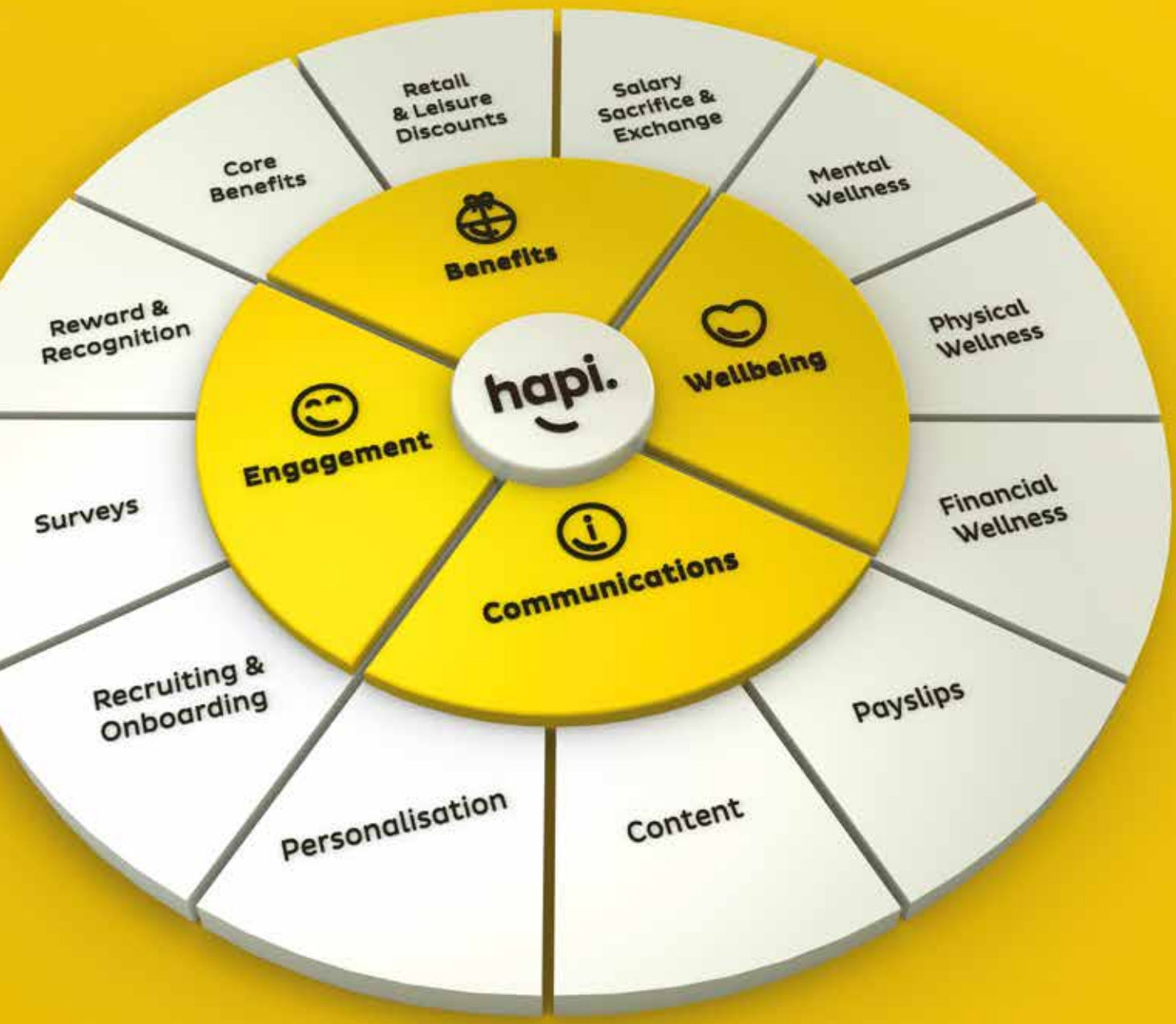
pg Personal Group



Annual Report and Accounts

2018

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

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

For more information about us see **page 02**

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

2018 Financial Highlights

Revenue*

£55.3m

2017: £45.2m

Adjusted EBITDA*/**

£11.4m

2017: £10.8m

Profit before tax*

£10.2m

2017: £9.5m

Earnings per share

27.2p

2017: 26.9p

* Continuing operations

** Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation of intangible assets, goodwill impairment, share-based expense payments, corporate acquisition costs, restructuring costs, write back of contingent consideration and release of tax provision. This definition applies to all references to Adjusted EBITDA within this document. Details of the adjustments can be seen on page 27 and a reconciliation from PBT to this Adjusted EBITDA can be seen on page 30.

At a Glance

Our market-leading technology makes offering employee engagement and services simpler and more cost effective than ever.

Solid insurance business supports income, cashflows and

future growth

opportunities

Easy to use platform, Hapi, targeting a UK workforce of

32 million

employees

Underpinned by

34 years' market experience

proven management team and a strong balance sheet with no debt

Who we are

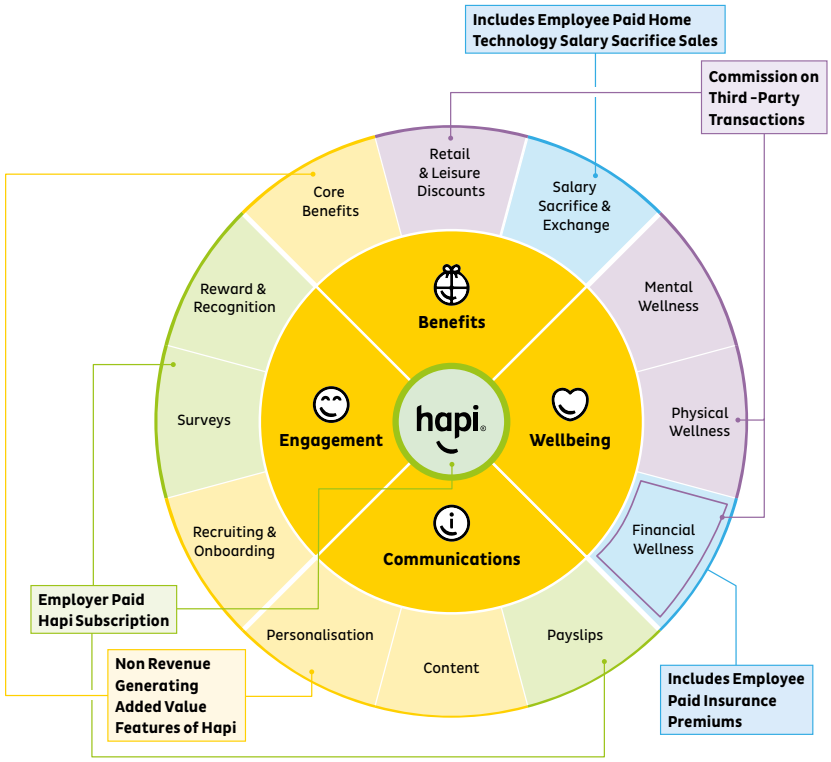
We are a technology enabled employee services business which works with employers to build employee engagement, improve retention and drive productivity. Our suite of in-house employee services is complemented by a range of third party propositions.

What we do

We offer simple, seamless employee services to make work happy, for everyone. We make it easier for HR to offer a full range of employee services – and we make it easier for their employees to access them, wherever they are.

How we do it

We balance our user friendly, engaging technology and HR analytics, with a face-to-face launch of the benefits programme and marketing support from our client services team, creating a personalised benefits roll out for each of our clients' employee sites.



Key

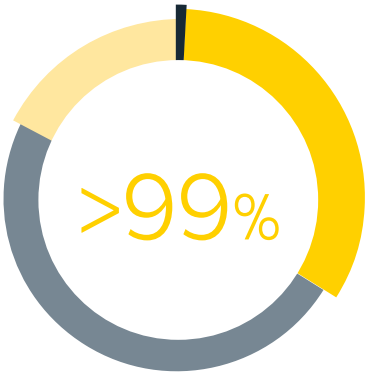
- **Hapi Revenue – Direct Income**
- **Third-Party Revenue**
- **Product Revenue – Insurance Premium & PG Let's Connect Income**
- **Value Add for Client included in Hapi**

For more information view our business model on **page 16**

Addressable market

Our products and services are now applicable to over 99% of UK employees, with the Armed Forces being the only sector we do not currently market to.

UK employees



- **33% employed by larger corporates**
- **49% employed in an SME**
- **17% employed in the public sector**
- **<1% armed forces**

Our personality

We are solid

You can trust us to provide services that meet your needs, every time. We work to help you do more.

We are driven

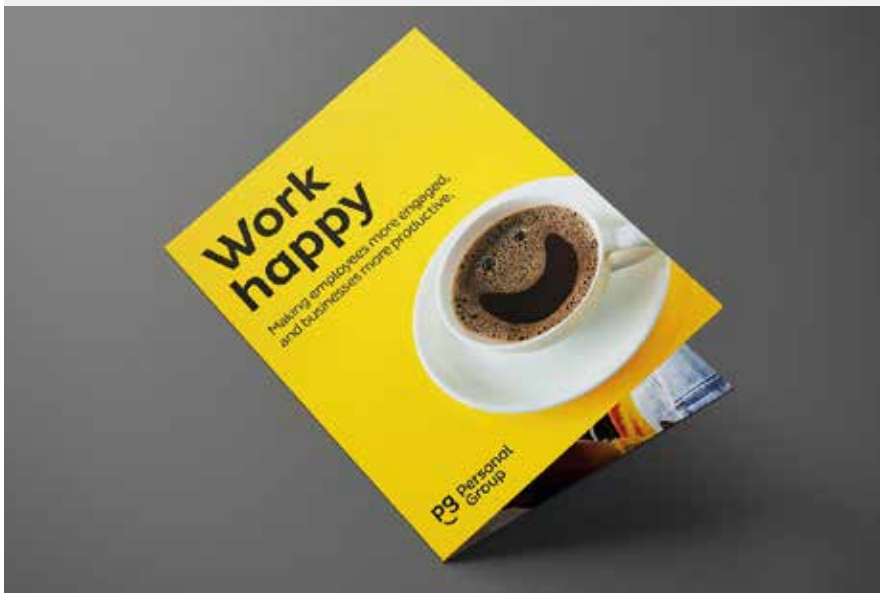
We help you achieve your goals, and we are obsessed with engaging employees with their benefits. Our motivation is to help your employees make the most of your engagement programme.

We are expert

Reassuringly expert and broad depth of knowledge. What we have learned helps us shape the future of employee engagement.

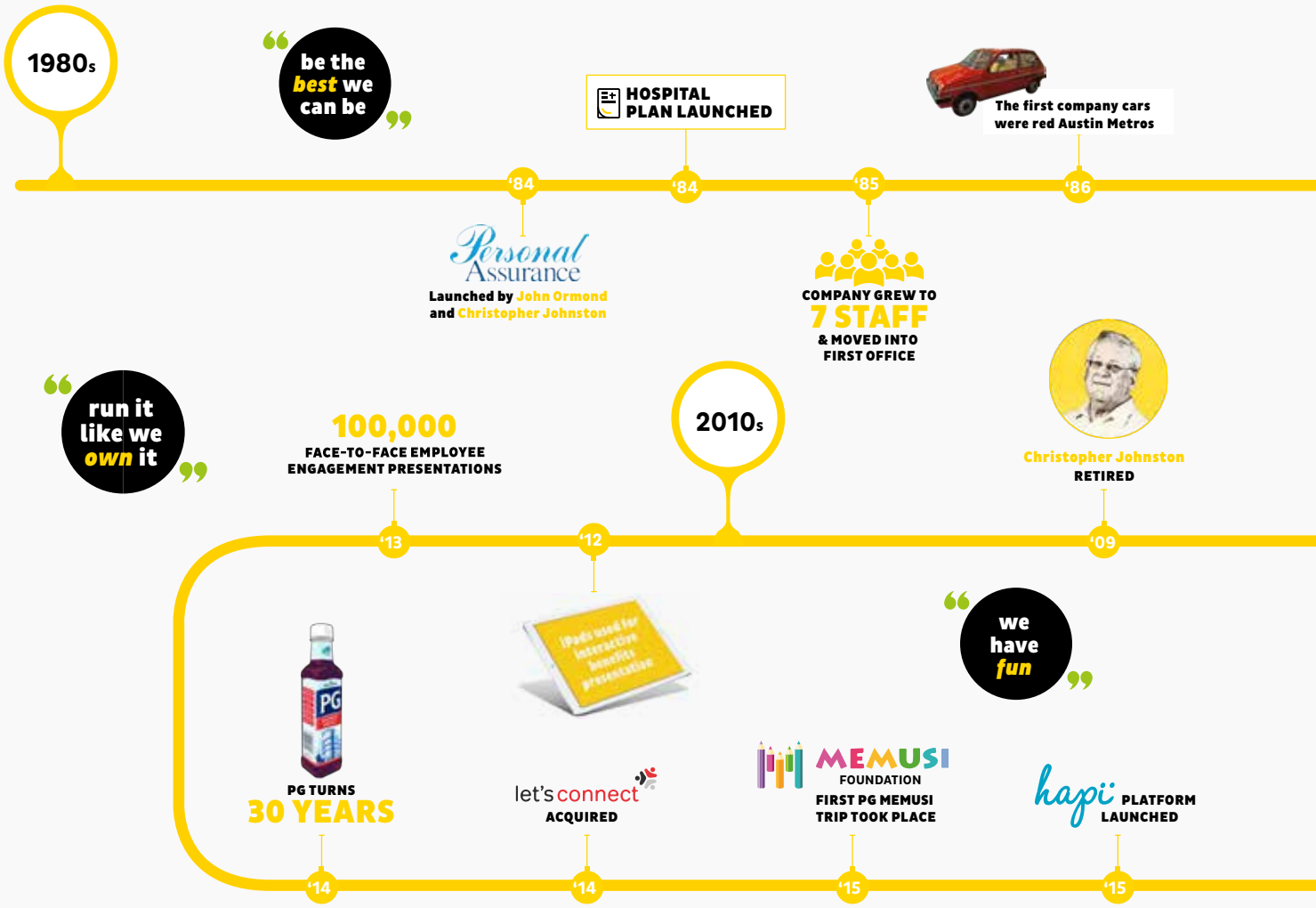
We are engaging

Come and meet us and experience our creative approach, and see how passionate and stimulating we are. And we have fun!



Our History

Personal Group has been supporting employers and employees since 1984, expanding our offer to meet the needs of an ever-changing market.



Our income has evolved from 100% insurance revenue in 1985 towards a 50/50 split between insurance and other revenue streams today."

Chairman's Statement

We achieved success in all three of our divisions, with trading ahead of that for the previous year despite facing some strong headwinds.

Personal Group was founded 35 years ago and continues to be successful – we are profitable, growing and, once again, increasing our dividend to shareholders.

Over the years, our market has changed, and we have faced external challenges both of which have required thoughtful and sometimes rapid response. 2018 was no different. We achieved success in all three of our divisions, with trading ahead of that for the previous year despite facing some strong headwinds. We entered 2019 in robust shape despite some of the external challenges continuing into the start of the current year. Following our acquisition of Innecto, we have a broader, more integrated set of propositions and a new CEO.

We are profitable, growing and, once again, increasing our dividend to shareholders."

The first half of 2018 saw record results, with all parts of the business performing in line or ahead of our expectations. Early in the year, the Company experienced its best ever day and its best ever month for new insurance sales. As we entered the second half of the year, this momentum continued, with new insurance sales still growing and strong indications that several large clients would commit to running the PG Let's Connect offer. The Company's Software as a Service (SaaS) revenue line also saw strong growth, supported by several key client wins.

However, as the second half of the year progressed, we were buffeted by two major headwinds – the change in the laws relating to personal data (GDPR) and a subsequent security issue at one of our major third-party suppliers. GDPR led a number of our prospective clients to be cautious about committing to our insurance and PG Let's Connect propositions until they understood better their increased responsibilities under GDPR. Fines under GDPR are calculated as a proportion of worldwide revenues and are therefore significant and leading to companies and boards taking more time to make decisions.

The data breach at a long-term supplier compounded the uneasiness of some existing clients, as well as prospects, and we lost both sales momentum and actual business as a result. Once again, our team at Personal Group responded well and we overcame the immediate effects of these challenges. The tremendous response of the team, combined with the inherent strength of our business and our propositions, enabled us to deliver results for the year broadly in line with market expectations.

Whilst the effects of these two challenges endured into this year, albeit diminished, we entered 2019 with actions already underway to accelerate the rationalisation of the supply chain – we have brought some of our key client benefits provision in-house including the issuing of pre-paid cards. We have also made changes to the way we operate our business and are confident we will see it progress further as the year unfolds. Nonetheless, we recognise that the insurance business will take a little time to regain momentum and that PG Let's Connect is bouncing back more slowly than we'd hoped.

SaaS, which includes Sage Employee Benefits, continues to see good revenue growth. We have faced challenges in 2018 but, having reflected, the Board firmly believes our strategy, with its direction of travel, is the right one.

Chairman's Statement continued

"Following our acquisition of Innecto, we have a broader, more integrated set of propositions and a new CEO."

Our market continues to change and the pressure on employers to attract and retain labour has become more intense. The employment market continues to be tight and employees are increasingly likely to change jobs. To attract and retain staff cost-effectively, employers need to compete, not just with remuneration but with an employment proposition that increases the significance of employee benefits, welfare and experience. Employers are therefore increasingly recognising the commercial benefits of investing in their workforce, reflected in board level discussions.

Personal Group is well placed to respond to the opportunities being created within our market. We believe that we have a market proposition that is unrivalled amongst our peers and a team with a depth of proven experience. Having invested substantially in the business, we are well positioned to capitalise on opportunities presented by an adapting labour market, which continues to increase focus on a positive employment culture.

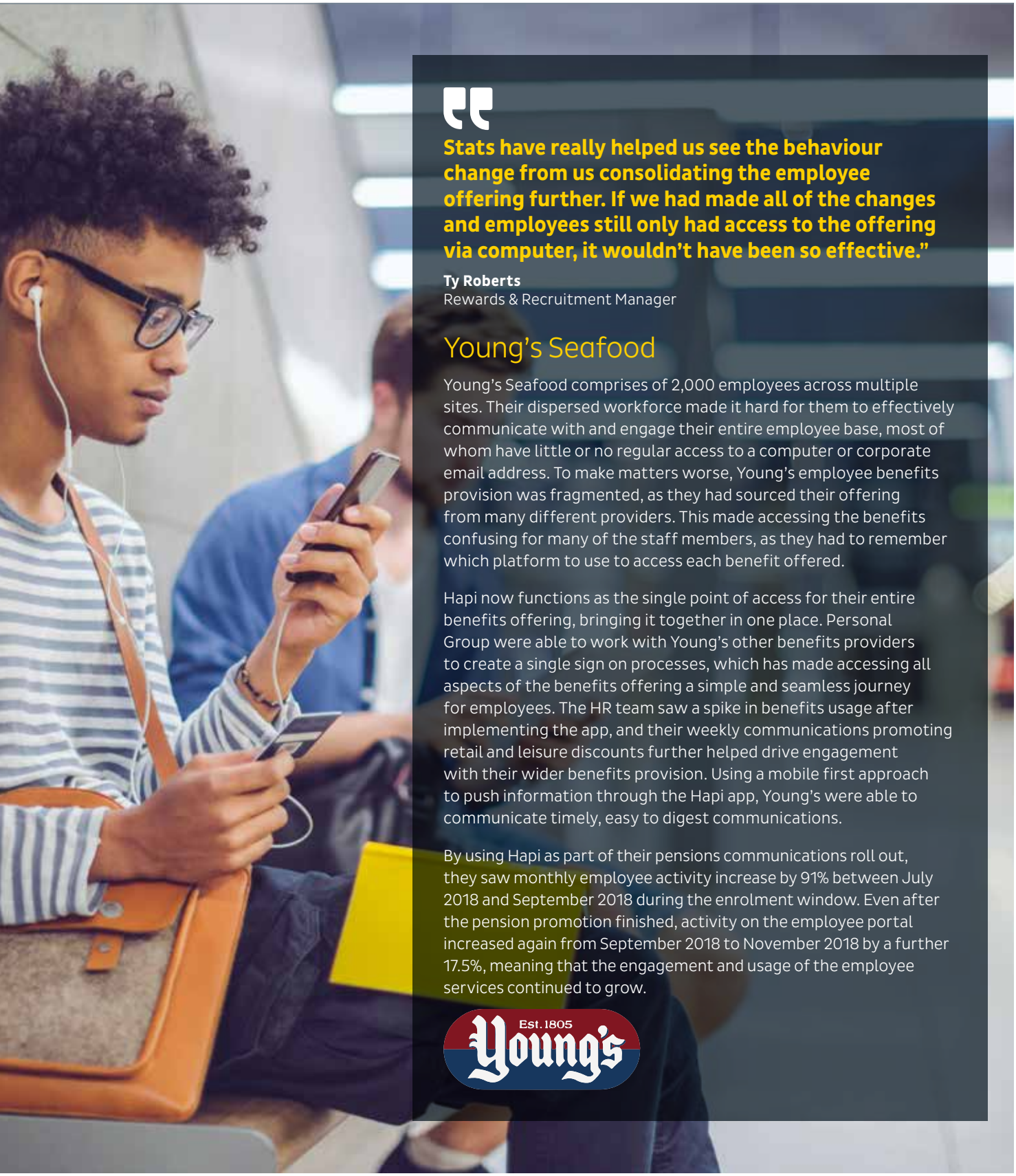
As a Board and Company, it is our job to unlock that opportunity and value. To that end, in February 2019 we acquired Innecto, a leading independent pay and reward consultancy. This acquisition both broadens the services Personal Group has to offer, as well as strengthening our position across all our services with clients. We can now offer much more to each of our clients, be they Innecto clients, Personal Group clients or those new to the Group. That investment is now in place and we look forward to seeing the benefits of it as 2019 progresses and beyond. Our focus now is on driving additional sales.

Many people have enabled Personal Group to enter 2019 in very good health and the Board thanks them all. One of whom I must mention is Mark Scanlon, who joined us as CEO in 2012. Mark has provided leadership and drive that has materially reshaped Personal Group. His personal energy and enthusiasm were infectious and I thank him for his tremendous contribution.

We have in our new CEO, Deborah Frost, another highly talented individual who is perfectly placed to lead the Company in its 35th year and beyond.

Our opportunity is to exploit Personal Group's strengths – old and new – and make 2019 a year worthy of significant celebration.

Mark Winlow
Non Executive Chairman
25 March 2019



Stats have really helped us see the behaviour change from us consolidating the employee offering further. If we had made all of the changes and employees still only had access to the offering via computer, it wouldn't have been so effective."

