ISSUED
September 2012

COMPANY PROFILE & FINANCIAL STRENGTH REPORTS

Partnership

AKG

Accessible - Comparative - Independent

Analysis by AKG Actuaries & Consultants Ltd

Introduction

Background

AKG's Company Profile & Financial Strength Reports are designed to meet the information needs of advisers and analysts in assessing the relative strengths of UK long term Insurers/Providers. Two different styles of report are published by AKG - FULL reports and SHORT reports. A FULL report is produced for each of the leading Provider companies in the market, which participate in the production of the reports. For each remaining Provider company which is covered, a SHORT report is produced.

This is a FULL report.

Each report collates relevant information from a range of sources such as a company's returns to the FSA, its Report & Accounts and material provided by the companies themselves, and incorporates expert independent assessment. For FULL report companies, the process is augmented by regular meetings and other communications with AKG.

PLEASE NOTE: This report should be read in conjunction with AKG's User Guide to AKG's Company Profile & Financial Strength Reports, a copy of which is available on-line at www.akg.co.uk.

About AKG

AKG is an actuarially based consultancy specialising in the provision of ratings, information and market assistance to the financial services industry.

Assistance to Provider Companies
AKG assists Providers in: Financial Strength analysis, ratings and presentation, Data and information provision, Actuarial consultancy, Distribution consultancy.

Assistance to Financial Intermediaries
AKG assists intermediaries in: Financial Strength analysis, Best Advice panel services, Data and information provision, Actuarial and technical support.

Regular Reports
AKG publishes the following additional reports to assist Providers and Intermediaries:

AKG Offshore Profile & Financial Strength Reports - covering offshore life assurance companies.

AKG Platform Profile & Financial Strength Reports - covering platform operations.

AKG UK Life Office With Profits Report - providing further depth in the assessment of with profits funds.

For further details, please contact AKG: Tel: +44 (0)1306 876439 or email akg@akg.co.uk

Many of the financial statistics in this report are derived from companies' annual returns to the FSA. AKG gratefully acknowledges the permission of Standard & Poor's to extract data from their SynThesys Life database system.

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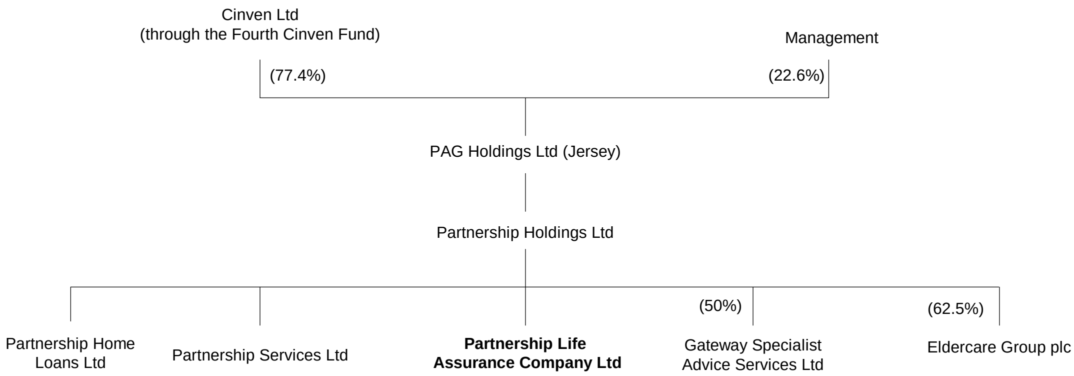
Group Overview

Partnership came into operation at the end of September 2005. It was established by Phoenix Equity Nominees Ltd (Phoenix) using their Phoenix Equity Partners Fund IV. On 30 September 2005, The Pension Annuity Friendly Society Ltd (PAFS) demutualised and its business was transferred to Partnership Life Assurance Company Ltd.

On 5 August 2008, Cinven Ltd (Cinven) became the principal owner of Partnership taking a 77% ownership, having agreed to buyout the Phoenix Equity Partners' holding. The remaining 23% stayed under the ownership of Partnership's management. Cinven, founded in 1977, is one of Europe's largest private equity firms with currently €30bn invested. It acquires European-based companies that require equity investment of €100m or above. Cinven specialises in six sectors: Business Services, Consumer, Financial Services, Healthcare, Industrials, and Technology, Media and Telecommunications (TMT). Its investments include Gondola, the casual dining group which encompasses Pizza Express, Ask and Zizzi, as well as Spire Healthcare, the rebranded Bupa hospitals group. Partnership was acquired for £138m by the Fourth Cinven Fund, which also invested a further £10m in the group at that time. The Fourth Cinven Fund stands at around €6.5bn. In November 2011, Cinven acquired Guardian Financial Services (GFS) from Aegon for £275m. Cinven typically looks to hold its investments for between four to six years.

