurer on 30 June 2012. The quota share reinsurance policy was terminated by the reinsurer for new business on 31 October 2012 due to both the small number of policies in force and the total gross premium value of these policies. For the same reasons as stated above it has not been possible to find cost effective alternative reinsurance and therefore the Board has taken the decision to accept the underwriting risk in full for this small block of business.

On 9 February 2016 the Group signed an agreement with AXA PPP healthcare to transfer the PMI business over to them in a phased approach between July 2016 and June 2017. The Group will continue to underwrite policies until each policy's renewal date, from which date AXA PPP Healthcare will provide continuous cover. As of July 2017 no PMI policies will be held by the Group.

At 31 December 2016 these policies represent 1.9% (2015: 4.7%) of PA's gross premiums written. The gross loss ratio (excluding claims handling costs) on these policies at 31 December 2016 was 44.5% (2015: 57%).

The total number of these individual policies underwritten by PA as at 31 December 2015 was 557 (2015: 1,203) and the average amount paid per claim in 2016 was £1,865 (2015: £2,231).

c) Voluntary Group Income Protection policies (VGIP)

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

At 31 December 2016 these policies represent 2.1% (2015: 2.5%) of PA's gross premiums written. The gross loss ratio (excluding claims handling costs) on these policies at 31 December 2016 was 23.1% (2015: 20.2%). The total number of these individual policies in force at 31 December 2016 was 1,859 (2015: 2,293) and the average amount paid per claim in 2016 was £3,657 (2015: £3,556).

d) Death benefit policies

While the Group has acted as an agent for the sale of death benefit policies it was not until March 2015 that the Group began to underwrite the policies through the newly created subsidiary Personal Assurance Guernsey Limited (PAGL). 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 2016 was 15.4% (2015: 16.8%). The total number of these individual policies in force at 31 December 2016 was 78,189 (2015: 76,537) and the average amount paid per claim in 2016 was £6,902 (2015: £6,202).

For the year ended 31 December 2016 the gross claims ratio of the Group was 23.4% (2015: 25.4%). A 2% increase in the claims ratio would increase claims incurred by approximately £625,000.

Notes to the Financial Statements continued

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 SII Directive and must hold sufficient capital to cover its 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. PA has obtained approval from the PRA to substitute the premium risk parameter in the formula with an Undertaking Specific Parameter (USP) which reflects the company's own loss experience.

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.

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 Eligible Own Funds, determined in accordance with the SII valuation rules, were £9.6m[1] (2015: £11.4m) which was in excess of the estimated SCR of £4.6m[1] (2015: £4.4m). This represented a solvency coverage ratio of 209%[1] (2015: 260%). This decrease in coverage is due to moving towards capital levels more in line with the Board Risk appetite in accordance with the approved dividend policy.

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.

[1]The Solvency Capital Position and related disclosures are estimated and subject to forthcoming audit.

At 31 December 2016 the requirements of the Group's regulated companies were as follows:

	Capital resources requirement £'000	Capital resources £'000	Surplus over capital resources requirement £'000
Company			
Personal Assurance Plc	4,613	9,632	5,019
Personal Assurance Services Limited	56	4,606	4,550
Personal Group Benefits Limited	38	845	807
Berkeley Morgan Limited	83	250	167
Personal Assurance (Guernsey) Limited	552	1,471	919

All companies are regulated by the PRA other than Personal Assurance (Guernsey) Limited which is regulated in Guernsey.

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

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

5 Segment analysis

The four continuing trading operating segments are:

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.

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

Up until March 2015 insurance related income represented commission receivable for death benefit policies underwritten by 3rd parties. From March 2015 these policies have been underwritten by the Group's subsidiary Personal Assurance (Guernsey) Limited (PAGL) and, as such, their income now falls within earned premium.

2) IT Salary Sacrifice

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

3) SME

SME has been classified as a separate segment as the development and expansion into the SME market is currently managed and maintained as a separate activity to Core Insurance and Other. Revenue in this sector is based on a SaaS model for a product that combines insurance and employee benefit platform income.

4) Other

The other operating segment consists exclusively of revenue generated by Personal Management Solutions (PMS) and Berkeley Morgan Group (BMG) and its subsidiary undertakings.

PMS is an employee benefit company that offers a variety of employee incentive schemes normally via annual subscriptions and includes income generated from the Hapi platform.

BMG was acquired by PGH in January 2005 and generates commission via financial services and private medical insurance. As described in note 3b this business is being transferred to AXA PPP healthcare.

The discontinued segment is:

Mobile

Mobile refers to the trade of Personal Group Mobile a mobile phone salary sacrifice company set up from the trade and assets of Shebang Technologies purchased in 2015.

