



**REPORT &
FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 31 DECEMBER 2010

Personal
Group Holdings Plc

Highlights

	2010 £m	2009 £m	%
Revenue	27.0	26.4	+ 2.3
Headline EBITDA *	9.8	9.0	+ 8.9
Profit before tax	9.4	5.5	+ 70.9
Profit before tax and goodwill impairment	9.4	8.5	+ 10.6

	2010 pence	2009 pence	%
EBITDA per share (basic)	32.9	30.2	+ 8.9
Earnings per share (basic)	22.6	11.1	+ 103.6
Dividends per share paid in year	17.0	16.6	+ 2.4

* EBITDA is defined as earnings before interest, tax, depreciation and goodwill impairment. A reconciliation of EBITDA to profit for the year as shown in the consolidated income statement is shown within note 13.

The AGM will be held on 26 April 2011.

Personal Group Holdings Plc – Annual Report
for the year ended 31 December 2010

Company registration number: 3194991

Registered office: John Ormond House
899 Silbury Boulevard
Central Milton Keynes
MK9 3XL

www.personal-group.com

Directors: C J Curling (non-executive chairman)
N Brittle (group chief executive)
J P Barber (finance)
K W Rooney (deputy chairman and chief operating officer)
H H Driver (non-executive)
R M Green (senior independent non-executive)
C W T Johnston (non-executive)

Secretary: J P Barber

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

Banker: The Co-operative Bank Plc
Birmingham Corporate Banking Centre
PO Box 82
118-120 Colmore Row
Birmingham
B3 3BA

Auditor: Grant Thornton UK LLP
Statutory Auditor
Chartered Accountants
Grant Thornton House
202 Silbury Boulevard
Central Milton Keynes
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Nominated Broker and Adviser: Cenkos Securities plc
6.7.8 Tokenhouse Yard
London
EC2R 7AS

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Chairman's statement

Business review

The group achieved record profit before tax (PBT) for the year ended 31 December 2010 of £9.4m, an increase of 10% over 2009's PBT before goodwill impairment, and £0.7m above the group's previous record PBT before goodwill impairment, in 2008. EBITDA per share was also at a record 32.9p, an increase of 9% over the 2009 figure. No goodwill impairment was required in 2010.

After provision for taxation there is a surplus of £6.8m which has been added to reserves. Shareholders' funds at 31 December 2010 were £23.5m (2009: £21.7m) representing 78p (2009: 72p) per share.

The results for the year reflect the consistently strong new business generation in our personal hospital, convalescence, death benefit and Voluntary Group Income Protection (VGIP) plans through 2008, 2009 and into 2010. Annualised new business of these core products written in 2010 was £7.2m, marginally up on our previous record year in 2009.

Annual commission income for our death benefit plan increased in 2010 by 14% to £2.7m, reflecting improvements introduced at the beginning of the year to the premium and benefit levels. The group's profit from this product should increase further in 2011 following the negotiation of enhanced terms with our underwriters.

VGIP continues to make progress, although not at the rates previously anticipated. This is due to the growth in numbers of host company VGIP programmes being slower than expected, although in those workplaces where the product is being offered there are high take-up levels. Interest in VGIP remains high from prospective host companies attracted by the beneficial rates and tax efficiencies offered by this scheme. The board remains confident that the product is capable of reaching significant volumes in the future. A focused marketing strategy significantly increasing the number of presentations of this product to prospective host companies, together with the further development of strategic alliances with third party introducers, is designed to drive new business growth in VGIP through 2011.

During the year our underwriting subsidiary, Personal Assurance PLC (PA), handled 29,511 (2009: 34,585) claims, with over 97% being accepted, of which the vast majority were settled by return of post. This reflects the attractive simplicity of our policies – a major factor in their appeal to customers – and our commitment to treating customers fairly. Following a slight increase in our claims ratio in 2009, claims in 2010 have settled back to levels traditionally experienced in previous years.

Berkeley Morgan Group, our IFA and broker subsidiary, has performed in line with our expectations while levels of renewal business within Universal Provident and Rapidinsure have been ahead of target throughout 2010 and into 2011.

Group net investment income continued at a low level in the current low-interest climate, generating £0.3m (2009: £0.2m). This is further put into context when one considers that in 2005 our investment income was in excess of £1.0m.

The group's joint venture with Abbeygate Developments Limited of office space and residential units on the site adjacent to our John Ormond House head office continues to be substantially let and generated a gross income of £0.4m in 2010 (2009: £0.4m), half of which is receivable by the group. The development is funded by way of a loan from Personal Group Holdings Plc. During the year interest receivable totalled £0.1m (2009: £0.1m).

In December 2010 a ten year lease (with a break option after five years) was signed with the property agents Bidwells in respect of the second floor of John Ormond House, which had been empty for most of 2010.

Dividends and dividend policy

We have already announced our first quarterly dividend for 2011 of 4.35p per share. If business continues as anticipated we expect to pay dividends of the same amount in June, September and December 2011. This would make dividends paid in 2011 of 17.4p (2010: 17.0p) per share, an increase of 2%.

Director retirement

Robert Pease, who had been a director since 1997, retired in December 2010. He had been managing director of the group's small insurance and reinsurance subsidiary Personal Insurance and Reinsurance Brokers Limited (PIRB). Robert's association with Personal Group dates from the establishment of the business 26 years ago, when he was involved in putting in place the original underwriting arrangements for the first PA policies sold. On behalf of the board I thank Robert for his significant contribution to the group over many years.

Chairman's statement

Prospects for 2011

The group enters the new decade with in force hospital plan, convalescence, VGIP and death benefit policies having a total annualised premium of £24.5m (2009: £22.9m); a strong order book with good levels of new host company availability which have continued through the first quarter of 2011 and look set to continue; a debt free balance sheet (except for a small loan to fund the group's employee share schemes); and qualifying capital resources of £9.4m to cover an FSA capital resources requirement at 31 December 2010 of £3.3m. In October 2010 PA participated in the FSA led Solvency II project and submitted a QIS5 report. This report indicates that PA's minimum capital resource requirement should not change materially under Solvency II and that PA is able to underwrite significantly larger volumes of business without having to increase its regulatory capital.

In consequence of the increase from 5% to 6% in Insurance Premium Tax (IPT) the premium and benefit levels of our hospital plan and convalescence plan products have been revised for new policies sold with effect from 4 January 2011. The directors have decided not to risk the disruption which might result from increasing premiums or changing benefits in respect of existing policies and our decision to absorb this cost is estimated to have a likely negative effect on PBT in 2011 of approximately £175,000.

In addition to the increase in IPT described above, the group also faces an increase in its expenses as a result of the recent VAT rate increase and the planned rise in April of Employers' National Insurance contributions. As an insurance group our ability to recover VAT is severely restricted and therefore the increase in VAT to 20% will have a direct impact on PBT in 2011.

Organic growth of our core benefit programmes remains a priority together with the implementation of specific strategic initiatives linked to technological and procedural improvements which will take the group through the next phase of growth over the next couple of years.

The group's core business continues to perform well, with an encouraging number of actual and projected launches in new and existing host companies in the first part of 2011, together with strong average daily new business production. The group is in a strong position to capitalise on the current opportunities in the employee benefits and financial services sector and the board is excited by the prospects for future growth.

On behalf of the board I thank all those who contribute to the success of the group for their continuing support and loyalty.

Chris Curling
Chairman

25 March 2011

Report of the directors

The directors present their report together with the audited financial statements for the year ended 31 December 2010.

Principal activities

The group is principally engaged in transacting short term accident and health insurance, employee benefits related business and financial services in the UK.

Key performance indicators

Management has established certain financial and non-financial key performance indicators which are used to measure the performance of the business on a regular basis. The following key performance indicators are considered important to the business:

Financial:

- Annual premium growth
- Liquidity using the proportion of cash versus total assets
- FSA capital resources requirement
- Profit before tax
- Claims ratio

Non-financial:

- Total number of policies in force
- Claims handled in the period

These key performance indicators are reviewed in the chairman's statement (see pages 1 to 2).

Results and dividends

A review of the year's results is given in the chairman's statement (see pages 1 to 2).

The profit for the year, before taxation of £2,622,000 (2009: £2,202,000), amounted to £9,381,000 (2009: £5,521,000). During the year ordinary dividends of £5,074,000 (2009: £4,948,000) were paid.

Directors

The membership of the board during the year is set out below. All directors served throughout the year with the exception of R Pease who retired as a director on 8 December 2010.

In accordance with the Articles of Association, C W T Johnston, H H Driver and N Brittle retire by rotation and offer themselves for re-election.

