Partnership Holdings Limited

Report and Financial Statements

For the year ended 31 December 2012

Registered Number: 6610600

Contents

Who we are & what we do

Partnership Holdings Limited (the "Company") was incorporated on 4 June 2008. On 5 August 2008 the Company acquired Partnership Group Holdings Limited and its subsidiaries (all collectively, the "Group"). Those subsidiaries include Partnership Life Assurance Company Limited ("Partnership"), which began trading in October 2005, following its acquisition of the assets and liabilities of The Pension Annuity Friendly Society ("PAFS"), a pioneer of impaired annuities since its foundation in 1995.

Partnership specialises in the provision of financial products for individuals with reduced life expectancy, and offers enhanced retirement annuities, immediate needs annuities ("INAs") for funding long term care costs, and specialist protection cover for those who are unable to get cover elsewhere.

The Group also includes Partnership Home Loans Limited, an entity which funds equity release loans, specialising in products for those seeking to release the maximum funding available from their property and who can benefit from medical underwriting, and PayingforCare Limited, a not for profit company that supplies information via the internet for those seeking help with funding long term care needs. The Group also has significant holdings in two Independent Financial Advisors ("IFAs") - Eldercare Group Limited, which specialises in financial solutions for the provision of long term care, and Gateway Specialist Advice Services Limited, which provides specialist later-life financial advice.

The acquisition of Partnership Group Holdings Limited was funded by a combination of private equity funds managed by Cinven Limited (the "Cinven funds") and Partnership's existing management team.

Directors

IB Owen, FIA (Chairman)*
PA Catterall*
MD Crewe*
RA Phipps*
DTM Young, FCA, CTA*
SJ Groves, FIA
DL Richardson, FIA, CFA
AM Dearsley, ACA

*Non-executive Director

Company Secretary

FE Darby, Solicitor

Registered Office

Sackville House
143-149 Fenchurch Street
London
EC3M 6BN

Independent Advisers and Consultants

Auditor

Deloitte LLP

Bankers

Lloyds Banking Group plc

Legal Advisers

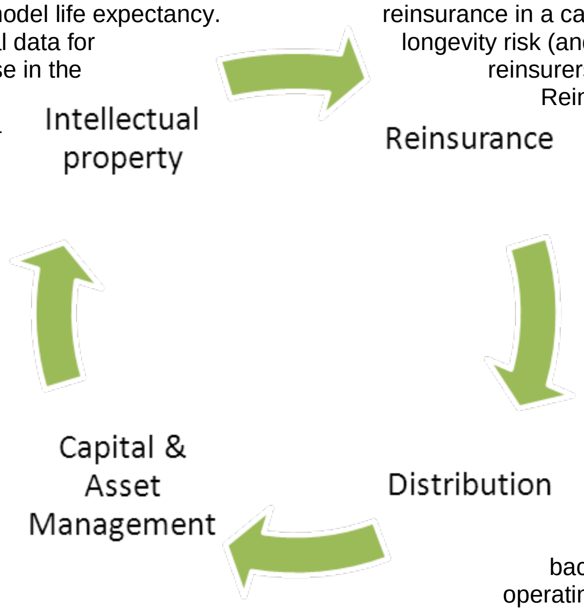
Freshfields LLP
Clyde & Co LLP

Investment Manager

Insight Investment Management (Global) Limited

Our business model

Intellectual property: Our business model starts with the enhanced income our Intellectual Property (IP) brings to our customers which also delivers a commercial advantage to Partnership. Our IP consists of a combination of data we have collected on an individual's medical or lifestyle condition, and underwriting and actuarial expertise to enable us to use that data to accurately model life expectancy. We started collecting medical data for annuitants before anyone else in the UK and we concentrated on the most impaired lives. As a result we believe we now have the richest dataset and deepest understanding of the impact of medical and lifestyle conditions on an individual's mortality. This gives us the ability to offer better annuity terms, higher Loan-to-Value ratio loans against property and to provide protection cover where other insurers would decline.



Capital & Asset management: As our assets under management grow, we are able to take advantage of different asset strategies to diversify the asset risk we take (which also reduces our capital costs) and improve the return we make on investments.

Reinsurance: Our ability to access these lives is attractive to reinsurers, and allows us to negotiate competitive terms, the benefit of which we can incorporate into our annuity rates for customers. As we own our IP, we do not have to pay reinsurers for their expertise in longevity or mortality in the same way that other insurers do. As a result we utilise reinsurance in a capital efficient way, passing longevity risk (and some investment risk) to reinsurers for competitive premiums. Reinsurance therefore enhances our risk- return profile.

Distribution: By offering better terms to customers, we have been able to develop very strong relationships with distributors of financial products in the UK. Offering superior benefits to selected customers is key to enabling distributors to market the products effectively. Our back office processes and operating platform have been developed to offer consistently high levels of service, both for customers and for the distributors. Industry awards are testament to the high service levels achieved. Our ability to develop and leverage distribution relationships has underpinned strong sales growth and as a result, our assets under management have grown quickly.