Ty Roberts
Rewards & Recruitment Manager

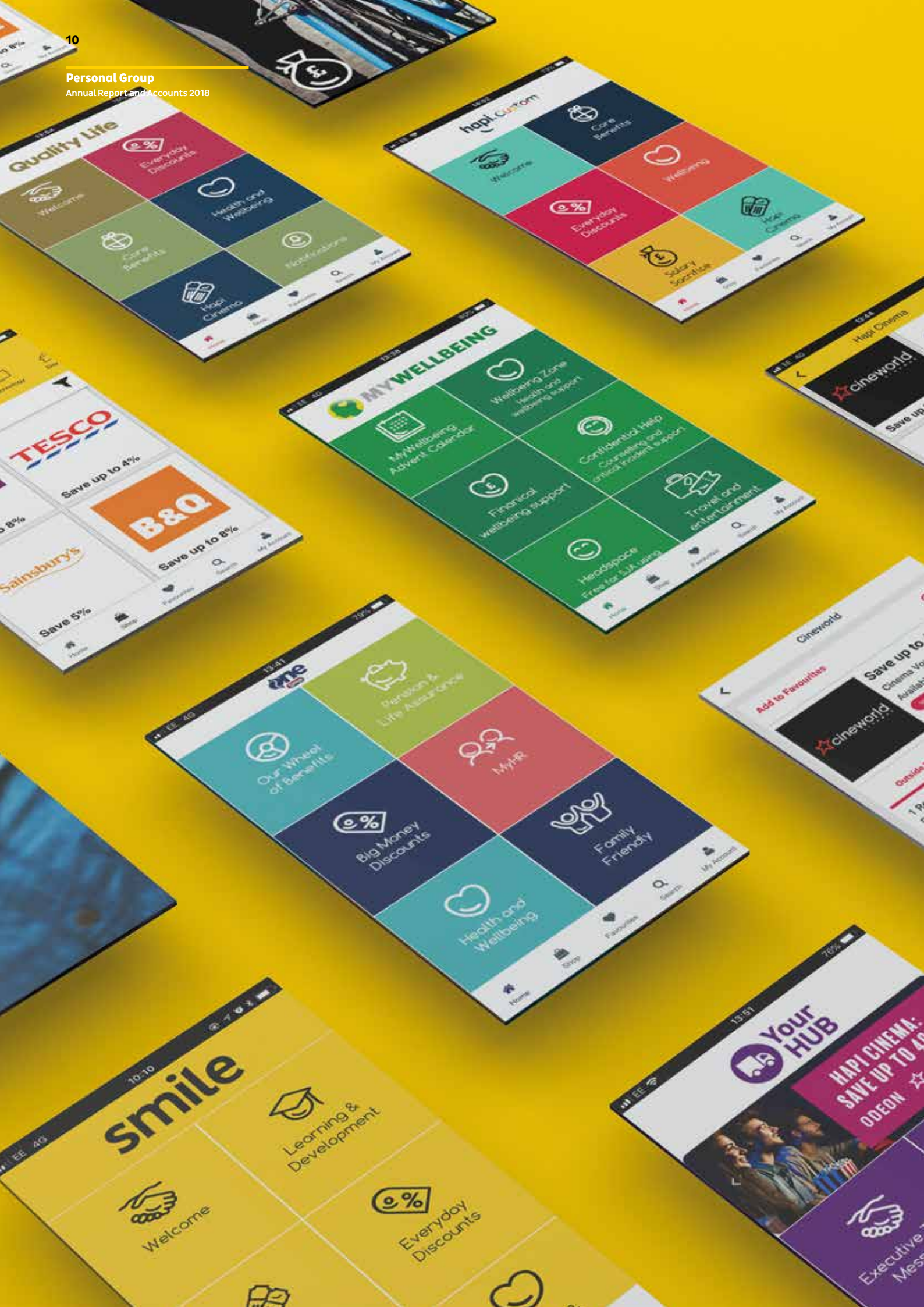
Young's Seafood

Young's Seafood comprises of 2,000 employees across multiple sites. Their dispersed workforce made it hard for them to effectively communicate with and engage their entire employee base, most of whom have little or no regular access to a computer or corporate email address. To make matters worse, Young's employee benefits provision was fragmented, as they had sourced their offering from many different providers. This made accessing the benefits confusing for many of the staff members, as they had to remember which platform to use to access each benefit offered.

Hapi now functions as the single point of access for their entire benefits offering, bringing it together in one place. Personal Group were able to work with Young's other benefits providers to create a single sign on processes, which has made accessing all aspects of the benefits offering a simple and seamless journey for employees. The HR team saw a spike in benefits usage after implementing the app, and their weekly communications promoting retail and leisure discounts further helped drive engagement with their wider benefits provision. Using a mobile first approach to push information through the Hapi app, Young's were able to communicate timely, easy to digest communications.

By using Hapi as part of their pensions communications roll out, they saw monthly employee activity increase by 91% between July 2018 and September 2018 during the enrolment window. Even after the pension promotion finished, activity on the employee portal increased again from September 2018 to November 2018 by a further 17.5%, meaning that the engagement and usage of the employee services continued to grow.

Est. 1805 Young's


Quality Life
Welcome
Everyday Discounts
Health and Wellbeing
Core Benefits
Hapifundraiser
Hapi Cinema
hapi.Custom
Core Benefits
Welcome
Wellbeing
Everyday Discounts
Hapi Cinema
Salary Sacrifice
TESCO
Save up to 4%
B&Q
Save up to 8%
Sainsbury's
Save 5%
MYWELLBEING
Wellbeing Zone
Health and wellbeing support
MyWellbeing Advent Calendar
Confidential Help
Counselling and critical incident support
Financial wellbeing support
Travel and entertainment
Headspace
Free for SJA users
Hapi Cinema
cineworld
Save up
Cineworld
Add to Favourites
Save up to
cineworld
Pension & Life Assurance
Our Wheel of Benefits
MyHR
Big Money Discounts
Family Friendly
Health and Wellbeing
smile
Learning & Development
Welcome
Everyday Discounts
Your HUB
HAPI CINEMA:
SAVE UP TO
ODEON
Executive

Our Markets

Personal Group invested ahead of the market.

The Company's strategy has been to build an offer that is comprehensive enough to meet different client needs, but also focused enough to be distinctive. We have also designed in a level of flexibility that will allow the offer to change as the market evolves.

Our technology has placed the Company in a strong position, underpinning the continued attraction of Personal Group to employers and allowing us to capitalise on future growth.

The Employee Benefits Market

The market for employee benefits remains strong and signs suggest this will continue. The employee benefits market includes employee services and what has now evolved into the "employee experience".

The key drivers for this market remain similar to a year ago, being a combination of macro-economic and cultural factors.

The key economic factor is the continued tightness in the labour market, created by full employment and reduced immigration, post the decision to leave the European Union. With steep increases to the National Living Wage driving down pay differentiation in our target market, employers are looking for new ideas to be able to create an employee deal which is above and beyond the legal requirements on wages alone.

The main cultural change is the recognition by employers of the need for, and commercial value of, investment in their employee experience. During 2018, this cultural change gained momentum, with increasing corporate, political and media interest and public comment.

The effect of these drivers has been pressure on employers to compete for labour at both a wage and non-wage level. There are certain industries, for example transport, where it is now considered mandatory to provide a benefits package to be able to attract and retain scarce people resource.

Market Dynamic

Key market changes over the last year have included businesses further refining their approach to purchasing and greater competition at a product level.

The driver for this has largely been ease, efficiency and the growing professionalisation of HR provision. This dynamic has led to the growth of "one stop shop" solutions and the decline of specialist, single product providers. In a number of successful bids this year, the strength of the offer, systems and experience of the team at Personal Group, placed them in a good position to cater for these changes and thrive as a result.

This evolution has gained momentum again in the last year, with an additional driver of the introduction of GDPR, and businesses have been increasingly looking to manage their data risk by refining their supply lines.

Generally, employee benefit solutions are better understood in the market and we have seen wider platform adoption. While this offers less "green-field" opportunities, where potential clients don't have an existing solution in place, it means market understanding is better and it plays to the strength of Personal Group's offer.

Competition and the Peer Group

Personal Group remains unique. There are no other companies providing a comparable offer and, as such, competition tends to be more at a product, rather than business, level. We are seeing increased consolidation in the marketplace with a number of mid-sized companies being acquired by larger pension and insurance global players.

Nonetheless, the Company has seen a limited shift by its closest peers to mirroring the offer it provides. This has entailed the introduction of new products that have strengthened their proposition for the end user employee, while maintaining the corporate HR and management systems appeal.

As a result of investing ahead of the market, Personal Group has gained a first mover advantage. Its offer has been refined and is now established, it is comprehensive, with appeal across the client business, and is underpinned by proven systems and relationships. We have been successful in creating partnerships with clients, where there is mutual benefit for all participants, from us, to the client to their employees.

The market for employee benefits remains strong and signs suggest this will continue."

The offer was designed from the outset with the view that it needed to appeal to both the corporate and their employees. The organisation being the initial decision maker and purchaser of the platform, but with ongoing usage among employees determining the longer-term success.

Our Approach

The Company's approach to addressing this market has been to focus on developing a distinctive offer, expanding the addressable market opportunity and developing multiple routes to market.

Developing the right offer has been central to the strategy. Personal Group has moved from being an insurance provider to providing a comprehensive employee experience platform, based around employee benefits, engagement, communications and wellbeing.

The offer is flexible, combining Company and third party owned products that are delivered and managed via Hapi, a platform and app that is inherently scalable and secure. The Hapi app is readily accessible in the public app and play stores. Employees' own smart phones provide the only IT infrastructure required for a successful launch, avoiding the need for company-wide PC access. This has particularly allowed us to access employers with employees who aren't desk-bound and who normally find it difficult to access a benefits platform.

The Group's focus on mobile first development, security and usability, has led to partnerships with two leading technology organisations, OutSystems and Braze. OutSystems is a low-code platform that enables Personal Group to visually develop the entire application, easily integrating it with existing systems, and adding custom code to further enhance performance. It is designed to help development teams build and deliver better apps faster. Braze is a mobile first engagement platform, which allows for live views of user behaviour and uses historical, in-the-moment and predictive data to allow Personal Group to take immediate action on insights.

Personal Group has expanded its addressable market from 6million employees in 2014 to 32 million employees today. Up until 2014, the business was set up to focus on large UK employers with over 5,000 staff. Since then it has added the capacity to service mid-tier corporates, the public sector and the SME market. This has been achieved through a combination of product innovation, technology, acquisition and partnerships. It is an approach that maximises the potential opportunity for growth and is in line with the Company's goal of becoming the de facto provider of employee services in the UK.

To ensure the Company is best placed to take advantage of the opportunity created, multiple routes to market have been developed. These entail direct sales, the development of referrers and resellers and the establishment of partnerships. Sales are made at a corporate as well as at an employee level. The client business purchases the platform and additional revenue is derived from multiple points in the relationship. This typically includes face-to-face sales of employee insurance, revenue derived from usage and sales of third party products and margin on technology products purchased by the employee through salary sacrifice. The face-to-face employee engagement sales team meets around 160,000 client employees per year, supporting the launch of the Hapi platform at each location and selling insurance direct to employees.

The partnership, reseller and referrer strategies are aimed at utilising established trusted relationships. They are cost-effective and efficient approaches, ensuring timely market access, improving product understanding and reducing the need for upfront investment in building brand awareness and trust.

Technology and Cyber Security

Hapi is based around three basic principles; app first, data security and ease of use.

To aid us in achieving these, we've partnered with two technology organisations – OutSystems and Braze – and developed integrations with a number of major platforms, including Microsoft and Google.

HR SYSTEMS

PAYROLL

ERP SYSTEMS

LEARNING MANAGEMENT SYSTEMS

EMPLOYEE ASSISTANCE PROGRAMMES

PENSION

EMPLOYEE INSURANCE

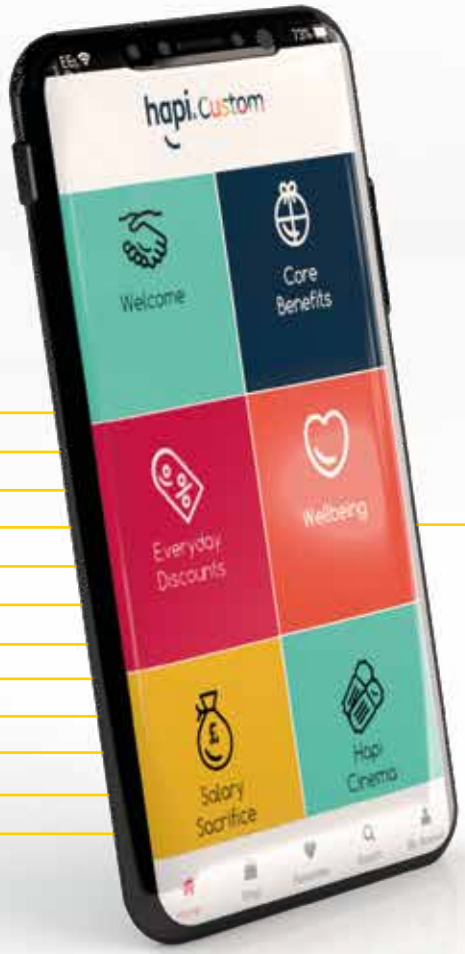
RETAIL DISCOUNTS

SURVEY TOOLS

VIDEO DOCTOR SERVICES

HOME TECHNOLOGY PRODUCTS

ANY OTHER EMPLOYEE SERVICES



Data Security

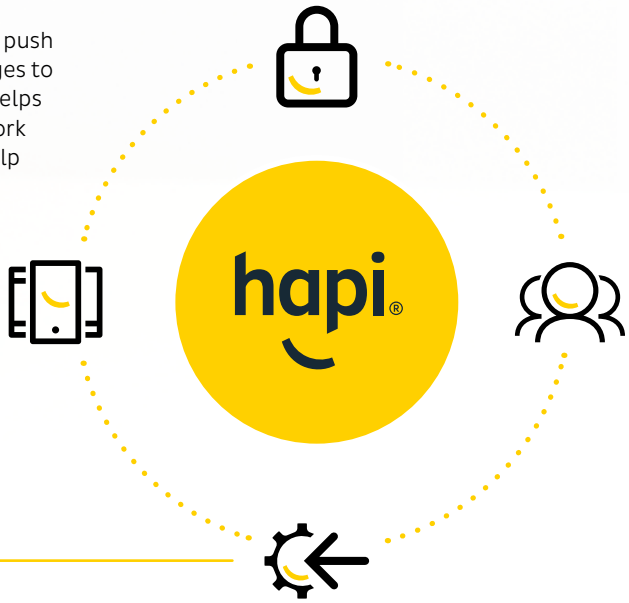
At Personal Group, we take security very seriously. The Hapi platform is PCI DSS Compliant (SAQ-D) and is regularly penetration tested by alternating third parties.

We also perform additional comprehensive monthly web application security scans through an approved scanning vendor. We apply Randomised Authenticated Encryption using AES-256 in Cipher-Block Chaining Mode with Random Initialization Vector (PKCS7 padding) to secure the data at rest. We then use asymmetric algorithms to encrypt the keys and symmetric encryption when applying those keys to the data. This provides state of-the-art security with minimal effect on performance. Passwords are stored hashed using SHA-512, a set of cryptographic hash functions designed by the United States National Security Agency. Our production and development environments are fully segregated, and Hapi is developed and maintained solely by Personal Group and Hapi does not store cardholder data or sensitive authentication data at any time.

App First

One of Hapi's core design principles is that development will always be app first. Today, many employees work in roles where they have little or no regular access to a computer or corporate email address.

This is often seen as a huge obstacle to effective and inclusive internal communications. Fortunately, Hapi was developed with this challenge in mind. Almost every UK employee has a smartphone which means that, being a native app, Hapi enables employers to send personalised push notifications and in-app messages to their employees. This not only helps create a communications network for remote staff but can also help drive usage and adoption of the benefits platform.



Ease of use

As consumers, we're all aware that mobile phones have become the remote control for helping us manage our lives.

We not only use them for our main form of communication, we are also beginning to see a drastic shift to mobile e-commerce. This means that many companies have already chosen to make their products and communications mobile first, and employers are starting to follow suit. Personal Group's partnership with Braze enables us to drive multi-channel messaging via the common mobile platforms (iOS and Android).

Integration

Hapi can be used as the single point of entry for employees to access all their employee services including; payslips, pension portals, holiday booking, learning management systems and much more. Two of the leading global research organisations, Gartner and Forrester, rate OutSystems as a leader in its field. In Q3 2017 Forrester recognised OutSystems as being a Leader in its Forrester Wave™ Low Code Development Platforms review. Additionally, in May 2018 Gartner also recognised OutSystems as a Leader in its Magic Quadrant for App Development Platforms. Just like with OutSystems, Gartner and Forrester rate Braze as a leader in its field, way ahead of many of their competitors.

Our Business Model

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

What we do

The Value of Hapi

Hapi is our easy to use employee experience platform and app. Hapi ensures employees receive the best employee experience from interview to exit. Our products, services and technology help employers improve employee engagement, communications, benefits and wellbeing. We help organisations deliver the best employee experience possible, boosting productivity, retention and employee happiness. The different elements of Hapi ensure that there is something that will appeal to each employee and there are business benefits that make it an attractive proposition to each type of business. From wellbeing benefits which reduce absence and improve productivity and communications tools that increase engagement, to financial products which ensure employees' pay goes further and provides greater financial security, Hapi has broad appeal to both employee and employer alike.

"Our business model has evolved from one source of revenue (insurance) to three profitable revenue streams today."

Employer paid Hapi subscription
Employers pay monthly or annual subscriptions per employee for use of the Hapi platform and app.

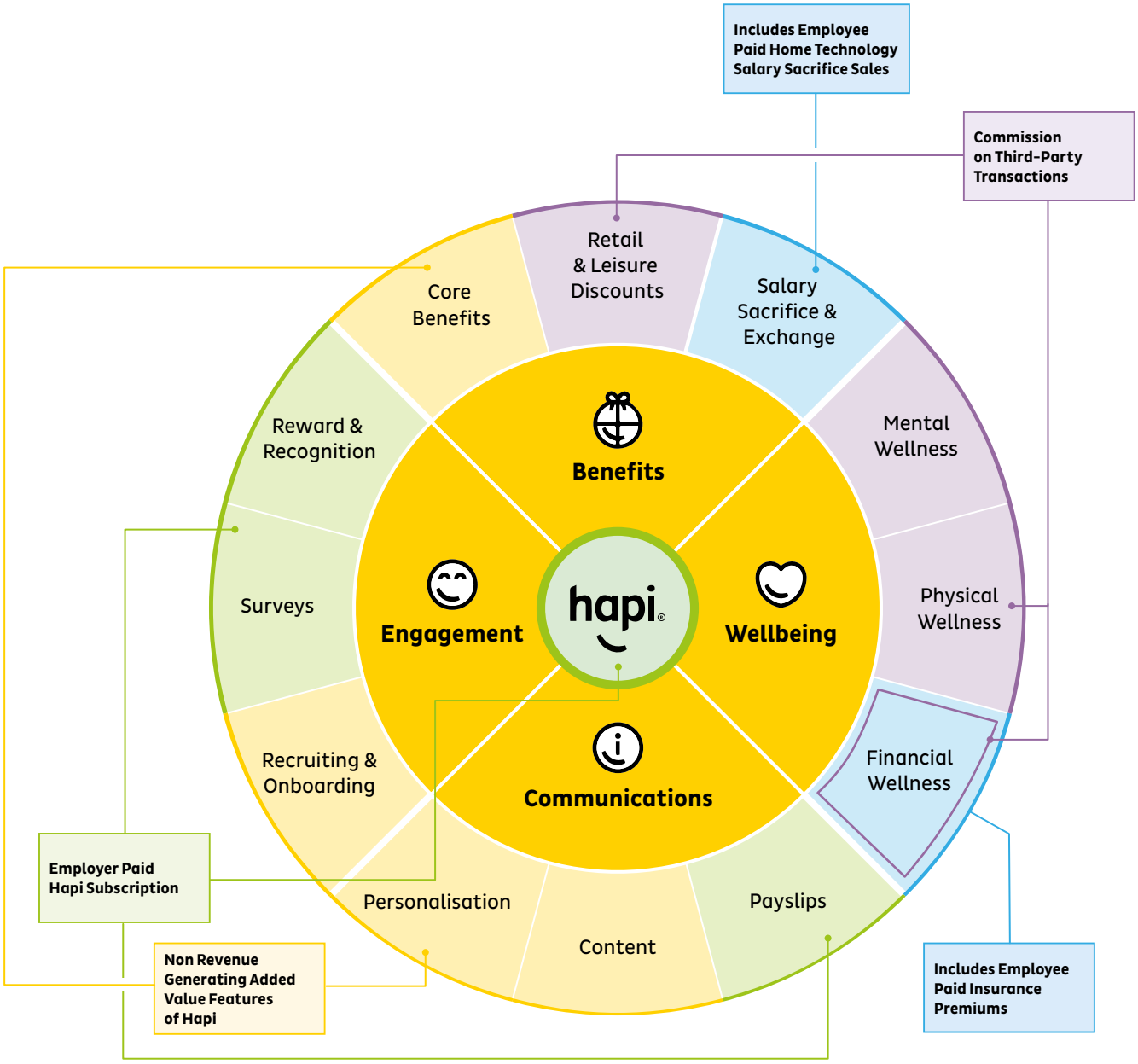
Employee paid insurance premiums
Access to our insurance products is made available through an individual's wider employee benefits offering. Premiums are paid by the employee via monthly or weekly payroll deduction.

Employee paid home technology salary sacrifice sales
Employers pay up-front for their employee's salary sacrifice purchases, while employees pay via monthly payment to their employer.

Commission on third-party transactions
Personal Group earn a margin on employee retail spend using the discounts, commission on any third-party financing arranged and on employer purchases of partner solutions.

Non revenue generating added value features of Hapi
Hapi contains many features which improve employee communication and engagement beyond the provision of more traditional employee benefits. These features drive usage of the platform by both employees and the HR function, establishing Hapi and Personal Group as a core component of the employers back office technology suite, which further enhances the "stickiness" of our offering to the corporate client.

Hapi generates income from the subscription paid by clients, through revenue generated via employee use of third-party services and by facilitating employee purchases of Personal Group insurance products and PG Let's Connect home technology products.



Key

- **Hapi Revenue – Direct Income**
- **Product Revenue – Insurance Premium & PG Let's Connect income**
- **Third-Party Revenue**
- **Value Add for Client included in Hapi**

Our Strategy

The Company's long-term goal is to become the defacto UK Employee Services Provider.

Its aim is to become synonymous with the provision of employee services in the UK.

Personal Group has made significant progress in achieving this goal in recent years. Its product offer is at the forefront of the industry, it has wide market access and has developed the technology and systems to penetrate that market opportunity. It is a business based on solid foundations, underpinned by a core insurance offer, a proven team and back office functions.

Client Proposition

The Company has created a client proposition that has universal and enduring appeal. The offer is attractive at both the employer and employee level, ensuring its value is recognised across the client business and is a central function in the management of their company. This has been achieved by combining owned and third-party products, supported by a unique platform that is both secure and flexible while easy to use.

Market Opportunity & Penetration

The Company has focused on maximising the accessible market opportunity and developing multiple routes to market.

Since 2014, the accessible market opportunity has grown from 6m to 32m UK employees. This has been achieved via acquisitions and technology, allowing Personal Group to access mid-tier corporates, the public sector and the SME market, alongside its traditional larger UK employer market.

Creating multiple routes to market maximises the Company's ability to deliver on the market opportunity. As well as developing its own in-house capacity, including corporate and location based sales teams, it has developed key partnerships, such as Sage, and a network of resellers and referrers.

Strong Systems and Team

Key to the Company's near and long-term success is having robust systems in place. These functions include customer service, technology, financial controls and HR.

The Company has consistently invested in these support functions. Today, Personal Group has an enviable record of customer service, with minimal complaints. It has developed technology that has improved internal efficiencies and provides a unique, secure and flexible platform for its clients. It has a record of prudent financial management and a team that is experienced, proven and has consistently demonstrated its commitment to the success of the business.

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

2018 progress	2019 plan
• Successful launch of several client propositions during the year, including an online GP service. • New Hapi app, successfully launched and received positive client feedback. • Successfully launched Sage Employee Benefits (SEB) to Sage's wider client base. • Initial launch of Reward & Recognition.	• Further development of the Reward & Recognition proposition. • Widen the client proposition following the acquisition of Innecto – deepening relationships with clients by increasing the number of services provided to them. • Help Sage drive the SME proposition to its wider customer base.
• Appointment to the Crown Commercial Service expected to benefit the business in 2019, with increased exposure to the public sector. • Increased marketing activity and strengthened sales team to support lead generation. • SaaS revenue continuing to make strong progress, with increased revenue generated via the Hapi platform.	• Realise the benefits of the investment in marketing and sales activity made in 2018. • Continue to evolve the product proposition and marketing activity. • Build on employee penetration into existing clients in PG Let's Connect. • Grow the insurance sales team back to normal levels. • Drive additional SaaS and platform revenue, including partner revenue via the sale of the Sage proposition. • Increase the level of communication to existing policy holders to reinforce the value of our insurance products.
• Invested in strengthening the client relations function. • Continued strong record of minimal customer complaints. • Swift and robust response to business challenges faced in 2018. • 76% of insurance claims paid within 72 hours. • Investment in systems security, underpinned by the OutSystems technology. • Actively commenced bringing the supply chain in-house, including launching a cinema offer and card fulfilment, generating additional revenue and reducing risk.	• Continue to work on the supply chain - supporting the client experience, creating revenue opportunity and reducing clients' and corporate risk. • Launch of new internal learning management system, to support team engagement and productivity. • Further investment in, and upgrade to, systems security including ISO 27001 accreditation. • Refresh the end to end insurance sales process and streamline further where possible.