The interests of the directors and their families (including transactions committed to before the year end and shares held in the all employee share ownership plan) in the shares of the company as at 1 January 2010 and 31 December 2010 were as follows:

	Ordinary shares of 5p each in Personal Group Holdings plc	
	At 31 December 2010	At 1 January 2010
C J Curling	26,954	26,033
N Brittle	10,578	4,258
J P Barber	355,069	353,972
R P Pease	-	89,964
K W Rooney	237,661	200,071
H H Driver	-	-
R M Green	48,189	47,156
C W T Johnston	15,591,393	15,591,393

At 31 December 2010 the mid market closing share price was 287.5p per share.

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for the year ended 31 December 2010

Report of the directors

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

Audited	Salary and fees £'000	Profit related pay/ Commission £'000	Benefits £'000	Share option gains £'000	Total 2010 £'000	Total 2009 £'000	Pension contributions	
							2010 £'000	2009 £'000
C J Curling*	60	-	-	-	60	32	3	1
N Brittle	162	35	27	-	224	211	-	-
J Barber	135	6	-	-	141	139	17	16
K Rooney	122	155	-	58	335	280	15	15
H H Driver*	30	-	-	-	30	29	2	1
R M Green*	30	-	-	-	30	29	-	-
C W T Johnston**	528	-	-	-	528	567	22	24
R Pease	64	33	-	-	97	99	13	12
Total	1,131	229	27	58	1,445	1,386	72	69

Note: Benefits include £21,000 in respect of relocation expenses.

*Non-executive director fees.

** CWT Johnston retired as an executive director in November 2009. The remuneration paid in 2010 is in respect of a one year non-compete clause in Mr Johnston's original contract. Payments to Mr Johnston under this contractual agreement ceased at the end of November 2010. With effect from 1 December 2010 Mr Johnston no longer receives any remuneration.

On 24 March 2010 the remuneration committee of Personal Group Holdings Plc approved the award of options to purchase shares in Personal Group Holding Plc as follows:

	Number of Shares	Exercise price pence per share	Earliest exercisable date
N Brittle	54,237	295.0	24 March 2013

At 31 December 2010 options outstanding were as follows:

	Number of shares	Exercise price pence per share	Earliest exercisable date
J P Barber	32,154	311.0	27 April 2010
K W Rooney	41,800	311.0	27 April 2010
N Brittle	13,333	225.0	6 April 2012
N Brittle	54,237	295.0	24 March 2013

During the year all directors and officers were covered by third party indemnity insurance.

Charitable donations

Donations to charitable organisations amounted to £80,000 (2009: £80,000).

Report of the directors

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors prepare group financial statements and have elected to prepare company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). 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 the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the directors is aware:

- there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

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

Principal risks and uncertainties

The principal risks and uncertainties facing the group, along with the risk management objectives and policies are discussed in note 3 to the consolidated financial statements.

Capital requirements

See note 4 to the consolidated financial statements.

Corporate governance

The board's report on the group's corporate governance procedures is set out on pages 6 and 7.

Payment of creditors

It is the company's and group's policy to pay all suppliers within the terms agreed at the time the order is made, subject to the satisfactory completion of the order by the supplier. The company and group had no trade creditors at the year end.

Auditor

Grant Thornton UK LLP have expressed willingness to continue in office. In accordance with section 489 (4) of the Companies Act 2006 a resolution to reappoint Grant Thornton UK LLP will be proposed at the Annual General Meeting to be held on 26 April 2011.

BY ORDER OF THE BOARD

J P Barber
Director & Company Secretary
25 March 2011

Corporate governance statement

General principles

The board of Personal Group Holdings Plc supports the principles and is committed to achieving high standards of corporate governance. As an AIM quoted company it is not required to comply with the Combined Code but notwithstanding this seeks to comply with those provisions which are most appropriate given the size of the group and the nature of its operations.

Board of directors

The board presently consists of three executive and four non-executive directors. The board meets on a regular basis and is responsible for the strategy and development of the group and the efficient management of its resources. It is supplied in a timely manner prior to meetings with information on financial, business and corporate matters, which enables it to discharge its duties. All directors have access to the advice and services of the company secretary and appropriate training is given as and when required. There are also procedures in place for the non-executive directors to obtain independent legal or other professional advice at the group's expense.

The group has a formal schedule of matters which are reserved for decision by the board. In addition the board has established committees with written terms of reference to fulfil specific functions as set out below. The matters reserved for the board include the appointment of directors and senior executives, in consequence of which a separate nominations committee is considered unnecessary at the present time.

Audit committee

The audit committee comprises three of the non-executive directors and is chaired by R M Green. It meets at least twice a year, with the finance director and auditor usually in attendance. The committee reviews accounting matters, financial reporting and internal controls together with the interim and annual results announcements.

Remuneration committee

The remuneration committee consists of three of the non-executive directors with the group chief executive in attendance and is chaired by H H Driver. The committee meets as required but not less than once a year. It reviews and makes recommendations to the board regarding the terms and conditions of employment of the executive directors including performance related bonuses and share options, and sets the framework for the remuneration of other senior executives. The remuneration of the non-executive directors is fixed by the board as a whole, but non-executive directors do not participate in discussions about their own remuneration.

Compliance committee

The compliance committee comprises three of the non-executive directors with the group chief executive, chief operating officer and the group compliance officer normally in attendance. It is chaired by H H Driver. The committee meets as required but not less than four times a year. It oversees the compliance function of the group and reports to the board on Financial Services Authority compliance activities of the group as a whole.

Auditor independence

The audit committee reviews the nature and extent of non-audit services supplied by the external auditor to the group, seeking to balance objectivity and value for money.

In determining the policy, the audit committee has taken into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, and does not agree to the auditor providing a service if, having regard to the ethical guidance, the result is that:

- the external auditor audits its own firm's work;
- the external auditor makes management decisions for the group;
- a mutuality of interest is created; or
- the external auditor is put in the role of advocate for the group.

Corporate governance statement

Internal control

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

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

Relationship with shareholders

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

Corporate social responsibility

The group is committed to ensuring that the way in which its business is conducted has a positive impact on its employees and on the communities in which it operates. Its activity in this respect includes a charitable fund to which Personal Assurance Plc presently contributes approximately half of one per cent of premium income. The group supports a range of voluntary sector and community activities, primarily where its own employees or employees of host companies from whom the group derives its business are actively involved.

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

We have audited the financial statements of Personal Group Holdings Plc for the year ended 31 December 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the company balance sheet, the consolidated statements of changes in equity, the company statements of changes in equity, the consolidated cash flow statement, the company cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2010 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRS as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Julian Bartlett
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Central Milton Keynes

25 March 2011

Consolidated income statement

	Note	2010 £'000	2009 £'000
Gross premiums written		18,429	17,550
Change in unearned premiums		33	61
Net premiums written	5	<u>18,462</u>	17,611
Other income:			
Insurance related	5	6,749	6,814
Non-insurance related	5	1,252	1,454
Investment property	5	300	287
Investment income	6	<u>280</u>	238
Revenue		<u>27,043</u>	<u>26,404</u>
Claims incurred	7	(3,854)	(3,844)
Insurance operating expenses	8	(7,813)	(7,831)
Impairment of non-financial assets	15	-	(3,000)
Other expenses:			
Insurance related		(3,979)	(4,318)
Non-insurance related		(1,812)	(1,679)
Investment property		(121)	(111)
Charitable donations		<u>(80)</u>	<u>(80)</u>
Expenses		<u>(17,659)</u>	<u>(20,863)</u>
Results of operating activities		<u>9,384</u>	5,541
Finance costs	6	(3)	(20)
Profit before tax	10	<u>9,381</u>	5,521
Tax	11	<u>(2,622)</u>	(2,202)
Profit for the year	12	<u><u>6,759</u></u>	<u><u>3,319</u></u>

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

Earnings per share as arising from total and continuing operations

		Pence	Pence
Basic	13	22.6	11.1
Diluted	13	22.6	11.1

All operations are considered to be continuing.