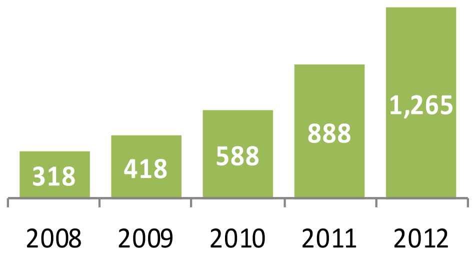
Our performance

New business premiums[1]

£1,265m

(2011: £888m)

- Total annuity sales increased by 42% since prior year
- Number of IFAs dealing with us has increased by 27%
- Well positioned in our chosen markets, which are growing strongly

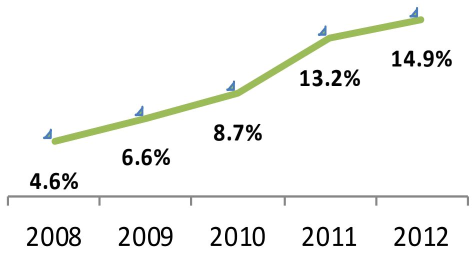


Market Share[2]

14.9%

(2011: 13.2%)

- Share of all external retirement annuity sales at just under 15%[3]
- Proportion of total non-standard annuity sales at 26%[3]
- Maintained leading share in care annuity market, with 74% of INA sales[3]

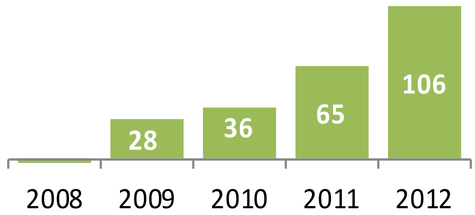


Earnings Before Interest & Tax ("EBIT")

£106m

(2011: £65m)

- EBIT of Partnership increased by 64% on prior year
- Growth in EBIT reflects securing new business on attractive margins and maintaining control of the cost base

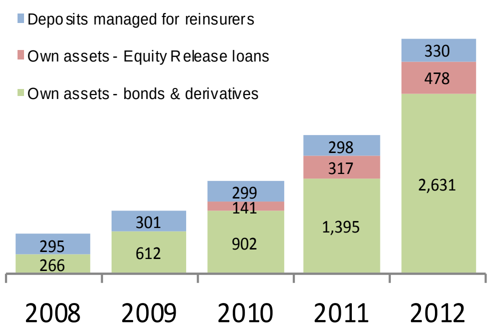


Funds Under Management

£3.4bn

(2011: £2.0bn)

- FUM increased by 71% to £3.4bn
- Continue to source new equity release assets in line with appetite
- Bond portfolio remains high quality



Industry recognition - we continue to win industry awards for our products and service, with the following awards during 2012:

- "Best Enhanced Annuity Provider" - Moneyfacts Awards 2012 (3rd consecutive year)
- 'Long-term Care Provider' award at the Health Insurance Awards 2012 (4th consecutive year)
- 5 Star rating at the prestigious Financial Adviser Service Awards 2012 (3rd consecutive year)
- 5 star life and pension online service provider, FT Adviser Awards 2012

[1] Presented as Single Premium Equivalent ("SPE") for new business sales. SPE is calculated as total single premiums plus 10 x Annual regular premiums. The 2012 SPE has been adjusted to exclude the benefit of the £91.3m bulk one-off premium accepted from B&CE and the £109.6m premium arising from a change to contract terms (note 2)

[2] Market share shown is Partnership's share of the total retirement annuity market sold through the Open Market Option.

[3] 2012 shares are based on Association of British Insurers ("ABI") data for the period 1 January 2012 to 30 September 2012 (latest available data)

Chairman's statement

I am pleased to be able to report another year of outstanding performance for the Group. 2012 has seen a huge amount of activity, both across the industry and at Partnership, as we have seen an exceptional number of regulatory changes coming to fruition during the year. For much of the year the investment markets have also remained uncertain. Against this challenging environment, to once again record growth in premiums of 55% (2011 growth: 50%) and growth in profits of 67% (2011 growth: 82%) is testament to the enormous energy, commitment and hard work of Partnership staff.

Regulatory changes impacting Partnership have been a key focus of the Board's activity during 2012. We have monitored projects on introducing gender neutral pricing with effect from 21 December 2012, and ensuring our systems and processes are able to handle the changes introduced under the Retail Distribution Review ("RDR") at 31 December 2012. As part of these system and process developments, we have taken the opportunity to develop our IT platform further to deliver efficiency savings and enhanced service in the future. We have also overseen an extensive programme to introduce the changes envisaged under Solvency II, the new capital regime that will apply to insurers in the EU. It was not altogether unforeseen that the introduction of Solvency II would be delayed, as the detail to enable companies to build the necessary systems and processes to comply was not forthcoming from the EU (in particular for those writing annuity business). Following announcements from the FSA we are now in the process of re-planning our activity to ensure we capitalise on the work already undertaken and we can leverage business benefits for Partnership from the developments already made.

Whilst there has been tremendous focus on delivering the necessary changes to comply with the new regulations, 2012 has yet again been a year of innovation for Partnership as we continue to seek ways in which the benefits of our IP can be brought to an ever increasing audience. In the first half of 2012, we completed a successful TPIE (Total Pension Income Exchange) exercise with a key distribution partner. This exercise brought enhanced income benefits to members of an occupational pension scheme, whilst also reducing scheme liabilities for the Trustees and Employer. What made the exercise practical, from an adviser and trustee perspective, was our ability to quickly underwrite scheme members using our PA Lite methodology. We are in discussions with a number of other schemes and we expect to see TPIE exercises form a material part of our retirement offering in future.