The Partnership Group's aim is to deliver growth in its chosen markets providing highly differentiated risk based life and health products in the UK, leveraging its niche market position and specific intellectual capital/data. Partnership Home Loans commenced operations in April 2006, when it launched an impaired life equity release product. Partnership now operates within four areas: Long Term Care, Retirement, Protection and Equity Release, having re-entered the equity release market, firstly in June 2010 providing funding for more 2 life, and then by launching its own branded product in June 2011. Partnership has also made selected portfolio purchases (from Hodge Bank) to take advantage of capital benefits and a favourable environment. In 2007 the Group established Annuity Direct Ltd (initially known as Enhanced Financial Solutions Ltd), a specialist IFA dealing primarily in the retirement annuity market, which was subsequently sold in 2010. It has also acquired stakes in Eldercare Group plc, an IFA specialising in the long term care market, and Gateway Specialist Advice Services Ltd, an annuity referral service.

Corporate Structure (simplified)



Ratings

Company	Financial Strength Ratings				Supporting Ratings		
	Overall	With Profits	Non Profit	Unit Linked	Service	Image & Strategy	Annual Review
Partnership Life Assurance Company Ltd	**B**	▣	★★★★	★★★★	★★★★★	★★★★	★★★★★

Partnership Life Assurance Company Ltd

Corporate Data

Ownership	Fourth Cinven Fund, managed by Cinven Ltd
Open to New Business?	Yes
Year Established	2005
Head Office	Sackville House 143-149 Fenchurch Street London EC3M 6BN
Tel:	0845 108 7240
Fax:	0845 108 7238
Administration Office	Regent House 1-3 Queensway Redhill Surrey RH1 1QT
Website - Consumer	www.partnership.co.uk
Website - IFA	www.partnership.co.uk

Key Personnel

Chairman	I B Owen
Chief Executive Officer	S J Groves
Chief Finance Officer	A M Dearsley
Research & Development Director	R J Houghton
Chief Operating Officer	J A Kennedy
Managing Director of Retirement	A Megson
Managing Director Care	C Horlick
Managing Director of Equity Release	G M Hosty
Commercial Director	K Purves
Chief Investment Officer	A Veys
Director of Corporate Affairs	J Boyd
Chief Financial Actuary	A J M Chamberlain

Company Background

Partnership Life Assurance Company Ltd was established in October 2005 to receive the business of the Pension Annuity Friendly Society (PAFS) following its demutualisation, the first ever by a UK Friendly Society. PAFS was founded in 1995 to provide financial services products for people with non-standard medical requirements. The Anderton Mortality Tables were constructed specifically for PAFS to assess the anticipated life expectancy for individuals with medical conditions. These were replaced with the Enhanced Mortality Tables (EMT) in 2004. Since its acquisition, Partnership's business has grown substantially and it is now recognised as one of the leading providers of retirement and care annuities for people with health conditions.

Overall Financial Strength B

2008 saw the company change ownership, from Phoenix Equity Partners to Cinven Ltd. 2008 also saw a substantial capital injection of £9.8m. There were also further drawdowns of its £16m subordinated debt arrangement with Lloyds Banking Group in 2008 and 2009 - this is now fully drawn down. The company continued to trade profitably. The management team was strengthened again. Partnership benefits from the support and commitment of one of Europe's leading private equity companies. The solvency position remains good and AKG would expect further capital to be made available as and when required to support the growth aspirations.