Consolidated statement of comprehensive income

	2010	2009
	£'000	£'000
Profit for the year	6,759	3,319
Other comprehensive income		
Available for sale financial assets:		
Valuation changes taken to equity	65	107
Transfer to income statement	(4)	36
Income tax on unrealised valuation changes taken to equity	(17)	(40)
Total comprehensive income for the year	<u>6,803</u>	<u>3,422</u>

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

Consolidated balance sheet at 31 December 2010

	Note	2010 £'000	2009 £'000
ASSETS			
Non-current assets			
Goodwill	15	3,000	3,000
Property, plant and equipment	16	5,611	5,421
Investment properties	17	3,185	3,185
Financial assets	18	7,578	5,702
		<u>19,374</u>	<u>17,308</u>
Current assets			
Trade and other receivables	19	3,091	2,688
Cash and cash equivalents	20	7,075	7,300
		<u>10,166</u>	<u>9,988</u>
Total assets		<u>29,540</u>	<u>27,296</u>

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

Consolidated balance sheet at 31 December 2010

	Note	2010 £'000	2009 £'000
EQUITY			
Equity attributable to equity holders of Personal Group Holdings Plc			
Share capital	21	1,503	1,503
Capital redemption reserve		24	24
Amounts recognised directly into equity relating to available for sale financial assets		29	(15)
Other reserve		(605)	(714)
Profit and loss reserve		22,573	20,940
Total equity		<u>23,524</u>	<u>21,738</u>
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	22	212	189
Current liabilities			
Provisions	23	117	120
Trade and other payables	24	4,255	3,825
Current tax liabilities		1,338	1,258
Borrowings	25	94	166
		<u>5,804</u>	<u>5,369</u>
Total liabilities		<u>6,016</u>	<u>5,558</u>
Total equity and liabilities		<u>29,540</u>	<u>27,296</u>

The financial statements were approved by the board on 25 March 2011.

C J Curling

J P Barber

Company number: 3194991

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

Company balance sheet at 31 December 2010

	Note	2010 £'000	2009 £'000
ASSETS			
Non-current assets			
Investment in subsidiary undertakings	26	14,691	14,864
Financial assets	18	4,093	4,278
		<u>18,784</u>	<u>19,142</u>
Current assets			
Trade and other receivables	19	1,247	5
		<u>1,247</u>	<u>5</u>
Total assets		<u><u>20,031</u></u>	<u><u>19,147</u></u>
EQUITY			
Equity attributable to equity holders of Personal Group Holdings Plc			
Share capital	21	1,503	1,503
Capital redemption reserve		24	24
Other reserve		(605)	(714)
Profit and loss reserve		14,405	7,327
		<u>15,327</u>	<u>8,140</u>
Total equity		<u><u>15,327</u></u>	<u><u>8,140</u></u>
LIABILITIES			
Current liabilities			
Trade and other payables	24	4,607	10,838
Current tax liabilities		3	3
Borrowings	25	94	166
		<u>4,704</u>	<u>11,007</u>
Total liabilities		<u><u>4,704</u></u>	<u><u>11,007</u></u>
Total equity and liabilities		<u><u>20,031</u></u>	<u><u>19,147</u></u>

The financial statements were approved by the board on 25 March 2011.

C J Curling

J P Barber

Company number: 3194991

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

Consolidated statement of changes in equity for the year ended 31 December 2010

Equity attributable to equity holders of Personal Group Holdings Plc

	Share capital	Capital redemption reserve	Available for sale financial assets	Other reserve	Profit & loss reserve	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 1 January 2010	1,503	24	(15)	(714)	20,940	21,738
Dividends	-	-	-	-	(5,074)	(5,074)
Employee share-based compensation	-	-	-	-	22	22
Proceeds of AESOP share sales	-	-	-	-	187	187
Cost of AESOP shares sold	-	-	-	261	(261)	-
Cost of AESOP shares purchased	-	-	-	(152)	-	(152)
Transactions with owners	-	-	-	109	(5,126)	(5,017)
Profit for the year	-	-	-	-	6,759	6,759
Other comprehensive income						
Available for sale financial assets:						
Valuation changes taken to equity	-	-	65	-	-	65
Transfer to income statement	-	-	(4)	-	-	(4)
Current tax on unrealised valuation changes taken to equity	-	-	(17)	-	-	(17)
Total comprehensive income for the year	-	-	44	-	6,759	6,803
Balance as at 31 December 2010	1,503	24	29	(605)	22,573	23,524

Consolidated statement of changes in equity for the year ended 31 December 2009

Equity attributable to equity holders of Personal Group Holdings Plc

	Share capital	Capital redemption reserve	Available for sale financial assets	Other reserve	Profit & loss reserve	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 1 January 2009	1,503	24	(118)	(772)	22,522	23,159
Dividends	-	-	-	-	(4,948)	(4,948)
Employee share-based compensation	-	-	-	-	46	46
Proceeds of AESOP share sales	-	-	-	-	81	81
Cost of AESOP shares sold	-	-	-	80	(80)	-
Cost of AESOP shares purchased	-	-	-	(22)	-	(22)
Transactions with owners	-	-	-	58	(4,901)	(4,843)
Profit for the year	-	-	-	-	3,319	3,319
Other comprehensive income						
Available for sale financial assets:						
Valuation changes taken to equity	-	-	107	-	-	107
Transfer to income statement	-	-	36	-	-	36
Current tax on unrealised valuation changes taken to equity	-	-	(40)	-	-	(40)
Total comprehensive income for the year	-	-	103	-	3,319	3,422
Balance as at 31 December 2009	1,503	24	(15)	(714)	20,940	21,738

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 2010

Equity attributable to equity holders of Personal Group Holdings Plc

	Share capital	Capital redemption reserve	Other reserves	Profit & loss reserve	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance as at 1 January 2010	1,503	24	(714)	7,327	8,140
Dividends	-	-	-	(5,074)	(5,074)
Employee share-based compensation	-	-	-	22	22
Proceeds of AESOP share sales	-	-	-	187	187
Cost of AESOP shares sold	-	-	261	(261)	-
Cost of AESOP shares purchased	-	-	(152)	-	(152)
Transactions with owners	-	-	109	(5,126)	(5,017)
Profit for the year	-	-	-	12,204	12,204
Balance as at 31 December 2010	1,503	24	(605)	14,405	15,327

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 2009

Equity attributable to equity holders of Personal Group Holdings Plc

	Share capital	Capital redemption reserve	Other reserves	Profit & loss reserve	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance as at 1 January 2009	1,503	24	(772)	11,135	11,890
Dividends	-	-	-	(4,948)	(4,948)
Employee share-based compensation	-	-	-	46	46
Proceeds of AESOP share sales	-	-	-	81	81
Cost of AESOP shares sold	-	-	80	(80)	-
Cost of AESOP shares purchased	-	-	(22)	-	(22)
Transactions with owners	-	-	58	(4,901)	(4,843)
Profit for the year	-	-	-	1,093	1,093
Balance as at 31 December 2009	1,503	24	(714)	7,327	8,140

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

Consolidated cash flow statement

	Note	2010 £'000	2009 £'000
Operating activities			
Profit after tax		6,759	3,319
Adjustments for			
Depreciation		449	474
Goodwill impairment		-	3,000
Profit on disposal of property, plant and equipment		(12)	(7)
Realised and unrealised net investment (profits)/losses		(34)	61
Interest received		(218)	(377)
Dividends received		(17)	(16)
Interest paid		3	25
Share-based payments		22	46
Taxation expense recognised in income statement		2,622	2,202
Changes in working capital			
Trade and other receivables		(407)	541
Trade and other payables		427	(455)
Taxes paid		(2,536)	(2,015)
Net cash from operating activities		<u>7,058</u>	<u>6,798</u>
Investing activities			
Additions to property, plant and equipment		(736)	(398)
Additions to investment properties		-	(26)
Proceeds from disposal of property, plant and equipment		113	71
Purchase of own shares by the AESOP		(152)	(22)
Proceeds from disposal of own shares by the AESOP		187	81
Purchase of financial assets		(5,135)	(3,119)
Proceeds from disposal of financial assets		3,354	3,119
Interest received		218	377
Dividends received		17	16
Net cash (used in)/realised from investing activities		<u>(2,134)</u>	<u>99</u>
Financing activities			
Proceeds from bank loans		152	22
Repayment of bank loans		(224)	(2,124)
Interest paid		(3)	(25)
Dividends paid		(5,074)	(4,948)
Net cash used in financing activities		<u>(5,149)</u>	<u>(7,075)</u>
Net change in cash and cash equivalents		(225)	(178)
Cash and cash equivalents, beginning of year	20	7,300	7,478
Cash and cash equivalents, end of year	20	<u>7,075</u>	<u>7,300</u>

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

Company cash flow statement

	2010 £'000	2009 £'000
Operating activities		
Profit after tax	12,204	1,093
Adjustments for		
Increase in impairment provision	173	3,299
Realised and unrealised net investment losses	20	10
Share-based payments	22	46
Taxation expense recognised in income statement	6	6
Changes in working capital		
Trade and other receivables	(1,242)	154
Trade and other payables	(6,066)	2,386
Taxes paid	(6)	(3)
	<u>5,111</u>	<u>6,991</u>
Investing activities		
Purchase of own shares	(152)	(22)
Proceeds from disposal of own shares	187	81
	<u>35</u>	<u>59</u>
Financing activities		
Proceeds from bank loans	152	22
Repayment of bank loans	(224)	(2,124)
Dividends paid	(5,074)	(4,948)
	<u>(5,146)</u>	<u>(7,050)</u>
Net change in cash and cash equivalents	<u>-</u>	<u>-</u>
Cash and cash equivalents, beginning and end of year	<u>-</u>	<u>-</u>

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

Notes to the consolidated financial statements

1 General information

The principal activities of Personal Group Holdings Plc ('the company') and subsidiaries (together 'the group') include transacting short term accident and health insurance, and providing employee benefits related business and financial services in the UK.