Notes to the Financial Statements continued

5 Segment analysis continued

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

	Core Insurance £'000	IT Salary Sacrifice £'000	SME £'000	Other £'000	Continuing – Group £'000	Discontinued – Mobile £'000
Operating segments						
2016						
Revenue						
Earned premiums net of reinsurance	31,223	–	–	–	31,223	–
Other insurance related income	(14)	–	–	569	555	–
Non-insurance related income	–	20,069	–	1,621	21,690	2,024
Investment property	–	–	–	59	59	–
Investment income	–	–	–	93	93	–
Total revenue	**31,209**	**20,069**	**–**	**2,342**	**53,620**	**2,024**
Net result for year before tax	**8,399**	**1,712**	**(741)**	**1,151**	**10,521**	**(1,758)**
PG Mobile – Reorganisation costs	–	–	–	–	–	571
LC – Tax provision	–	(270)	–	–	(270)	–
LC – Amortisation of intangibles	–	330	–	–	330	–
Share based payments	–	–	–	222	222	–
Depreciation	376	18	4	21	419	30
Amortisation (other)	136	16	22	–	174	–
EBITDA	**8,911**	**1,806**	**(715)**	**1,394**	**11,396**	**(1,157)**
Segment assets	21,931	16,345	521	14,320	53,117	125
Segment liabilities	6,483	13,353	–	899	20,735	139
Depreciation and amortisation	512	364	26	21	923	30

All income is derived from the UK and Guernsey.

	Core Insurance £'000	IT Salary Sacrifice £'000	Other £'000	Continuing – Group £'000	Discontinued – Mobile £'000
Operating segments					
2015					
Revenue					
Earned premiums net of reinsurance	29,370	–	–	29,370	–
Other insurance related income	1,135	–	643	1,778	–
Non-insurance related income	–	25,460	1,243	26,703	1,524
Investment property	–	–	63	63	–
Investment income	–	–	121	121	–
Total revenue	**30,505**	**25,460**	**2,070**	**58,035**	**1,524**
Net result for year before tax	**9,099**	**2,803**	**2,196**	**14,098**	**(3,649)**
PG Mobile – Reorganisation costs	–	–	–	–	856
PG Mobile – Acquisition costs	–	–	–	–	341
PG Mobile – Intangible amortisation	–	–	–	–	369
PG Mobile – Intangible asset write down	–	–	–	–	986
LC – Consideration write-down	–	–	(2,684)	(2,684)	–
LC – Tax provision	–	(825)	–	(825)	–
LC – Amortisation of intangibles	–	330	–	330	–
Share based payments	–	–	1,289	1,289	–
Depreciation	294	16	17	327	22
Amortisation (other)	87	10	–	97	–
EBITDA	**9,480**	**2,334**	**818**	**12,632**	**(1,075)**
Segment assets	23,843	17,810	14,497	56,150	734
Segment liabilities	6,447	16,795	1,216	24,458	563
Depreciation and amortisation	383	355	17	755	390

All income is derived from the UK and Guernsey.

Notes to the Financial Statements continued

5 Segment analysis continued

Non insurance related expenses disclosed on the face of the consolidated income statement in relation to IT Salary Sacrifice and Mobile are split below between cost of sales, admin expenses and depreciation.

	IT Salary Sacrifice £'000	SME £'000	Other
2016			
Non-insurance related expenses			
Cost of sale	16,678	–	1,042
Admin expenses	1,585	737	1,732
Depreciation and amortisation	18	4	21
Total	18,281	741	2,795
2015			
Non-insurance related expenses			
Cost of sale	21,813	–	904
Admin expenses	1,313	–	1,761
Depreciation	16	–	17
Total	23,142	–	2,682

6 Discontinued Operation

As announced in July 2016, following a review of PG Mobile, the Group's Mobile Virtual Network Operator ("MVNO"), the Group concluded that the potential market had changed and was no longer receptive to the product offering and, as such, decided to close the business by the end of 2016. This was successfully completed by the end of the year and no further costs in respect of this business are anticipated for 2017.

Results of discontinued operation	2016 £'000	2015 £'000
Non Insurance Related Income – Mobile	2,024	1,524
Non Insurance Related Expenses – Mobile	(3,782)	(3,818)
Impairment of Non-Financial Asset	–	(986)
Intangible Amortisation	–	(369)
Results from operating activities	(1,758)	(3,649)
Tax	–	–
Result from operating activities net of tax	(1,758)	(3,649)
Earnings per share	**Pence**	**Pence**
Basic loss per share	(5.8)	(12.1)
Diluted loss per share	(5.6)	(11.1)

The loss from the discontinued operations of £1,758,000 (2015: loss of £3,649,000) is attributable entirely to the owners of the Company.