Chief Executive's Statement

Personal Group has continued to deliver on its strategy and is today in a uniquely strong position to push forward.

Introduction

2018 is a year when the resilience of Personal Group was tested. Once again it exhibited its ability to flex with customers and market needs and traded ahead of last year, with results broadly in line with expectation. The Company saw good progress in all three lines of business as it continued to expand the provision of its services to the entire working population of the UK.

That said, the Company did experience some one-off challenges during the fourth quarter in PG Let's Connect, its salary sacrifice business, and in its insurance business. Though not expected to repeat in 2019, the postponement of some business in PG Let's Connect and a significant data breach at one of our third-party providers were not ideal, and we will see some residual impact in 2019.

Despite these challenges, Personal Group remains in a robust position. Its product offer resonates strongly with the market, not just for today but for where the market is evolving to in the future. It has a strong, proven team and is facing a market opportunity that is growing, driven by a combination of macro-economic factors and workplace cultural change. The Company is underpinned by a strong client base of over 600 corporate clients and has an enviable record of client retention.

The investment in technology in recent years is beginning to pay off, bringing us tremendous flexibility for product and service expansion. It is an investment we needed to make. It has supported the business as the market changes, has created opportunity for the future and has greatly enhanced internal efficiency. Today, Personal Group has substantial opportunities to exploit, which are realisable in 2019 and beyond.

Business Divisions

The Company's core insurance business continued to perform well with strong new insurance sales achieved throughout the year. This reflects the strength of the Company's insurance offer, which continued to resonate well with clients' employees. Five of the last six years have seen record new insurance sales results, with 2018 very close to its best-ever performance. The offer comprises a core hospital cash plan, a convalescence plan and a death benefit plan.

The 2018 new insurance sales performance is despite the near-term challenges, which impacted the insurance business as the year progressed. Performance was impacted by the third-party data breach but was also affected by the GDPR changes which came into effect in May 2018.

"The investment in technology in recent years is beginning to pay off, bringing us tremendous flexibility for product and service expansions."

Revenue

£55.3m

2017: £45.2m

Adjusted EBITDA (p26)

£11.4m

2017: £10.8m

Profit before tax

£10.2m

2017: £9.5m

The impact of GDPR resulted in clients delaying their decision making, both in terms of existing business and winning new clients. As the year progressed, the impact lessened as clients became more familiar and comfortable with the legislation. The core platform, Hapi, requires pre-loading of employee data to operate most efficiently and the sensitivity of employers to providing this information was significantly heightened, making the decision process longer and more convoluted. The positive to this is that we have met a very high standard and established stronger ties with our customers as we have become an even more trusted partner.

Chief Executive's Statement continued

Number of face-to-face presentations in 2018

159,853

Activated users on Hapi

321,463

(2017: 198,187)

The security issue in the Company's third-party supply chain in late 2018 also impacted our client relationships. The team undertook immediate and effective remedial action to rectify these.

The Company's strong technological capability through Hapi, its proprietary platform, meant that it could effectively deal with the inbound issue but not without some client impact.

These challenges had a knock-on effect on the Company's insurance sales team and as such the Company exited the year with fewer frontline sales people in the field. A core focus early in 2019 has been to grow the team, with a goal of recruiting and training several new sales people as early in the year as possible. Despite this challenge the team still saw around 160,000 employees face-to-face in 2018.

The Company's SaaS business achieved very strong growth in 2018, with related revenues increasing by 229% during the year, this follows a 77% increase the year before. Revenue is being driven by the increase in customer spend through the Hapi platform, which now has over 320,000 active users, combined with several key client wins, including St John Ambulance and Randstad. The last quarter of the year saw a record day and month for spend though the Hapi platform.

The Company delivered on plans to launch a standalone version of the Sage Employee Benefits (SEB) offer to Sage's wider client base in the fourth quarter. This was later than initially planned, due to conflicting priorities within Sage, but early indications are encouraging. Sage has dedicated sales people to support the offer and a team from Personal Group has been onsite to assist and provide background support. In December, Sage undertook an email marketing campaign of the product to some 1,800 clients, which saw significantly higher click through rates and interest than they would normally expect.

The revised version of SEB reflects our improved understanding of working alongside Sage and a better appreciation of the SME market. Sage has reaffirmed its commitment to the offer despite the changes they've made to their overall proposition. Sage cite Personal Group as the perfect example of how to work with a third-party supplier and are recommending that similar initiatives should follow our lead.

The value opportunity to both Personal Group and Sage of SEB remains significant and well worth pursuing. Sage remain a natural channel partner for the Company, with established direct relationships covering a very large percentage of UK SMEs. Targeting this market via a channel partner is a cost effective and efficient approach which, in the fullness of time, will also provide additional opportunity to our insurance business as those SMEs seek to take on our products. Sage's target customers span their Payroll, Accounting, Enterprise and Payments businesses which collectively interface with companies who employ some 16 million people in the UK.

PG Let's Connect saw revenue increase 33% and client numbers increased by 36% year on year. The business had a very strong start to the year, benefitting from Royal Mail's decision to run the offer to its employees consistently from March, helping to alleviate the traditional reliance on the Christmas period. We are seeing this pattern again in 2019.

For us, iSmile is really about investing and engaging with colleagues. Colleagues working in silos, on the road, or unsociable hours can easily miss key company information, but with iSmile we are able to contact and engage the workforce in its entirety."

Laura Mason-Byers
Internal Communications Manager

Wincanton

Wincanton, the largest British third party logistics firm, implemented Personal Group's Hapi platform for its 17,500 staff to help drive employee engagement across the business.

Wincanton provides supply chain consultancy and solutions to some of the world's most admired brands. The company employs more than 17,500 people across over 200 sites and has a 3,600-strong fleet of vehicles. Wincanton previously had a comprehensive yet fragmented benefit offering, working with various partners. They wanted to streamline their system to offer all of their rewards and benefits in one place. Wincanton chose to partner with employee services provider Personal Group to create a uniquely branded platform named iSmile. The platform provides employees with a single point of access to all of the company's existing benefits, internal communications, engagement programmes, health and wellbeing resources, employee surveys, and retail and leisure discounts.

The new platform is also accessible via a Wincanton-branded mobile app, available to employees directly from the app and play stores. An app was essential to Wincanton, meaning that Wincanton's employees, no matter where they are, can stay up to date with the latest business news and announcements as well as access to food, drink, travel and entertainment discounts to save money outside of work. The app's push notifications also enable Wincanton's comms team to instantly reach different segments of their workforce direct. They have the capability to send out an update to all staff or send out group notifications to specific teams, contracts or locations. This is vital for Wincanton's mobile workforce.

The platform launched in late 2018 and, to quickly bring all employees up to speed, Personal Group's Employee Engagement Executives are currently meeting employees face-to-face on an individual basis. This will ensure that by the end of the roll-out, each and every employee will know where and how to make savings based on their lifestyle preferences, and how to take advantage of the full suite of Wincanton benefits and communications.

Chief Executive's Statement continued

In addition to the impact of GDPR, in the fourth quarter, a number of clients from within the Government's Crown Commercial Services purchasing framework deferred running the offer to their employees in 2018 for internal logistical reasons. The Company will see the benefit of the deferred business in 2019 and enters the year with improved visibility.

PG Let's Connect is recovering, post the impact of the HMRC review into salary sacrifice, albeit more slowly than we had hoped. Of those customers served in the fourth quarter many outperformed their forecast which, post the legislative changes, bodes well for the future. In addition to its direct financial contribution, the business supports the wider Group. It strengthens the overall market proposition, creates cross-selling opportunities, opens new markets, particularly within the Public Sector, and encourages client retention.

Operations

Technology is key to the Group. It drives internal productivity, brings our offer together via the Hapi platform and supports SaaS revenue. Over the last five years the Company's core insurance team has seen a 34% increase in productivity through the introduction of technology. Client feedback from the revised app has been very positive. The app is also driving additional client engagement, supporting client retention and creating additional potential sales opportunities for products like video doctor services and Reward and Recognition.

During 2018 a key initiative was to rationalise the Company's supply chain. This was accelerated in the second half of the year due to the third-party data breach. Accelerating the Company's plans required additional investment during 2018 but brings forward advantages including much reduced system risk and far greater data security. Bringing the supply chain in house is expected to provide some commercial benefit, including additional revenue and improved margin.

The speed at which the Company reacted to the data breach has been key to supporting client relationships. While an unwelcome distraction across the business, we entered 2019 in a far stronger position. The Company has also continued to invest in system security having adopted the OutSystems technology on which Hapi was developed. In 2019 we have continued to invest, with a significant upgrade to the system early in 2019.

A key point of contact and client relationship is our claims function. During the year, the team again performed extremely well, paying 76% of insurance claims within 72 hours. The Company has an enviable record, with minimal complaints, which are sufficiently few in number that each one is reviewed by a member of the Senior Management Team.

Sales and Marketing

The Company delivered on plans to invest in its sales and marketing functions during the year. This included the addition of several new sales individuals, all from blue-chip software and sector specific backgrounds, and a 35% increase in the marketing team budget.

With the Company's offer and backend systems in place, the investment in sales and marketing is to drive additional market opportunities. Building on initiatives in 2017 and with the expanded team and budget in place, the sales message has evolved and the approach has become more targeted. It has also created the capacity to undertake wider direct marketing initiatives.

In addition to direct sales and marketing, the Company also invested in its customer relations function during the year. The aim of the investment is to further support client retention and create additional sales opportunities through broader client engagement.

Team

The performance of the Company is underpinned by the strength of its employees and their commitment. This was demonstrated during 2018 in the way they reacted to the challenges we faced. Their speed of reaction and dedication to the success of the business was key in minimising any negative impacts.

Our Senior Management Team is very experienced and effective in both the operational and, most importantly, the strategic running of the Company. As Deborah Frost, our new Chief Executive, begins her new role, it is clear to me that she will be well supported in her future endeavours.

As part of our initiative to invest in our people, a long overdue refurbishment of the Company's head office was completed in the early part of 2019. Supported by improvements in our IT systems, the refreshed office space affords a far better working environment.

Market

The market for employee services remains strong and there are signs that momentum will continue. Key drivers have included a restricted labour market, with the commercial value of investing in retaining staff becoming increasingly evident. The uncertainty surrounding Brexit raises concerns regarding the hiring and retention of skilled labour and further reinforces this view. This is combined with a clear change in corporate employee culture, reflected regularly in the media, politics and in the way corporate UK is governed.

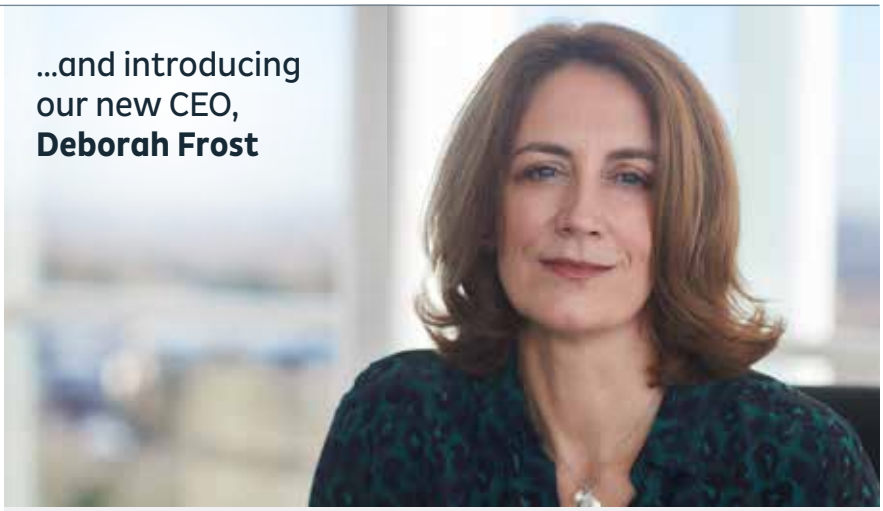
Outlook

The challenges we faced in the latter part of 2018 are expected to have some further effect in 2019. We also face a more uncertain business environment with the full impact of Brexit still unknown, however, the Company remains confident we will see further progress in the year ahead.

We have created near and long-term opportunities for growth, which we are well placed to exploit, and see potential opportunity in this less predictable business environment. We will continue to take a prudent approach to costs and maintain and nurture those parts of the business that underpin it, including our core insurance division.

As this is my final Annual Report I would like to express my deepest thanks and gratitude to the fantastic people that make Personal Group such a uniquely successful business. I would also like to thank our customers and shareholders, from whom I have felt an unwavering support over the course of my tenure. I wish Deborah every success and look forward to following the continued development of the Company in the years to come.

Mark Scanlon
Chief Executive **(to 28 February 2019)**
25 March 2019



"I am honoured and excited at having become Chief Executive of Personal Group. Having served on the Board as Non Executive Director since 2015, I have seen first-hand the business's talented team and management, brilliant culture, and strong growth potential. I look forward to building on Mark's achievements and continuing the Board's strategy to establish Personal Group as a leading provider of employee insurance, benefits and reward"

Deborah was previously a Non Executive Director of the Company and is a Co-Founder and Director of Innecto. She is a reward and performance expert and has led multiple global projects in pay structure, variable pay design, total reward, performance management and reward strategy. Deborah is a Chartered Fellow of the CIPD and has a diverse background in industry and consultancy, working for both Marks and Spencer plc and Nationwide Building Society before joining Towers Perrin in 2000. Deborah co-founded Innecto in 2002.

Key Performance Indicators

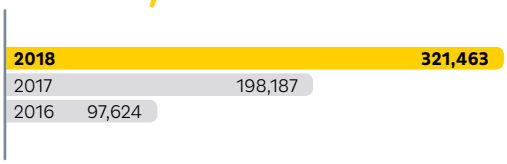
The Group uses a number of alternative performance measures as well as other KPIs when reviewing overall business performance.

Adjusted EBITDA* (£m)

£11.4m

Activated employees on Hapi

321,463



The number of client employees who have an activated account on Hapi to access their benefits.

Profit before tax (£m)

£10.2m

Number of policies in force

307,432

The transfer of the PMI business to AXA was completed in June 2017.

* Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation of intangible assets, goodwill impairment, share-based payment expenses, corporate acquisition costs, reorganisation costs, write-back of contingent consideration and release of tax provision. This definition applies to all references to Adjusted EBITDA within these report and accounts. A reconciliation from PBT to this Adjusted EBITDA has been included on page 30.

Claims ratio (%)

23.0%

Claims incurred as a percentage of earned premiums, net of reinsurance.

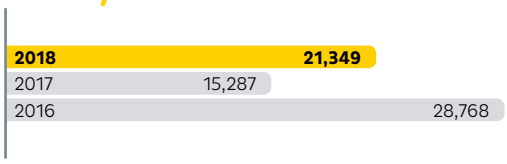
Enrolled to presented (%)

52%

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

PG Let's Connect shipments

21,349



The number of deliveries made to PG Let's Connect customers. (Deliveries may be for multiple products).

Annualised new business insurance premiums (£m)

£10.5m

The annualised value of new business insurance premiums written in the year is a key measure for the Group as it is the primary driver of earned premium in future years.

Alternative performance measures

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

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

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

Chief Financial Officer's Statement

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

Pleasingly, Personal Group achieved revenue growth in all three business segments."

Revenue

Group revenue for the year increased by 22% to £55.3m (2017: £45.2m). Pleasingly, Personal Group achieved revenue growth in all three business segments. During the year, the Company saw a strong performance from new insurance sales, SaaS revenue was again up significantly, admittedly from a relatively low base, and PG Let's Connect continued to bounce back from the legacy impact of the changes in salary sacrifice rules, albeit more slowly then we'd hoped.

Group revenue performance is despite the challenges faced in the latter part of the year, including GDPR and a data breach within the third-party supply chain. The impact on the insurance business was to reduce client accessibility, which had a subsequent impact on the availability of work for the field-based sales team. While we expect these challenges to have a residual impact in 2019, they are short term and do not impact the underlying potential of the business.

Following the UK's decision to leave the EU, there is a heightened concern about the UK economy, leading to reductions in business and consumer confidence, weaker sterling and a tighter labour market. As a UK centric business, we believe that the increased pressure to retain and hire labour and associated costs will reinforce the value of our products.

Group results	2018 £000	2017 £000
Continuing operations		
Revenue	**55,347**	45,233
Adjusted EBITDA*	**11,437**	10,812
Operating profit	**9,548**	9,512
Profit before tax	**10,210**	9,510
Tax	**1,819**	1,486
Profit for the year	**8,391**	8,024
Discontinued operations		
Profit for the year	**–**	238

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

Adjusted EBITDA*

Adjusted EBITDA* for the year was £11.4m (2017: 10.8m), including a beneficial impact of c£0.4m relating to the application of IFRS 16, which was early adopted in-line with the replacement of the majority of the Company's car fleet in January 2018.

The key driver for the increase in Adjusted EBITDA* during the year was the improved trading performance from PG Let's Connect of £0.9m. The insurance business, which continues to contribute the majority of Adjusted EBITDA*, was

Earnings per share

27.2p

2017: 26.9p

Dividend per share

23.0p

2017: 22.7p

Annualised new business insurance premiums

£10.5m

2017: £10.8m

£0.2m down on last year, following slight increases in the claims ratio and overheads.

The Company continued to retain a prudent focus on costs, which were below budget for the year but up on the prior year. The increase in costs primarily related to the planned investment in sales and marketing to drive additional sales opportunities and the unplanned costs associated with accelerating the plans to bring the third-party supply chain in-house.

Adjusted EBITDA* remains the most appropriate measure of performance, reflecting the underlying profitability of the business. This is due to the impact of one-off items, as a result of past acquisitions, on the Company's reported Profit Before Tax. A further explanation of this can be found on page 27.

Profit before and after tax

Profit before tax was £10.2m during the year (2017: £9.5m). This increase was predominantly due to the £0.6m release of the PG Let's Connect tax provision. The tax charge for the year was £1.8m (2017: £1.5m), resulting in profit after tax for the year from continuing operations of £8.4m (2017: £8.0m).

Chief Financial Officer's Statement continued

EPS

Basic EPS from continuing operations was 27.2p (2017: 26.9p), representing the second year of EPS growth. The calculation is detailed in note 14.

Dividend

The Group maintained its progressive dividend policy, paying a total dividend of 23.0p per share over the year (2017: 22.7p), representing a 1.3% increase over the prior year. The Group's core insurance business again produced a solid result, despite facing transient challenges, and continues to underpin the dividend and support investment across the wider business. The first quarterly dividend for 2019, of 5.825p per share, is again in-line with the Company's commitment to a progressive dividend policy and represents a 1.3% increase over the corresponding period in 2018. The dividend will be paid to shareholders on 29 March 2019.

Continuing operations	2018 £000	2017 £000
Profit before tax	**10,210**	9,510
Finance costs	**148**	-
Depreciation	**797**	437
PG Let's Connect - amortisation of intangible assets	**330**	330
Amortisation (other)	**331**	343
Share-based payment expense	**117**	192
Corporate acquisition costs	**150**	-
PG Let's Connect - release of tax provision	**(646)**	-
Adjusted EBITDA*	**11,437**	10,812

Segmental results

Continuing operations	2018 £000	2017 £000
Total Revenue		
Insurance	**31,210**	30,727
PG Let's Connect	**14,970**	11,292
SaaS	**8,742**	2,657
Other	**425**	557
Total	**55,347**	45,233
Adjusted EBITDA*		
Insurance	**9,777**	9,960
PG Let's Connect	**1,226**	288
SaaS	**196**	344
Other	**238**	220
Total	**11,437**	10,812

Discontinued operations	2018 £000	2017 £000
Revenue	**-**	63
Adjusted EBITDA*	**-**	294

Balance sheet

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

The increase in cash balances in the year was due to a combination of Group trading, the decision to liquidate the equity portfolio held by the Company and the sale of the building owned by our joint venture (see note 35).

The Company's main underwriting subsidiary, Personal Assurance Plc (PA), had a conservative solvency ratio of 260% (unaudited), with a surplus over its Solvency Capital Requirement of £6.9m. The Company has consistently maintained a prudent position in relation to its Solvency II requirements.

Insurance

The Group's core insurance business saw revenue remain broadly inline with last year. Revenue was driven by a further year of strong new insurance sales, being 97% of the highest ever, and reflects the continued appeal of the insurance offer. This is despite the number of policies in force continuing to show a small decline of 3.8% (2017: 3.0%), as the new policies written are an average 20.6% hiher premium than those that are lapsing. New insurance sales could have been stronger again had the impact of GDPR not delayed both new client wins and the servicing of existing clients. Many companies re-evaluated what data they were prepared to share with Personal Group to enable their employees to access Hapi and for our field sales team to meet them to present the benefits being offered.

Adjusted EBITDA* for insurance was broadly flat on the prior year at £9.8m (2017: 10.0m). The reduction to prior year was driven by trading performance, combined with a marginal increase in the claims ratio and overheads.

The Group's insurance income remains a high quality and relatively stable revenue stream to the Group. It is based on a small number of products that are simple, low cost and, as such, continue to resonate strongly across the employees of long established and new corporate clients.

SaaS

Revenue from the Company's SaaS business was up significantly again in 2018. The increase in the SaaS revenue line reflects growing income generated via the Hapi platform, combined with a contribution from Sage Employee Benefits (SEB) licences and the addition of new SaaS only clients, including St John Ambulance and Randstad.

The Company launched the SEB offer to Sage's wider client base in the fourth quarter of the year as a stand-alone product, rather than being embedded in other Sage SaaS products, as had previously been the case. This is later than originally planned as a result of competing priorities within Sage and, whilst it is relatively early days, the initial indications are positive.

Adjusted EDITDA* for SaaS for the year was broadly inline with the prior year at £0.2m (2017: £0.3m). This reflected an improved trading performance offset by the planned investment in strengthening the Company's SaaS sales function, together with the unplanned cost of bringing the supply chain in-house.

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

PG Let's Connect

PG Let's Connect saw revenues increase 33% to £15.0m (2017: £11.3m). The PG Let's Connect business benefitted from Royal Mail Group's (RMG) decision to run the offer to its employees from March onwards - bringing sales forward from the traditional Christmas period - and a 36% increase in client numbers. This was offset by the decision of a select number of clients to defer running the scheme to their employees into 2019 for internal logistical reasons.

Adjusted EBITDA* for PG Let's Connect increased substantially in 2018 over the prior year, at £1.2m (2017: £0.3m). This increase was driven by the improved trading performance, resulting in a greater percentage of revenue dropping to the bottom line, combined with an increase in the number of clients taking up the finance option, alongside the product offer, and a reduced cost base, as a result of the previously outlined changes to the management structure implemented in 2017. PG Let's Connect is undoubtedly bouncing back as hoped, post clarity around the changes made by the government to the rules around salary sacrifice. In addition to contributing to Group revenue and profit, the business is a strategic support to the Group.

It strengthens the client proposition, helps create access to new markets and, among other things, supports client retention and creates cross-selling opportunities.

Post balance sheet event

On 28 February, the Company acquired Innecto People Consulting Limited for a cash consideration of £3.0m. This presents an attractive opportunity as well as an established, complementary business in the employee services' sector.