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

The company is quoted 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 2011.

2 Accounting policies

These financial statements of Personal Group Holdings Plc are for the year ended 31 December 2010. 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 2010.

2.1 Standards and Interpretations not yet effective

The following Standards and Interpretations which are not yet effective are not expected to have any significant impact on the group's financial statements in their periods of initial application.

- IFRS 9 Financial Instruments (effective 1 January 2013)*
- IAS 24 (Revised 2009) Related Party Disclosures (effective 1 January 2011)
- Amendment to IAS 32 Classification of Rights Issues (effective 1 February 2010)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010)
- Prepayments of a Minimum Funding Requirement - Amendments to IFRIC 14 (effective 1 January 2011)
- Improvements to IFRS issued May 2010 (some changes effective 1 July 2010, others effective 1 January 2011)
- Disclosures - Transfers of Financial Assets - Amendments to IFRS 7 (effective 1 July 2011)*
- Deferred Tax: Recovery of Underlying Assets - Amendments to IAS 12 Income Taxes (effective 1 January 2012)*

* Not yet adopted by EU

2.2 Basis of preparation

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

It should be noted that accounting estimates and assumptions are used in the preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions and up to 25 years of internal historical data, actual results may ultimately differ from those estimates.

Such knowledge has been used to determine the following key judgements:

- future profitability of the Berkeley Morgan group of companies on which the goodwill impairment valuation is based (note 15);
- establishing the value of provisions (note 23);
- establishing the value of claims outstanding (note 3 and note 24); and,
- presentation and carrying value of certain property as investment property (note 2.13 and note 17)

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

The financial statements are prepared on a going concern basis. In considering going concern, the directors have reviewed the group's future cash requirements and earnings projections. The directors believe these forecasts have been prepared on a prudent basis and have also considered the impact of a range of potential changes to trading performance. The directors have concluded that the group will be able to operate without requiring any external funding and therefore believe it is appropriate to prepare the financial statements of the group on a going concern basis. This is supported by the group's liquidity position at the year end.

Notes to the consolidated financial statements

2.3 Basis of consolidation

The group financial statements consolidate those of the company and all of its subsidiary undertakings drawn up to 31 December 2010. Subsidiaries are entities over which the group has the power to control the financial and operating policies so as to obtain benefits from its activities. The group obtains and exercises control through voting rights.

Unrealised gains on transactions between the group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the group.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the deemed cost for subsequent measurement in accordance with the group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

2.4 Business combinations completed prior to date of transition to IFRS

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

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

2.5 Joint ventures

Abbeygate Developments (Marlborough Gate 2) Limited is the only jointly controlled entity within the group. Its financial statements have been incorporated into Personal Group Holdings Plc's financial statements using proportionate consolidation.

The proportionate consolidation approach includes the group's share of net assets and net profits of the joint venture under each heading of the income statement and statement of financial position.

2.6 Goodwill

Goodwill representing the excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired, is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses. Negative goodwill is recognised immediately after acquisition in the income statement.

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

Notes to the consolidated financial statements

2.7 Revenue

Revenue is measured by reference to the fair value of consideration received or receivable by the group for goods supplied and services provided, excluding VAT and trade discounts. Revenue is recognised upon the performance of services or transfer of risk to the customer.

Premium recognition

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

Interest and dividend income

Interest income is recognised on an effective interest rate method. Dividends are recognised when legally entitled to the payment.

Investment management expenses

Investment management expenses are recognised on an accruals basis.

Other income

Property rental income is recognised on a straight line basis over the term of the lease.

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

Investments

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

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

2.8 Deferred acquisition expenses

Acquisition expenses represent direct costs associated with writing new policies by the group. A proportion of acquisition expenses are deferred to a subsequent accounting period to match the deferral to a subsequent accounting period of the proportion of the written premiums to which the acquisition expenses relate. The deferral of acquisition expenses is calculated by applying the ratio of unearned premiums to written premiums.

2.9 Claims recognition

The provision for claims outstanding comprises the estimated cost of claims incurred but not settled at the statement of financial position date, whether reported or not. Provision is made at the end of an accounting period for claims handling expenses to cover the anticipated costs of negotiating and settling claims which have occurred, whether notified or not, by that date.

The provision includes the anticipated costs of the general claims administration relating to such claims. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and are disclosed separately if material.

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

Notes to the consolidated financial statements

2.10 Property, plant and equipment

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

Borrowing costs on property, plant and equipment under construction are capitalised during the period of construction.

Disposal of assets

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

Depreciation

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

Freehold properties	50 years
Motor vehicles	4 years
Computer equipment	2 - 4 years
Furniture, fixtures and fittings	5 - 10 years

2.11 Impairment testing of goodwill and property, plant and equipment

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.

2.12 Leased assets

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

2.13 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

There is a degree of judgement on the presentation of certain property where market conditions have meant that whilst the intention of management is to sell the property it does not fully meet the criteria of IFRS 5: Non-current assets held for sale and discontinued operations. Management believe that, where the property contains a third party tenant and the intention of sale remains, the property should be classified as an investment property.

The group measures all of its investment properties in accordance with IAS 40's requirements for the cost model. Depreciation is based on cost less residual value. As residual value currently exceeds cost no depreciation is being provided.

Rental income arising from the investment properties 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.

Notes to the consolidated financial statements

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 statement of financial position date.

2.15 Financial assets

Financial assets are divided into the following categories: bank deposits; loans and other receivables; financial assets at fair value through profit or loss; and available for sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which they were acquired.

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

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

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.

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

Other financial assets include quoted and unquoted equity shares. These assets are not considered to be current assets and have been classified as long term financial assets and are carried at fair value through profit or loss, or as available for sale.

Financial assets at fair value through profit or loss include financial assets that are designated by the entity as at fair value through profit or loss upon initial recognition. Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in the income statement. Financial assets originally designated as financial assets at fair value through profit or loss are not reclassified subsequently.

Financial assets are designated as at fair value through profit or loss where they are managed and their performance evaluated on a fair value basis in accordance with the group's documented investment strategy.

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

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

An assessment for impairment is undertaken at least at each statement of financial position date.

Notes to the consolidated financial statements

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

2.16 Financial liabilities

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

Financial liabilities are recorded 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 and 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.

2.18 Investments in subsidiary undertakings and joint ventures

Investments in subsidiary undertakings and joint ventures are shown at cost less impairment provisions.

2.19 Equity

Equity comprises the following:

- “Share capital” represents the nominal value of equity shares.
- “Capital redemption reserve” represents the nominal value of its own equity shares purchased, and then cancelled, by the company.
- “Amounts recognised directly into other comprehensive income relating to non-current assets held for sale” represents changes to the market value of available for sale assets and transfers to the income statement.
- “Other reserve” represents the investment in own company shares by the Employee Benefit Trust.
- “Profit and loss reserve” represents retained profits.

2.20 Employee benefits

Defined contribution group and self-invested personal pension schemes

The pension costs charged against profits are the contributions payable to the schemes in respect of the accounting period.

Notes to the consolidated financial statements

2.21 Share-based payment

Equity-settled share-based payment

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2006 are recognised in the financial statements.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument as at the date it is granted to the employee.

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to "other reserves".

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 statement of financial position when the assets vest unconditionally in identified beneficiaries.

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

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

3 Risk management objectives and policies

The board acknowledges that the group is exposed to risks that are inherent in all businesses and markets in which it operates. As a direct result of these risks the board places high priority on ensuring that there is a strong risk management culture throughout the group. This is evidenced by the existence of a comprehensive risk register and internal controls in critical business processes. The group's risk management is co-ordinated at its headquarters.

The risk register includes all of the major risks faced by the group and is maintained by the group compliance director in close co-operation with all other group directors who are actively involved in the management of risk. The risk register is reviewed at every meeting of the compliance committee and periodically by the full board.