I take a close personal interest in the long term care market and, in particular, funding for long term care provision. Last year I commented on the fact that the issues surrounding long term care provision, and the way that care can be paid for, had finally received major political attention. The Dilnot report, subsequent Government White Paper, and recent announcements on the level of caps to the cost of care for individuals, are all positive steps towards addressing the issues and beginning to deal with them in a constructive and positive way. There remains a long road to travel, however, and Partnership continues to provide advice to a number of local and national government agencies on how they might improve access to information on the funding of long term care. I remain firmly of the view that insurance products, such as Partnership's INAs, can and should play a central role in the response to funding long term care needs. The peace of mind given to those in care, their families and loved ones, from knowing that the cost of care will continue to be met for as long as the individual requires it, is critical to ensuring a secure and comfortable time spent in care facilities.

As well as these developments, the Board has also overseen a number of new and important contractual relationships entered into during 2012, including becoming the sole enhanced annuity provider for the Openwork network, and providing an annuity service for Virgin Money. We have worked extensively with Openwork to develop their IT and 'point-of-sale' sales solution in order to simplify and streamline their annuity process resulting in a more efficient and effective application process. In addition, we also entered into new reinsurance arrangements with Pacific Life Re for our largest line of business, and have also recaptured a reinsurance treaty that was underwritten by Imagine Re. We also further cemented our relationship with B&CE (one of the UK's largest providers of financial benefits to construction industry employers and individuals) by entering into an arrangement where we have fully re-insured their in-force annuity book and will work with them in 2013 to complete a full transfer of the liabilities to Partnership.

As part of our preparations for Solvency II and managing our business to economic capital measures together with the fact that we had a desire to refinance an existing subordinated loan facility (which was becoming increasingly inefficient for capital purposes), we took the decision in the first half of 2012 to secure additional capital for the Partnership Group. On 21 August, we completed this capital raise which, when the existing facility was repaid, resulted in approximately £100m of additional regulatory capital being made available for the Group. The funds were raised partly from Lloyds Banking Group and partly from the Partnership Group's majority shareholder, Cinven. This additional capital strength provides a firm platform to support the growth we continue to forecast going forward.

Amongst the frenetic activity in 2012, I am also pleased to note that Partnership was able to make a small contribution to the tremendous success enjoyed by Team GB during this Olympic and Paralympic year. At the beginning of 2012 we decided to get involved by sponsoring some talented young people from the area local to our Redhill office. It was with great pride that, from the four young local sportsmen and women we provided

Chairman’s statement (continued)

support to, two were chosen to represent Team GB. James Tindall was part of the British Hockey Team, and Sophia Warner represented Great Britain in athletics at the Paralympics.

We have also chosen this year to provide corporate support to a charity that we believe fits well with our culture. ‘Dogs for the Disabled’ provides training to dogs that go on to provide support, assistance and companionship to individuals with varying medical conditions. The charity is small but for those it helps, has proved to be a vital lifeline in giving independence to those with physical and mental conditions. During 2012, Partnership has donated £10,818 to the charity, and has provided an opportunity for staff to get involved in the work done by the charity.

Partnership’s journey of growth and expansion has led us to consider other opportunities to leverage the unique IP that Partnership has. To date, we have focussed on bringing the benefits of our products to the UK “at, and post, retirement” segment of the market. Looking to the future, however, we have carried out initial investigations into opportunities to capitalise on our IP in other territories. Whilst plans to expand internationally are currently at an early stage we have decided to dedicate senior resource to developing an international strategy as these investigations suggest an opportunity to bring the benefits of our underwriting expertise to other developed economies. Mark Dearsley, previously Group CFO, has been tasked with developing this international strategy during 2013, as a result of which, I can also welcome David Richardson to the Board as the new Group CFO. David joins us from the Phoenix Group where he was the Group Chief Actuary.

I am also delighted to announce the arrival of Chris Gibson-Smith as an independent non-executive director, and Chairman elect of boards of PAG Holding Limited and Partnership. Chris joined in December 2012, and brings with him a wealth of experience and an exceptionally strong background in non-executive roles for public companies in his current role as Chairman of the London Stock Exchange, and in previous roles as Chairman of The British Land Company Plc, and as a director at BP, Lloyds TSB, and Powergen.

As Chris Gibson-Smith now takes over the reins from me as Chairman of Partnership, I am very pleased to be able to play a continuing role as non-executive director, and have every confidence that Chris and the new Board members will bring fresh perspective and challenge to the Group as Partnership continues to grow and prosper.

Ian Owen

Chief Executive's Review

Overview of the financial results
2012 has once again seen strong growth, both in terms of sales and profits.

Total SPE of the Group was £1,265 million, on which we achieved an EBIT[1] of £106.2 million and Profit Before Tax of £105.7 million. This represents new premium growth of 42% and EBIT growth of 62% on 2011.

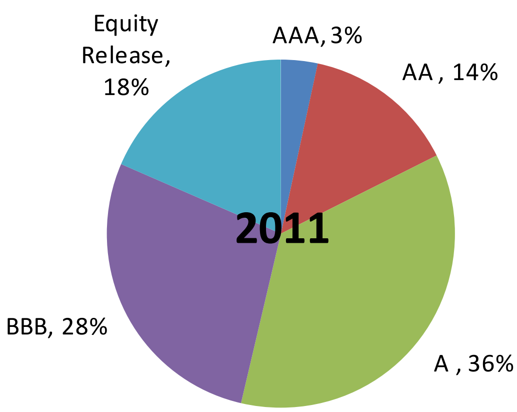
Sales were strong in the retirement market, helped in part by regulatory changes which encouraged males in particular to purchase an annuity before gender neutral pricing came into force in December. Even without this short term effect, we have witnessed strong growth in our core retirement markets and, as shown on page 4. We have again been successful in securing an increased share of those markets. The care market has been more difficult in 2012, with continued uncertainty around the government's position on funding for social care leading to some individuals deciding to delay purchase of an INA. In this context, I was pleased to see some (albeit small) growth in sales within the care market. Despite a falling yield environment (within the fixed income markets), we have managed to deliver the increased sales volumes on margins in line with our targets for new business.