Reinsurance

Approach

Growth in business, coupled with the injection of capital has seen the company gradually increase its retention. At 31 December 2011 15 reinsurance treaties were in force, of which 5 were open to new business. 2011 saw the company pay £400.8m in reinsurance premiums [2010: £299.8m] or 45% of its gross premiums [2010: 51%]. The largest treaty both in terms of reserves ceded (£690.9m) and premiums paid (£165.3m) is with Hannover Re in respect of its retirement annuity business for medically underwritten impaired retirement annuities written on or after 1 April 2008 (where Partnership retains 15% of the longevity risk and 100% of the investment risk). The next largest in premium terms is also with Hannover Re (premiums of £155.7m and reserves of £162.4m) in respect of medically underwritten impaired annuities written after June 2011 (where Partnership retains 30% of the longevity risk and 100% of the investment risk). Next is a treaty (premiums of £33.2m and reserves of £112.1m) with Pacific Life Re in respect of medically underwritten smoker annuities written on or after 1 February 2008 (where Partnership retains 15% of the liability quota share). As well as Hannover Re and Pacific Life Re, annuities are also reinsured to Partner Re and Imagine Re under treaties now closed to new business. In 2009, the company entered into new reinsurance arrangements enabling it to offer cover for a significantly wider level of medical conditions, that would normally not be included. Protection business written before 1 February 2009 is reinsured to two companies in the RGA group with 10% of the first £500k sum assured retained. Protection business written after 31 January 2009 is reinsured to GenRe with the company retaining 35% of the first £214,286 (i.e. max of £75,000).

Analysis of Reserves	**2009 £000's**	**2010 £000's**	**2011 £000's**
Gross reserves	1,057,115	1,476,493	2,158,537
Reinsurance ceded - external	803,400	1,021,287	1,352,887
Reinsurance ceded - internal	0	0	0
Net mathematical reserves	253,716	455,205	805,651

Non Profit Business

General

The company's business is entirely non-profit in nature with the vast majority of reserves relating to impaired annuity and long term care business (gross reserves of £1.9bn and £191m respectively at the end of 2011) although there is a small amount of term assurance and income protection. The gross reserves of £2.1bn at the end of 2011 were split £232m UK Life, £1.9bn UK Pensions and £47k Overseas (Long Term Care written in France and Germany).

Non Profit Reserves	**2009 £000's**	**2010 £000's**	**2011 £000's**
UK Life	67,750	85,663	106,860
UK Pensions	180,184	355,884	668,584
Overseas	55	47	47
Total net NP reserves	247,988	441,594	775,491

Non Profit Financial Strength ★★★★

The company continues to maintain a good level of solvency for a non profit operation, supported by previous capital injections provided by Cinven on acquisition, retained profits and subordinated debt. It also maintains a diversified range of reinsurers that are periodically reviewed.

Unit Linked Business

Approach

A small amount of annuities are written on an index linked basis. As at 31 December 2011, this amounted to gross reserves of £70m and net reserves of £30m.

Linked Reserves	2009 £000's	2010 £000's	2011 £000's
UK Life	2,932	7,448	14,746
UK Pensions	2,795	6,163	15,414
Overseas	0	0	0
Total net linked reserves	5,727	13,611	30,160

Unit Linked Financial Strength ★★★★

The small amount of index linked business written by the company is deemed by AKG to have the same level of financial strength as the company's non profit business.

With Profits Business

The company does not have any With Profits business, so this section does not apply.

Partnership Life Assurance Company Ltd

Key Financial Data (for y/e: 31/12/11)

Capital Resources	2009 £000's	2010 £000's	2011 £000's
Core tier one capital	49,632	75,161	128,822
Tier one waivers	0	0	0
Other tier one capital	0	0	0
Tier one deductions	-2,333	-2,333	-2,333
Total tier one capital	47,299	72,828	126,489
Tier two capital	15,520	14,400	12,640
Adjustments and deductions	0	0	0
Total Capital Resources	62,819	87,228	139,129
CR outside the fund	40,060	47,923	62,415

Total capital resources increased again in 2011 due to retained profits of £54m. 21% of the £16m subordinated debt (tier two capital) available under the arrangement with Bank of Scotland is deemed inadmissible.

Long Term Business Liabilities & Margins	2009 £000's	2010 £000's	2011 £000's
Non Linked Non Profit	247,988	441,594	775,491
Non Linked With Profits	0	0	0
Accum'lg With Profits	0	0	0
Linked	5,727	13,611	30,160
Surplus c/f	2,348	18,894	56,303
Other liabilities	358,998	576,158	891,146
Investment Reserves	20,411	20,411	20,411
Total Liabilities/Margins	635,473	1,070,668	1,773,511

The company has a credit default margin for its corporate bond portfolio of 36.4 basis points. It has not experienced any defaults, however. Other liabilities included £810m of reinsured annuities deposited back. The table above excludes reinsurance deposits, which amounted to £1.4bn as at 31 December 2011.