Cash flows used in discontinued operation	2016 £'000	2015 £'000
Net cash used in operating activities	(94)	1,638
Net cash used from investing activities	82	(1,564)
Net cash used in financing activities	–	–
Net cash flows for the year	(12)	74

7 Investment income

	2016 £'000	2015 £'000
Investment income		
Loans and receivables:		
Income from unlisted investments	36	10
Interest income from cash on deposit	53	92
Available for sale:		
Income from listed investments	20	24
Realised gains	30	14
Realised losses	(18)	(28)
Realised (losses)/gains transferred from other comprehensive income	(24)	13
Investment management expenses	(4)	(4)
	93	121

8 Claims incurred

	2016 £'000	2015 £'000
Claims paid	6,702	6,854
Reinsurers' share of claims paid	(115)	(112)
Claims handling expenses paid	568	401
	7,155	7,143
Increase in claims provision	187	307
Reinsurers' share of increase in claims provision	(24)	1
	163	308
	7,318	7,451

9 Insurance operating expenses

	2016 £'000	2015 £'000
Acquisition costs	6,700	5,421
Increase/(decrease) in deferred acquisition costs	(86)	(9)
Incurred acquisition costs	6,614	5,412
Administration expenses	6,075	5,422
	12,689	10,834

Total commission incurred during the year in respect of direct insurance was £1,313,000 (2015: £1,123,000).

Notes to the Financial Statements continued

10 Directors’ and employees’ remuneration

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

	2016 £’000	2015 £’000
Wages and salaries	9,553	9,274
Share based payments expense	222	1,289
Social security costs	1,045	1,250
Other pension costs	397	377
	11,217	12,190

Average number of employees was as follows:

	2016 Number	2015 Number
Administration	91	86
Sales and marketing	138	130
	229	216

b) Directors remuneration:

	2016 £’000	2015 £’000
Emoluments	693	832
Share based payments expense	192	1,777
Pension contributions to group and self invested personal pension schemes	20	29

During the year, 2 Directors (2015: 3 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.

	2016 £’000	2015 £’000
Emoluments	211	380
Share based payments expense	192	1,732
Pension contributions to self invested personal pension scheme	-	20
	403	2,132

Details of individual Director’s remuneration are given in the remuneration report (on page 39). 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:

	2016 £'000	2015 £'000
Short term employee benefits:		
Salaries including bonuses	1,607	1,584
Social security costs	222	419
Share based payments expense	453	2,106
	2,282	4,109
Post-employment benefits:		
Defined contribution pension plans	70	62
Total remuneration	2,352	4,171

11 Profit before tax

	2016 £'000	2015 £'000
Profit before tax is stated after:		
Auditor's remuneration (inclusive of non-recoverable VAT):		
Audit services:		
Audit of company financial statements	51	39
Audit of subsidiary undertakings	114	121
Non-audit services:		
Taxation and other advice	25	24
Review of regulatory returns	105	17
Other assurance services	48	19
Acquisition services	–	180
Depreciation of property, plant and equipment	448	349
Rental income receivable	123	102
Operating lease rentals – land and buildings	71	97
Operating lease rentals – motor vehicles	444	488

Notes to the Financial Statements continued

12 Tax

The relationship between the expected tax expense based on the effective tax rate of Personal Group Holdings Plc at 20.00% (2015: 20.25%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2016 £'000	2015 £'000
Profit before tax	8,763	10,449
Share of profit of equity-accounted investee net of tax	6	(55)
Profit before tax excluding equity-accounted investee	8,769	10,394
Tax rate	20.00%	20.25%
Expected tax expense	1,754	2,105
Adjustment for marginal tax rate differences	–	(1)
Adjustment for non deductible expenses	82	74
Adjustment for tax exempt revenues	(242)	(1,033)
Other adjustments		
Tax charge in respect of prior years	(113)	6
Utilisation of losses not provided for	(2)	(3)
Actual tax expense	1,479	1,148
Comprising		
Current tax expense	1,226	1,440
In respect of prior year	(113)	6
Deferred tax		
Origination and reversal of temporary differences	366	(298)
Change in tax rate	-	–
	1,479	1,148

The standard rate of tax applied to reported profit on ordinary activities is 20% (2015: 20%). Further reductions to 19% and 17% are due from 1 April 2017 and 1 April 2020 respectively and these changes were substantively enacted on 8 July 2015 and 15 September 2016. These will reduce future tax charges accordingly.

The tax rates used to calculate deferred tax are 20%, 19% and 18% dependent on the rates that will be in place when the tax impact crystalises.

13 Profit for the year

The parent company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The parent company's profit for the year was £4,298,000 (2015: £2,352,000).