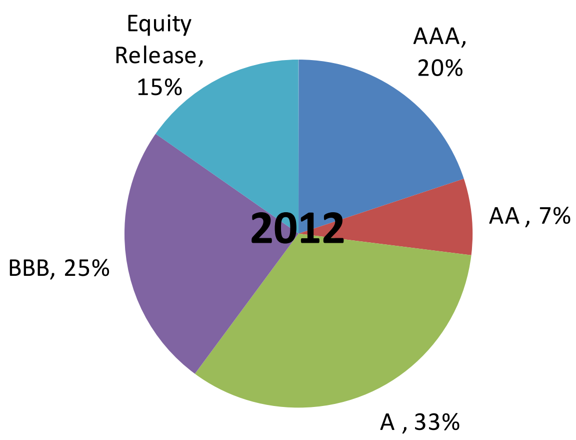
We have continued to manage our cost base carefully, with a focus on investing in our administration and reporting infrastructure to support growth. There has been a small strengthening of our mortality basis in 2012 which resulted in a minor increase in our insurance reserves, though this was largely offset by a transition in our primary reinsurance arrangements on improved terms. We have again strengthened our credit default assumption in 2012, despite not seeing any credit losses in the last 4 years.

Providing security to our policyholders
The products that we provide are designed to give peace of mind to those individuals who rely on the income payments we make, or protection cover that we provide.

Our commitment to policyholders is backed up by our investment philosophy and capital management procedures which we believe provide the best balance between achieving a high level of security and our desire to provide attractive annuity rates to our policyholders.

In order to fund annuity payments, we make investments in bonds issued by governments and corporate entities and loan funds to equity release mortgagees. We have in place a number of internal restrictions as to where the funds can be invested, in order to manage the level of risk whilst providing attractive returns. We diversify our investments across different credit qualities (to achieve an appropriate balance of security and investment return), across different sectors, and across different companies within each of those sectors. At the end of 2012, we held bonds issued by 99 different companies. We do not invest in equities, but do constantly investigate other investment options that may provide a more attractive risk and return profile to our policyholders and shareholders.





The majority of the income and insurance that we provide is reinsured with a number of international reinsurance companies that we believe provide the required strength and security. All business reinsured in 2012 was ceded to reinsurers that are A rated or above (by Standard & Poor's or equivalent) and we have negotiated terms with

[1] EBIT is Earnings Before Interest and Tax, and represents profit earned by the group before tax deduction and before the deduction of interest chargeable on external financing. EBIT is a standard industry measure of underlying profitability.

the reinsurers that enable us to provide attractive annuity rates or protection premiums. In the event that one or more of the reinsurers were to enter financial difficulty, we have put in place further safeguards through either “deposit back” arrangements (where we manage the assets on behalf of the reinsurer), or “trust” arrangements, which mean we have direct access to the financial investments backing the annuity payments. During 2012 we have completed the recapture of all insurance liabilities previously reinsured with Imagine Re (a reassurer that Partnership use between 2004 and 2008). Re-capturing these liabilities, on attractive terms, means that we no longer have exposure for future annuity payments to any reinsurer with a rating below A.

Following an injection of new capital into the regulated business, the Group’s solvency ratio (a standard industry measure of how much excess capital we have over the minimum we are required to hold by the FSA) has increased to 201% at 31 December 2012 (154% at 31 December 2011). Further details on how we manage our risks, including investment risk, is set out on page 13 with further details set out in note 29 of the Financial Statements.

Future developments

Our strategy for Partnership remains clear and focussed: our desire is to bring the benefits of our expertise in impaired mortality to as many individuals as possible, so that they can benefit from the enhanced terms we can offer. We aim to achieve this strategy through continual development of our products, and through continuing to expand the various channels of distribution to the end customer. We continue to see substantial opportunities for profitable growth in the UK market, underpinned by structural factors such as the ageing population and increasing reliance on defined contribution pension funds to provide an income in retirement, but have also now begun to investigate ways in which we can bring the benefits of our expertise to markets beyond the UK. We believe that our expertise in longevity is transferable to a number of other similarly advanced markets across the globe, and have now committed resource to developing that strategy further with a view to launching an international business in the next few years.

2012 has been a challenging year for Partnership with an unprecedented level of regulatory change, combined with continuing opportunity for growth and expansion of the business. The fact that so much was achieved during the year against this backdrop is once again thanks to the energy and effort of our staff. Without their dedication we would not be able to achieve the strong, profitable growth and “5 star” service levels we have. I would also like to thank Ian Owen for his contribution as Chairman since 2005.

Steve Groves
Chief Executive Officer

Market and Business environment

Partnership operates in the UK life and pensions market and equity release market. The Group's expertise and proprietary data collected since 1995 gives a competitive advantage to develop products that offer the best annuity, protection and equity release rates to customers with reduced life expectancy whilst delivering value to shareholders.