Long Term Business Admissible Assets	2009 £000's	2010 £000's	2011 £000's
Fixed Interest	607,774	869,644	1,373,493
Equities	0	0	0
Property	0	0	0
Linked	5,727	13,611	30,160
Other	21,972	187,413	369,858
Total Assets	635,473	1,070,668	1,773,511

Total long term assets increased by 66% in 2011. There is a very high proportion of fixed interest assets, reflecting the policy of closely matching liability cashflows. Other assets includes £317m of equity release mortgages. Linked assets are held to match index linked annuity liabilities.

Key Revenue Items	2009 £000's	2010 £000's	2011 £000's
INCOME			
Premiums	154,088	288,116	491,460
Investment Income	24,824	53,144	68,222
Investment Increase	34,093	-12,882	18,311
EXPENDITURE			
Commissions	12,055	15,118	23,182
Policy claims	25,999	38,461	53,607
Expenses	25,921	39,194	51,006
TRANSFER to P&L	20,000	8,000	15,000
INCREASE in fund	120,868	218,035	387,855

The long term fund increased again in 2011, with net premiums increasing by 71% to £491m. Gross premium income increased by 52% from £588m in 2010 to £892m in 2011. Claims primarily comprise annuity payments and increased as expected reflecting the growing block of business. There was an increased transfer of £15m from the Long Term Fund, which was retained in the Shareholders' Fund.

Free Assets	2009 £000's	2010 £000's	2011 £000's
Free Assets (Exc Fin Eng)	24,556	33,947	49,800
Financial Engineering	0	0	0
Free Assets (Published)	24,556	33,947	49,800

Free Asset Ratios	2009 %	2010 %	2011 %
FAR (Exc Fin Eng)	3.9	3.2	2.8
FAR (Published)	3.9	3.2	2.8

CRR Coverage Ratios	2009 %	2010 %	2011 %
CRRCR (Exc Fin Eng)	164.2	163.7	155.8
CRRCR (Published)	164.2	163.7	155.8

Free assets increased by 47% in 2011, boosted by increased capital resources more than offsetting an increased CRR. The CRR coverage, remained at a similar level, continuing to exceed both the 120% target agreed with the FSA and the 140% optimum target set by management.

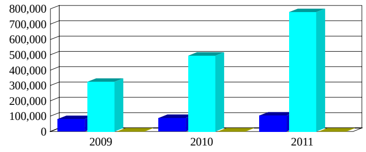
Expense Ratios	2009	2010	2011
New business (% APE)	82.8	83.7	72.8
Renewal (% reg premiums)	n/a	n/a	n/a
Renewal (% p.a. of mean fund)	0.73	0.59	0.67

Overall expenses increased by 37%, reflecting increased volumes of business allied to increased staff numbers; average staff numbers in the group over the year were 311 [2010: 259]. The acquisition ratio reduced, remaining reasonable, whilst the renewal expense ratio as a percentage of the mean fund increased, impacted by an increase in other expenses, as a result of the cost of such things as the implementation of Solvency 2.

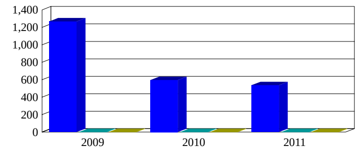
New Business Data (for y/e: 31/12/11)

		Single £000's	Regular £000's
Investment			
Bonds	With Profits	0	0
	Unitised WP	0	0
	Unit Linked	0	0
Endowment	With Profits	0	0
	Unitised WP	0	0
	Unit Linked	0	0
Guaranteed Bonds		0	0
ISA / tax exempt		0	0
Annuities		9,108	0
Miscellaneous		20,078	0
Protection			
Whole Life	With Profits	0	0
	Unitised WP	0	0
	Unit Linked	0	0
Term	Ordinary	103	537
	Pension	0	0
IP	Individual	0	0
Critical Illness		0	0
Long Term Care		74,862	0
Miscellaneous		0	0
Pensions			
Individual	With Profits	0	0
	Unitised WP	0	0
	Unit Linked	0	0
CPA		778,966	0
Bulk Transfer Annuities		0	0
Miscellaneous		0	0
Group Business			
Pension		0	0
Life		0	0
IP		0	0
Critical Illness		0	0
Miscellaneous		0	0
TOTAL DIRECT BUSINESS		**883,117**	**537**
Overseas Direct (inc above)		0	0
External Reins (exc above)		0	0
Intra-Group Reins (exc above)		0	0
Industrial Branch (inc above)		0	0