14 Earnings per share

	2016			2015		
	Earnings £'000	Weighted average number of shares	Pence per share	Earnings £'000 Restated	Weighted average number of shares	Pence per share Restated
Basic	7,284	30,442,426	23.9	9,301	30,200,755	30.8
Dilutive effect of shares in Employee Share Based schemes	–	747,446	(0.5)	–	2,397,930	(2.3)
Diluted	7,284	31,189,872	23.4	9,301	32,598,685	28.5

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

15 Dividends

	2016 Pence per share	2015 Pence per share	2016 £'000	2015 £'000
Equity dividends				
Ordinary shares paid in year				
March	5.50	5.23	1,671	1,585
June	5.50	5.23	1,674	1,585
September	5.50	5.23	1,683	1,586
December	5.50	5.23	1,683	1,587
			6,711	6,343
Less: amounts paid on own shares			(14)	(18)
	22.00	20.90	6,697	6,325

16 Goodwill

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

	£'000 Berkeley Morgan	£'000 Let's Connect	£'000 PGM	2016 £'000 Total
Cost				
At 1 January 2016	9,433	10,575	44	20,052
Additions in the year	–	–	–	–
Disposal	–	–	(44)	(44)
At 31 December 2016	9,433	10,575	–	20,008
Amortisation and impairment				
At 1 January 2016	9,433	–	44	9,477
Impairment charge for year	–	–	(44)	(44)
At 31 December 2016	9,433	–	–	9,433
Net book value at 31 December 2016	–	10,575	–	10,575

	£'000 Berkeley Morgan	£'000 Let's Connect	£'000 PGM	2016 £'000 Total
Cost				
At 1 January 2015	9,433	10,575	–	20,008
Additions in the year	–	–	44	44
Disposal	–	–	–	–
At 31 December 2015	9,433	10,575	44	20,052
Amortisation and impairment				
At 1 January 2015	9,433	–	–	9,433
Impairment charge for year	–	–	44	44
At 31 December 2015	9,433	–	44	9,477
Net book value at 31 December 2015	–	10,575	–	10,575

The net carrying value at 31 December 2016 has been assessed for impairment and no impairment was deemed necessary in Let's Connect. Future post tax cash flows were projected for the next eight years based on the 2017 budget plus subsequent growth rates of 6%, and discounted at a cost of capital of 15% to arrive at a net present value (NPV) which was in excess of the £10,575,000 held on the balance sheet.

Given that NPV is sensitive to future cash flows, the following scenarios have been considered

- If the average growth rate assumption of future cash flows were reduced by 1/3, the value of goodwill would require impairment of £1,301,000
- If no growth rate was assumed for future cash flows the goodwill would require impairment of £5,007,000

The Personal Group Mobile goodwill has been fully impaired (see note 37)

17 Intangible assets

For the year ended 31 December 2016

	Customer value £'000	PGM Licence agreement £'000	PGM Customer value £'000	PGM Software £'000	Computer software and development £'000	Internally Generated Computer Software £'000	Total £'000
Cost							
At 1 January 2016	1,648	703	102	506	470	–	3,429
Additions	–	–	–	–	196	428	624
Disposals	–	(703)	(102)	(506)	(1)	–	(1,312)
At 31 December 2016	1,648	–	–	–	665	428	2,741
Depreciation							
At 1 January 2016	605	703	102	506	153	–	2,069
Provided in the year	330	–	–	–	163	12	505
Disposal	–	(703)	(102)	(506)	–	–	(1,311)
At 31 December 2016	935	–	–	–	316	12	1,263
Net book amount at 31 December 2016	713	–	–	–	349	416	1,478
Net book amount at 31 December 2015	1,043	–	–	–	317	–	1,360

The customer value is being amortised through the consolidated income statement over a 5 year period. The net carrying value at 31 December 2016 has been assessed for impairment and no impairment was deemed necessary. Future post tax cash flows were projected for the next three years based on the historic rate of decline, and discounted at a cost of capital of 15% to arrive at a net present value (NPV) which was in excess of the £713,000 held on the balance sheet.

For the year ended 31 December 2015

	Customer value £'000	PGM Licence agreement £'000	PGM Customer value £'000	PGM Software £'000	Computer software and development £'000	Internally Generated Computer Software £'000	Total £'000
Cost							
At 1 January 2015	1,648	–	–	–	152	–	1,800
Additions	–	703	102	506	318	–	1,629
At 31 December 2015	1,648	703	102	506	470	–	3,429
Depreciation							
At 1 January 2015	275	–	–	–	56	–	331
Provided in the year	330	166	24	179	97	–	796
Impairment	–	537	78	327	–	–	942
At 31 December 2015	605	703	102	506	153	–	2,069
Net book amount at 31 December 2015	1,043	–	–	–	317	–	1,360
Net book amount at 31 December 2014	1,373	–	–	–	96	–	1,469