Mike Dugdale
Chief Financial Officer
25 March 2019

St John Ambulance

St John Ambulance (SJA) knew they needed to provide a more complete programme and decided that the best way was to shift towards a more holistic wellbeing strategy by implementing Hapi, making wellbeing resources easily accessible, anytime, anywhere. Previously they provided their 20,000 employees and volunteers with access to a counselling service, and while emotional wellbeing is a key facet of any wellbeing programme, they wanted to consider all angles of the wellbeing triangle.

They chose Personal Group as the platform provider to simplify the process of bringing everything together. SJA sourced their wellbeing provision from a number of different providers, and wanted to ensure that this wouldn't cause an issue for employees trying to access services. The Hapi platform – MyWellbeing - connects all their benefits offerings in an app. Personal Group worked with other providers and created single-sign-on processes, which made accessing all aspects of the wellbeing offering simple and seamless for users. This was vital as from over 20,000 staff and volunteers, only around 500 are consistently desk-based.

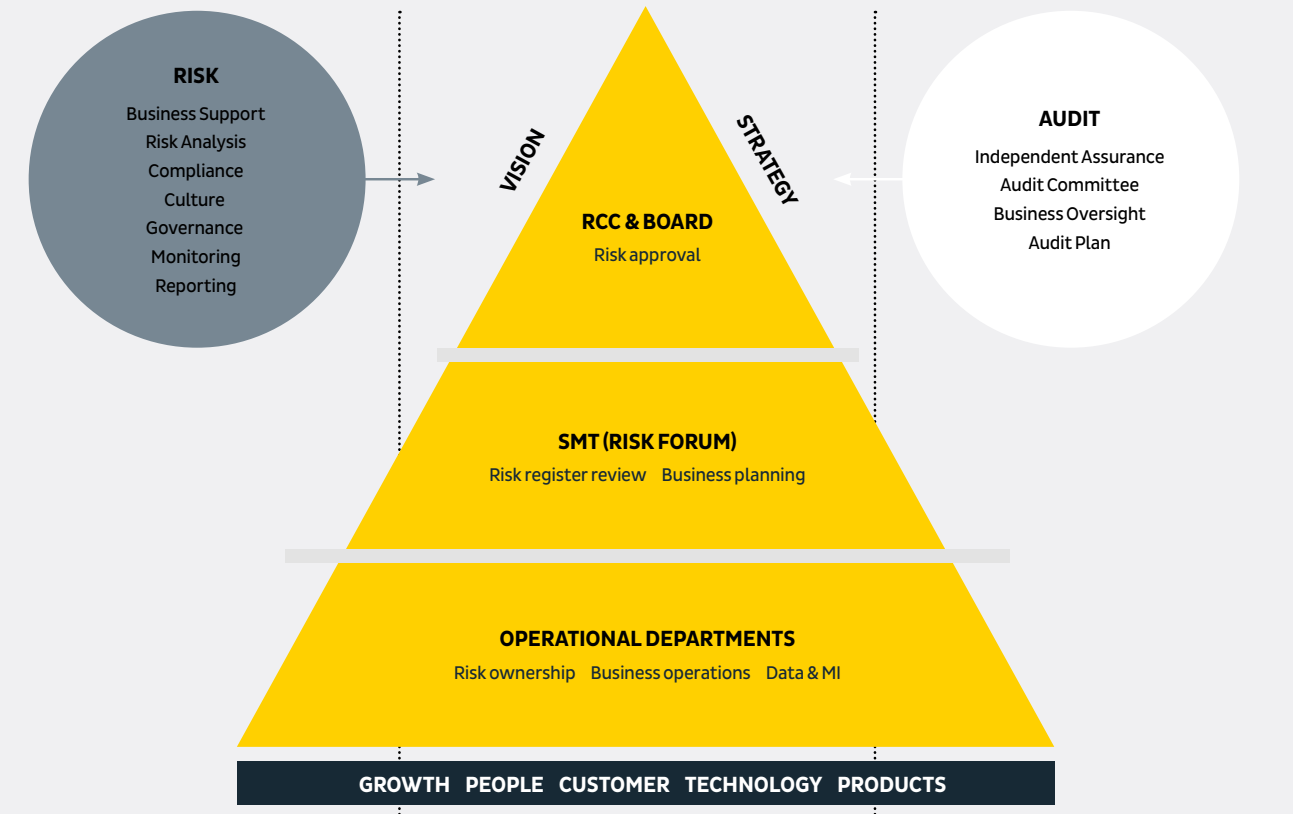
St John Ambulance

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

The Senior Management Team are regularly provided with an update on the current view of the risks affecting the business. These risks are consistent with those on the risk registers and a review of them continues to ensure that they cover all business activities alongside any particular "hot spot" risks, which require a more immediate review. Such emerging risks are perceived to be potentially significant to Personal Group but which may not yet be fully understood.

Risk Management Environment



FIRST LINE:
RISK OWNERSHIP & 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, 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.

Key to Change in risk No Change Higher

Key Risk	Current and emerging	Mitigating Activities	Change in risk
STRATEGIC CHANGE	Being an entrepreneurial and innovative business, Personal Group can be exposed to an increased level of risk during periods of change or when new products or services are being introduced. However, as any new product launches tend to be simply a widening of the current proposition, the level of risk is monitored and managed.	The Senior Management Team and the Board regularly review the top strategic risks for the business, their potential impact and action any mitigations required.	
RECESSIONARY PRESSURES & BREXIT	There are a number of separate economic indicators which appear to be sign-posting a recession wider than the UK's economy over the coming years. Historically the Group's book of insurance policies has performed well during recessionary times even with higher unemployment and we see no reason why this shouldn't continue. Brexit also presents a risk to both SaaS and PG Let's Connect with the potential for firms having to reduce their investment in these activities.	As a UK-centric business, we believe that the heightened concern about the UK economy, leading to reductions in business and consumer confidence, weaker sterling and a tighter labour market, will reinforce the value of our products and services. The attractiveness of our product suite will help employers attract and retain labour in what is anticipated to be a more challenging market, particularly given the uncertainty surrounding Brexit.	
LEGAL AND REGULATORY	During 2018 significant work was undertaken by the business to meet the requirements of the General Data Protection Regulation (GDPR), an enhancement to the existing data protection legislation. The Insurance Distribution Directive (IDD), an enhancement of consumer protection when buying insurance, has now come into effect and we also began to implement the Senior Managers & Certification Regime (SM&CR), which changes how senior people in financial services are regulated. The impact of a data breach from a third party causing potential reputational damage was felt during the year and has led to an increased awareness of how this and wider financial crime incidents need to be prepared for and addressed. A new area of focus from our regulators is that concerning climate change and its impacts which could cause additional insurance risks following either the physical impacts, such as new types of illness or those caused as companies transition to a lower carbon economy.	Having completed a comprehensive gap analysis we implemented cross-departmental action plans to bring together the necessary processes, collateral and training changes needed to meet the legislative requirements. This resulted in a new dynamic sales presentation for use by our field sales force, updated privacy notices across the business and amended statements of responsibility and governance maps of senior managers. During the year we introduced a remote working data security policy to address this specific area and heightened the awareness of how data is dealt with through bespoke training materials to all our staff. Senior managers and the Board are kept abreast of developments within our industry through updates, which help inform the decision making process.	

Corporate Social Responsibility

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

We truly believe that when people feel like they make a difference, they do. And when it comes to CSR, at Personal Group, we do more than write a cheque. Our CSR considers our environments, our community and business, with a focus on driving client, employee and investor satisfaction.

Our Business

Our unique approach to delivering employee services brings together both digital and face-to-face engagement to provide employees access to their company benefits, discounts, technology and services anytime, anywhere. We believe technology cannot solve the employee engagement problem on its own, so we work with each client to create an employee benefits roll out plan which will increase employee engagement, drive benefits adoption and deliver HR a return on investment.

Our Environment

At Personal Group we are continuing to work towards reducing our carbon footprint, automating processes and are moving towards becoming a paperless business. The recent refurbishment of our head office has provided more areas dedicated to everyday recycling and has created an environment which encourages collaborative working.

Our Community

We empower employees to make a difference in all aspects of life – at work, in their local communities and across the wider world. The community initiatives that we support, and how we support them, are guided by employees. In the past 12 months our staff have completed charity bead walks in support of school girls in Kenya, volunteered at the local food bank and organised various bake sales, contests and fundraising activities in each of our offices.

Client Satisfaction

We have invested in our client facing teams ensuring that client needs continue to be met and service levels remain high. In 2018 we held our first Group Client Conference, enabling clients to share their stories of HR best practice and to hear from experts in the employee engagement, communications and reward arena.

Employee Satisfaction

We listen to our staff and shape our own employee engagement strategies around the feedback we receive. We understand that happy employees are more productive and by focusing on our own employee satisfaction, we have driven up productivity within Personal Group which has had a positive impact on both client and investor satisfaction.

Investor Satisfaction

Our focus on client and employee satisfaction has inevitably led to improved performance and profitability, supporting our progressive dividend policy. In 2018 we continued our series of roadshows to engage and update investors ensuring they remained well-informed on the latest Company news and announcements. Our focus on responsive and regular investor communications will continue in 2019 under the leadership of our new CEO.

CSR in numbers

£576,000
Total donations in last six years

64
Number of different charities supported in 2018

50
Staff who have travelled to Kenya to volunteer at the PG school

£8,000
Donated this year via employee nominations

£3,695
Amount raised for Children in Need in 2018

240
Children now in education at the PG School in Shompole, Kenya

Our Focus Charities in 2018

Personal Group was built around the vision to help people when they need it most and our charitable work is no different. Since our Personal Assurance Charitable Trust (PACT) was founded in 1993, we are proud to have donated over £1.7 million to good causes both in the UK and abroad.

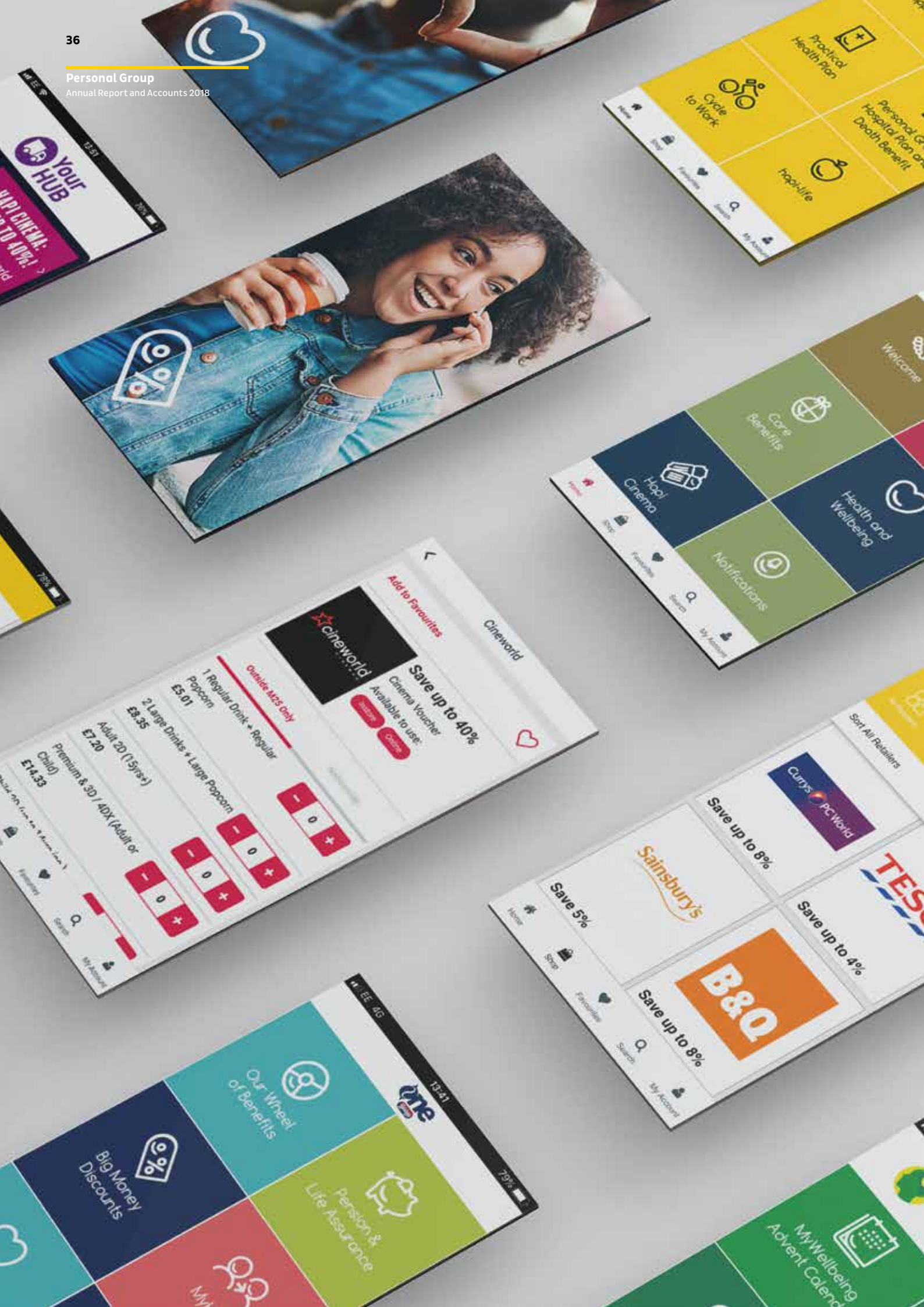
Keech hospice care

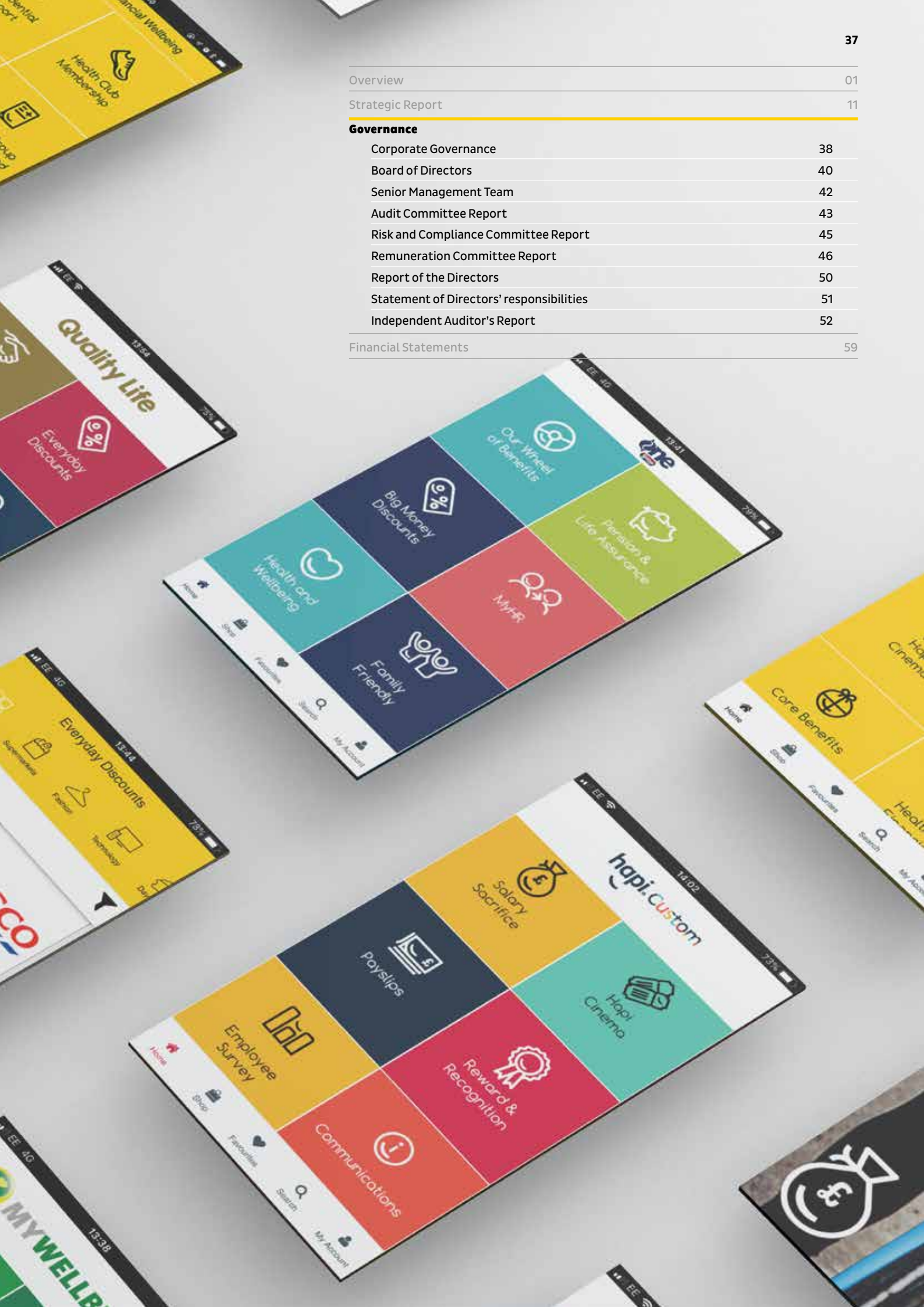
Keech support adults and children from our local area, who have life-limiting illnesses. They are unique as they are one of the few hospices in the UK which provides care for both adults and children. Personal Group is fundraising to support Sparklers for six months. Sparklers is a child and young adult pre and post bereavement support group, for both the children and adult sides of the hospice. This service is invaluable to many families, so our support is going to make a world of difference to them.

MEMUSI FOUNDATION

The Memusi Foundation was formed by Matthew Norton with the vision of providing education for the estimated 30 m children in Africa who have never set foot in a classroom. Our charitable donations and involvement from staff have helped turn this vision into a reality. The key appeal to supporting the Memusi Foundation is that our staff have the opportunity to travel to Kenya and actively work to change the lives of children. Personal Group has funded the construction of our own school in Shompole and every volunteer trip spends time here to meet the teachers and students and learn about their lives in Kenya as well as making improvements to the school.

The Personal Group School in Shompole opened its gates in January 2016 and the first intake was 60 children. This was double the number of children that the school was originally designed to accommodate but due to the passion and desire for education it was decided that no child would be turned away. With three more classrooms now complete, there are even more children in education thanks to the efforts of our employees.

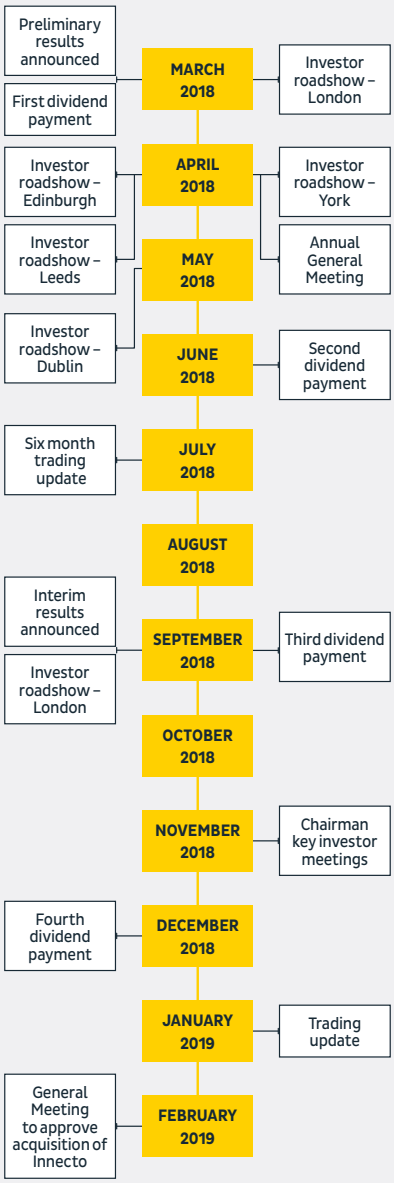

Your HUB
Cycle to Work
Practical Health Plan
Hop! Life
Hop! Cinema
Care Benefits
Health and Wellbeing
Notifications
Welcome
Cineworld
Add to Favourites
Save up to 40%
Cinema Voucher
Available to use:
Online
1 Regular Drink + Regular Popcorn £5.01
2 Large Drinks + Large Popcorn £8.35
Adult 2D (15yrs+) £7.20
Premium & 3D / 4DX (Adult or Child) £14.33
Outside M25 Only
Sort All Retailers
Save 5%
Sainsbury's
Save up to 8%
Currys PC World
Save up to 8%
B&Q
Save up to 4%
Big Money Discounts
Our Wheel of Benefits
Pension & Life Assurance
My Wellbeing Advent Calend



Corporate Governance

During the year the Group have adopted the Quoted Companies Alliance (QCA) Corporate Governance Code in its entirety.

Investor timeline



Chairman's Introduction

Dear Shareholder,

As Chairman of Personal Group, I ensure that the Board is performing its role effectively. This means ensuring the Directors have the capacity, ability, structure, diversity and support to respond to the opportunities being created for us.

I also have responsibility for ensuring the robust governance of the Group through challenge and direction of the Senior Management Team. We seek to maintain high standards of corporate governance whilst still achieving the Company's strategic aims.

It is well recognised that business success is derived from good corporate governance. I and the Board believe that a sound and well understood governance structure is essential for maintaining the integrity of the Group, in all its actions. Good governance should enhance performance and deliver positively for our shareholders, staff, customers, suppliers and other stakeholders.

During the year the Group adopted the Quoted Companies Alliance (QCA) Corporate Governance Code in its entirety. The code seeks to measure our adherence to good governance principles providing the necessary framework for assessing performance as a Board and as a Company. This framework supports the way in which the strategy is set and establishes how effective decision making from all stakeholders leads us to meet the overall objectives.

Each of the 10 principles of the Code provide greater detail in specific areas and explain how we manage corporate governance, showing the way in which these aspects provide the support to drive successful outcomes to the business. The Board delivers effective decision making, managing the risks of not achieving the required improvement to performance and subsequent drive of value for shareholders, based on the quality information which it receives.

The Board does not consider that it departs from any of the principles of the QCA Code and will continue to develop its governance processes in the coming year.

The Board also has a significant role to play in establishing the culture of the business ensuring that it is consistent with our business model and suitably cascaded through the Group. This is monitored through engagement with the wider investor community, through involvement of the Board Committees and by use of the wide-ranging experience, skills and capabilities of Board members. We will be conducting an externally facilitated Board Effectiveness Review in 2019.

The Board met 10 times in 2018 with all Directors present at all meetings, other than Ken Rooney who attended all but one. In addition, the Board has Audit, Risk and Compliance and Remuneration Committees, the reports of which can be seen later in this section.

Mark Winlow

Independent Non Executive Chairman

For further information, please visit our website at: **personalgroup.com/qca**

Principle 1

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

Personal Group is a leading provider of employee services in the UK, serving more than 600 corporate clients. Its aim is to be the defacto provider of employee services in the UK by maximising the strength of its offer, the addressable market and market access, and the quality of its systems and team. Details of the current business model and strategy can be see in the Strategic Report section of these Report and Accounts.

Principle 2

Seek to understand and meet shareholders' needs and expectations.

To ensure open dialogue with shareholders, the Company employs the services of a broker, a financial and corporate communications agency and invests in an internal investor relations resource. Regular dialogue takes place with shareholders through initiatives including the Annual General Meeting, investor roadshows, regulatory announcements, the Report and Accounts and its investor website.

Principle 3

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

The Company engages with its wider stakeholders via meetings, surveys, having supportive internal systems and policies, training and development and engaging with regional and international organisations, including charities, educational institutes and non-profit organisations. The Company's key stakeholders are identified on page 34.