New Single Premiums	**2009 £000's**	**2010 £000's**	**2011 £000's**
UK Life	81,230	87,923	104,151
UK Pensions	324,231	494,423	778,966
Overseas	0	0	0
Total (Direct + External Reins)	405,461	582,346	883,117
Growth Rate	35.3%	43.6%	51.6%
Reins Accepted (Intra-Group)	0	0	0



New Regular Premiums	**2009 £000's**	**2010 £000's**	**2011 £000's**
UK Life	1,268	596	537
UK Pensions	0	0	0
Overseas	0	0	0
Total (Direct + External Reins)	1,268	596	537
Growth Rate	54.6%	-53.0%	-9.9%
Reins Accepted (Intra-Group)	0	0	0



Another excellent year for new business with the company recording a 51% increase in APE and a compound annual growth of 42% over 5 years.

Retirement sales since 2007 have increased by an average of 50% to £790m in 2011. Partnership states that its share of the open market for retirement annuities increased from 2.8% to 12.3% in this time.

Care sales since 2007 have grown on average by 12% pa reaching £93m in 2011. Partnership dominates this market, reporting a market share of 76% in 2011.

Protection sales, £537m in 2011, fell by 10% as this market was hit by the economic slowdown, particularly residential mortgages and the relatively high cost of such products aimed at those with serious health issues.

Partnership established new distribution relationships with major IFA networks and recorded an increased number of intermediaries using its service with over 14,100 IFAs seeking quotes in 2011 (up 12% from over 12,600 in 2010).

Elsewhere in the group, having re-entered the equity release market in 2010, Equity Release loans in 2011 comprised new loans, sold under both the more 2 life and Partnership brands, of £68.1m [2010: £7.5m] and purchases of in-force loan books with a value of £79.4m [2010: £131.4m].

Distribution

Method

The main focus for distribution is the intermediary market and Partnership is looking to widen its base from its core market of national regional specialists and wealth management IFAs with an increased focus on networks. It has secured key panel positions and has established 5 year agreements with Sesame Bankhall, Tenet, SimplyBiz, 360, Positive Solutions and Paradigm and taken a 50% stake in Gateway, a specialist advice centre within Sesame. Following regulatory changes, Partnership looks to enhance and supplement its business by distributing through other providers' product offerings to their clients with health conditions. Additionally, it sees corporate partnerships as an important part of its distribution strategy. It has arrangements with Lloyds Banking Group to provide Long Term Care Insurance and Standard Life, Friends Provident and B&CE to provide enhanced annuities to their vesting pension customers with medical conditions. Partnership has developed both an online annuity proposition and a simplified underwriting proposition, leveraging its intellectual property which potentially proves difficult to replicate. The proposition, PA Lite, is focused on the small annuity funds in all segments but has a specific application in the EBC and Corporate Partner space. Further corporate partnerships are under negotiation with a dedicated team focused on EBCs. A direct sales channel was launched in 2010 for its Immediate Needs Annuity for care fee funding

Distribution Split	Regular Premium %	Single Premium %
IFAs	97.0	97.0
Tied Agents	3.0	3.0

Image and Strategy

★★★★

Partnership is now an established specialist provider, successfully enhancing and growing the market presence previously occupied by PAFS. This has seen both a widening of the group's product offerings and distribution and a commensurate growth in new business volumes. Its strategy is to use its Intellectual Property "To develop and bring to market insurance products that provide enhanced financial benefits, or protection cover, for customers with medical or lifestyle factors that lead to a reduced life expectancy." Its investment in distribution companies, which operate independently of Partnership, is intended to facilitate access to customers who may benefit from its products. This is combined with a focus on profit and capital.

Partnership is continuing to build its brand in the intermediary market, whilst at the same time it will be looking to maintain its reputation amongst the intermediaries it deals with and, with the increased financial backing from Cinven, will be looking to take this to a wider audience with a diversification of its product range, whilst remaining true to its niche focus.

Whilst the nature of the current private equity parentage indicates that a change in ownership in the medium term is likely, its performance, growth and potential suggest that any such change would be from a position of significant strength. In 2011, the company led the Sunday Times "Top Track 250" of leading mid-market private companies.

GFS is seen as a consolidation platform, with a different strategy. This means that despite some commonality at board level, GFS and Partnership are expected to retain independence from each other.