Notes to the Financial Statements continued

18 Property, plant and equipment

For the year ended 31 December 2016

	Freehold land and properties £'000	Motor vehicles £'000	Computer equipment £'000	Furniture fixtures & fittings £'000	Lease Improvements £'000	Total £'000
Cost						
At 1 January 2016	5,478	243	922	1,250	15	7,908
Additions	–	179	353	280	16	828
Disposals	–	(208)	(185)	(351)	–	(744)
At 31 December 2016	5,478	214	1,090	1,179	31	7,992
Depreciation						
At 1 January 2015	1,410	33	660	787	12	2,902
Provided in the year	95	48	202	100	3	448
Eliminated on disposals	–	(39)	(108)	(307)	–	(454)
At 31 December 2016	1,505	42	754	580	15	2,896
Net book amount at 31 December 2016	3,973	172	336	599	16	5,096
Net book amount at 31 December 2015	4,068	210	262	463	3	5,007

For the year ended 31 December 2015

	Freehold land and properties £'000	Motor vehicles £'000	Computer equipment £'000	Furniture fixtures & fittings £'000	Lease Improvements £'000	Total £'000
Cost						
At 1 January 2015	5,478	169	967	970	15	7,599
Additions	–	150	192	327	–	669
Disposals	–	(76)	(237)	(47)	–	(360)
At 31 December 2015	5,478	243	922	1,250	15	7,908
Depreciation						
At 1 January 2015	1,316	17	726	778	8	2,845
Provided in the year	94	32	164	55	4	349
Eliminated on disposals	–	(16)	(230)	(47)	–	(293)
At 31 December 2015	1,410	33	660	787	12	2,901
Net book amount at 31 December 2015	4,068	210	262	463	3	5,007
Net book amount at 31 December 2014	4,162	152	241	192	7	4,754

19 Investment property

For the year ended 31 December 2016

	Group £'000	Company £'000
Cost		
At 1 January 2016	1,198	130
Additions	–	–
At 31 December 2016	1,198	130
Impairment		
At 1 January 2016	128	–
Provided in the year	–	–
At 31 December 2016	128	–
Net book amount at 31 December 2016	1,070	130
Net book amount at 31 December 2015	1,070	130

For the year ended 31 December 2015

	Group £'000	Company £'000
Cost		
At 1 January 2015	1,198	130
Additions	–	–
At 31 December 2015	1,198	130
Impairment		
At 1 January 2015	128	–
Provided in the year	–	–
At 31 December 2015	128	–
Net book amount at 31 December 2015	1,070	130
Net book amount at 31 December 2014	1,070	130

The Blackburn property, held at NBV of £970K was externally valued by Taylor Weaver Ltd, chartered surveyors on 16 October 2013. The Milton Keynes property is valued at the purchase price of £130K as at 7 April 2014.

The Directors are comfortable that the carrying value of the investment properties does not require impairment as the residual value is at least as high as the carrying value. It is the Directors' best estimate that fair value is not materially different to carrying value.

Notes to the Financial Statements continued

20 Financial assets

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Bank deposits	5,365	8,421	–	–
Investment bond	100	100	100	100
Financial asset – Available for sale	672	661	–	–
	6,137	9,182	100	100

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

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

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

Bank deposits, held at amortised cost, are due within 6 months.

Trade receivables arising out of direct insurance operations and other receivables (note 20) are also held at amortised cost and the carrying amount is a reasonable approximation of fair value.

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

21 Trade and other receivables

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Loans and receivables:				
Trade receivables arising out of direct insurance operations	3,218	3,269	–	–
Other receivables due within one year	15,442	17,130	–	–
Amounts due from subsidiary undertakings	–	–	2,153	5,403
Accrued interest	19	21	–	–
Deferred acquisition costs	110	31	–	–
Other prepayments and accrued income	1,411	1,525	24	16
	20,200	21,975	2,177	5,419

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

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

	2016 £'000	2015 £'000
Not more than 3 months	3,608	5,289
More than 3 months but not more than 6 months	28	78
More than 6 months	309	74
	3,945	5,441

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:

	2016 £'000	2015 £'000
At 1 January	31	39
Deferred acquisition costs	110	31
Amortisation	(31)	(39)
At 31 December	110	31

22 Reinsurance assets

	2016 £'000	2015 £'000
Reinsurers share of claims incurred	201	178
Reinsurers share of unearned premiums	109	129
	310	307

23 Cash and cash equivalents

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Cash at bank and in hand	7,206	5,591	157	82
	7,206	5,591	157	82

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

24 Share capital

	2016 £'000	2015 £'000
Authorised		
200,000,000 ordinary shares of 5p each	10,000	10,000
Allotted, called up and fully paid 30,799,891 (2015: 30,346,828) ordinary shares of 5p each	1,540	1,518

In 2016 the Company issued 453,063 (2015: 53,886) 5p ordinary shares under the LTIP scheme.

The total number of own shares held by the Employee Benefit Trust at 31 December 2016 was 110,606 (2015: 128,779). Of this amount there are 50,136 (2015: 59,528) AESOP shares that have been unconditionally allocated to employees.

As at 31 December 2016 the Group maintained two share-based payment schemes for employee compensation.