Principle 4

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

The Board is responsible for identifying and mitigating risks to the Group achieving its strategic objectives. It has adopted a risk vision strategy, including an "Enterprise Risk Management Framework", a system of risk governance, including a Risk and Compliance Committee, and has developed a system of internal financial and non-financial controls. During 2018, a risk based internal audit function was again provided by RSM. For further details see pages 32 and 45.

Principle 5

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

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

Principle 6

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

The background and experience of the Board ensures there is an effective and appropriate balance of skills and knowledge. These include areas such as: HR, technology, insurance, business services and innovation. Additional training is provided where needed and Board members are encouraged to maintain their professional development. The Board meets regularly to receive and review information on the Group's operational and financial performance.

Principle 7

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

Board evaluation is the responsibility of the Chairman. Internal Board effectiveness reviews are undertaken yearly, with independent reviews at least every three years. Assessments cover the necessary skill set and experience, effective working and processes and systems, and give consideration to succession planning. Board members are each set annual objectives, with performance feedback provided by corresponding executive and non executive members.

Principle 8

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

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

Principle 9

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

The Board is collectively responsible for the long-term success of the Group and for setting and executing the business strategy. The Board meets at least 10 times per year. It sets direction through a formal schedule of matters reserved for its decision. Appropriate and timely information is provided prior to each meeting.

Principle 10

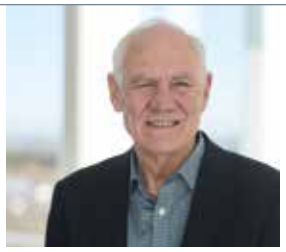
Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

The Company communicates through a variety of regular digital and traditional communications. These include face-to-face meetings, the Annual Report & Accounts, Interim Results, investor news announcements and information provided on the Company's website. The Company holds an Annual General Meeting for shareholders, the results of which are announced via RNS. Historical information can be accessed via the Company's website and RNS system.

Board of Directors

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

Mark Winlow
Non Executive Chairman



Ken W Rooney
Non Executive Director
and Deputy Chairman

Deborah Frost
Non Executive Director

Bob Head
Non Executive Director

Appointed date

Mark Winlow	Ken W Rooney	Deborah Frost	Bob Head
May 2016 (Non Executive October 2013)	July 2000 (Non Executive since July 2015)	September 2015 (Appointed CEO 28 February 2019)	November 2016

Experience

Mark Winlow	Ken W Rooney	Deborah Frost	Bob Head
Over 35 years experience in financial services in the UK and internationally, including time at Zurich Financial Services as Managing Director of Zurich's UK consumer business. Previous partner in audit and advisory firms KPMG and EY.	Over 40 years experience in financial services, including running his own company until 1998. Joined Personal Group in 1999 and served as Chief Executive from 2004 to 2009, and again as interim in 2011. Retired from his Executive position in July 2015.	Co-founder and CEO of Innecto People Consulting, a specialist pay and reward consultancy. Diverse background in industry and consultancy, working for both Marks & Spencer and Nationwide Building Society before joining Towers Perrin in 2000.	Over 30 years experience in the financial services industry in the UK and internationally including Co-founder of egg, first CEO of smile and Director of Prudential's International Division. More recently, interim CFO of South African Airways.

Skills, personal qualities & capabilities

Mark Winlow	Ken W Rooney	Deborah Frost	Bob Head
Investor relations, regulatory knowledge, strong and effective leadership, entrepreneurship and innovation.	Regulatory knowledge, historic knowledge of Personal Group.	Reward and performance expert, specialism of working in high growth businesses, Chartered Fellow of CIPD.	Chartered accountant as well as FCIB and ACII.

External Appointments

Mark Winlow	Ken W Rooney	Deborah Frost	Bob Head
Chairman of insurer Ageas and broker RFIB. Senior Independent Director at Starling Bank.	None	CEO of Innecto Reward Consulting (to 28 February 2019).	Non Executive Director at Alexander Forbes and Chair of Audit and Remcom committees at Fair FX.

No of Board meetings attended

Mark Winlow	Ken W Rooney	Deborah Frost	Bob Head
10 of 10	9 of 10	10 of 10	10 of 10

Independence key:

Ⓘ Independent

Committee Membership key:

● Audit Committee ● Remuneration Committee ● Risk and Compliance Committee ○ Chair of Committee

Mark W Scanlon
Group Chief Executive

Mike I Dugdale
Chief Financial Officer

Andy Lothian
Managing Director PGB Sales

Sarah Mace
Group Financial Controller and Company Secretary

December 2011 (Resigned 28 February 2019)	January 2013	July 2017 (employee since 1998)	April 2014
Previously Chief Executive at FMG support, with time spent at Schlumberger Industries, Viasystems, BAE Systems and Dyson, where he established and then led their Commercial Division.	Previously Finance Director at Virgin Care. Prior experience includes Finance Director roles at Reebok, in both UK and Canada, and BUPA's UK insurance business as well as Group Financial Controller at Guardian Royal Exchange Plc.	Career in sales with Personal Group Benefits, first as a Group Account Executive followed by Development Manager, Regional Manager and then National Sales Manager.	Previously Head of Finance for private equity owned Chicago Leisure Ltd. Various roles in life assurance and pensions as well as Cable & Wireless Communications.
Experience of working in growth businesses, entrepreneurship, strong leadership.	Chartered accountant with experience in the Healthcare, FMCG and Financial Services sectors.	Sales management experience, currently manages the insurance growth strategy.	Certified accountant, also has responsibility for the customer relations team.
None	None	None	None
10 of 10	10 of 10	10 of 10	10 of 10

Senior Management Team

We asked our Senior Management Team what stood out to each of them from 2018. You can read their answers and find out more about them below.

"Personal Group was a well-established profitable business when I joined in 2011, with a strong set of insurance products. This hasn't changed but our market has and the diversification into other product lines and particularly SaaS was very important. Our Hapi product was not only crucial to protect what we had but more importantly to create far greater access to customers which is the future of the Company. Where originally we focused on 5-10m workers usually in large companies we can now get our products to any of the 32m employees in the UK. The mechanics are now in place and well tested, the task ahead is to introduce more customers to our services which is exactly what we plan to do."

Mark Scanlon

Chief Executive

See biography on previous page.

"The increased traction of Sage Employee Benefits as a stand-alone product, rather than being embedded in other Sage SaaS products, as well as the addition of new SaaS only clients, including St John Ambulance and Randstad, stands out as a real positive indicator for 2019."

Mike Dugdale
Chief Financial Officer

See biography on previous page.

"2018 was a great year for the development of the Engagement team. Whilst the new business result was not quite what we aimed for, the team proudly achieved record levels of customer engagement and feedback, whilst still achieving 97% of our best ever new business result."

Andy Lothian
Managing Director PGB Sales

See biography on previous page.

"The data breach experienced by one of our partners was a difficult period, but it also brought out the best in our people. The commitment, resilience and innovation that was displayed by the team at a difficult time really showed the high level of expertise we have within Personal Group."

Ashley Doody
Chief Information Officer

Appointed Date May 2013

Experience
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. Started his career with Hoskyns Group in 1992, went on to spend 17 years at Thomson Reuters, most recently as Chief Technology Officer of the UK Legal Information business unit.

"We talk about how Hapi ensures our clients' employees receive the best experience from interview to exit, and our own employee experience reflects this too. Engagement scores have increased year on year and 2018 saw our best score yet."

Rebekah Tapping
HR Director

Appointed Date January 2015

Experience
Previously at Huntingdon Life Sciences where she developed their HR function, following an acquisition that doubled their size, and Daisy Group, a highly acquisitive, rapidly growing business. Started her career in operational management before progressing through various HR roles in the retail and public sectors. She is a Chartered Fellow of CIPD.

Audit Committee Report

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

Dear Shareholder

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

Key responsibilities

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

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

Membership and meetings

The Audit Committee comprises three Non Executive Directors and meets at least twice a year. During 2018 the Committee comprised:

- Bob Head (Chairman).
- Mark Winlow.
- Deborah Frost.

Three meetings were held during 2018 and all committee members were in attendance. Additionally, the remaining Board members, Head of Risk and Company Secretary were present at all meetings.

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

Activities of the Audit Committee during the year

The key work undertaken by the Committee during the year under review and up to the date of this Annual Report included:

- Review and approval of the 2017 Annual Report and Accounts.
- Review and approval of the 2018 Interim Results statement.
- Approval of an updated Terms of Reference for the Committee.
- Approval of Solvency and Financial Condition Report.
- **Review of internal audits carried out by RSM.**

  During 2018, in their role as appointed internal auditors, RSM undertook a detailed review into the overall risk management framework of the Group, as well as specific work in line with the agreed scope over other areas including IT resilience, conduct risk management, claims and complaints management and human resources. The scope of the internal audit function is organised such that all significant business risk areas will be subject to internal audit scrutiny every 36 months.

Audit Committee Report continued

The Committee received reports from the internal auditors throughout the year and was satisfied with the effectiveness of internal controls and risk mitigation. It supports the recommendations made by the internal auditors and is satisfied with the plans in place and the actions taken by management in response to these recommendations.

- **Agreement of 2019 internal audit strategy to be delivered by RSM.**

  The approach in developing the internal audit plan was based on analysing the corporate objectives, risk profile and assurance framework of the Group, as well as other factors affecting the Group.

Significant reporting issues and judgements

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

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

- The presentation of "Adjusted EBITDA" alongside statutory profit. The Committee considered the approach adopted and was satisfied that the approach continues to help provide a clearer and more balanced view of the underlying performance of the business. It also concluded that the approach is being applied consistently from year to year and the rationale is clearly presented.
- The carrying value of goodwill and other intangible assets to determine whether any impairment had been required. The Committee reviewed the key financial assumptions underpinning cash flow projections, the discount and long-term growth rates applied thereto and the results of sensitivity analyses. The Committee was satisfied that, considering the sufficient headroom available, no impairment was required, and appropriate disclosure has been made (see note 16 to the financial statements for details).
- The changes to claims reserving methodology. As 2017 saw the first use of a chain ladder methodology by the Group, the Committee reviewed managements' fine tuning of assumptions during the year to ensure the provision as at 31 December 2018 is sufficient (see note 28 to the financial statements for details).
- The adoption and impact of new accounting standards in IFRS 9, 15 and 16. The Committee has reviewed the calculations and implementation of the three new IFRS standards. The largest impact on the business has been the changes in lease disclosures produced by IFRS 16. This has been reviewed and the Committee is happy with the methodology on initial recognition and subsequently (see accounting policies on page 72).

External audit

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

The Committee reviews the objectivity and independence of the auditors when considering reappointment. The external auditor reports to the Committee on actions taken to comply with professional and regulatory requirements and is required to rotate the lead audit partner every five years. There is also an active, ongoing dialogue between the Committee and the external auditor on actions to improve the effectiveness and efficiency of the external audit process.

KPMG LLP were first appointed as external auditor in FY12 following a formal tender process. The Committee has confirmed it is satisfied with the independence, objectivity and effectiveness of KPMG LLP, however, it has decided that it is in the best interests of the Group to re-tender the audit in line with the lead partner rotation, and there will be a resolution to this effect at the forthcoming Annual General Meeting.

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

Bob Head

Non Executive Director

Risk and Compliance Committee Report

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

Dear Shareholder

I am pleased to present the Risk and Compliance Committee Report for the year ended 31 December 2018.

Composition

The Risk and Compliance Committee currently has seven members; 3 Independent Non Executive Directors, the Chief Executive, the Chief Financial Officer, the Managing Director of Personal Group Benefits Limited and is chaired by Non Executive Director, Ken Rooney. The Head of Risk and the Company Secretary are normally also in attendance at each meeting.

The role of the Committee is to oversee compliance with Prudential Regulation Authority and Financial Conduct Authority requirements, as well as other appropriate regulations which impact the Group, in conjunction with the overall approach to governance and risk management.

Activity during the year

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

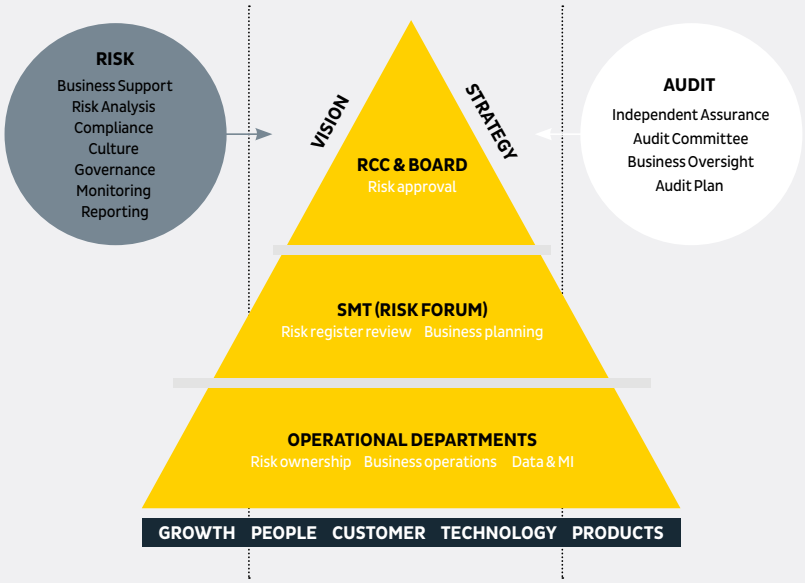
- The preparation for the introduction of the General Data Protection Regulations (GDPR).
- The implementation of the Insurance Distribution Directive (IDD) across the business.
- Assistance with the co-ordination of a project involving the extension of insurance cover for employees who are no longer able to make payments via payroll deduction.
- The review and development of the performance management framework operating in the insurance sales teams.
- Update and development of the Own Risk and Solvency Assessment (ORSA) for Personal Assurance Plc.
- Introduction of the requirements of the Quoted Companies Alliance (QCA) Corporate Governance Code.

Other work undertaken during the year comprised;

- Involvement with various initiatives designed to enhance our cyber security following third-party cyber incidents.
- The continuing monitoring of the adequacy and effectiveness of our risk management including emerging and focus risks being informed by data from our Treating Customers Fairly (TCF) and Conduct Risk dashboards.
- The ongoing review, consideration and approval of the existing Company policies used across the business.
- Consideration of management information which confirms levels of quality and compliance.

Ken W Rooney
Non Executive Director and Deputy Chairman

Risk Management Environment



Remuneration Committee Report

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

Dear Shareholder,

This is my last report as Chair of Remuneration Committee before I take up my new duties as CEO. As previously mentioned in the report, 2018 was a year where we experienced some headwinds as a business and this has been reflected in the way we have remunerated the senior team. In particular, the out turn has resulted in no annual bonus payment for members of the Senior Management Team (SMT) and reduced bonus payments for other individuals across the business. This reflects our philosophy of offering fair incentives and reward for high performance.

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.

Aims of the Remuneration Committee

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

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

- Offers competitive salary packages that attract, retain and motivate talented people.
- Operates straightforward, transparent, and effective reward schemes that incentivise delivery of stretching annual targets and delivery of our longer-term business strategy.
- Offers the chance for all employees to participate in share reward schemes so that everyone thinks and acts to "run it like we own it" – one of our key values.
- Oversees and reviews the commission and bonus arrangements for customer-facing insurance sales employees.

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

- Annual salary and associated benefits (all employees)
- Defined contribution pension scheme and other benefits such as life cover, private medical insurance (all employees)
- Performance based annual bonus linked to delivering stretching financial and service-oriented targets (selected employees)
- Commission, bonus schemes and incentives for the customer-facing insurance teams (selected sales and sales support employees)

  Share schemes:
  - Employee Share Ownership Plan (all employees)
  - Company Share Option Plan (selected employees)
  - Long Term Incentive Plans (LTIPs) (selected employees - see below for further details)

We have considered comparators of senior employees of similar sized public companies in related sectors when establishing the levels of packages set, last completing an Executive benchmarking exercise in October 2017.

Composition of the Remuneration Committee

The Remuneration Committee consists of three Independent Non Executive Directors, with the Non Executive Deputy Chairman (who is not considered independent due to his previous executive role in the business), Chief Executive and HR Director invited to be in attendance at times. The Remuneration Committee operates within defined terms of reference. It met five times in 2018.

None of the Committee has any personal financial interest (other than as shareholders), conflicts of interests arising from cross directorships, or day-to-day involvement in running the business.

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.

Performance for the year

As has been reviewed elsewhere in the Report, the business faced headwinds in 2018. As a result, although we have achieved a solid profit performance, we did not hit the targets set for the SMT to achieve bonus payments. The Remuneration Committee did not approve any bonus payments for the SMT under the annual bonus scheme. Other employees received part bonus payments for achieving their personal objectives, although their overall Company profit element did not pay out.

Other Committee activities for the year

The Committee reviewed commission payments and scheme outcomes for insurance sales employees. Field-based employees received commission-based payments for achieving set levels of new premium sales. We also considered informal gender pay gap findings (we are not required to complete this research as we are currently under 250 employees) and the employee engagement scores which remain exceptionally high.

The year ahead

The Group's policy on Long Term incentive payments has been reviewed as there have been no payments triggered under the three years of operation of LTIP2. The original aims of the scheme were to reward the SMT based on increases to market cap, however our re-focus on delivering value from our current platform has resulted in it becoming more appropriate to reward based on profitability. It is therefore intended to develop a new LTIP (LTIP3) to reward delivery of the new strategy under the direction of the new CEO.

Annual bonus

Annual bonus for the SMT is based on delivery of a shared Adjusted EBITDA goal and individual personal objectives. There is a threshold for performance of Adjusted EBITDA below which no bonus payments are triggered, including personal objectives. The new targets for the SMT will be finalised at the end of Q1 when the new CEO has had a chance to review the objectives for the year more fully.

The new Chair of Remuneration will join with the Chairman in understanding the different views of shareholders in Remuneration.

Where any material changes are made to the Remuneration policy we will continue to discuss our intentions with our major shareholders and give them the opportunity to comment.

The Remuneration Committee remains focused on aligning reward with delivering long-term sustainability and growth of the business, combined with our on-going progressive dividend policy.

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. Mark Scanlon resigned on 28 February 2019.

The interests of the Directors and their families (including transactions committed to before the year end and shares held in the PGH employee share ownership plan) in the shares of the Company as at 1 January 2018 or date of appointment if later, and 31 December 2018, were as follows:

	Ordinary shares of 5p each in Personal Group Holdings Plc	
	At 31 December 2018	**At 31 December 2017**
Mark Winlow (Non Executive Chairman)	–	–
Mark Scanlon (Group Chief Executive)	2,765	132,346
Mike Dugdale (Chief Financial Officer)	39,843	67,654
Andrew Lothian (Sales Director)	38,064	38,051
Ken Rooney (Non Executive)	2,176	1,937
Deborah Frost (Non Executive)	568	431
Bob Head (Non Executive)	–	–

At 31 December 2018, the mid-market closing share price was 446.00p per share (31 December 2017: 477.00p).

Remuneration Committee Report continued

Directors' remuneration

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

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

	Salary and fees 2018 £'000	Share-based gains on exercise of options 2018 £'000	Pension contributions 2018 £'000	Total 2018 £'000	Total 2017 £'000
Mark Scanlon	275	153	12	440	428
Mike Dugdale	184	183	–	367	271
Andrew Lothian*	153	–	9	162	93
Ken Rooney	40	–	–	40	38
Mark Winlow	76	–	–	76	74
Deborah Frost	40	–	–	40	38
Bob Head	40	–	–	40	38
Total	808	336	21	1,165	980

* Appointed 28 July 2017

Directors' share options

At 31 December 2018 options outstanding were as follows:

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

The LTIP 1 options exercisable at 31 December 2017 were all exercised during 2018.

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

When LTIP1 started to mature at the end of 2016, a further scheme (LTIP2) was put in place to take effect from 30 July 2015 (see below). 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, Mike Dugdale and Andy Lothian to £5.0m, £0.9m and £0.5m respectively.
- Grant options rather than shares at each vesting date such that PAYE and NI liabilities only arose 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 Andy Lothian who had entered the scheme in November 2011. In addition, during 2017, the end date of the scheme was extended to 30 April 2018 for both Andy Lothian and a further senior employee who entered the scheme in July 2012.

During 2018, new shares were issued under LTIP1 as follows:

	Number of shares
Mark Scanlon	38,683
Mike Dugdale	46,531
Other senior employee	3,594

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

LTIP2

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

Under the LTIP2 incentive arrangements 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
Andrew Lothian	2,000
Other senior employees	9,500
Total	35,500

As of 31 December 2018, two employees who were awarded shares have left the Group and currently 8,500 shares are available for allocation. In addition, a further 20,000 shares will be available on the departure of Mark Scanlon.

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

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

As noted above, there have been no awards made to date under LTIP2 and, as the current business strategy is more aligned with achievement of profit targets, a further LTIP is anticipated to be put in place in 2019.

Group employee breakdown by gender as at 31 December 2018

	Male*	Female
Directors	5	1
Managers	26	19
Employees	70	95
	101	115

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

As I take up my new role as CEO, Bob Head will take on the role of Chair of the Remuneration Committee in the interim period, until a further independent Non Executive Director is recruited into the Group.

Deborah Frost
Non Executive Director (to 27 February 2019)

Report of the Directors

The Directors present their report together with the audited financial statements for the year ended 31 December 2018.

Principal activities

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

Results and dividends

A review of the year's results is given in the Chief Financial Officer's Statement (see pages 28-31).

The profit from continuing operations for the year is £10,210,000 (2017: £9,510,000) before taxation of £1,819,000 (2017: £1,486,000). During the year ordinary dividends of £7,087,000 (2017: £6,979,000) were paid.

Directors

The membership of the Board at the end of the year is set out in the Remuneration Report on page 46. The Remuneration Committee Report also includes details of the Directors' remuneration and interests in the ordinary shares of the Company. During the year all Directors and officers were covered by third party indemnity insurance.

Political contributions

Neither the Company nor any of its subsidiaries made any political donation or incurred any political expenditure during the year (2017: £nil).

Charitable donations

Donations to charitable organisations amounted to £100,000 (2017: £100,000).

Principal risks and uncertainties

The principal risks and uncertainties facing the Group, along with the risk management objectives and policies are discussed in the Audit Committee report and note 3 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. During the year the Group have adopted the Quoted Companies Alliance Corporate Governance Code in its entirety. The Board's report on the Group's corporate governance procedures is set out on pages 38-39.

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

The Directors have decided to re-tender the audit following completion of the audit for the year ended 31 December 2018. In accordance with Section 489 of the Companies Act 2006, a resolution to this effect is to be proposed at the forthcoming Annual General Meeting of the Group.

Other information

On 6 February 2019 the Company announced a sale and purchase agreement in respect of the entire issued, and to be issued, share capital of Innecto People Consulting Limited for £3m, paid in cash on completion. The acquisition became binding upon the passing of a resolution at the General Meeting held on 27 February 2019 approving the acquisition. Following the General Meeting, Deborah Frost also became CEO of the Group, effective from 28 February 2019 and, at the same time, Mark Scanlon stepped down from the Board.

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

BY ORDER OF THE BOARD

M I Dugdale

Director

25 March 2019

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 Group and parent Company Financial Statements in accordance with applicable law and regulations.

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

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

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable, relevant and reliable.
- State whether they have been prepared in accordance with IFRSs as adopted by the EU.
- Assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

Report of the Independent Auditor
to the members of Personal Group Holdings Plc

Independent auditor's report

to the members of Personal Group Holdings Plc

1. Our opinion is unmodified

We have audited the financial statements of Personal Group Holdings Plc ("the Company") for the year ended 31 December 2018 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated and Company Cash Flow Statement and the related notes, including the accounting policies in note 2.