Products

Overall Product Philosophy

Partnership is a specialist provider of financial solutions to customers living with health conditions - from minor ones to more serious ones such as heart failure, diabetes, kidney failure and cancers. Pricing of these products is based on the company's own proprietary research and data.

Products fall into three categories: Retirement Annuities, Long Term Care and Protection - all with a focus on the impaired life market. Products are designed with financial advisers aiming to meet their clients' needs as closely as possible. A lesser impaired smoker annuity was launched early in 2008. The company also introduced a money back guarantee, for the first 6 months, on all immediate funding LTC plans. In 2009 Partnership added a feature to its Immediate Needs Annuity whereby payment can be deferred until the property is sold. In 2010, Partnership launched PA Lite (an underwritten retirement annuity that uses a simplified electronic underwriting process) and Smoker Plus (which allows other lifestyle conditions to be considered). Recent developments also include a facility to annuitise GMPs, a derisking proposition for Pension Scheme Trustees and an OMO for Section 32 Bonds.

Partnership naturally targets particular sectors of the intermediary market, such as intermediaries specialising in the care market, and mortgage brokers.

The group had previously offered medically underwritten equity release products, both mortgage and reversion variants through the sister company Partnership Home Loans Limited, which commenced operations in April 2006 and is a member of SHIP. The group temporarily withdrew the products in 2009 in the wake of the "credit crunch" and the increased cost of funding, but re-entered the market in 2010 using the more 2 life brand, followed in 2011 by products marketed under its own brand.

Products Currently Marketed

Protection Products

- Immediate Needs Annuities
- Pre-funded Long Term Care
- Term Assurance
- Whole of Life
- Family Income Benefit
- Gift Inter Vivos

Pension Products

- Impaired Life Annuities
- Smoker Annuities

Service ★★★★★

Approach

Partnership's approach is targeted on delivering personal and informed resources to benefit clients. All queries relating to new business are made to the same direct access number, 0845 108 7237, where financial intermediaries are able to gain direct access to Partnership's specialist teams; one for each of Long Term Care, Retirement, Protection and Equity Release. Once through to the relevant team, intermediaries are able to receive illustrations and quotations by post, fax or email.

As the business has grown, the operation has invested in increased staffing and this process continues. At the same time there has been some redesign in processes and increased use of resource forecasting and management information reporting to facilitate higher volumes of new business. The company's IT systems, inherited from PAFS, are all developed and maintained in-house.

e-Business

Partnership’s new operational infrastructure has been designed with e-business in mind.

Partnership has invested significantly in its e-capability. In January 2008 it launched its first ever real time quotation facility on the Exchange, and has since extended this functionality, providing 24/7 quotation functionality to intermediaries. Unusually, the same functionality is available via its own website. This enabled Partnership to qualify for the first time in the FTRC rankings for e-business where it achieved a 'eee' rating, scoring third alongside the Prudential.

Partnership's e-proposition is a key area of focus which, having launched an online enhanced annuity solution for small annuities (PA Lite), continues. Partnership expects to increase its e-footprint significantly in response to intermediary demand.

Service Standards & Awards

PAFS' service was highly regarded by the specialist advisers who used it. Partnership has been able to maintain and build on this platform, and whilst seeing significant overall new business growth and some particular spikes, the company has maintained a strong external reputation in recent years. Regular policyholder surveys are conducted to measure satisfaction.

The company featured for the first time in the annual Financial Adviser Service Awards in 2006 when it was awarded 5 stars, a notable achievement in its first full year. This was retained in 2007. The company was awarded 4 stars in 2008 and 2009, returning to 5 stars in 2010 and 2011.

Outsourcing

Intellectual property and core skills are retained within Partnership and all other routine processes are considered for outsourcing. July 2009 saw the company sign a new contract with Capita Hartshead, who immediately took over responsibility for processing annuity payments and post on-risk administration for annuities (previously Paymaster). Back office administration for life protection is outsourced to the Direct Group Ltd. A new agreement has now been put in place with Stonehaven for equity release business and further outsourcing may be implemented as deemed appropriate.

Investment

Overall Approach

Whilst funds are substantially investment grade corporate bonds, with some UK gilts, matching the various insurance liabilities, 2011 saw the purchase of £148m [2010: £139m] of equity release mortgages.