In addition to the financial risks described in detail below the risk register also considers operational, reputational, regulatory and government fiscal policy risks.

Operational risk is the risk of loss to the group as a direct result of inadequate or failed internal processes or systems, or the impacts of external events on the group's processes or systems. As a result the group operates a range of controls over all aspects of the business. Many of these controls are built into computer operating systems but manual controls are also routinely used where considered appropriate. Both sorts of controls are reviewed on a regular basis and the group is seeking to enhance its documentation and testing of these controls as part of its transition to the new regulatory regime being introduced by Solvency II.

Notes to the consolidated financial statements

The group has developed a comprehensive disaster recovery plan which has been successfully tested in full, or in part, on a number of occasions in recent years. Whilst this recovery plan concentrates on the group's IT capability it does also cover the requirement of alternative office facilities and associated office equipment.

All employees receive appropriate training to ensure that they are fully equipped to perform their duties to the highest possible standards. The group is committed to develop employees to their maximum potential and actively seeks to promote from within wherever possible. The board believes that the pro-active training programmes and career development opportunities reduce the possibility of employee error and hence the risk of damage to the business.

The training described above also helps to reduce reputational risk as a result of the actions of our employees. In addition the group is committed to the Financial Services Authority (FSA) Treating Customers Fairly principle which again can have a significant impact on reputational risk.

As the vast majority of the group's income is derived from activities that are regulated by the FSA the group is exposed to regulatory risk in that changes made by the FSA could have a direct impact on the ability of the group to maintain certain operations.

As an insurance group the ability to recover Value Added Tax (VAT) is severely restricted and the recent increase in VAT will have an impact on the group's profit. In addition changes to other taxes including Insurance Premium Tax, National Insurance Contributions and Corporation Tax are also risks that the group has to manage.

The group pursues an active treasury management policy which seeks to secure its short to medium term cash flows by minimising exposure to financial markets.

The group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. It does not have exposure to foreign currencies and do not use any derivatives or hedging to manage any of its liabilities. The most significant financial risks to which the group and company are exposed are described below.

Credit risk

The group's and company's exposure to credit risk includes the carrying value of certain financial assets at the statement of financial position date, summarised as follows:

	Group		Company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Trade receivables	1,528	1,409	-	-
Other receivables	930	620	-	-
Accrued interest	34	18	-	-
Loan to joint venture	1,972	2,054	3,943	4,108
Amounts due from subsidiary undertakings	-	-	1,247	3
Cash and cash equivalents	7,075	7,300	-	-
Bank deposits	5,000	3,067	-	-
	<u>16,539</u>	<u>14,468</u>	<u>5,190</u>	<u>4,111</u>

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

The vast majority of the group's revenue is generated from the sale of insurance policies to individual customers. However a substantial proportion of the premiums are collected, and paid over to the group, by the individuals' employer via payroll deduction. This naturally exposes the group to an element of credit risk. However the vast majority of employers pay over payroll deductions made, within one month, on a regular basis. The use of payroll deductions by a "host company employer" would not be permitted where the board believed there may be a significant credit risk. Receivables past their due date are summarised within note 19. The credit risk for liquid funds and other short term financial assets is considered negligible, since the counterparties are UK and EU banks. At 31 December 2010 the counterparties were as follows: The Co-operative Bank plc, Abbey National plc, Bank of Scotland plc, HSBC Bank plc, Lloyds TSB Bank plc and National Westminster Bank plc.

Notes to the consolidated financial statements

The company is also exposed to the loan to the joint venture. The property owned by the joint venture is currently substantially let and income continues to exceed expenditure and therefore the joint venture is able to fulfil its obligations regarding the payment of interest to the company. The company's loan to the joint venture is secured by a charge over the property.

All subsidiary undertakings are 100% owned by the company. There is at least one company director on each of the subsidiary companies boards and therefore 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.

The group is also exposed to credit risk of £35,000 (2009: £63,000) in relation to the estimate of amounts recoverable from financial advisers in respect of renewals commission which has been clawed back due to the policy being terminated. This asset forms part of the group's estimate of wastage provision shown in note 23. There is no collateral on these amounts and the write-off of these amounts over the past three years is £nil.

Market risk

The group is exposed to market risk in respect of its financial assets carried at fair value through profit and loss and available for sale assets. These assets are traded on UK regulated markets. The available for sale assets are managed by an independent third party fund manager on a discretionary basis, subject to certain conditions imposed by the board.

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

	2010	2009
	£'000	£'000
Financial assets designated at fair value through profit and loss:		
Quoted investments		
Lighthouse Group shares	150	170
Available for sale financial assets:		
Independently managed equity portfolio	456	411
	<u>606</u>	<u>581</u>

Realised investment income from these investments is not considered to be subject to material variation as the other assets carried at fair value through profit and loss are not currently paying substantial dividends. Dividends from the equity portfolio in 2010 totalled £11,000 (2009: £12,000).

Unrealised gains and losses on financial assets carried at fair value through profit and loss are recognised in the income statement. A 10% decrease in the value of these assets at 31 December 2010 would result in a charge to the income statement of approximately £15,000, with a corresponding deduction in equity.

Unrealised gains and losses on available for sale financial assets are recognised in equity. A 10% decrease in the value of these assets at 31 December 2010 would result in a deduction to equity of approximately £46,000.

Liquidity risk

Cash balances are managed internally by the finance director and amounts are placed on short term deposits (currently not exceeding 12 months) to ensure that sufficient funds are available at all times to pay all liabilities as and when they fall due.

At 31 December 2010 amounts on short term deposits exceeded borrowings by £11,981,000.

Notes to the consolidated financial statements

As at 31 December 2010 the group's and company's liabilities have contracted maturities (including interest payments where applicable) as summarised below:

	Within 6 months £'000	Group 6-12 months £'000	Within 6 months £'000	Company 6-12 months £'000
At 31 December 2010				
Amounts owed to subsidiary undertakings	-	-	4,601	-
Trade and other payables	1,800	445	-	-
Borrowings	48	48	48	48
	<u>1,848</u>	<u>493</u>	<u>4,649</u>	<u>48</u>
At 31 December 2009				
Amounts owed to subsidiary undertakings	-	-	10,811	-
Trade and other payables	1,659	470	-	-
Borrowings	85	85	85	85
	<u>1,744</u>	<u>555</u>	<u>10,896</u>	<u>85</u>

Cash flow and fair value interest rate risk

At 31 December 2010 the group's and company's cash flow interest rate risk arises from borrowings in respect of the group's All Employee Share Ownership Plan (AESOP) loan. The group's and company's borrowings are all at variable rates linked to the Bank of England base rate.

Interest rate risk on the group's and company's borrowings is considered to be insignificant.

At 31 December 2010 bank deposits exceeded borrowings by £11,981,000. If UK interest rates increased by 2% net investment income would increase by approximately £240,000 with a corresponding increase to equity.

Insurance claim and related risks

Personal Assurance Plc underwrites healthcare cash plans and personal accident or sickness policies. Taking into account the company's claims history since the company was incorporated in 1984, the board has taken the decision not to use reinsurance as a way of managing insurance claim risk. At present the maximum amount payable on any one single claim is £73,400, and would only be payable after a continuous period of hospital confinement of two years. The total number of individual policies in force at 31 December 2010 was 218,755 (2009: 221,769) and the average amount paid per claim in 2010 was £175 (2009: £167).

All underwriting, and the vast majority of insurance related business, is regulated by the Financial Services Authority (FSA). As required by the FSA all regulated companies have an appropriate level of professional indemnity insurance which covers both employees and self-employed advisers. For the year ended 31 December 2010 the gross claims ratio of Personal Assurance Plc was 21.4% (2009: 22.5%). A 2% increase in the claims ratio would increase claims incurred by approximately £369,000.

Notes to the consolidated financial statements

4 Capital management and requirements

The group's capital management objectives are:

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

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

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

The carrying amount of the group's equity has shown continuous growth from £12,319,000 at 31 December 2001 (first year after AIM listing) to £23,524,000 at 31 December 2010.

In addition to the statutory capital requirements of a UK registered Plc the FSA requires that all regulated companies maintain capital resources requirements, the actual amount being determined on an annual basis at the year end.