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

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

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

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

	Number	2016 Weighted average exercise price pence	Number	2015 Weighted average exercise price pence
Outstanding at 1 January	213,927	430.51	254,827	412.6
Options granted in year	–	–	5,405	555.0
Options exercised in year	(10,146)	319.08	(40,181)	324.4
Options cancelled or lapsed	–	–	(6,124)	490.0
Outstanding at 31 December	203,781	436.05	213,927	430.5

The weighted average exercise price of 73,598 (2015: 49,836) share options exercisable at 31 December 2016 was 359.24 pence per share (2015: 300.98).

The fair values of options which were granted during 2015 were determined by using the Black-Scholes valuation model. The fair value of these options was 63 pence per share. Significant inputs into the calculation include a weighted average share price of 480p and exercise prices as illustrated above. Furthermore the calculation takes into account future dividends of 4.0% and a volatility rate of 30%, based on expected share price. Risk-free interest rate was determined at 1.0%. The options are exercisable between 3 and 10 years after the date of the grant and have an exercise price of 480 pence per share.

The weighted average remaining contracted life of outstanding options at 31 December 2016 was 6 years and 4 months (2015: 3 years and 4 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, £33,000 of employee compensation by way of share based payment expense has been included in the consolidated income statement for 2016 (2015: £39,000). 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. The awards are satisfied in shares, or in the discretion of the Remuneration Committee wholly or partly in cash in accordance with the Plan rules. It is the Remuneration Committee's intention to settle these awards in shares.

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

Where the market capitalisation has increased the level of payment is 10%, 30%, 60% and 100% cumulatively on the second, third, fourth and fifth anniversaries respectively of the relevant % entitlement. The number of shares awarded is determined by dividing the amount of the appropriate payment by the market value (as defined in the Plan rules) of the shares on the relevant anniversary date.

As LTIP1 will start to mature at the end of 2016, in July 2015 a further scheme (LTIP2) was put in place to take effect from 30 July 2015 (see below). In conjunction with the introduction of this scheme LTIP1 was amended to:

- Include a maximum cap on market capitalisation of £183.7m.
- Grant options rather than shares at each vesting date such that PAYE and NI liabilities will only arise at the date of the exercise of the option.

A further amendment to the scheme was made in November 2016 when the duration was extended from 5 years to 6 years for Mark Scanlon and another senior employee who had entered the scheme in November 2011.

An amount of £nil (2015: £876,000) has been charged to the profit and loss account in 2016 for this scheme based on estimating the future share price of the Company over the duration of the plan. Estimates of future share prices have been used for the remaining payments to calculate the expense for each individual under their remaining tranches, taking into account the maximum cap on the payout to all individuals in the scheme. The corresponding credit is taken to equity. No liabilities were recognised as this is an equity settled share based payment.

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

- If the share price were to increase to a lower level than assumed the charge for the year would have increased by £nil
- If the share price were to increase at a quicker rate than assumed the charge for the year would have increased by £273,000.

The share prices used in the calculations above have not been disclosed to avoid providing any forward looking guidance.

LTIP2

As with LTIP1, LTIP2 is 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 is 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 36,000 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. A further 4,000 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.

An amount of £181,000 (2015: £72,000) has been charged to the profit and loss account in 2016 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 employers national insurance charge has been classified as share based expenses on the face of the profit and loss account.

Notes to the Financial Statements continued

25 Deferred tax

	2016		2015	
	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	37	102	42	140
Intangible assets	–	143	–	209
Current assets				
Share options	211	–	1,088	–
	248	245	1,130	349
Offset	(245)	(245)	(349)	(349)
	3	–	781	–

	2016 £'000	2015 £'000
At 1 January	781	479
Movement in provision charged/(credited) to income statement (see note 12)	(366)	298
Movement in provision direct to reserves	(412)	3
At 31 December	3	781

At 31 December 2016 the Group had tax losses of £973,000 (2015: £985,000) available to carry forward to offset against future profits of the same trades. A deferred tax asset has not been recognised in respect of the carried forward tax losses as there is uncertainty as to when they will be utilised given the trade is no longer a significant component of the Group.

26 Provisions

2016	Let's Connect PAYE £'000	Claw back £'000	Total £'000
At 1 January	2,175	15	2,190
Movement in provisions charged/(credited) to income statement	(270)	–	(270)
Utilised during the year	–	(8)	(8)
At 31 December	1,905	7	1,912

2015	Let's Connect PAYE £'000	Claw back £'000	Total £'000
At 1 January	3,000	23	3,023
Movement in provisions charged/(credited) to income statement	(825)	–	(825)
Utilised during the year	–	(8)	(8)
At 31 December	2,175	15	2,190

During the year the provision in respect of potential tax liabilities arising from compensation schemes for Directors of Let's Connect prior to acquisition has been reassessed resulting in a reduction of £270,000.