Demographic environment
The proportion of the population over retirement age is increasing. The latest forecasts published by the Office of National Statistics show the growth of the population aged over 65 to be in excess of 50% over the next 20 years, with growth in the population aged over 80 to be even higher (in excess of 80% over the same period)[1]. This leads to growth in our core markets – those people seeking retirement incomes (through either pension annuities or self-funded annuities), those seeking funding solutions for people requiring long term care, and those seeking to access the equity value of their homes.

The fact that the total population seeking retirement incomes is growing, combined with an increasing awareness and use of the Open Market Option (which enables retirees to "shop around" for the best annuity rate, rather than vest with their existing pension fund provider) means that those people eligible for some form of enhancement to their annuity payments are increasingly benefiting from the products that we can provide. The FSA's Treating Customers Fairly regime encourages pension providers to publicise the Open Market Option to retirees, and during Q1 2013, the ABI will introduce its "Best Practice Guide for the Retirement process" that formally requires members providing pension accumulation products to improve communication to those policyholders nearing or at retirement with regards to their options to "shop around" and the possibility of increasing retirement income through use of the Open Market Option.

Competitive environment
Within the retirement annuity market, there continues to be a trend of existing annuity providers introducing differentiation to their annuity offerings. However, it remains the case that the number of companies offering substantially differentiated benefits, based on medical and lifestyle factors (as opposed to "postcode" factors), is still limited to a small number of specialist providers. Of those, we believe Partnership remains the only provider in the UK to have its own credible proprietary data on which it bases its underwriting criteria, and we see this as a substantial barrier to entry into the specialist markets in which we operate. It also provides the data, combined with our expertise in mortality analysis and underwriting, to develop the complex underwriting tables that provide the "engine" to our PA Lite solution. Such innovation and ability to capitalise on our unique data set enables Partnership to remain ahead of the competition in this field.

We continue to be one of only two providers of annuity solutions to fund long term care needs for individuals in the UK. There remains the potential for substantial future growth in this market as only a small proportion of those requiring care seek financial advice around the funding options available and ways to mitigate financial risk. We would therefore expect to see new insurers entering this market as it grows. Once again, our data and expertise in this area leaves us in a strong position to benefit from market growth ahead of other insurance companies.

The availability of non-standard protection cover in the UK remains extremely limited, and we believe that we are unique in the UK in terms of the level and breadth of cover we can provide.

The number of providers in the equity release market has reduced over the last few years, as the traditional lenders (banks and building societies) have significantly curtailed, and in many cases fully withdrawn, their lending to the market. The largest providers of equity release loans are now insurers where the symbiotic relationship between annuity and equity release products makes this a particularly attractive market. Partnership is able to apply its intellectual property to offer enhanced terms to those with medical or lifestyle conditions, primarily through being able to offer a greater proportion of the property value in loan value. One other provider in the UK market offers an increased loan to value ratio based on meeting certain underwriting criteria but once again we believe that our data provides the greatest breadth of coverage and leaves us well placed against competitors.

[1] Office for National Statistics, "An Executive Summary, 2010 based NPP", published 29 March 2012

Market and Business environment (continued)

Regulatory and Political environment

Partnership is regulated by the FSA and must comply with the Principles for Business and Prudential requirements set out in the FSA's Handbook. 2012 has been a period of significant change in the regulatory environment as it applies to Partnership and other life assurers in the UK. Further change is coming in 2013, with material changes impacting on Partnership being:

- The replacement of the FSA by two new regulatory bodies, the FCA (Financial Conduct Authority) and the PRA (Prudential Regulation Authority) to come into force in April 2013
- The RDR, which is effective from 1 January 2013, and changes the way in which customers access financial advice, and how IFAs interact with both customers and product providers such as Partnership. Partnership has worked, and will continue to work closely with existing IFAs as the provision of financial advice in the UK develops and adapts to the changes the RDR will bring
- Solvency II, which is a new risk and capital management regime for all insurers in the European Union. The timetable for implementing Solvency II measures has changed a number of times, and during 2012, the FSA has announced it is not expecting the new regulations to apply until 2016 at the earliest. Partnership has established an internal programme to manage all the developments required for Solvency II and will closely monitor developments in the implementation timetable. Key aspects of this programme are the enhancement of the Partnership Group's risk and capital management procedures in line with the new proposed regime.

In July 2012 the government issued its Social Care White Paper in response to proposals put forward by Andrew Dilnot's Commission on Funding for Care and Support and in February 2013 further announced their intention to set a cap of £75,000 on the cost to an individual for provision of their social care needs, when the draft bill becomes law. The White Paper and subsequent announcements are in several respects a positive response to the issues faced by individuals, and by local and national governments, around how to fund the costs of providing long term social care. However, there remains a concern that the "capped contribution" model is confusing for those entering long term care, in particular with relation to how contributions towards the cap will be calculated and which contributions count. Whilst the proposals remain draft at this stage, Partnership's view is that the cap will only apply to care costs (and not the accommodation and other "hotel" costs related to the individuals residential care), and only a sum equal to the local authority standard contribution to care will count towards the cap irrespective of the actual costs incurred. In this instance, the benefit of the cap will be limited, and the issues around self-funders depleting their own funds will remain in most instances. Partnership continues to work with local and national government agencies to promote the benefits of incorporating financial advice as part of the care assessment process for those needing to fund their own long term care needs.

Economic environment

Investment market conditions during 2012 continued to be volatile, though equity market levels finished the year up on the 2011 closing values[1]. This generally improves the value of pension and other savings funds that are used to purchase annuities. Bond values, particularly government bond values, remain at historically high values, impacted in part by the Bank of England's programme of quantitative easing. The high bond values impact negatively the annuity rates we are able to offer our customers.