At 31 December 2010 the requirements of the group's FSA regulated companies were as follows:

	FSA capital resources requirement £'000	Available qualifying assets £'000	Surplus over capital resources requirement £'000
Company			
Personal Assurance Plc	3,323	9,364	6,041
Personal Assurance Services Limited	115	697	582
Personal Group Benefits Limited	97	369	272
Personal Insurance & Reinsurance Brokers Limited	8	71	63
Berkeley Morgan Limited	52	436	384

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

5 Segment analysis

The group operates two trading operating segments, namely employee benefits insurance and consultancy; and financial services offered by Berkeley Morgan Group Limited (BMG) and its subsidiary undertakings.

1) Employee benefits insurance and consultancy

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

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

Insurance related income includes insurance and reinsurance brokerage commission. Insurance brokerage commission includes that derived from voluntary group income protection plan sales.

Non-insurance related income includes income derived from the sale of benefit books, consultancy services and property rental income.

Notes to the consolidated financial statements

2) Financial services

The financial services operating segment consists exclusively of revenue generated by BMG and its subsidiary undertakings. BMG was acquired by PGH in January 2005.

Financial services revenue consists mainly of commission generated by financial advisers and commission generated from insurance underwriting agencies.

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

Operating segments	Employee benefits £'000	Financial services £'000	Unallocated £'000	Consolidation adjustments £'000	Group £'000
2010					
Revenue					
Net premiums written	18,462	-	-	-	18,462
Other income:					
Insurance related	2,996	3,753	-	-	6,749
Non-insurance related	1,252	-	-	-	1,252
Investment property	-	-	300	-	300
Investment income	277	3	-	-	280
Total revenue	22,987	3,756	300	-	27,043
Net result for year before tax	8,512	676	179	14	9,381
Segment assets	21,178	2,177	3,185	3,000	29,540
Segment liabilities	4,537	1,435	44	-	6,016
Depreciation and amortisation	428	12	9	-	449
2009					
Revenue					
Net premiums written	17,611	-	-	-	17,611
Other income:					
Insurance related	2,522	4,292	-	-	6,814
Non-insurance related	1,454	-	-	-	1,454
Investment property	-	-	287	-	287
Investment income	232	6	-	-	238
Total revenue	21,819	4,298	287	-	26,404
Net result for year before tax	7,538	818	175	(3,010)	5,521
Segment assets	18,596	2,515	3,185	3,000	27,296
Segment liabilities	4,152	1,379	27	-	5,558
Depreciation and amortisation	419	28	27	3,000	3,474

All income is derived from the UK.

The figures shown above for employee benefits and financial services are from the group's management accounts that are not prepared under IFRS. Unallocated amounts relate to the group's investment properties.

Notes to the consolidated financial statements

6 Investment income and finance costs

	2010	2009
	£'000	£'000
Investment income		
Loans and receivables:		
Income from unlisted investments	120	105
Income from cash on deposit	115	163
Financial assets designated at fair value through profit and loss:		
Income from fixed interest securities	-	21
Realised loss on maturity of fixed interest security	-	(10)
Income from listed investments	6	4
Unrealised losses	(16)	(46)
Available for sale:		
Income from listed investments	11	12
Realised gains	74	10
Realised losses	(20)	(52)
Realised gains transferred from other comprehensive income	(4)	36
Investment management expenses	(6)	(5)
	<u>280</u>	<u>238</u>
Finance costs		
Interest expense on AESOP bank loan	3	5
Interest expense on other bank loan	-	15
	<u>3</u>	<u>20</u>

Notes to the consolidated financial statements

7 Claims incurred

	2010	2009
	£'000	£'000
Claims paid	3,389	3,431
Claims handling expenses paid	246	304
	<u>3,635</u>	<u>3,735</u>
Increase in claims provision	218	122
Increase/(decrease) in provision for claims handling costs	1	(13)
	<u>219</u>	<u>109</u>
	<u>3,854</u>	<u>3,844</u>

8 Insurance operating expenses

	2010	2009
	£'000	£'000
Acquisition costs	4,466	4,589
(Increase)/decrease in deferred acquisition costs	(7)	17
	<u>4,459</u>	<u>4,606</u>
Administration expenses	3,354	3,225
	<u>7,813</u>	<u>7,831</u>

Total commission incurred during the year in respect of direct insurance was £1,022,000 (2009: £1,097,000).

Notes to the consolidated financial statements

9 Directors' and employees' remuneration

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

	2010	2009
	£'000	£'000
Wages and salaries	6,061	6,170
Social security costs	693	694
Other pension costs	405	390
	<u>7,159</u>	<u>7,254</u>

Average number of employees was as follows:

	2010	2009
	Number	Number
Administration	75	83
Sales and marketing	95	92
	<u>170</u>	<u>175</u>

b) Transactions with key management personnel:

Key management personnel are defined as the directors of Personal Group Holdings Plc.

	2010	2009
	£'000	£'000
Emoluments	1,388	1,385
Social security costs	176	162
Gains made on the exercise of share options	58	-
Share-based payment expense	11	19
Pension contributions to group and self invested personal pension schemes	71	69
	<u>1,704</u>	<u>1,635</u>

During the year, 7 directors (2009: 7 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.

	2010	2009
	£'000	£'000
Emoluments	528	567
Pension contributions to self invested personal pension scheme	22	24
	<u>550</u>	<u>591</u>

Details of individual directors' remuneration are given in the report of the directors (see page 4). The company does not incur employee remuneration.

Notes to the consolidated financial statements

10 Profit before tax

	2010	2009
	£'000	£'000
Profit before tax is stated after:		
Auditor's remuneration (inclusive of non-recoverable VAT):		
Audit services:		
Audit of company financial statements	25	24
Non-audit services:		
Audit of subsidiary undertakings	89	86
Taxation	12	4
Review of interim financial statements	8	8
Solvency II review and advice	29	-
Depreciation of property, plant and equipment	449	474
Rental income receivable	330	405
Operating lease rentals – land and buildings	100	103
	<u><u> </u></u>	<u><u> </u></u>

11 Tax

The relationship between the expected tax expense based on the effective tax rate of Personal Group Holdings Plc at 28.0% (2009: 28.0%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2010	2009
	£'000	£'000
Profit before tax	9,381	5,521
Tax rate	28.0%	28.0%
	<u> </u>	<u> </u>
Expected tax expense	2,627	1,546
Adjustment for marginal tax rate differences	(15)	(10)
Adjustment for non deductible expenses	12	(39)
Adjustment for goodwill impairment	-	840
Other adjustments		
Tax charge in respect of prior years	(1)	(133)
Utilisation of losses not provided for	(1)	(2)
	<u> </u>	<u> </u>
Actual tax expense	2,622	2,202
	<u><u> </u></u>	<u><u> </u></u>
Comprising		
Current tax expense	2,699	2,382
In respect of prior year	(1)	(133)
Deferred tax		
Origination and reversal of temporary differences	(76)	(47)
	<u> </u>	<u> </u>
	2,622	2,202
	<u><u> </u></u>	<u><u> </u></u>

Notes to the consolidated financial statements

12 Profit for the year

The parent company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The parent company's profit for the year was £12,204,000 (2009: £1,093,000).

13 Earnings per share

	2010			2009		
	Earnings £'000	Weighted average number of shares	Pence per share	Earnings £'000	Weighted average number of shares	Pence per share
Basic	6,759	29,870,303	22.6	3,319	29,830,021	11.1
Dilutive effect of shares in Employee Share Ownership Plan	-	4,145	-	-	15,811	-
Diluted	<u>6,759</u>	<u>29,874,448</u>	<u>22.6</u>	<u>3,319</u>	<u>29,845,832</u>	<u>11.1</u>
Profit for the year	6,759	29,870,303	22.6	3,319	29,830,021	11.1
Interest expense	3		-	20		-
Tax	2,622		8.8	2,202		7.4
Depreciation	449		1.5	474		1.6
Goodwill impairment	-		-	3,000		10.1
EBITDA	<u>9,833</u>	<u>29,870,303</u>	<u>32.9</u>	<u>9,015</u>	<u>29,830,021</u>	<u>30.2</u>

EBITDA per share is based on earnings before interest, tax, depreciation and goodwill impairment.

14 Dividends

	2010 Pence per share	2009	2010 £'000	2009 £'000
Equity dividends				
Ordinary shares paid in year				
March	8.50	4.15	2,555	1,248
June	-	4.15	-	1,248
September	4.25	4.15	1,278	1,248
December	4.25	4.15	1,278	1,247
			<u>5,111</u>	<u>4,991</u>
Less: amounts paid on own shares			<u>(37)</u>	<u>(43)</u>
	<u>17.00</u>	<u>16.60</u>	<u>5,074</u>	<u>4,948</u>

Notes to the consolidated financial statements

15 Goodwill

All of the goodwill results from the acquisition of Berkeley Morgan Group Limited in January 2005. The carrying amount of goodwill which has been allocated to that cash-generating unit can be analysed as follows:

	2010	2009
	£'000	£'000
Gross carrying amount at 1 January	3,000	6,000
Impairment provision in year	-	(3,000)
	<u> </u>	<u> </u>
Net carrying amount at 31 December	3,000	3,000
	<u> </u>	<u> </u>

The underlying performance of the Berkeley Morgan Group has been slightly ahead of forecast during the year and no further impairment provision has been necessary.