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

This uncertainty is taken into consideration when reviewing the outstanding provisions at the balance sheet date.

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

27 Trade and other payables

	Group		Company	
	2016 £'000	**2015 £'000**	**2016 £'000**	**2015 £'000**
Financial liabilities measured at amortised cost:				
Amounts owed to subsidiary undertakings	–	–	19,396	20,025
Other creditors	9,404	14,377	376	572
Accruals and deferred income	6,022	5,031	80	87
	15,426	19,408	19,852	20,684

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

28 Insurance contract liabilities

	2016 £'000	**2015 £'000**
Claims reported	1,385	1,241
Claims incurred but not reported	875	775
Claims settlement expenses	81	66
Unearned premiums	898	1,058
	3,239	3,140

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

28 Insurance contract liabilities continued

a) Claims

	2016			2015		
	Gross £'000	Reinsurance £'000	Net £'000	Gross £'000	Reinsurance £'000	Net £'000
Claims reported	1,241	(88)	1,153	838	(94)	744
Claims incurred but not reported	775	(90)	685	625	(90)	535
Claims settlement figures	66	–	66	58	–	58
At 1 January	2,082	(178)	1,904	1,521	(184)	1,337
Claims paid during the financial year	(6,702)	115	(6,587)	(6,854)	118	(6,736)
Increase/(decrease) in liabilities:						
Arising from current year claims	7,279	(140)	7,139	7,667	(150)	7,517
Arising from prior year claims	(318)	2	(316)	(252)	38	(214)
Total movement	259	(23)	236	561	6	567
Claims reported	1,385	(111)	1,274	1,241	(88)	1,153
Claims incurred but not reported	875	(90)	785	775	(90)	685
Claims settlement expenses	81	–	81	66	–	66
At 31 December	2,341	(201)	2,140	2,082	(178)	1,904

b) Unearned premiums

	2016			2015		
	Gross £'000	Reinsurance £'000	Net £'000	Gross £'000	Reinsurance £'000	Net £'000
At 1 January	1,058	(129)	929	1,262	(167)	1,095
Increase in the financial year	31,393	(310)	31,083	29,463	(259)	29,204
Release in the financial year	(31,553)	330	(31,223)	(29,667)	297	(29,370)
Movement in the financial year	(160)	20	(140)	(204)	38	(166)
At 31 December	898	(109)	789	1,058	(129)	929

29 Company investment in subsidiary undertakings and joint venture

	Shares in subsidiary undertakings	
	2016 £'000	2015 £'000
Cost		
At 1 January	37,497	35,549
Acquired in the year	–	1,000
Share based expenses	181	948
At 31 December	37,678	37,497
Amounts written off		
At 1 January	12,898	12,840
Impairment provision in year	–	58
At 31 December	12,898	12,898
Net book amount at 31 December	24,780	24,599

At 31 December 2016 the Company held 100% of the allotted share capital of the following trading companies, all of which were incorporated in England and Wales and have been consolidated in the Group financial statements. The registered address of all group entities is John Ormond House, 899 Silbury Boulevard, Central Milton Keynes, MK9 3XL

	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
Lets Connect IT Solutions Limited*	Employee benefits salary sacrifice technology products
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

At 31 December 2016 the Company held 50% of the allotted share capital of Abbeygate Developments (Marlborough Gate 2) Limited which has been incorporated in England and Wales. At 31 December 2016 the allotted share capital of Abbeygate Developments (Marlborough Gate 2) Limited was 2 £1 ordinary shares (see note 35).

30 Capital commitments

The Group had no capital commitments at 31 December 2016 and 31 December 2015.

31 Contingent liabilities

There were no contingent liabilities at 31 December 2016 and 31 December 2015.

32 Pensions

Group and self invested personal pension schemes.

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

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

33 Leasing commitments and rental income receivable

Total operating lease payments due until the end of the lease, or the first break clause, total £589,000 (2015: £827,000). An analysis of these payments due is as follows:

	Motor vehicles	
	2016 £'000	**2015 £'000**
Total operating lease payments falling due on leases:		
Within one year	420	403
Within one to two years	113	340
Within two to five years	56	84
	589	827

Total operating rent receivable payments due until the end of the lease or the first break clause, total £457,000 (2015: £714,000). An analysis of these receivable payments due is as follows:

	2016 £'000	**2015 £'000**
Future minimum lease payments:		
Within one year	110	156
Within one to two years	110	110
Within two to five years	237	448
	457	714

34 Related party transactions

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

	2016		2015	
	Receivable £'000	Payable £'000	Receivable £'000	Payable £'000
Personal Assurance Plc	–	2,582	–	1,545
Personal Assurance Services Limited	–	5,976	–	6,136
Personal Group Benefits Limited	–	903	–	495
Personal Assurance Financial Services Plc	–	137	–	137
Multiplelisting Limited	–	100	–	100
Personal Management Solutions Limited	1,914	–	1,142	–
Mutual Benefit Limited	–	12	–	12
ParTake Services Limited	3	–	3	–
Berkeley Morgan Group Limited	–	377	75	–
Personal Group Limited	–	9,309	–	11,600
Personal Group Mobile	–	–	3,849	–
Lets Connect IT Solutions Limited	236	–	334	–
	2,153	19,396	5,403	20,025

Transactions with Directors

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

Mark Scanlon rented a flat owned by Personal Group Holdings during the year. The lease is on the same commercial terms as similar flats in the building and generated income to Personal Group Holdings Plc of £8,316 (2015: £8,316). At year end no money was due to Personal Group.