Despite increases in the equity markets, general economic conditions remain difficult, with low growth forecasts, increasing expectations of inflation, and a general financial "squeeze" on the population as a whole. In such times, the ability to raise funds through equity release can be more attractive for certain customers.

The housing market remains subdued. Whilst Partnership's protection products are specialised, the level of activity is in part driven by customers seeking mortgage protection, and the subdued level of activity in the UK housing market therefore continues to dampen the level of sales of protection products.

Key markets

Retirement Annuities

Partnership's retirement annuities offer enhanced income to those with health impairments or lifestyle factors that may lead to a reduced life expectancy. Both the pension funded annuity and the purchased life annuity (funded from non pension assets) provide income at better than standard annuity rates to those with health or lifestyle factors. The pricing of these annuities is based on proprietary research and data collected by Partnership since 1995. Since we launched specialist annuities for impaired lives in 1995, we have continued to develop our retirement annuity products to provide benefits for an ever increasing spectrum of medical, and more recently, lifestyle conditions that may impact on life expectancy. We now offer specialist annuities for those who smoke, as well as enhanced terms for those with high Body Mass Index, high blood pressure and other conditions.

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[1] FTSE 100 closed 2012 up 5.9% on the closing value of 2011; the FTSE-All Share index closed 2012 up 8.2% on the closing value of 2011 (Source, London Stock Exchange)

Market and Business environment (continued)

We are also able to quote on retirement annuities that include Guaranteed Minimum Pension ("GMP") elements, so those in occupational pension schemes and defined benefit schemes with their employer can also now benefit from the enhanced income levels we offer. We have worked closely with a major advisor to pension trustees to develop a process to offer the benefits of our longevity expertise to occupational pension scheme members (in both defined contribution and defined benefit schemes) utilising our PA Lite underwriting process.

We distribute our retirement annuities through IFAs and through corporate relationships (including other insurance providers) where Partnership is able to provide enhanced annuity terms to vesting pension customers.

Sales of retirement annuities have increased to £1,168m SPE in 2012 (2011: £790m), an increase of 48% on the prior year. This results from an extra 22,394 policies sold.

This increase in sales levels has also helped Partnership increase its share of the open market sales of retirement annuities to 14.9% in 2012, and its share of the non-standard annuity market was 26% in 2012[2].

Care annuities

Partnership is the UK market leader in the provision of insurance products to fund long term care.

INAs are products which meet the immediate cost of care fees. Partnership will make tax-free monthly payments to a care home, or other registered carer, for as long as the insured lives. In this way, families can plan for the future in the knowledge that there is a predictable and secure income stream to pay for care. The INA product is available with a range of options that enable the product to be tailored to a policyholder's specific needs. All our policies now come with a money back guarantee providing a significant return of premium to the policyholder's estate should they die within the first six months of taking out the policy.

At Partnership, we believe that our insurance solutions provide peace of mind not available from any other funding source to those needing to pay for long term residential or domiciliary care. We continue to promote the financial benefits of annuity payments to fund long term care needs through many organizations, including government and industry bodies. However, it remains the case that only a small proportion of those needing care receive any form of financial advice as to how to fund that care. In order to increase the number of individuals receiving appropriate financial advice, we work closely with Local Authorities and Care Home providers, to ensure that financial considerations are core to a new customer's considerations when entering care. Through our understanding of the market we have been able to assist many local authorities in providing better information and, crucially, facilitate some form of financial advice to those seeking care. Our information website, "PayingforCare.co.uk" was named "Most outstanding information provider in the UK over 50s sector in the UK" by the Over 50s Housing Weekly News, for the second year in a row.

We continue to sell care annuity products through IFAs, but current regulations mean that the IFA must have specific qualifications to advise on care annuity products. This limits the number of IFAs providing advice in this market, and is why we have sought to widen the availability of advice to the customer through other means.

Sales of care annuity products for 2012 were £94m SPE (2011: £93m). Partnership remains the market leader for care annuity products, with a market share of 74%[2] in 2012.

Equity Release

During 2010, Partnership entered the equity release market through the provision of funding to the mortgage provider More2Life and in 2011 we launched an equity release mortgage under the Partnership brand. Both the More2Life and Partnership branded mortgages are sold through IFAs. The mortgages are designed to offer a higher "loan to value" than a standard equity release mortgage as they utilise our underwriting expertise to more accurately predict life expectancy (either as a result of age or as a result of medical conditions). For those looking to release the maximum funding available from their home, this provides a real benefit. The products also offer a Protected Equity Guarantee, meaning that customers taking the loan are able to protect a certain level of equity remaining in their property and, in any event, will never have to pay back more than the value of their house. New mortgage funding totalled £148.0m in 2012 (2011: £147.6m).

By the end of 2012 we had total loans outstanding with a fair value of £478.1m (2011: £316.7m).

Protection

Partnership uses its underwriting expertise to offer protection products to people who are unable to obtain cover elsewhere, normally as a result of health conditions. We endeavour to underwrite every application, whatever the customer's health condition. We also offer solutions for customers looking for protection with large sums assured and most of our policies can be written into a trust. We offer a range of products including level and decreasing term cover for mortgage or other loan protection, "Key Man" cover for companies, whole of life cover, family

[2] Market shares are stated for the 9 months to 30 September 2012, based on latest availability of ABI data.

income benefit, and gift-inter-vivos cover (providing protection against possible inheritance tax due on gifts made within the previous seven years).