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 2018 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview		
Materiality: group financial statements as a whole	£490,000 (2017:£460,000) 4.8% (2017: 4.8%) of profit before tax from continuing operations	
Coverage	94% (2017: 82%) of group profit before tax	
Key audit matters		**vs 2017**
New event driven risk	The impact of uncertainties due to the UK exiting the European Union on our audit	▲
Recurring risks	Valuation of goodwill	◀▶
	Valuation of provision for claims in the Group's subsidiary, Personal Assurance Plc	◀▶
	Valuation of Lets Connect PAYE provision	▼
	Recoverability of parent Company's investment in subsidiaries	◀▶

2. Key audit matters: including our assessment of risks of material misstatement

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

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit Refer to page 28 (chief financial officer statement) and page 33 (risk management).	**Unprecedented levels of uncertainty:** All audits assess and challenge the reasonableness of estimates, in particular as described in the valuation of goodwill key audit matter below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: – **Our Brexit knowledge:** considering the directors' assessment of Brexit- related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. – **Sensitivity analysis:** when addressing the valuation of goodwill, comparing the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered whether adjustments to discount rates for the uncertainty were necessary. – **Assessing transparency:** as well as assessing individual disclosures as part of our procedures on the valuation of goodwill, considering all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.
Valuation of goodwill (£10.6 million; 2017: £10.6 million) Refer to page 73 (accounting policy) and page 92 (financial disclosures).	**Forecast-based valuation:** The Group has recognised goodwill from its acquisition of Lets Connect IT Solutions Limited in 2014. The goodwill has been allocated to a separate cash-generating unit (CGU) and an assessment is required annually to determine whether the goodwill is impaired. Valuation of goodwill is considered to be a key audit matter due to the significant judgement required in estimating the recoverable amount of the CGU. The recoverable amount of the CGU, which is based on the value in use, has been derived from a discounted forecast cash flow model. This model uses several key assumptions, including estimates of future sales volumes, growth rates and the discount rate. The model is most sensitive to movements in future sales and the discount rate. The effect of these matters is that, as part of our risk assessment, we determined that valuation of goodwill has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 16) disclose the sensitivity estimated by the Group.	Our procedures included: – **Our sector experience:** assessing whether assumptions used, in particular those relating to projected sales revenue, gross margin and the long term growth rate, reflect our knowledge of the business and industry, including known or probable changes in the business environment. – **Benchmarking assumptions:** challenging, using our own valuation specialists, the key inputs used in the Group's calculation of the discount rate by comparing it to externally derived data, including available sources for comparable companies. – **Sensitivity analysis:** performing sensitivity analysis on the key assumptions above; and – **Assessing transparency:** evaluating the adequacy of the financial statement disclosures, including disclosure of key assumptions, judgements and sensitivities.

Report of the Independent Auditor continued

2. Key audit matters: including our assessment of risks of material misstatement *continued*

	The risk	Our response
Valuation of provision for claims in the Group's subsidiary, Personal Assurance Plc (£1.3 million; 2017: £1.3 million) Refer to page 75 (accounting policy) and page 103 (financial disclosures).	**Subjective valuation:** The valuation of the provision for claims in the Group's subsidiary, Personal Assurance Plc, requires significant judgement and actuarial expertise. The calculation of the provision uses historical data and requires assumptions to be made as to whether past claims development experience can be used to predict future claims development.	Our procedures included: – **Our actuarial expertise:** using our own actuarial specialists, inspecting the provision for claims calculation, assessing the methodology applied, and evaluating and challenging the assumptions made by the directors relating to current experience and future development; – **Independent reperformance:** using our own actuarial specialists, calculating alternative estimates of the provision using our own models and the Group's claims data, comparing to the provision for claims calculated by the Group, and considering the impact of any significant differences; and – **Assessing transparency:** assessing the Group's disclosures relating to the provision for claims in particular in relation to key assumptions.
Valuation of Lets Connect PAYE provision £1.3 million; 2017: £1.9 million) Refer to page 78 (accounting policy) and page 102 (financial disclosures).	**Dispute outcome:** The Group has a provision in respect of potential PAYE tax liabilities arising from compensation schemes for directors of Lets Connect prior to its acquisition in 2014. Management is required to exercise significant judgement to determine the likelihood of the liabilities materialising.	Our procedures included: – **Our tax expertise:** using our own tax specialists to critically assess the assumptions made by the directors in assessing the Group's provision for PAYE tax liabilities, inspecting its correspondence with the HMRC, and challenging the judgements made in determining the provision such as the likelihood of payment and potential time barring by HMRC by considering alternatives; and – **Assessing transparency:** assessing the adequacy of the Group's disclosures in respect of the provision for PAYE tax liabilities.
Recoverability of parent Company's investment in subsidiaries £25.0 million; 2017: £24.9 million) Refer to page 77 (accounting policy) and page 105 (financial disclosures).	**Low risk, high value:** The carrying amount of the investment in subsidiary undertakings balance represents 98 percent (2017: 91 percent) of the parent Company's total assets. Its recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to its materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.	Our procedures included: – **Tests of detail:** comparing the carrying amount of the investment in subsidiary undertakings with the subsidiary draft balance sheet to identify whether the net assets of the subsidiary, being an approximation of its minimum recoverable amount, were in excess of the carrying amount and assessing whether the subsidiary undertaking has historically been profit-making; and – **Our sector experience:** critically evaluating the directors' assessment of the future profitability of the subsidiary undertaking compared to our understanding of its future profitability.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £490,000 (2017: £460,000), determined with reference to a benchmark of Group profit before tax from continuing operations, of which it represents 4.8% (2017: 4.8%).

Materiality for the parent Company financial statements as a whole was set at £382,000 (2017: £273,000), determined with reference to a benchmark of the parent Company's total assets, of which it represents 1.5% (2017: 1.1%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £25,000 (2017: £23,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 12 (2017: 12) reporting components, we subjected 5 (2017: 4) to full scope audits for Group purposes.

The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 6% of total group profit before tax, 16% of total group revenue and 18% of total group assets is represented by 7 reporting components, none of which individually represented more than 3% of total group profit before tax, 16% of total group revenue or 11% of total group assets. For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these. The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back.

Component materialities ranged from £160,000 to £382,000 (2017: £187,000 to £331,000), having regard to the size and risk profile of the components.

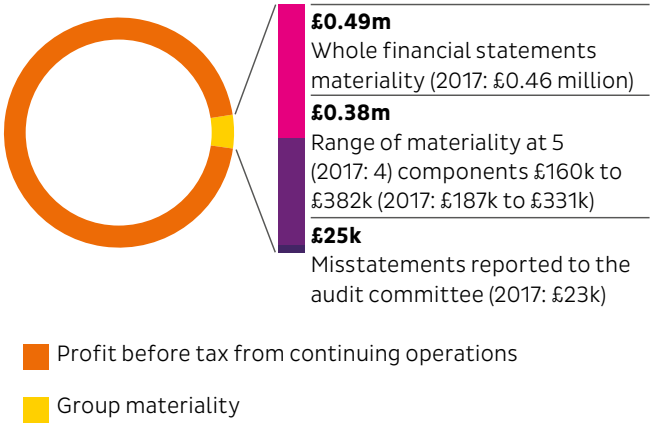
Component audits were undertaken by the Group audit team, including the audit of the parent Company, with the exception of Personal Assurance (Guernsey) Limited where the audit was undertaken by a KPMG Channel Islands Limited component auditor who reported back to the Group audit team. Telephone conference meetings were held with this component auditor. At the telephone conference meetings, an assessment was made of audit risk and strategy and the findings reported to the Group audit team were discussed in more detail. The Group audit team also inspected the key working papers and any further work required by the Group audit team was then performed by the component auditor.

Profit before tax from continuing operations

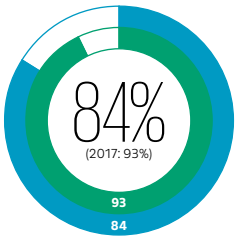
£10.2m (2017: £9.5m)

Group Materiality

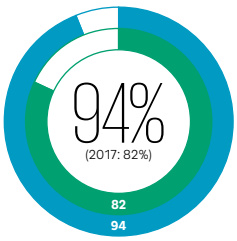
£0.49m (2017: £0.46m)



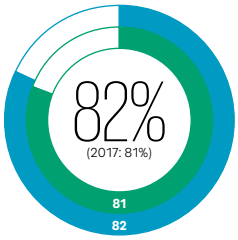
Group revenue



Group profit before tax



Group total assets



Full scope for group audit purposes 2018

Full scope for group audit purposes 2017

Residual components

Report of the Independent Auditor continued

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Group's available financial resources over this period was the impact of Brexit on the future cash flows of the Group's subsidiary, Lets Connect IT Solutions Limited.

As this was a risk that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the cash flows indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from this risk and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risk materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit on the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 51, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

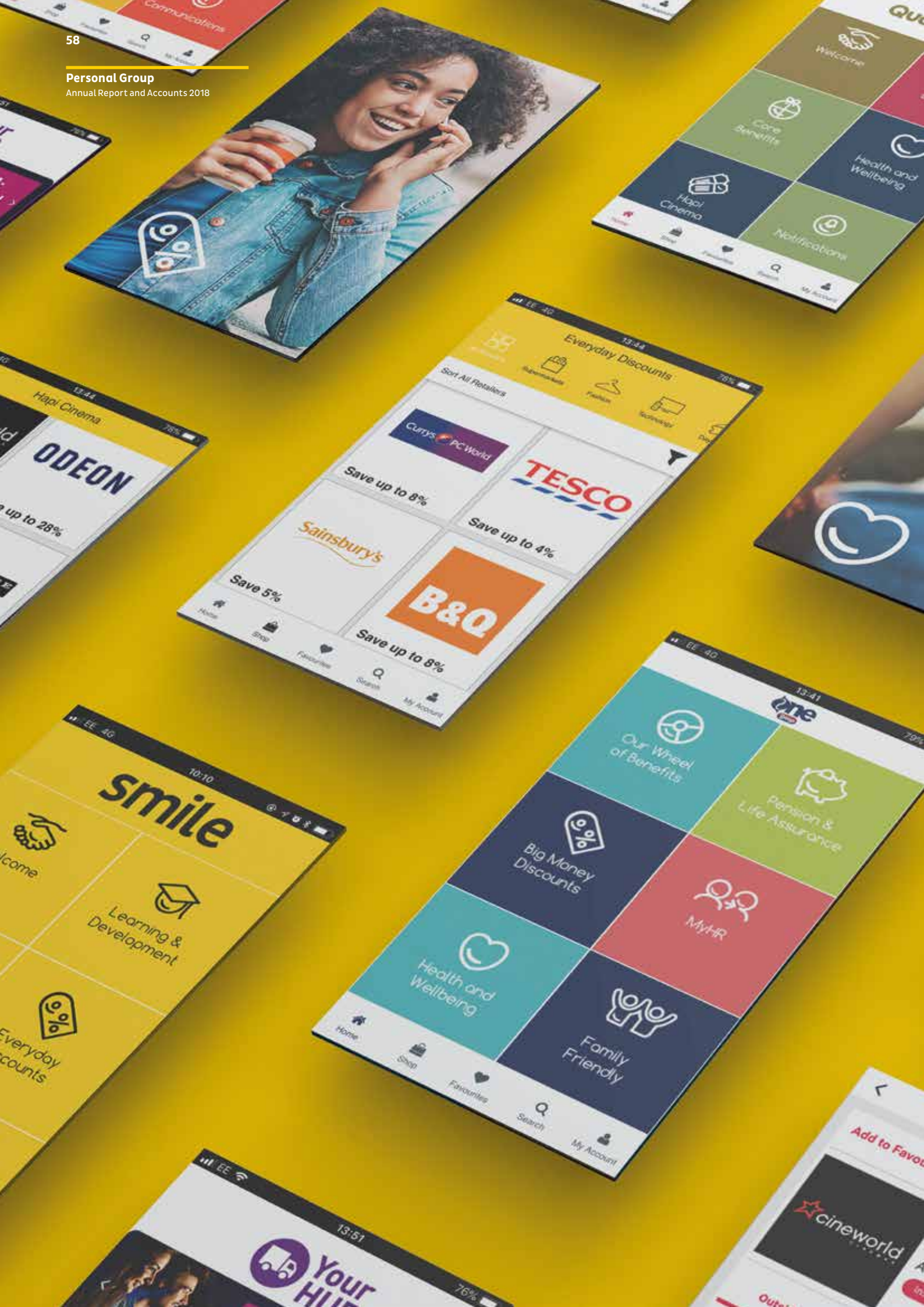
A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The purpose of our audit work and to whom we owe our responsibilities

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.

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

25 March 2019


Communications
Welcome
Core Benefits
Health and Wellbeing
Hapi Cinema
Notifications
Everyday Discounts
Sort All Retailers
Fashion
Technology
Curry's PC World
Save up to 8%
TESCO
Save up to 4%
Sainsbury's
Save 5%
B&Q
Save up to 8%
Home
Shop
Favourites
Search
My Account
Hapi Cinema
ODEON
up to 28%
smile
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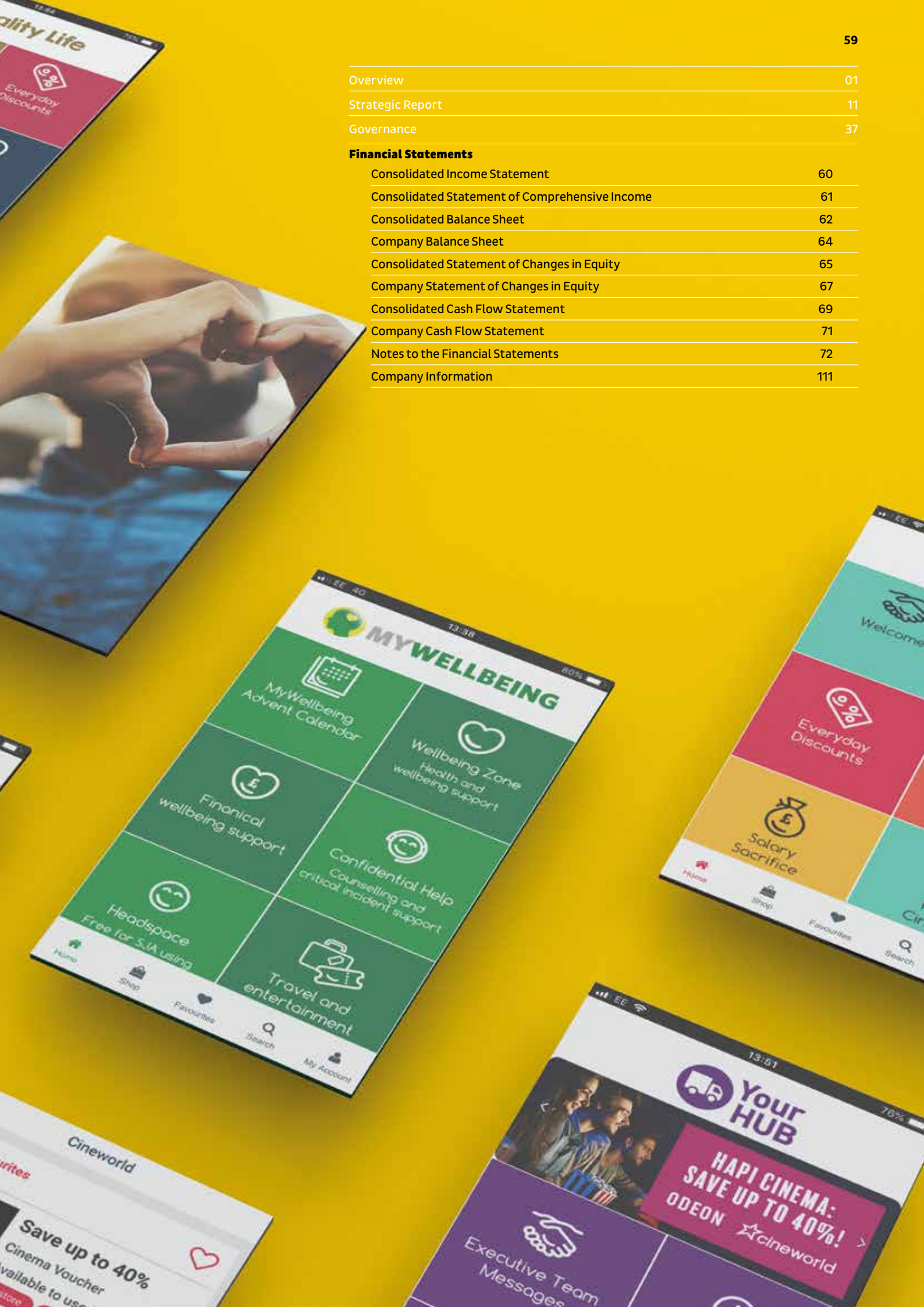
Pension & Life Assurance
Big Money Discounts
MyHR
Health and Wellbeing
Family Friendly
Your HUB
cineworld



Consolidated Income Statement

	Note	2018 £'000	2017 £'000
Continuing Operations			
Gross premiums written		31,445	30,739
Outward reinsurance premiums		(231)	(272)
Change in unearned premiums		28	233
Change in reinsurers' share of unearned premiums		(10)	(21)
Earned premiums net of reinsurance	5	31,232	30,679
Other insurance related income	5	218	391
IT salary sacrifice income	5	14,970	11,292
SaaS income	5	8,729	2,648
Other non-insurance income	5	115	106
Investment income	7	83	117
Revenue		55,347	45,233
Claims incurred	8	(7,175)	(6,780)
Insurance operating expenses	9	(15,073)	(14,239)
Other insurance related expenses		(261)	(244)
IT salary sacrifice expenses	5	(13,851)	(11,034)
SaaS costs	5	(8,561)	(2,459)
Share-based payment expenses	24	(117)	(192)
Charitable donations		(100)	(100)
Amortisation of intangible assets	17	(661)	(673)
Expenses		(45,799)	(35,721)
Operating profit from continuing operations		9,548	9,512
Finance costs	33	(148)	–
Release of provisions	26	646	–
Share of profit / (loss) of equity-accounted investee net of tax	35	164	(2)
Profit before tax from continuing operations	11	10,210	9,510
Tax	12	(1,819)	(1,486)
Profit for the year from continuing operations	13	8,391	8,024
Profit from discontinued operation	6	–	238
Profit		8,391	8,262
The profit for the year is attributable to equity holders of Personal Group Holdings Plc			
Earnings per share		**Pence**	**Pence**
Basic	14	27.2	26.9
Diluted	14	27.2	26.4
Earnings per share – continuing operations		**Pence**	**Pence**
Basic	6,14	27.2	26.1
Diluted	6,14	27.2	25.7

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

Consolidated Statement of Comprehensive Income

	2018 £'000	2017 £'000
Profit for the year	8,391	8,262
Items that may be reclassified subsequently to the income statement		
Available for sale financial assets:		
Valuation changes taken to equity	–	106
Reclassification of gains on available for sale financial assets on derecognition	–	(40)
Tax on unrealised valuation changes taken to equity	–	(11)
Total comprehensive income for the year	8,391	8,317

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

A reclassification has been made for better presentation on 2017 comparatives. Expenses previosuly shown as "Other non-insurance related expenses" are now combined within "Insurance operating expenses" to reflect the segment they are included within in note 5.

This reclassification has been made without any effect on the profit and loss or net assets.

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

Consolidated Balance Sheet

at 31 December 2018

	Note	2018 £'000	2017 £'000
ASSETS			
Non-current assets			
Goodwill	16	10,575	10,575
Intangible assets	17	500	986
Property, plant and equipment	18	6,040	4,747
Investment property	19	130	130
Equity-accounted investee	35	–	638
		17,245	17,076
Current assets			
Financial investments	20	2,530	4,492
Trade and other receivables	21	16,532	14,619
Equity-accounted investee	35	50	–
Reinsurance assets	22	187	180
Inventories - finished goods		643	560
Cash and cash equivalents	23	15,148	12,641
		35,090	32,492
Total assets		52,335	49,568

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

	Note	2018 £'000	2017 £'000
EQUITY			
Equity attributable to equity holders of Personal Group Holdings Plc			
Share capital	24	1,544	1,540
Capital redemption reserve		24	24
Amounts recognised directly into equity relating to non-current available for sale assets		–	85
Other reserve		(210)	(310)
Profit and loss reserve		33,937	32,417
Total equity		35,295	33,756
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	25	102	21
Trade and other payables	27	356	–
Current liabilities			
Provisions	26	1,259	1,905
Trade and other payables	27	12,233	10,698
Insurance contract liabilities	28	2,376	2,507
Current tax liabilities		714	681
		16,582	15,791
Total liabilities		17,040	15,812
Total equity and liabilities		52,335	49,568

The financial statements were approved by the Board on 25 March 2019.

M I Dugdale **D Frost**

Company number: 3194991

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

Company Balance Sheet

at 31 December 2018

	Note	2018 £'000	2017 £'000
ASSETS			
Non-current assets			
Investment in subsidiary undertakings	29	25,022	24,928
Investment property	19	130	130
		25,152	25,058
Current assets			
Financial assets	20	–	100
Trade and other receivables	21	156	2,007
Cash and cash equivalents	23	169	147
		325	2,254
Total assets		25,477	27,312
EQUITY			
Equity attributable to equity holders of Personal Group Holdings Plc			
Share capital	24	1,544	1,540
Capital redemption reserve		24	24
Other reserve		(210)	(310)
Profit and loss reserve		16,770	16,232
Total equity		18,128	17,486
LIABILITIES			
Current liabilities			
Trade and other payables	27	7,349	9,826
Total liabilities		7,349	9,826
Total equity and liabilities		25,477	27,312

The financial statements were approved by the Board on 25 March 2019.