The amounts for the cash-generating unit were determined based on value in use calculations over a period of fifteen years, covering a detailed five year forecast, followed by an extrapolation of expected cash flows at a growth rate of nil (2009: nil). The growth rate does not assume significant increases in sales volumes or profitability as the current circumstances of the business environment make it difficult for growth to be assumed. A fifteen year period has been used as the directors believe that the core business activities of that group will continue to make a contribution to group profits for the foreseeable long term future. The pre-tax discount rate at 31 December 2010 has been estimated at 15.00% (2009: 9.15%) based upon the weighted average cost of capital of the group and that of other companies in the same market sector. The value in use calculation described above results in a deficit of approximately £6,433,000 against the cost. This deficit has been provided for in full in prior years.

There are a number of significant estimates used by management to determine the value in use of goodwill including profitability and discount rate.

If profits were to decrease by 10% over the 15 years, the impairment provision would increase by approximately £0.3m. If the discount rate were to increase by 1% the impairment provision would increase by £0.1m.

Notes to the consolidated financial statements

16 Property, plant and equipment

For the year ended 31 December 2010

	Freehold land and properties £'000	Motor vehicles £'000	Computer equipment £'000	Furniture fixtures & fittings £'000	Total £'000
Cost					
At 1 January 2010	5,478	817	407	2,057	8,759
Additions	-	417	152	167	736
Disposals	-	(264)	(104)	(1,015)	(1,383)
At 31 December 2010	<u>5,478</u>	<u>970</u>	<u>455</u>	<u>1,209</u>	<u>8,112</u>
Depreciation					
At 1 January 2010	844	308	378	1,808	3,338
Provided in the year	95	217	39	98	449
Eliminated on disposals	-	(168)	(103)	(1,015)	(1,286)
At 31 December 2010	<u>939</u>	<u>357</u>	<u>314</u>	<u>891</u>	<u>2,501</u>
Net book amount at 31 December 2010	<u>4,539</u>	<u>613</u>	<u>141</u>	<u>318</u>	<u>5,611</u>
Net book amount at 1 January 2010	<u>4,634</u>	<u>509</u>	<u>29</u>	<u>249</u>	<u>5,421</u>

Notes to the consolidated financial statements

For the year ended 31 December 2009

	Freehold land and properties £'000	Motor vehicles £'000	Computer equipment £'000	Furniture fixtures & fittings £'000	Total £'000
Cost					
At 1 January 2009	5,478	621	438	2,051	8,588
Additions	-	380	11	6	397
Disposals	-	(184)	(42)	-	(226)
	<u>5,478</u>	<u>817</u>	<u>407</u>	<u>2,057</u>	<u>8,759</u>
At 31 December 2009	5,478	817	407	2,057	8,759
Depreciation					
At 1 January 2009	749	283	385	1,615	3,032
Provided in the year	95	153	33	193	474
Eliminated on disposals	-	(128)	(40)	-	(168)
	<u>844</u>	<u>308</u>	<u>378</u>	<u>1,808</u>	<u>3,338</u>
At 31 December 2009	844	308	378	1,808	3,338
Net book amount at 31 December 2009	<u><u>4,634</u></u>	<u><u>509</u></u>	<u><u>29</u></u>	<u><u>249</u></u>	<u><u>5,421</u></u>
Net book amount at 1 January 2009	<u><u>4,729</u></u>	<u><u>338</u></u>	<u><u>53</u></u>	<u><u>436</u></u>	<u><u>5,556</u></u>

17 Investment properties

	2010 £'000	2009 £'000
Carrying value at 1 January and 31 December	<u><u>3,185</u></u>	<u><u>3,185</u></u>

There are two investment properties, one in Milton Keynes and one in Blackburn. Neither has been valued by independent professional chartered surveyors.

The directors believe that, taking into account recent property transactions in the Milton Keynes area, the total open market value of the Milton Keynes property is likely to be in the range £4,500,000 - £5,000,000. The group's share of this amount is 50%.

The directors believe that the open market value of the Blackburn property is likely to be in the range £1,000,000 - £1,200,000.

Notes to the consolidated financial statements

18 Financial assets

	Group		Company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Bank deposits	5,000	3,067	-	-
Loans and receivables	1,972	2,054	3,943	4,108
Financial assets:				
Designated at fair value through profit and loss	150	170	150	170
Available for sale	456	411	-	-
	<u>7,578</u>	<u>5,702</u>	<u>4,093</u>	<u>4,278</u>

The loans and receivables are secured by a charge over the Milton Keynes property shown within note 17.

Quoted financial assets designated at fair value through profit and loss and available for sale assets are stated at their bid market price and are tier 1 assets.

Unquoted financial assets designated at fair value through profit and loss are tier 3 assets and are valued using an expected future cash flow basis. At 31 December 2010 all unquoted financial assets were valued at £nil (2009: £nil).

19 Trade and other receivables

	Group		Company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Loans and receivables:				
Trade receivables arising out of direct insurance operations	1,528	1,409	-	-
Other receivables due within one year	930	620	-	-
Amounts due from subsidiary undertakings	-	-	1,247	3
Accrued interest	34	18	-	-
Deferred acquisition costs	11	27	-	-
Other prepayments and accrued income	588	614	-	2
	<u>3,091</u>	<u>2,688</u>	<u>1,247</u>	<u>5</u>

All of the group's trade receivables arising out of direct insurance operations and other trade receivables due within one year have been reviewed for indicators of impairment.

Notes to the consolidated financial statements

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

	2010	2009
	£'000	£'000
Not more than three months	2,411	1,995
More than three months but not more than 6 months	45	24
More than six months but not more than 1 year	2	10
	<u>2,458</u>	<u>2,029</u>

In the past, the group has incurred bad debt write offs up to approximately £40,000 in a year and consequently whilst the above may be overdue, the risk of credit default is considered to be low. The group has no charges or other security over any of these assets.

20 Cash and cash equivalents

	2010	2009
	£'000	£'000
Cash at bank and in hand	452	501
Short term investments/cash equivalents	6,623	6,799
	<u>7,075</u>	<u>7,300</u>

21 Share capital

	2010	2009
	£'000	£'000
Authorised 200,000,000 ordinary shares of 5p each	10,000	10,000
Allotted, called up and fully paid 30,064,661 (2009: 30,064,661) ordinary shares of 5p each	1,503	1,503

The total number of own shares held by the Employee Benefit Trust at 31 December 2010 was 398,859 (2009: 418,196).

As at 31 December 2010 the group maintained one share-based payment scheme for employee compensation.

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.

Notes to the consolidated financial statements

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

	2010		2009
	Weighted average exercise price pence	Number	Weighted average exercise price pence
Outstanding at 1 January	289,498	279.8	262,832
Options granted in year	64,406	295.0	26,666
Options exercised in year	(53,619)	186.5	-
	<u>300,285</u>	<u>300.0</u>	<u>289,498</u>
Outstanding at 31 December	<u>300,285</u>	<u>300.0</u>	<u>279.8</u>

The weighted average exercise price of 199,263 (2009: 53,619) share options exercisable at 31 December 2010 was 311.1 pence per share.

The fair values of options which were granted on 27 April 2007 and 28 January 2008 were determined by using the Black-Scholes valuation model. The fair value of these options was 62 pence per share. Significant inputs into the calculation include a weighted average share price of 311p and exercise prices as illustrated above. Furthermore the calculation takes into account future dividends of 4% and a volatility rate of 30.0%, based on expected share price. Risk-free interest rate was determined at 6%. The options are exercisable between 3 and 10 years after the date of the grant and have exercise prices ranging between 301 pence and 319 pence per share

The fair values of options which were granted on 6 April 2009 were determined by using the Black-Scholes valuation model. The fair value of these options was 23 pence per share. Significant inputs into the calculation include a weighted average share price of 225p and exercise prices as illustrated above. Furthermore the calculation takes into account future dividends of 7.5% and a volatility rate of 30%, based on expected share price. Risk-free interest rate was determined at 1.0%. The options are exercisable between 3 and 10 years after the date of the grant and have an exercise price of 225 pence per share.