Ken Rooney, through his company Gate Lane Solutions, invoiced the Group for consulting services in relation to contractual issues being dealt with by the Group. The total expense to Personal Group of this consulting was £7,523 (2015: £1,656). At year end no invoices are outstanding from Gate Lane Solutions

Notes to the Financial Statements continued

35 Equity-accounted investee

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

This Company is owned equally by Personal Group Holdings Plc and Abbeygate Developments Limited.

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

Profit and loss account	**2016 £'000**	**2015 £'000**
Rent receivable	38	134
Profit on disposal of apartments	–	35
Administration expenses	(55)	(31)
	(17)	138
Operating profit		
Interest payable	–	–
Profit on ordinary activities before taxation	(17)	138
Tax on profit on ordinary activities	4	(28)
Profit for the financial year retained	(13)	110
Personal Group Holdings share of profit	(6)	55

Balance Sheet	**2016 £'000**	**2015 £'000**
Current assets		
Inventories	1,123	1,058
Debtors	183	280
Cash at bank and in hand	–	–
	1,306	1,338
Creditors: amounts falling due within one year	(28)	(47)
Net current assets	1,278	1,291
Capital and reserves		
Called up share capital	–	–
Profit and loss account	1,278	1,291
Shareholders' funds	1,278	1,291
Personal Group Holdings share of net assets	639	646

36 Cash flows from insurance contracts

During the year £31,461,000 (2015: £29,529,000) was received from insurance contracts. Future cash flows will depend upon the amount of new business written, and the amount of cancellations received, in any financial period.

37 Acquisition note

Acquisitions in the prior period

On 1 April 2015 Personal Group Mobile Limited (PGM) was incorporated as a new subsidiary within the Group and on 17 April 2015 PGM purchased the trade and certain assets and liabilities of shebang Technology Group Limited (shebang) out of administration for a total consideration of £1.4m. £0.7m was paid to the administrator of shebang and a further £0.7m was paid to Hutchison 3G UK Limited (Three UK) in respect of novation of a Mobile Virtual Network Operator Services agreement.

Effect of acquisition

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

	*Recognised Values on Acquisition £'000
Net assets acquired:	
Licence agreement (intangible)	703
Software (intangible)	506
Customer value (intangible)	102
Property, plant and equipment	5
Inventories	55
Trade and other receivables	71
Trade and other payables	(96)
Net identifiable assets and liabilities	1,346
Consideration paid	1,390
Goodwill on acquisition	44

* The recognised values above were determined on a book basis with the exception of licence agreement, software and customer value which represented an assessment of fair value.

At 31 December 2015 the intangible assets and goodwill were reviewed for impairment. As the business had not managed to meet any of the revenue stream targets originally envisaged, and given the future uncertainty and relative immaturity of the business, both the goodwill and intangible asset values were fully impaired at 31 December 2015.

As described in note 6, Personal Group Mobile ceased trading in December 2016.

38 Post balance sheet event

There are no post balance sheet events that require disclosure.

39 Key accounting estimates and judgements

Goodwill arising from the Let's Connect acquisition existed at year end in the financial statements. As noted in note 16 following an internal review of expected profitability across the two business streams it has been decided to retain the Let's Connect value at its initial amount.

Within the claims paid figure is a provision relating to claims incurred but not yet reported ("IBNR"). This is an internal estimate of claims which will relate to 2016 or before for which PA Plc is yet to be notified.

The LTIP cost which estimates a cost with regard to future share issues for Directors and senior employees constitutes a significant accounting estimate for PGH Plc. This is discussed further and tested for sensitivities in note 24.

Company Information

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3194991

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M Winlow – Non Executive Chairman
M W Scanlon – Chief Executive
K W Rooney – Non Executive Deputy Chairman
M I Dugdale – Chief Financial Officer
D Rees – Non Executive Director
R Head – Non Executive Director

Secretary:
S A Mace

Solicitor:
SNR Denton UK LLP
The Pinnacle
170 Midsummer Boulevard
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MK9 1FE

Banker:
The Co-operative Bank Plc
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PO Box 82
118–120 Colmore Row
Birmingham
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Auditor:
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Manchester
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Nominated Broker and Adviser:
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