M I Dugdale **D Frost**

Company number: 3194991

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

Equity attributable to equity holders of Personal Group Holdings Plc

	Share capital £'000	Capital redemption reserve £'000	Available for sale financial assets £'000	Other reserve £'000	Profit and loss reserve £'000	Total equity £'000
Balance as at 1 January 2018 as previously reported	1,540	24	85	(310)	32,417	33,756
Adjustment on initial adoption of IFRS 9	–	–	(85)	–	85	–
Restated balance as at 1 January 2018	1,540	24	–	(310)	32,502	33,756
Dividends	–	–	–	–	(7,087)	(7,087)
Employee share-based compensation	–	–	–	–	94	94
Proceeds of SIP* share sales	–	–	–	–	132	132
Cost of SIP shares sold	–	–	–	179	(179)	–
Cost of SIP shares purchased	–	–	–	(79)	–	(79)
Deferred tax reserve movement (see note 25)	–	–	–	–	88	88
Nominal value of LTIP** shares issued	4	–	–	–	(4)	–
Transactions with owners	4	–	–	100	(6,956)	(6,852)
Profit for the year	–	–	–	–	8,391	8,391
Total comprehensive income for the year	–	–	–	–	8,391	8,391
Balance as at 31 December 2018	1,544	24	–	(210)	33,937	35,295

* PG Share Ownership Plan (SIP)

** Long Term Incentive Plan (LTIP)

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

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 2017	1,540	24	30	(330)	31,061	32,325
Dividends	–	–	–	–	(6,979)	(6,979)
Employee share-based compensation	–	–	–	–	166	166
Proceeds of SIP* share sales	–	–	–	–	51	51
Cost of SIP shares sold	–	–	–	94	(94)	–
Cost of SIP shares purchased	–	–	–	(74)	–	(74)
Deferred tax reserve movement (see note 25)	–	–	–	–	(50)	(50)
Nominal value of LTIP** shares issued	–	–	–	–	–	–
Transactions with owners	–	–	–	20	(6,906)	(6,886)
Profit for the year	–	–	–	–	8,262	8,262
Other comprehensive income						
Available for sale financial assets:						
Change in fair value of assets classified as held for sale	–	–	106	–	–	106
Transfer to income statement	–	–	(40)	–	–	(40)
Current tax on unrealised valuation changes taken to equity	–	–	(11)	–	–	(11)
Total comprehensive income for the year	–	–	55	–	8,262	8,317
Balance as at 31 December 2017	1,540	24	85	(310)	32,417	33,756

* PG Share Ownership Plan (SIP)

** Long Term Incentive Plan (LTIP)

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

Company Statement of Changes in Equity

for the year ended 31 December 2018

Equity attributable to equity holders of Personal Group Holdings Plc

	Share capital £'000	Capital redemption reserve £'000	Other reserve £'000	Profit and loss reserve £'000	Total equity £'000
Balance as at 1 January 2018	1,540	24	(310)	16,232	17,486
Dividends paid	–	–	–	(7,087)	(7,087)
Employee share-based compensation	–	–	–	94	94
Proceeds of SIP* share sales	–	–	–	132	132
Cost of SIP shares sold	–	–	179	(179)	–
Cost of SIP shares purchased	–	–	(79)	–	(79)
Nominal value of LTIP** shares issued	4	–	–	(4)	–
Transactions with owners	4	–	100	(7,044)	(6,940)
Profit for the year	–	–	–	7,582	7,582
Balance as at 31 December 2018	1,544	24	(210)	16,770	18,128

* PG Share Ownership Plan (SIP)

** Long Term Incentive Plan (LTIP)

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

Company Statement of Changes in Equity

for the year ended 31 December 2017

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 2017	1,540	24	(330)	6,258	7,492
Dividends paid	–	–	–	(6,979)	(6,979)
Employee share-based compensation	–	–	–	147	147
Proceeds of SIP* share sales	–	–	–	51	51
Cost of SIP shares sold	–	–	94	(94)	–
Cost of SIP shares purchased	–	–	(74)	–	(74)
Transactions with owners	–	–	20	(6,875)	(6,855)
Profit for the year	–	–	–	16,849	16,849
Balance as at 31 December 2017	1,540	24	(310)	16,232	17,486

* PG Share Investment Plan (SIP)

** Long Term Incentive Plan (LTIP)

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

Consolidated Cash Flow Statement

	Note	2018 £'000	2017 £'000
Net cash from operating activities (see next page)		8,325	9,928
Investing activities			
Additions to property, plant and equipment	18	(1,024)	(120)
Additions to intangible assets	17	(178)	(182)
Proceeds from disposal of investment property		–	933
Proceeds from disposal of property, plant and equipment		9	25
Purchase of financial assets		(105)	(195)
Proceeds from disposal of financial assets		2,056	1,995
Interest received	7	82	30
Dividends received from equity accounted investee	35	750	–
Dividends received	7	8	23
Net cash from investing activities		1,598	2,509
Financing activities			
Interest paid		(28)	–
Purchase of own shares by the SIP		(79)	(74)
Proceeds from disposal of own shares by the SIP		132	51
Payment of lease liabilities		(354)	–
Dividends paid	15	(7,087)	(6,979)
Net cash used in financing activities		(7,416)	(7,002)
Net change in cash and cash equivalents		2,507	5,435
Cash and cash equivalents, beginning of year	23	12,641	7,206
Cash and cash equivalents, end of year	23	15,148	12,641

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

Consolidated Cash Flow Statement continued

	Note	2018 £'000	2017 £'000
Operating activities			
Profit after tax		8,391	8,262
Adjustments for			
Depreciation	18	797	437
Amortisation of intangible assets	17	661	673
Loss on disposal of property, plant and equipment		59	7
Loss on disposal of investment property		–	7
Realised net investment (profit) / loss		10	(101)
Interest received	7	(82)	(30)
Dividends received	7	(8)	(23)
Interest charge		148	–
Share of (profit)/loss of equity-accounted investee, net of tax	35	(164)	2
Share-based payment expenses	24	94	192
Taxation expense recognised in income statement	12	1,819	1,543
Changes in working capital			
Trade and other receivables		(1,920)	5,711
Trade and other payables		865	(5,493)
Provisions		(646)	–
Inventories		(83)	(132)
Taxes paid		(1,616)	(1,127)
Net cash from operating activities		8,325	9,928

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

Company Cash Flow Statement

	Note	2018 £'000	2017 £'000
Net cash from operating activities (see below)		(1,465)	(10,258)
Investing activities			
Sale of financial assets		100	–
Dividends received		8,421	17,250
Net cash used in investing activities		8,521	17,250
Financing activities			
Purchase of own shares by the SIP		(79)	(74)
Proceeds from disposal of own shares by the SIP		132	51
Dividends paid	15	(7,087)	(6,979)
Net cash used in financing activities		(7,034)	(7,002)
Net change in cash and cash equivalents		22	(10)
Cash and cash equivalents, beginning of year	23	147	157
Cash and cash equivalents, end of year	23	169	147

Operating activities			
Profit after tax		7,582	16,845
Changes in working capital			
Trade and other receivables		1,849	171
Trade and other payables		(2,475)	(10,024)
Dividends received		(8,421)	(17,250)
Net cash from operating activities		(1,465)	(10,258)

The parent Company has cash and cash equivalents at 31 December 2018 totalling £58,000 (2017: £nil). PGT, the employee-based trust, has a cash balance which has decreased by £36,000 to £111,000 in the year to 31 December 2018 (decreased by £10,000 to £147,000 in the year to 31 December 2017) as a result of the purchase and sale of SIP shares.

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 services in the UK.

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

The Company is listed on the Alternative Investment Market of the London Stock Exchange.

These financial statements have been approved for issue by the Board of Directors on 25 March 2019.

2 Accounting policies

These financial statements of Personal Group Holdings Plc are for the year ended 31 December 2018. 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 2018 with the exception of early adopting IFRS 16.

The following IFRS standards have become applicable for accounting periods commencing on or after 1 January 2018 and the appropriate adjustments have been made:

- IFRS 9 – Financial Instruments.
- IFRS 15 – Revenue from Contracts with Customers.

The following IFRS standards have been early adopted as of 1 January 2018 but would have been mandatory as of 1 January 2019:

- IFRS 16 – Leases.

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 36 of these financial statements.

The Group does not expect the standards that are effective from 1 January 2019 to have a material impact on the financial statements. As noted above the Group has early adopted IFRS 16, that is mandatorily effective from 1 January 2019, in the current year.

The Group is aware that IFRS 17 - Insurance Contracts is likely to be effective for periods from 1 January 2022. Based on a review of the current public information it is not believed that the accounting for the Groups insurance contracts will change due to the short tail nature of those contracts.

2.1 Basis of preparation

The functional currency of the Group is Sterling.

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

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

Judgements

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

- Provision for PAYE tax liabilities (Note 26); whether a provision is required.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the year ending 31 December 2018 is included in the following notes:

- Goodwill valuation (Note 16) and customer list intangibles (Note 17); – key assumptions underlying recoverable amounts.
- Establishing the value of claims outstanding (Note 28); – key assumptions regarding the provisions for claims.

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 2020. 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.

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.

2.4 Joint ventures

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

The joint venture is equity accounted further information for which can be found in Note 35.

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.

The IFRS 15 considerations for the most significant revenue streams have been disclosed in order to validate that the treatment is compliant with IFRS 15 (see note 36 for further details on the application of this standard).

No significant judgements have been applied in determining the amount and timing of revenue recognition.

Premium earned

Premium earned is recognised in the period in which the Group is legally bound through a contract to provide insurance cover. It represents the full amount of premiums receivable under the contract, including estimates where the amounts are not known at the date they are written. These are deferred as a provision for unearned premiums until recongised as revenue principally computed on a monthly or daily pro-rata basis.

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

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

Other Insurance related

Commission receivable on the renewal of previously written insurance policies is recognised as the Group becomes aware of the renewal taking place with the underwriter.

Notes to the Financial Statements continued

2 Accounting policies continued

IT Salary sacrifice

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

IFRS 15 – Salary Sacrifice Income	
Performance Obligations	Provision of IT goods to employer companies.
Transaction Price	Purchase price varies dependant on product purchased but is clearly indicated.
Allocation of Price	Prices are allocated by product, volumes and values.
Satisfaction of Obligations	Revenue is recognised on dispatch as Group has met its performance obligation as per the contracts in place.
Conclusion	Existing accounting policy compliant with IFRS 15.

SaaS income

SaaS income, including that derived from Hapi, is recognised on a straight line basis over the length of the contract. Where a proportion of this income and costs, credited or charged in the current year, relate to the provision of services provided in the following year, they are carried forward as deferred income or costs, calculated on a daily pro rata basis.

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

Voucher income, which is also included in Saas income, derives from customers ordering retail vouchers through the Hapi platform. E-Vouchers are fulfilled and made available instantly to the customer while, for reloadable cards, customers receive these several working days after placing the order. Income from the sale of reloadable cards and e-vouchers is recognised as orders are fulfilled by the Group. The vast majority of these transactions are treated as principal income due to the Group's control over transaction pricing and discounting offered.

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

Other income

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

Investment property

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

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 were previously recognised directly into equity prior to the transiton to fair value through profit and loss following the implementation of IFRS 9.

Prior to 2018 gains would only be recognised via the income statement when realised, however, post transition all gains, realised and unrealised, were recognised via the income statement.

2.7 Reinsurance

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured. Reinsurers' share of technical reserves 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 the costs mentioned above, which are included within 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

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

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

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

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

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

2.10 Property, plant and equipment and intangible assets

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

Research and development

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

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

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

Disposal of assets

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

Amortisation and depreciation

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

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

Notes to the Financial Statements continued

2 Accounting policies continued

2.11 Leases

Prior to 1 January 2018 under IAS 17 the operating lease costs were expensed directly to the Income Statement over the lease term.

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

Under IFRS 16, with the exception of short-term or low value leases, all operating and finance leases are accounted for in the balance sheet. On inception of the lease, the future payments, including any expected end of life costs, are calculated based on the stated interest rate in the lease or on the Group's internal interest rate. A "Right of Use" asset is created at an equal value depreciated over the life of the lease which is determined by the contract with any break clauses being reviewed as to the expected use at the time of inception and at each following year end. Payments made to the lessor are debited to the balance sheet and the Profit and Loss is charged with monthly depreciation and interest which is included as finance costs in the accounts. Further details on the effects of this standard on the accounts are found in Note 33.

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

2.12 Impairment of non-financial assets

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

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

2.13 Investment property

The investment property is held to earn rentals and/or for capital appreciation. The Group measures its investment property in accordance with IAS 40 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. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which they were acquired.

A financial asset is measured at amortised cost if it is both: held within a business model whose objective is to hold assets to collect contractual cash flows; and its contractual terms give rise to cash flows that are solely payments of principal and interest on the amount outstanding. For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition, and "interest" is defined

as consideration for the time value of money and for the credit risk associated with the principal amount outstanding. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument, including any terms which may affect the timing or amount of contractual cash flows. All financial assets not measured at amortised cost are measured at FVTPL.

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

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

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

Other financial assets include quoted equity shares. These assets are not considered to be current assets and have been classified as long-term financial assets and were treated as available for sale prior to the adoption of IFRS 9 which resulted in the Group treating the assets as fair value through profit and loss.

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

A financial asset is 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.

Business Model Assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level as this best reflects the way the business is managed and information provided to management. The assessment includes consideration of the stated objectives or the portfolio, the performance of the portfolio, the risks that affect the performance of the business model, and the frequency, volume and timing of sales of financial assets.

2.16 Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading or it is designated as such on initial recognition.

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

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

A financial liability is 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 Balance Sheet are shown at cost less impairment provisions.

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

2.19 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.

Notes to the Financial Statements continued

2 Accounting policies continued

- "Amounts recognised directly into other comprehensive income relating to available for sale financial assets" represented changes to the market value of available for sale assets prior to the adoption of IFRS 9. On disposal of available for sale financial assets gains or losses previously recognised in equity were transferred to the income statement (see note 36 for transition information).
- "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.

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

2.23 Shares held in an employee benefit trust

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

2.24 Stock

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

2.25 Provisions

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

3 Risk management objectives & 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 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	
	2018 £'000	**2017 £'000**	**2018 £'000**	**2017 £'000**
Insurance receivables	3,034	3,148	–	–
Reinsurance assets	187	180	–	–
Trade debtors	11,753	9,409	–	–
Accrued interest	28	14	–	–
Amounts due from subsidiary undertakings	–	–	–	1,928
Investment bond	–	100	–	100
Financial asset – available to sale	–	801		
Cash and cash equivalents	15,148	12,641	169	147
Bank deposits	2,530	3,591	–	–
	32,680	29,884	169	2,175

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 Lets Connect business the year end receivables balance is heavily weighted towards salary sacrifice technology, these receivables are due from the employers of the individuals who place the order. The vast majority of these employers pay the receivable balance within two months of receiving the consolidated invoice for their scheme. Included within trade debtors are £10.5m (2017: £8.5m) relating to Lets Connect sales.

The use of payroll deductions by a "host Company employer" would not be permitted where the Board believed there may be a significant credit risk. Receivables past their due date are summarised within Note 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 2018 the counterparties were as follows: The Co-operative Bank plc, Santander UK plc, Bank of Scotland Plc, HSBC Bank Plc, Lloyds TSB 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) (2017: A to B- rating range).

The Group is also exposed to the recoverability of receivables from reinsurers. At 31 December 2018 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.

Notes to the Financial Statements continued

3 Risk management objectives and policies continued

Market risk

The Group was exposed to market risk, in the form of equity price risk, in respect of its financial assets which were measured as available for sale assets until 31 December 2018 and as fair value through profit and loss thereafter until their sale in April 2019. These assets were traded on UK regulated markets and so were valued via directly observable inputs (level 1 inputs). The assets were managed by an independent third party fund manager on a discretionary basis, subject to certain conditions imposed by the Board.

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

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

	2018 £'000	2017 £'000
Available for sale financial assets:		
Independently managed equity portfolio (Level 1 assets)	–	801
	–	801

Dividends from the equity portfolio in 2018 totalled £10,000 (2017: £23,000).

Interest rate risk

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

At 31 December 2018 bank deposits and cash and cash equivalents exceeded borrowings by £17,678,000 (2017: £16,234,000). If UK interest rates increased by 2% net finance income would increase by approximately £354,000 with a corresponding increase to equity.

Liquidity risk

Cash balances are managed internally by the Group Financial Controller and amounts are placed on short-term deposits (currently not exceeding 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 2018 bank deposits and cash and cash equivalents exceeded borrowings by £17,678,000 (2017: £16,234,000).

As at 31 December 2018 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 2018					
Trade and other payables	12,282	119	141	367	12,909
Insurance Contract Liabilities	1,809	–	–	567	2,376
	14,091	119	141	934	15,285
At 31 December 2017					
Trade and other payables	9,803	102	155	154	10,214
Insurance Contract Liabilities	1,843	–	–	664	2,507
	11,646	102	155	818	12,721
Company					
At 31 December 2018					
Amounts owed to subsidiary undertakings	6,755	–	–	–	6,755
	6,755	–	–	–	6,755
At 31 December 2017					
Amounts owed to subsidiary undertakings	9,258	–	–	–	9,258
	9,258	–	–	–	9,258

Currency risk

The Group is not exposed to any currency risk as all business is conducted in GBP and all bank accounts were held in GBP in both 2018 and 2017.

Insurance claim and related risks

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

Hospital cash plans and other personal accident and sickness policies

These have been PA's core products since 1984 and, at 31 December 2018, represent 98.5% (2017: 98.2%) 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 2018 was 22.4% (2017: 20.8%). 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 (2017: £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 2018 was 230,622 (2017: 241,173) and the total annualised premium value of these policies was £25,340,000 (2017: £25,612,000). The average amount paid per claim in 2018 was £140 (2017: £163).

Notes to the Financial Statements continued

3 Risk management objectives and policies continued

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 2018 these policies represent 1.5% (2017: 1.8%) of PA's gross premiums written. The gross loss ratio (excluding claims handling costs) on these policies at 31 December 2018 was 21.1% (2017: 3.2%). The total number of these individual policies in force at 31 December 2018 was 1,211 (2017: 1,539) and the average amount paid per claim in 2018 was £4,563 (2017: £8,073).

Death benefit policies

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

The gross loss ratio (excluding claims handling costs) on these policies at 31 December 2018 was 15.1% (2017: 18.4%). The total number of these individual policies in force at 31 December 2018 was 75,599 (2017: 76,801) and the average amount paid per claim in 2018 was £7,682 (2017: £7,682).

For the year ended 31 December 2018 the gross claims ratio of the Group was 23.0% (2017: 22.1%). A 2% increase in the claims ratio would increase claims incurred by approximately £629,000.

Prior to 2017, Private Medical Insurance (PMI) policies had been underwritten by the Company. By the end of 2017, the entire PMI business had been transferred to AXA PPP Healthcare.

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

4 Capital management and requirements

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

Since 1 January 2016, Personal Assurance Plc (PA) has been subject to the requirements of the 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.

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 unaudited Eligible Own Funds, determined in accordance with the SII valuation rules, were £11.3m (2017: £12.1m) which was in excess of the estimated SCR of £4.3m (2017: £4.6m). This represented an estimated solvency coverage ratio of 261% (2017: 263%). The movement year on year remains consistent and is in line with the Boards risk appetite.

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

At 31 December 2018 the requirements of the Group's regulated companies were as follows:

	Relevant regulatory body	Capital resources requirement unaudited £'000	Capital resources unaudited £'000	Surplus over capital resources requirement unaudited £'000
Company				
Personal Assurance Plc	FCA, PRA	4,344	11,273	6,929
Personal Assurance Services Limited	FCA	57	4,269	4,212
Personal Group Benefits Limited	FCA	45	1,104	1,058
Berkeley Morgan Limited	FCA	83	142	59
Personal Assurance (Guernsey) Limited	GFSC	602	2,634	2,032

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

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

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

5 Segment analysis

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

1) Core Insurance

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

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

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

2) IT Salary Sacrifice

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

3) SaaS

Revenue in this segment relates to the annual subscription income and other related income arising from the licensing of Hapi, the Group's employee benefit platform. This includes sales to both the large corporate and SME sectors.

Notes to the Financial Statements continued

5 Segment analysis continued

4) Other

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

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, which ceased trading in December 2016.

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

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

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	SaaS £'000	Other £'000	Continuing – Group £'000	Discontinued – Mobile £'000
Operating segments						
2017						
Revenue						
Earned premiums net of reinsurance	30,670	–	9	–	30,679	–
Other income – Insurance Related	57	–	–	334	391	–
Other income – IT salary sacrifice	–	11,292	–	–	11,292	63
Other income – Platform	–	–	1,528	–	1,528	–
Other income – Transactional and Commision	–	–	1,120	–	1,120	–
Other income	–	–	–	105	105	–
Investment property	–	–	–	1	1	–
Investment income	–	–	–	117	117	–
Total revenue	30,727	11,292	2,657	557	45,233	63
Net result for year before tax	9,406	(111)	197	18	9,510	295
PG Mobile – Reorganisation costs	–	–	–	–	–	(225)
PG Let's Connect – Amortisation of intangibles	–	330	–	–	330	–
Share based payments	–	–	–	192	192	–
Depreciation	392	30	5	10	437	–
Amortisation (other)	162	39	142	–	343	–
Adjusted EBITDA	9,960	288	344	220	10,812	70
Segment assets	21,628	10,979	1,384	15,568	49,560	8
Segment liabilities	6,379	8,035	1,257	139	15,810	2
Depreciation and amortisation	554	399	147	10	1,110	–

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

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

Notes to the Financial Statements continued

5 Segment analysis continued

	IT Salary Sacrifice £'000	SaaS £'000
2017		
Non-insurance related expenses		
Cost of sale – IT salary sacrifice	9,115	–
Cost of sale – Platform	–	777
Cost of Sale – Transactional and Commission	–	956
Admin expenses	1,889	579
Depreciation and amortisation	30	147
Total expenses	11,034	2,459

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. There is a small amount of ongoing residual income relating to commissions from mobile network sales relating to Carphone Warehouse, this has been included within other income in the other segment from 2018.

Results of discontinued operation	**2018 £'000**	**2017 £'000**
Non-insurance related income – Mobile	–	63
Non-insurance related expenses – Mobile	–	232
Results from operating activities	–	295
Tax	–	(57)
Result from operating activities net of tax	–	238
Earnings per share	**Pence**	**Pence**
Basic increase per share	–	0.8
Diluted increase per share	–	0.7

The gain from the discontinued operations of £nil (2017: £238,000) is attributable entirely to the owners of the Company.

Cash flows used in discontinued operation	**2018 £'000**	**2017 £'000**
Net cash used in operating activities	–	(54)
Net cash used from investing activities	–	–
Net cash used in financing activities	–	–
Net cash flows for the year	–	(54)

7 Investment income

	2018 £'000	2017 £'000
Investment income		
Income from unlisted investments	3	23
Interest income from cash on deposit	82	30
Income from listed investments	10	23
Realised gains	–	13
Realised losses	(10)	(8)
Realised gains transferred from other comprehensive income	–	40
Investment management expenses	(2)	(4)
	83	117

8 Claims incurred

	2018 £'000	2017 £'000
Claims paid	6,573	6,622
Reinsurers' share of claims paid	(49)	(76)
Claims handling expenses paid	698	630
	7,222	7,176
Increase in claims provision	(29)	(506)
Reinsurers' share of movements in claims provision	(18)	110
	(47)	(396)
	7,175	6,780

9 Insurance operating expenses

	2018 £'000	2017 £'000
Incurred acquisition costs	7,621	7,496
Administration expenses	7,452	6,743
	15,073	14,239

Total commission incurred during the year in respect of direct insurance was £1,500,000 (2017: £1,396,000).

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:

	2018 £'000	2017 £'000
Wages and salaries	8,866	9,490
Share based payments expense	117	192
Social security costs	1,057	1,025
Other pension costs	407	411
	10,447	11,118

Average number of employees was as follows:

	2018 Number	2017 Number
Administration	123	103
Sales and marketing	98	112
	221	215

b) Directors remuneration:

	2018 £'000	2017 £'000
Emoluments	746	845
Amounts paid to third parties in respect of Directors services	62	111
Share based payments expense	336	–
Pension contributions to Group and self invested personal pension schemes	21	24

During the year, 2 Directors (2017: 2 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.

	2018 £'000	2017 £'000
Emoluments	286	408
Share based payments gains on exercise of options	153	–
Pension contributions to Group and self invested personal pension schemes	12	20
	451	428

Details of individual Director's remuneration are given in the remuneration report (on page 48). 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:

	2018 £'000	2017 £'000
Short-term employee benefits:		
Salaries including bonuses	1,243	1,702
Social security costs	172	214
Share based payments expense	353	175
	1,768	2,091
Post-employment benefits:		
Defined contribution pension plans	48	68
Total remuneration	1,816	2,159

11 Profit before tax

	2018 £'000	2017 £'000
Profit before tax is stated after:		
Auditor's remuneration (inclusive of non-recoverable VAT):		
Audit services:		
Audit of Company financial statements	41	48
Audit of subsidiary undertakings	133	130
Non-audit services:		
Taxation and other advice	–	–
Audit of regulatory returns	–	49
Other assurance services	–	–
Depreciation of property, plant and equipment	797	437
Amortisation	661	673
Rental income receivable	105	105
Operating lease rentals – land and buildings	–	68
Operating lease rentals – motor vehicles	102	434

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 19.00% (2017: 19.25%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2018 £'000	2017 £'000
Profit before tax		
Continuing operations	10,046	9,510
Discontinued operations	–	295
Share of loss of equity-accounted investee net of tax	164	2
Profit before tax excluding equity-accounted investee	10,210	9,807
Tax rate	19.00%	19.25%
Expected tax expense	1,940	1,888
Adjustment for non-deductible expenses	246	24
Adjustment for tax exempt revenues	(410)	(123)
Other adjustments		
Tax credit in respect of prior years	43	(246)
Utilisation of losses not provided for	–	–
Actual tax expense	1,819	1,543
Continuing operations	1,819	1,486
Discontinued operations	–	57
Comprising		
Current tax expense	1,607	1,815
In respect of prior year	43	(246)
Deferred tax		
Origination and reversal of temporary differences	169	(26)
Change in tax rate	–	–
	1,819	1,543

The standard rate of tax applied to reported profit on ordinary activities is 19.00% (2017: 19.25%). A further reduction to 17.00% is due from 1 April 2020 which was substantively enacted on 15 September 2016. These will reduce future tax charges accordingly.