The fair values of options which were granted on 24 March 2010 were determined by using the Black-Scholes valuation model. The fair value of these options was 33 pence per share. Significant inputs into the calculation include a weighted average share price of 295p and exercise prices as illustrated above. Furthermore the calculation takes into account future dividends of 6.7% 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 295 pence per share.

The weighted average remaining contracted life of outstanding options at 31 December 2010 was 6 years and 4 months (2009: 7 years and 0 months).

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

In total, £22,000 of employee compensation by way of share based payment expense has been included in the consolidated income statement for 2010 (2009: £46,000). The corresponding credit is taken to equity. No liabilities were recognised due to share-based transactions.

Notes to the consolidated financial statements

22 Deferred tax

	Deferred tax assets £'000	2010 Deferred tax liabilities £'000	Deferred tax assets £'000	2009 Deferred tax liabilities £'000
Non-current assets and liabilities				
Property plant and equipment	32	237	41	227
Investment properties	-	12	-	17
Current assets				
Pension and other employee obligations	4	-	4	-
Share options	1	-	10	-
	<u>37</u>	<u>249</u>	<u>55</u>	<u>244</u>
Offset	<u>(37)</u>	<u>(37)</u>	<u>(55)</u>	<u>(55)</u>
	<u>-</u>	<u>212</u>	<u>-</u>	<u>189</u>

At 31 December 2010 the group had tax losses of £1,056,000 (2009: £1,061,000) available to carry forward to offset against future profits of the same trades. A deferred tax asset has not been recognised in respect of the carried forward tax losses as there is uncertainty as to when they will be utilised given the trade is no longer a significant component of the group.

23 Provisions

	2010 £'000	2009 £'000
At 1 January	120	135
Movement in provisions charged to income statement	151	245
Utilised during the year	<u>(154)</u>	<u>(260)</u>
At 31 December	<u>117</u>	<u>120</u>

The provisions have been recognised in respect of the estimate of claw back of commission relating to cancellation of policies, pensions transfers and the free standing additional voluntary contributions review. Due to the nature of the provisions, and the fact that they will be affected by circumstances that are outside of the control of the group, there is uncertainty as to the actual amount that should be provided for. This uncertainty is taken into consideration when reviewing the outstanding provisions at the statement of financial position date. The utilisation of the provisions over the past three years has been between £77,000 and £260,000 and the estimate has been based upon that history.

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

Notes to the consolidated financial statements

24 Trade and other payables

	2010	Group	2010	Company
	£'000	2009	£'000	2009
		£'000		£'000
Financial liabilities measured at amortised cost:				
Claims outstanding	1,075	855	-	-
Amounts owed to subsidiary undertakings	-	-	4,601	10,811
Other creditors	1,105	1,054	-	-
Provision for unearned premiums	190	223	-	-
Accruals and deferred income	1,885	1,693	6	27
	4,255	3,825	4,607	10,838

The gross claims ratio relating to claims outstanding and the impact of assumptions on this estimate is shown in note 3. These liabilities are not secured against any assets of the group.

25 Borrowings

	2010	2009
	£'000	£'000
Financial instruments measured at amortised cost:		
AESOP bank loan	94	166

The AESOP bank loan is repayable within one year by equal monthly instalments. Interest is charged at 1% over the Co-operative Bank plc base rate.

26 Company investment in subsidiary undertakings and joint venture

	Shares in subsidiary undertakings	
	2010	2009
	£'000	£'000
Cost		
At 1 January	24,442	24,442
Amounts written off		
At 1 January	9,578	6,279
Impairment provision in year	173	3,299
At 31 December	9,751	9,578
Net book amount at 31 December	14,691	14,864

The impairment provision includes the Berkeley Morgan Group Limited write down, which has been estimated at £6,433,000, using similar assumptions and estimates in the goodwill impairment review (see note 15), along with the impairment of dormant and loss making subsidiary undertakings.

Notes to the consolidated financial statements

At 31 December 2010 the company held 100% of the allotted share capital of the following trading companies, all of which were incorporated in England and Wales and have been consolidated in the group financial statements.

	Nature of business
Personal Assurance Plc *	General insurance
Personal Insurance & Reinsurance Brokers Limited *	Insurance broking
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
Rapidinsure.co.uk Limited	General insurance intermediary
B M Agency Services Limited	Wholesale insurance intermediary

* Directly owned by Personal Group Holdings Plc

At 31 December 2010 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 2010 the allotted share capital of Abbeygate Developments (Marlborough Gate 2) Limited was 2 £1 ordinary shares (see note 31).

27 Capital commitments

At 31 December 2010 the group had capital commitments of £nil (2009: £20,000).

28 Contingent liabilities

There were no contingent liabilities at 31 December 2010 and 31 December 2009.

29 Pensions

Group and self invested personal pension schemes.

The company operates a group personal pension scheme for the benefit of certain directors and employees. The scheme is administered by Scottish Equitable Plc and the funds are held independent of the company. In addition the company makes contributions to certain directors' self invested personal pension schemes. These schemes are administered by independent third party administrators and the funds are held independent of the company.

Notes to the consolidated financial statements

30 Leasing commitments and rental income receivable

Total operating lease payments due until the end of the lease, or the first break clause, total £164,000 (2009: £234,000). All payments are in respect of land and buildings. An analysis of these payments due is as follows:

	2010	2009
	£'000	£'000
Total operating lease payments falling due on leases:		
Within one year	80	80
Within one to two years	64	73
Within two to five years	20	81
	<u>164</u>	<u>234</u>

Total operating rent receivable payments due until the end of the lease or the first break clause, total £1,176,000 (2009: £947,000). An analysis of these receivable payments due is as follows:

	2010	2009
	£'000	£'000
Future minimum lease payments:		
Within one year	255	265
Within one to two years	297	205
Within two to five years	614	423
Within five to ten years	10	54
	<u>1,176</u>	<u>947</u>

31 Related party transactions

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

	2010		2009
	Receivable	Payable	Receivable
	£'000	£'000	£'000
			Payable
			£'000
Personal Assurance Plc	644	-	3,698
Personal Assurance Services Limited	-	3,558	4,013
Personal Group Benefits Limited	293	-	172
Personal Insurance & Reinsurance Brokers Limited	-	42	74
Personal Assurance Financial Services Plc	-	137	137
Multiplelisting Limited	-	100	100
John Ormond House Limited	-	-	-
Personal Management Solutions Limited	307	-	41
Mutual Benefit Limited	-	12	12
ParTake Services Limited	3	-	-
Berkeley Morgan Group Limited	-	752	2,564
	<u>1,247</u>	<u>4,601</u>	<u>3</u>
			<u>10,811</u>

Notes to the consolidated financial statements

During 2004 the company entered into a joint venture agreement with Abbeygate Developments Limited to construct a freehold joint office and residential property development on land adjacent to John Ormond House. A joint venture company called Abbeygate Developments (Marlborough Gate 2) Limited was established to construct the property. This company is owned equally by Personal Group Holdings Plc and Abbeygate Developments Limited.

The development is funded by way of a loan from Personal Group Holdings Plc. Up to and including 31 May 2009 interest on the loan was charged at 1% above the Bank of England base rate on a daily basis. The interest charge increased to 2.5% above the Bank of England base rate on 1 June 2009. During the year interest receivable totalled £119,782 (2009: £105,287). Personal Group Holdings Plc has a charge over the development.

At 31 December 2010 the amount outstanding on the loan was £3,943,682 (2009: £4,107,931).

The aggregate amounts relating to Abbeygate Developments (Marlborough Gate 2) Limited that have been included in the consolidated financial statements are as follows:

	2010	2009
	£'000	£'000
Non-current assets		
Property, plant and equipment	8	19
Investment property	2,117	2,117
Long term financial assets	(1,972)	(2,054)
	<u>153</u>	<u>82</u>
Current assets		
Trade and other receivables	26	24
	<u>179</u>	<u>106</u>
Current liabilities		
Trade and other payables	29	12
Current tax liabilities	15	15
	<u>44</u>	<u>27</u>
Income	193	183
Expenses	(121)	(112)
Profit for the year before tax	<u>72</u>	<u>71</u>

The long term financial asset deduction represents the derecognition of the group's long term asset invested in the joint venture.

There were no cash movements in the year as the company does not have its own bank account and all transactions are dealt with through inter-company accounts.

32 Cash flows from insurance contracts

During the year £18,260,000 (2009: £17,705,000) was received from insurance contracts. Future cash flows will depend upon the amount of new business written, and the amount of cancellations received, in any financial period.

33 Controlling related party

C W T Johnston is the group's controlling related party by virtue of his majority shareholding.



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