Insight, now owned by BNY Mellon, was appointed as asset manager in 2009, replacing Conning Asset Management who were appointed asset manager in 2005 to replace Aberdeen Asset Managers, who had managed the funds on behalf of PAFS. Brascan Strategic Asset Management manages the £99m portfolio arising from the policies reinsured with Imagine, the assets of which are held in trust with Brown Brothers Harriman. There is also a trust arrangement with PacLifeRe, with assets held in a segregated account with Bank of New York and managed by Schroders.

Alex Veys was appointed Chief Investment Officer in 2010.

Funds Under Management

Long term business assets increased by 66% over the year to £1.8bn as at 31 December 2011. Overall assets in the group totalled £2.1bn. The total value of the current investments that Cinven have is €30bn. This includes Cinven's Fourth Fund, currently €6.5bn, which includes Partnership. A Fifth Fund is currently being raised.

Annual Review ★★★★★

2011 was another good year for the company. Profits before tax increased by 82% from £35.5m to £64.4m driven by increased new business volumes and controlled expense levels. No dividend was paid. Assets under management exceeded £2bn for the first time and combined insurance premiums and equity release loans exceeded £1bn. New business grew by 51% in APE terms. Partnership remained the leading provider of long term care in new business terms and grew its share of the open annuity market to 12.3%. Partnership increased its presence in the Equity Release market, with the launch of an own branded product, to compliment its more 2 life branded offering. The number of intermediaries using Partnership continued to increase.

An annuity process utilising the PA Lite quotation capability was developed in conjunction with a partner EBC firm.

The company remained well capitalised and continued to trade profitably. Headcount again increased commensurate with increased new business volumes as did expenses, although these appear under control. Partnership continued to maintain its growth and development, which should enable it to continue to widen its distribution presence in its chosen niche markets. It continued to win awards for its service and products.

In June 2011, Partnership was announced as one of five providers appointed to the NEST annuity panel.

The Fourth Cinven Fund recorded an 11.1% growth in profits in 2011. Following the acquisitions of SLV and Guardian Financial Services in 2011, the Fund was 78% invested as at 31 December 2011. A further investment, CPA Global, has been made since. The acquisition of Guardian Financial Services is not expected to have any direct impact on Partnership. A Fifth Fund is currently being raised.

Financial Strength Ratings - Introduction

The aim of AKG's financial strength ratings is to assist IFAs and others to assess the relative strengths of individual provider companies. AKG's concept of 'financial strength' starts with the fundamental issue of a company's ability to meet all of its guaranteed payments to policyholders, but extends beyond this by aiming to factor in the degree to which a policyholder's expectations are likely to be met - or even exceeded - in the long-term. For performance-related products, where the eventual return generally depends largely upon a company's success in consistently delivering superior investment performance, and in containing expense charges, a company's ability to meet expectations is likely to be heavily dependent upon whether or not it is able to sustain its operations in the relevant market, and whether or not it can maintain, or improve, its competitive position.

As a result, AKG believes that, ideally, the evaluation of 'financial strength' should depend upon the type of product under consideration. A particular company may be judged as very strong in the context of one particular product line, but it may be weaker in another context. An illustration of this concept is a company that currently only markets unit linked business, but which has a very small closed block of with profits business, written many years ago. Such a company may be judged as 'good' for unit linked business, whilst considered 'poor' in respect of with profits business.

Since the inception of AKG's Company Profiles and Financial Strength Reports, AKG has consistently promoted and developed the concept of providing financial strength ratings separately for each of the three major product categories - With Profits, Non Profit and Unit Linked.

All AKG's financial strength ratings should be used with care, since even the more detailed approach described above represents something of a simplification. To illustrate this point, for example, the 'Non Profit' category covers a multiplicity of different products. It is clear that slightly different criteria should be used for, say, short-term policies with fully guaranteed terms (e.g. Guaranteed Bonds), than for longer-term policies with terms that can be varied at the company's discretion (e.g. Renewable or Reviewable Term).

AKG assesses financial strength using consistent methodology and objective measures wherever possible, and based on the detailed analysis of the company's particular strengths and weaknesses. The objectives and criteria for each of the financial strength ratings are summarised below:

With Profits Financial Strength Rating

The objective is to assess the overall strength of the company's with profits funds. The initial concern is the company's ability to meet its ongoing guaranteed, or promised, commitments, i.e. existing sum assured and bonuses. However, the company's ability to continue to compete successfully in the with profits market is also particularly relevant, given that closed funds are sometimes bad news for policyholders. In such situations, overall expenses tend to increase as a proportion of the fund and investment performance may well deteriorate. These, together with other factors, may make it difficult for companies in such situations to maintain competitive bonus rates at future declarations, although existing declared bonuses are not affected (other than possibly by MVRs).