Our reinsurance arrangements enable us to offer cover to individuals with a significantly wider level of medical conditions that would otherwise prevent them from receiving cover.

Sales of protection cover in 2012 were £3m SPE (2011: £5m).

The Group's Distribution Companies

Eldercare Group Limited ("Eldercare") is a specialist advisor to those looking to fund care fees for family or friends going into residential care. Eldercare provides advice on annuity funding and investment solutions and on services to look after the individual's property once they have moved into residential care. The group owns 67.5% of Eldercare.

Gateway Specialist Advice Services Limited ("Gateway") provides specialist later-life financial advice. The Group acquired a 50% holding in Gateway from the Sesame Bankhall Group ("Sesame") on 12 March 2010. Sesame retains a 50% holding in Gateway.

Payingforcare Limited ("Payingforcare"), which was established as a not-for-profit company, owns a website that provides independent information on funding care. Payingforcare was incorporated on 30 November 2011 and is a 100%-owned subsidiary of the Group.

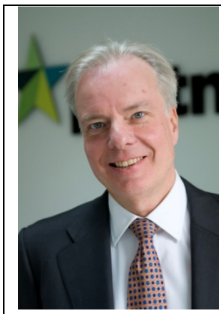
Eldercare, Gateway and Payingforcare are collectively referred to as the Distribution Companies throughout this report.

Governance and Risk Management

The Group is majority owned by the Cinven Funds, which are managed by Cinven Limited. Senior personnel at Cinven Limited who have oversight of the Group are Mr P Catterall and Mr M Crewe.

The Board

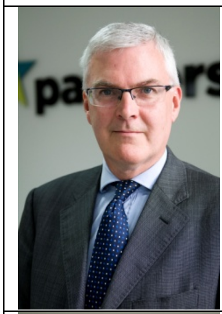
The Board currently comprises five non-executive directors and three executive directors. The Board contains a balance of management, financial, investment, administrative and market expertise appropriate for the requirements of the Group's business.



Ian Owen FIA, Chairman

Ian is a fellow of the Institute of Actuaries. He was formerly Managing Director of Zurich Personal Lines, Managing Director of Eagle Star Life and Chief Executive of Eagle Star International Life. He has served as a Director or Chair of many other Zurich and Eagle Star Group Companies, both in the UK and overseas. In addition, he has previously served as a non-executive Director of AA Insurance, as a non-executive Director and Chair of Endsleigh Insurance and Group Director at Liverpool Victoria. He is currently Chairman of A-Plan Insurance and Guardian Group, and a non-executive Director of Canopius (a Lloyd's underwriter) and of Unum. He has been a member of the Association of British Insurers' Life Insurance Council and Chair of the Medical Committee. He currently chairs the Long Term Care Group.

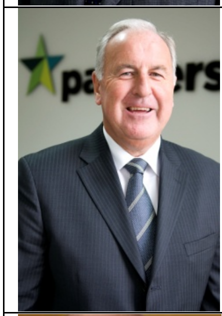
Ian was appointed as non-executive Chairman of the Partnership Group on 28 September 2005. On 1 December 2006 he was appointed as the Executive Chairman, becoming a non-executive again on 26 June 2008.



David Young FCA, CTA, Senior Non-Executive Director

David is a fellow of the Institute of Chartered Accountants and sits on the Committee of the Institute's Non-executive Director Special Interest Group. He is also a member of the Chartered Institute of Taxation. He previously held the positions of Finance Director, Chief Operating Officer and Chief Executive of a Stock Exchange-listed insurance broking and financial advisory group. He is currently a senior independent Director of British Gas Insurance and British Gas Services and non-executive Chairman of BVCA Insurance Services. He has previously served as a non-executive Director of a number of insurance brokers.

David was appointed as a non-executive Director on 28 September 2005.



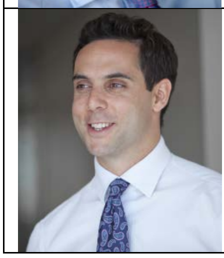
Robin Phipps, Non-Executive Director

Robin was formerly Group Executive Director at Legal & General responsible for the UK business, and previously held a wide range of senior positions, including Group Director - Sales and Marketing, Group Director - Retail, Managing Director - Customer Services and Director of Information Technology. He is currently a Non-Executive Director of Friends Life Group Plc, and of IFG Group Plc.

Robin was appointed as a non-executive Director on 28 February 2008.

Peter Catterall, Non-Executive Director

Peter joined Cinven in 1997 and is a member of the Consumer and Financial Services sector teams at Cinven. Peter previously spent seven years at PricewaterhouseCoopers where he worked in the Transaction Services Group, providing due diligence and transaction advice to private equity companies.



Maxim Crewe, Non-Executive Director

Maxim joined Cinven in 2006 and is a member of the Financial Services sector team for Cinven. Previously he worked at Citigroup where he was involved in corporate finance within the European Retail and Consumer Group.

Governance & Risk Management (continued)

Stephen Groves FIA, Chief Executive Officer

Steve joined Partnership in March 2005 as the Chief Financial Officer and on 21 December 2006 was appointed as Managing Director. On 26 June 2008 he became the Chief Executive Officer.