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

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 £7,582,000 (2017: £16,849,000).

14 Earnings per share

	2018			2017		
	Earnings £'000	Weighted average number of shares	Pence per share	Earnings £'000	Weighted average number of shares	Pence per share
Basic	8,391	30,798,840	27.2	8,262	30,743,826	26.9
Dilutive effect of shares in Employee Share Based schemes	–	7,421	(0.0)	–	538,441	(0.5)
Diluted	8,391	30,806,261	27.2	8,262	31,282,267	26.4

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

15 Dividends

	2018 Pence per share	2017 Pence per share	2018 £'000	2017 £'000
Equity dividends				
Ordinary shares paid in year				
March	5.750	5.675	1,771	1,748
June	5.750	5.675	1,776	1,748
September	5.750	5.675	1,776	1,748
December	5.750	5.675	1,776	1,748
			7,099	6,992
Less: amounts paid on own shares			(12)	(13)
	23.00	22.70	7,087	6,979

Notes to the Financial Statements continued

16 Goodwill

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

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

	£'000 PG Let's Connect
Cost	
At 1 January 2017	10,575
Additions in the year	–
Disposal	–
At 31 December 2017	10,575
Amortisation and impairment	
At 1 January 2017	–
Impairment charge for year	–
At 31 December 2017	–
Net book value at 31 December 2017	10,575

The net carrying value at 31 December 2018 has been reviewed for impairment.

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

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

Five years of future post tax cash flows were included in the discounted cash flow model. The long-term growth rate into perpetuity was determined as 2.5% (30-year average of UK consumer price index). The cash flows were then discounted using a post-tax discount rate of 13% (2017; 13%) based on Lets Connect's weighted average cost of capital, using the capital asset pricing model.

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

Key Assumptions

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

Discount Rate

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

Cash flow revenue projections

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

In assessing the sensitivity of this assumption, it was found that, in order to result in an impairment in the Goodwill, revenue in 2019 would need to represent just a 4.9% increase on 2018 actual results and growth thereafter would need to be proportionally consistent with current expected growth.

Gross Profit Margin

Management applied an expected gross margin of 15.5% on its future revenue projections, in line with actual results for the year ended 31 December 2018.

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

Notes to the Financial Statements continued

17 Intangible assets

For the year ended 31 December 2018

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

The customer value is being amortised through the consolidated income statement over a 5 year period. The net carrying value at 31 December 2018 has been assessed for impairment and no impairment was deemed necessary. The customer value is part of the IT salary sacrifice reportable segment and as such was reviewed in conjunction with the PG Let's Connect goowill value in Note 16.

For the year ended 31 December 2017

	Customer value £'000	Computer software and development £'000	Internally Generated Computer Software £'000	Total £'000
Cost				
At 1 January 2017	1,648	665	428	2,741
Additions	–	182	–	182
Disposals	–	(89)	–	(89)
At 31 December 2017	1,648	758	428	2,834
Depreciation				
At 1 January 2017	935	316	12	1,263
Provided in the year	330	200	143	673
Disposal	–	(88)	–	(88)
At 31 December 2017	1,265	428	155	1,848
Net book amount at 31 December 2017	383	330	273	986
Net book amount at 31 December 2016	713	349	416	1,478

18 Property, plant and equipment

For the year ended 31 December 2018

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

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

As part of the transition to IFRS 16, operating leases previously recognised as incurred have been capitalised during the year. ROU assets relate to Motor Vehicles and Building leases, a breakdown for which can be found in Note 33.

More information regarding the transition to IFRS 16 can be found in Note 36.

Notes to the Financial Statements continued

18 Property, plant and equipment continued

For the year ended 31 December 2017

	Freehold land and properties £'000	Motor vehicles £'000	Computer equipment £'000	Furniture fixtures and fittings £'000	Lease Improvements £'000	Total £'000
Cost						
At 1 January 2017	5,478	214	1,090	1,179	31	7,992
Additions	–	–	45	75	–	120
Disposals	–	–	(307)	(16)	–	(323)
At 31 December 2017	5,478	214	828	1,238	31	7,789
Depreciation						
At 1 January 2017	1,505	42	754	580	15	2,896
Provided in the year	94	37	172	131	3	437
Eliminated on disposals	–	–	(282)	(9)	–	(291)
At 31 December 2017	1,599	79	644	702	18	3,042
Net book amount at 31 December 2017	3,879	135	184	536	13	4,747
Net book amount at 31 December 2016	3,973	172	336	599	16	5,096

19 Investment property

For the year ended 31 December 2018

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

For the year ended 31 December 2017

	Group £'000	Company £'000
Cost		
At 1 January 2017	1,198	130
Additions	–	–
Disposals	(1,068)	–
At 31 December 2017	130	130
Impairment		
At 1 January 2017	128	–
Provided in the year	1	–
Disposed in the year	(129)	–
At 31 December 2017	–	–
Net book amount at 31 December 2017	130	130

The Blackburn property was sold in December 2017 for £950,000 less costs of £16,000. The Milton Keynes property is held at the purchase price of £130,000 as at 7 April 2014.

The Directors are comfortable that the carrying value of the investment property 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.

20 Financial investments

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Bank deposits	2,530	3,591	–	–
Investment bond	–	100	–	100
Financial asset – Available for sale	–	801	–	–
	2,530	4,492	–	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 six months and the amortised cost is a reasonable approximation of the fair value. These would be included within Level 2 of the fair value hierarchy.

Notes to the Financial Statements continued

21 Trade and other receivables

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Loans and receivables:				
Insurance receivables	3,034	3,148	–	–
Other receivables due within one year	11,753	9,409	–	–
Amounts due from subsidiary undertakings	–	–	3	1,928
Accrued interest	28	14	–	–
Deferred acquisition costs	–	57	–	–
Other prepayments and accrued income	1,717	1,991	153	79
	16,532	14,619	156	2,007

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

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

	Trade/Insurance Debtor £'000	Weighted Average Provision	Credit Loss Provision £'000
Not Invoiced	9,423	0.5%	44
Current	4,637	1.7%	78
30 Days	702	1.0%	7
60 Days	29	3.4%	1
90 Days	14	7.1%	1
150 Days	152	25.7%	39
Total	14,957	1.1%	170

Insurance receivables and other receivables are also held at amortised cost and the carrying amount is a reasonable approximation of fair value.

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:

	2018 £'000	2017 £'000
At 1 January	57	110
Deferred acquisition costs	–	57
Amortisation	(57)	(110)
At 31 December	–	57

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

22 Reinsurance assets

	2018 £'000	2017 £'000
Reinsurers share of claims incurred	109	91
Reinsurers share of unearned premiums	78	89
	187	180

23 Cash and cash equivalents

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Cash at bank and in hand	10,866	8,339	169	147
Short-term deposits	4,282	4,302	–	–
	15,148	12,641	169	147

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

	2018 £'000	2017 £'000
Authorised 200,000,000 ordinary shares of 5p each	10,000	10,000
Allotted, called up and fully paid 30,888,519 (2017: 30,799,891) ordinary shares of 5p each	1,544	1,540

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

In 2018, the Company issued 88,628 (2017: nil) 5p ordinary shares under the LTIP scheme.

The total number of own shares held by the Employee Benefit Trust at 31 December 2018 was 91,462 (2017: 109,116). Of this amount, there are 45,212 (2017: 47,141) SIP shares that have been unconditionally allocated to employees.

As at 31 December 2018, the Group maintained two share-based payment schemes for employee compensation.

Notes to the Financial Statements continued

24 Share capital continued

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:

	2018		2017	
	Number	Weighted average exercise price Pence	Number	Weighted average exercise price Pence
Outstanding at 1 January	156,193	470.53	210,781	430.51
Options granted in year	–	–	–	–
Options exercised in year	(21,654)	459.60	(6,756)	444.04
Options cancelled or lapsed	–	–	(47,832)	327.38
Outstanding at 31 December	134,539	472.50	156,193	470.53

The weighted average exercise price of 127,539 (2017: 149,193) share options exercisable at 31 December 2018 was 472.50 pence per share (2017: 470.53).

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 2018 was 6 years and 7 months (2017: 6 years and 7 months).

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

In total, £nil of employee compensation by way of share based payment expense has been included in the consolidated income statement for 2018 (2017: £19,000). 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. All awards made under the scheme were satisfied in shares, although the Remuneration Committee had discretion to satisfy the awards wholly or partly in cash in accordance with the Plan rules.

When LTIP1 started to mature at the end of 2016, a further scheme (LTIP2) was put in place to take effect from 30 July 2015 (see below). 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 Andy Lothian who had entered the scheme in November 2011. In addition, during 2017, the end date of the scheme was extended to 30 April 2018 for both Andy Lothian and a further senior employee who entered the scheme in July 2012.

During 2018 88,628 new shares were issued under LTIP1.

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

LTIP2

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

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

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

An amount of £94,000 (2017: £147,000) has been charged to the profit and loss account in 2018 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

	2018		2017	
	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	30	118	23	95
Intangible assets	–	14	–	77
Current assets				
Share options	–	–	128	–
	30	132	151	172
Offset	(30)	(30)	(151)	(151)
	–	102	–	21

	2018 £'000	2017 £'000
At 1 January	(21)	3
Movement in provisions charged/(credited) to income statement (see note 12)	(169)	26
Movement in provision direct to reserves	88	(50)
At 31 December	(102)	(21)

At 31 December 2018 the Group had tax losses of £960,000 (2017: £970,000) available to carry forward to offset against future profits of the same trades. A deferred tax asset has not been recognised in respect of the carried forward tax losses as there is uncertainty as to whether they will be utilised given the trade is no longer a significant component of the Group.

26 Provisions

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

2017	PG Let's Connect PAYE £'000	Claw back £'000	Total £'000
At 1 January	1,905	7	1,912
Movement in provisions charged/(credited) to income statement	–	–	–
Utilised during the year	–	(7)	(7)
At 31 December	1,905	–	1,905

As at 31 December 2018, the provision has been reduced to £1,259,000 which represents the Directors' best estimate of the potential amount payable to HMRC. This includes a release of £646,000 coming as a result of elements of the potential liability being time barred as a result of the time passed since the financial years in question.

The previous Directors of PG Lets Connect have provided assurance that, should any liability arise, they will honour any amounts due, however, as no legal agreement is in place for this, the Directors have held the provision on the balance sheet. No payments were made to HMRC during 2018 in respect of these schemes (2017: nil), however, the Company is aware that these schemes have settlement agreements currently being finalised with the individual Directors.

27 Trade and other payables

	Group		Company	
Current	**2018 £'000**	**2017 £'000**	**2018 £'000**	**2017 £'000**
Financial liabilities measured at amortised cost:				
Amounts owed to subsidiary undertakings	–	–	6,755	9,258
Other creditors	7,964	6,705	482	480
Right of use creditor	435	–	–	–
Accruals	3,326	3,509	112	88
Deferred income	508	484	–	–
	12,233	10,698	7,349	9,826

	Group		Company	
Non Current	**2018 £'000**	**2017 £'000**	**2018 £'000**	**2017 £'000**
Right of use creditor	356	–	–	–
	356	–	–	–

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

28 Insurance contract liabilities

	2018 £'000	**2017 £'000**
Provision for claims	1,724	1,753
Claims settlement expenses	85	90
Unearned premiums	567	664
	2,376	2,507

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

Notes to the Financial Statements continued

28 Insurance contract liabilities continued

The valuation of the provision for claims outstanding in the Group's subsidiary, Personal Assurance Plc, of £1,338,000 (2017: £1,304,000) is estimated by using a Chain Ladder method and the main assumption underlying this technique is that the Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. A change of 5% in the past claims development experience would be result a change of £67,000 (2017: £65,000) in the provision of outstanding claims for Personal Assurance Plc.

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

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

a) Claims

	2018			2017		
	Gross £'000	Reinsurance £'000	Net £'000	Gross £'000	Reinsurance £'000	Net £'000
Provision for claims at 1 January	1,753	(91)	1,662	2,260	(201)	2,059
Claims paid during the financial year	(6,573)	49	(6,524)	(6,622)	76	(6,546)
Increase/(decrease) in liabilities:						
Arising from current year claims	6,838	(134)	6,704	6,929	(77)	6,852
Arising from prior year claims	(294)	67	(227)	(814)	111	(703)
Total movement	(29)	(18)	(47)	(507)	110	(397)
Provision for claims at 31 December	1,724	(109)	1,615	1,753	(91)	1,662

b) Unearned premiums

	2018			2017		
	Gross £'000	Reinsurance £'000	Net £'000	Gross £'000	Reinsurance £'000	Net £'000
At 1 January	664	(89)	575	898	(109)	789
Increase in the financial year	31,445	(231)	31,214	30,822	(272)	30,550
Release in the financial year	(31,542)	242	(31,300)	(31,056)	292	(30,764)
Movement in the financial year	(97)	11	(86)	(234)	20	(214)
At 31 December	567	(78)	489	664	(89)	575

29 Company investment in subsidiary undertakings and joint venture

	Shares in subsidiary undertakings	
	2018 £'000	2017 £'000
Cost		
At 1 January	37,826	37,678
Acquired in the year	–	–
Share based expenses	94	148
At 31 December	37,920	37,826
Amounts written off		
At 1 January	12,898	12,898
Impairment provision in year	–	–
At 31 December	12,898	12,898
Net book amount at 31 December	25,022	24,928

At 31 December 2018 the Company held 100% of the allotted share capital of the following trading companies, all of which were incorporated in England and Wales, with the exception of Personal Assurance (Guernsey) Limited which is incorporated in Guernsey, and have been consolidated in the Group financial statements. The registered address of all Group entities is John Ormond House, 899 Silbury Boulevard, Central Milton Keynes, MK9 3XL, with the exception of Personal Assurance (Guernsey) Limited whose registered address is Level 5, Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 1EJ.

	Nature of business
Personal Group Limited	Intermediate holding Company
Personal Assurance Plc *	General insurance
Personal Assurance Services Limited *	Administration services
Personal Group Benefits Limited *	Employee benefits sales and marketing
Personal Group Trustees Limited *	Trustee for employee share options
Personal Management Solutions Limited *	Employee benefits sales and marketing
Berkeley Morgan Group Limited *	Berkeley Morgan Group Holding Company
Berkeley Morgan Limited +	Independent financial advisers
Universal Provident Limited +	Health insurance services
Personal Assurance (Guernsey) Limited*	Death insurance underwriting services
Personal Group Mobile Limited*	Mobile phone and contract services
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 2018 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 2018 the allotted share capital of Abbeygate Developments (Marlborough Gate 2) Limited was 2 £1 ordinary shares (see note 35).

Notes to the Financial Statements continued

30 Capital commitments

The Group has capital commitments at 31 December of £228,000 relating to the completion of the refurbishment of John Ormond House. The Group had no capital commitments at 31 December 2017.

31 Contingent liabilities

There were no contingent liabilities at 31 December 2018 and 31 December 2017.

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 Aegon UK 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

Amounts recognised in the balance sheet

Following the adoption of IFRS16 the balance sheet at 31 December 2018 includes assets and liabilities relating to Right of Use (ROU) assets as detailed below:

Right of use Assets & Lease Liabilities

	Net Book Value of Assets	Lease Liability
Motor Vehicles	£658,000	£709,000
Buildings	£78,000	£82,000

Additions to ROU assets in the financial year 2018 were: £1,129,000 comprising of £363,000 on adoption of the standard and a further £766,000 on recognition of new ROU assets in the year.

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

Amounts recognised in the consolidated statement of profit or loss

	Depreciation Charges	Interest Expense
Motor Vehicles	£326,000	£129,000
Buildings	£52,000	£19,000

Total operating lease payments due until the end of the lease, or the first break clause, total £1,007,000 (2017: £985,000). An analysis of these payments due is as follows:

	2018 £'000	2017 £'000
Total lease payments falling due:		
Within one year	459	408
Within one to two years	482	326
Within two to five years	66	251
	1,007	985

A reconciliation of the lease payments due at the end of 2017 to the right of use assets created on transition to IFRS 16 on 1 January 2018 is provided below:

	2018 £'000
Total undiscounted lease payments at 31 December 2017	985
Break clause on Lets Connect Office Lease	50
Dilapidations	61
Effect of Discounting	(195)
Leases signed but not yet commenced	(485)
Short Term Leases	(53)
Right of Use Asset at 1 January 2018	363

Total operating rent receivable payments due until the end of the lease or the first break clause, total £233,000 (2017: £339,000). An analysis of these receivable payments due is as follows:

	2018 £'000	2017 £'000
Future minimum lease payments:		
Within one year	110	110
Within one to two years	110	110
Within two to five years	14	119
	234	339

34 Related party transactions

Personal Group Holdings Plc holds a bank account with Lloyds bank PLC which it uses for payments to Group company specific creditors. During the period expenses of £748,000 (2017: £698,000) and dividends to shareholders of £7,099,000 (2017: £6,992,000) were paid by the Company's subsidiaries.

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

	2018		2017	
	Receivable £'000	Payable £'000	Receivable £'000	Payable £'000
Personal Assurance Plc	–	–	–	1,439
Personal Assurance Services Limited	–	–	–	6,179
Personal Group Benefits Limited	–	–	–	1,351
Personal Assurance Financial Services Plc	–	137	–	137
Multiplelisting Limited	–	100	–	100
Personal Management Solutions Limited	–	–	1,436	–
Mutual Benefit Limited	–	12	–	12
ParTake Services Limited	3	–	3	–
Berkeley Morgan Group Limited	–	–	–	40
Personal Group Limited	–	6,506	204	–
Lets Connect IT Solutions Limited	–	–	285	–
	3	6,755	1,928	9,258

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

Notes to the Financial Statements continued

34 Related party transactions continued

Transactions with Directors

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

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 (2017: £6,930). 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 £500 (2017: £1,157). At year end no invoices are outstanding from Gate Lane Solutions.

Deborah Frost, through her company Innecto Reward Consulting, invoiced the Group for consulting services relating to a licence renewal. The total expense to Personal Group of this consulting was £3,600 (2017: £3,600). At year end no invoices are outstanding from Innecto Reward Consulting.

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 and incorporated in the UK with a purpose to construct the property.

During 2018 the property was sold to a third party, the joint venture now has no principal trade and will be liquidated during 2019. Following the sale the joint venture paid dividends of £750,000 to both owners, further dividends are expected to be paid in 2019 prior to the liquidation of the Company.

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

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

Profit and loss account	2018 £'000	2017 £'000
Profit on disposal of property	418	–
Rent receivable	44	48
Administration expenses	(57)	(46)
Profit on ordinary activities before taxation	405	2
Tax on profit on ordinary activities	(77)	(5)
Profit for the financial year retained	328	(3)
Personal Group Holdings share of profit	164	(2)

Balance Sheet	2018 £'000	2017 £'000
Current assets		
Inventories	–	1,078
Debtors	188	219
	188	1,297
Creditors: amounts falling due within one year	(88)	(21)
Net current assets	100	1,276
Capital and reserves		
Called up share capital	–	–
Profit and loss account	100	1,276
Shareholders' funds	100	1,276
Personal Group Holdings share of net assets	50	638

36 New and Amended Standards Adopted by the Company

This note explains the impact of the adoption of IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases on the Company's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

IFRS 9 Financial Instruments

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in financial statements. However, the Group elected not to restate the prior year numbers as permitted by IFRS 9. The available for sale financial instruments in the Company are limited to equity investments and were reclassified to Fair Value through Profit and Loss ("FVTPL"), the transition of which has been applied from the start of 2018 without need for retrospective adjustment.

The transfer of the available for sale equity investments reserve to profit and loss reserve represents the only impact of IFRS 9 on these financial statements.

Impairment of Financial Assets

IFRS 9 requires the use of an expected credit loss model to calculate impairment losses rather than an incurred loss model. Therefore, it is not necessary for a credit event to have occurred before credit losses are recognised. The new impairment model applies to the all the Company's financial assets.

No changes to the impairment provisions were made on initial transition to IFRS 9. In assessing impairment requirements on financial assets, the Company now considers the historic loss rates, which have been minimal, in conjunction with expected future losses and credit losses as a result of potential defaults. This will, as mandated by IFRS 9, continue to be reassessed as and when further information becomes available or when conditions change.

Financial assets on which this method has been applied within the Company include trade receivables for sales of products on which there is a provision of 170,000 at 31 December 2018.

While cash and cash equivalents are also subject to the requirements of IFRS 9, the potential impairment loss identified was negligible.

IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 and, following a review of the contracts held by the Company, this has not resulted in any changes to existing revenue recognition policies and no adjustments have been made to the amounts recognised in the financial statements.

IFRS 16 Leases

As indicated in note above, the Group has adopted IFRS 16 Leases from 1 January 2018, but has not restated comparatives for the 2017 reporting period as permitted under the specific transition provisions in the standard.

In implementing IFRS 16 Leases, the Company has applied the modified retrospective approach such that the standard has been applied on all existing leases, indentified under IFRS 16, from 1 January onwards with no adjustments to the prior period or brought forward reserves. This has increased the future P&L costs marginally against using the standard retrospective approach. All leases are discounted at the appropriate discount rate prevalent therein and, on transition, the new Right of Use assets have been valued at the present value of the remaining lease payments plus any forecast dilapidations or reinstatement costs associated with the assets.

As a result of the implementation of IFRS 16, Right of Use assets of £363,000 and equal and opposite Right of Use liabilities were booked on 1 January 2018.

Changes in Accounting Policies

Under IFRS 16 Leases, with the exception of short-term or low value leases, all operating and finance leases are accounted for in the balance sheet. On inception of the lease, the future payments, including any expected end of life costs, are calculated based on the stated interest rate in the lease or on the Group's internal interest rate (weighted average rate used: 15%). A "Right of Use" asset is created at an equal value depreciated over the life of the lease which is determined by the contract with any break clauses being reviewed as to the expected use at the time of inception and at each following year end. Payments are debited to the creditor and the Profit and Loss is charged with monthly depreciation and interest.

Notes to the Financial Statements continued

36 New and Amended Standards Adopted by the Company continued

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2018 as short-term leases.
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

37 Post balance sheet events

Acquisition and Change of Chief Executive

On 18 September 2018, the Company announced that Mark Scanlon, Chief Executive, had notified his intention to step down from the Board on or before 17 September 2019. On 6 February 2019 it was announced that Deborah Frost, currently a Non Executive Director, will be appointed as the Company's new Chief Executive.

Furthermore, on 6 February 2019, the Company announced that a sale and purchase agreement in respect of the entire issued and to be issued share capital of Innecto People Consulting Limited (Innecto), a leading UK independent pay and reward consultancy, for £3m, paid in cash on completion. The acquisition became binding upon the passing of a resolution at the General Meeting on 27 February 2019, having obtained the approval of the acquisition by Shareholders. This approval was required as Deborah Frost was the majority shareholder in Innecto and consequently the acquisition constituted a "substantial property transaction" for the purposes of section 190 of the 2006 Act.

Following the General Meeting, Deborah Frost took over as Chief Executive of the Company, effective from 28 February 2019 and, at the same time, Mark Scanlon stepped down from the Board.

On taking up her role of Chief Executive, Deborah Frost subscribed for £1,041,348 of Ordinary Shares in Personal Group Holdings Plc.

Due to the fact that the final acquisition completion accounts have not been completed as at the date of these financial statements, the detailed accounting for this acquisition cannot be disclosed.

PG Let's Connect Tax Provision Release

Information was received in 2019 from the personal tax advisers of the previous directors of PG Let's Connect which confirmed that, in relation to a part of the provision in place, HMRC had issued accelerated payment notices (APNs) directly to the relevant party and not to the Company. As there is not, at the time of issuing these financial statements, sufficient evidence available to the Group that these APNs have been used to fully settle any liability, the provision will not be adjusted in 2018. Once confirmation has been received from HMRC that these have been settled by the previous directors, it is expected that £542,000 of the provision will be released.

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3194991

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

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