☆☆☆☆☆	Excellent
☆☆☆☆	Very good
☆☆☆	Good
☆☆	Adequate
☆	Poor
▤	Not rated

The main criteria taken into account are: capital base and free asset position, with profits realistic balance sheet position, the amount of with profits business in-force, parental strength (and likely attitude towards supporting the company), and image and strategy.

NOTE: More detailed analysis of with profits companies is included in AKG's UK Life Office With Profits Report.

Non Profit Financial Strength Rating

The objective is to assess the company's ability to meet all guaranteed payments arising from such contracts as term plans, annuities etc.

☆☆☆☆☆	Excellent
☆☆☆☆	Very good
☆☆☆	Good
☆☆	Adequate
☆	Poor
▤	Not rated

The main criteria taken into account are: free assets, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), and image and strategy.

Unit Linked Financial Strength Rating

Whilst this is essentially a non profit line, and the primary objective is to assess the company's ability to meet all guaranteed payments arising, AKG also seeks to take into account the extent to which the company is likely to be able to sustain its unit linked operations, and whether or not it is likely to be able to maintain, or improve, its competitive position. Thus strategic issues are also relevant, because of their bearing on the quality of investment management offered, and because of companies' rights to increase charges etc.

☆☆☆☆☆	Excellent
☆☆☆☆	Very good
☆☆☆	Good
☆☆	Adequate
☆	Poor
▤	Not rated

The main criteria taken into account are: free assets, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), typical fund performance achievements, and image and strategy.

Overall Financial Strength Rating

The objective is to provide a simple broad-brush indication of the general financial strength of a company. In addition to an assessment of the company’s ability to meet all of its guaranteed payments to policyholders, AKG also aims to factor in the degree to which policyholders’ expectations are likely to be met - or even exceeded - in the long-term. This involves an assessment of a company’s ability to survive in its current form for the long term. The overall rating inherently reflects the mix of business in-force within the company, since different types of policyholder have different expectations, and the company’s particular strengths and weaknesses in respect of its key product areas.

A	Superior
B+	Very strong
B	Strong
B-	Satisfactory
C	Weak
D	Very Weak

The rating takes into account those of the following criteria which are relevant (depending upon the company's mix of business in-force): capital base and free asset position, with profits realistic balance sheet position, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), typical fund performance achievements, and image and strategy.

Supporting Ratings - Introduction

Supporting ratings are provided only in full reports, and are assessed at the brand level. AKG assesses three key supporting areas, using consistent methodology and objective measures wherever possible. The aim is to assist IFAs and others to consider the relative merits of the brands that they deal with. AKG's objectives and criteria for each of these ratings are summarised below:

Service Rating

The objective is to assess the quality of the organisation's service to the intermediary market in respect of the brand concerned.

Criteria taken into account include: performance in surveys, awards and benchmarking exercises (external and internal), the organisation's philosophy, service charters, the extent of investments designed to improve service, and feedback from intermediaries.

☆☆☆☆☆	Excellent
☆☆☆☆	Very good
☆☆☆	Good
☆☆	Adequate
☆	Poor
▤	Not rated

Image and Strategy Rating

The objective is to assess the effectiveness of the means by which the organisation currently positions itself to distribute its products for the brand concerned and the plans it has to maintain and/or develop its position.

Criteria taken into account include: overall trends in the company’s market share position, brand visibility and reputation, feedback from intermediaries and industry commentators, and AKG’s view of the company’s general strategy.

☆☆☆☆☆	Excellent
☆☆☆☆	Very good
☆☆☆	Good
☆☆	Adequate
☆	Poor
▤	Not rated

Annual Review Rating

This is an end of year view for the last year for which Report and Accounts, returns to the FSA, etc., are available, together with comment on any significant post-balance sheet events. It is an assessment of how the brand has fared against its peers, and how it is perceived externally.

Criteria taken into account include: increase/decrease in market shares, expense containment, publicity - good or bad, press or market commentary, regulatory fines, and competitive position.

☆☆☆☆☆	Excellent
☆☆☆☆	Very good
☆☆☆	Good
☆☆	Adequate
☆	Poor
▤	Not rated

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AKG is an actuarially based consultancy specialising in the provision of ratings, information and market assistance to the financial services industry