His previous role was as the Admin Re Senior Actuary for Swiss Re Life and Health where he successfully oversaw the acquisition of a number of life companies into a closed fund operation. Prior to joining Swiss Re, Steve was the Head of Actuarial Services and then Executive Head of Business Development for Britannic Retirement Solutions. Steve's other roles included working as Product Manager. Steve was a Director of the equity release trade body, SHIP, and was also a founder member of the Institute of Actuaries equity release working party. He is currently a non-executive director of Guardian Group.

David Richardson FIA,CFA, Chief Financial Officer

David joined Partnership in February 2013 from the UK's largest closed life assurance fund consolidator, Phoenix Group, where he was Group Chief Actuary and responsible for restructuring the group's £70bn balance sheet and overall capital management. Prior to this, David worked in a number of senior roles at Swiss Re, across both its Admin Re and traditional reinsurance businesses, including that of global head of its longevity pricing teams. David is a Fellow of the Institute of Actuaries and a CFA Charter holder.

Mark Dearsley, ACA, Managing Director, International

Mark joined Partnership in February 2009 from Savills plc, the FTSE 250 property adviser, where he was Group Finance Director. Prior to Savills, Mark was Finance Director of Aviva Europe & International, the international arm of Aviva plc, the world's fifth largest insurance group. He had previously been Aviva's Group Mergers & Acquisitions Director. After qualifying as a Chartered Accountant with Price Waterhouse (now PwC), Mark joined Charterhouse Bank (now part of HSBC) where he spent 10 years, latterly as a Board Director. Mark previously acted as Group Chief Financial Officer, and was appointed MD, International in February 2013.

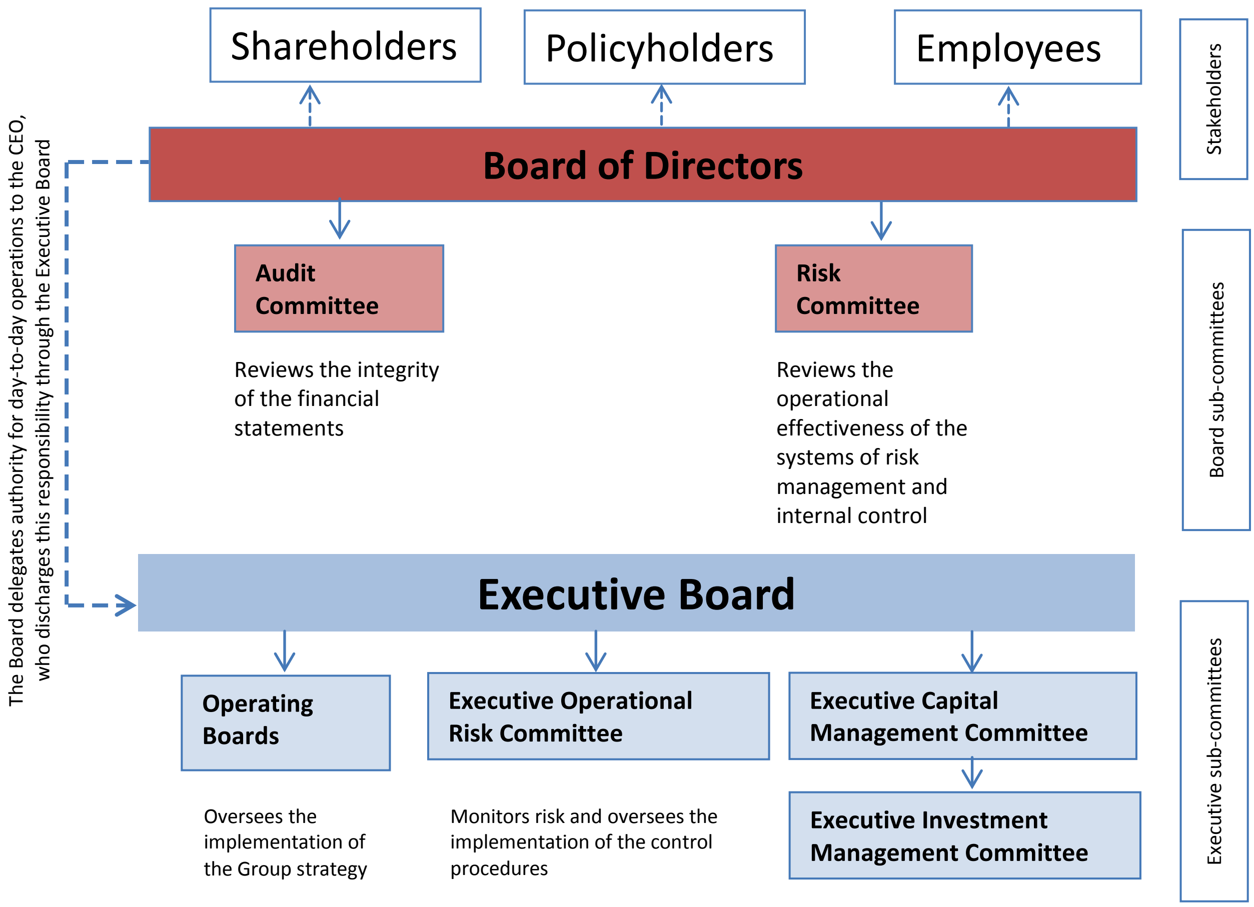
Board Membership and Attendance during 2012

	Audit	Risk
Total meetings in the year	5	4
IB Owen	4/5	3/4
DTM Young	5/5	4/4
RA Phipps	5/5	4/4

The table above shows members' attendance against the maximum they could have attended during their membership of the Board & Committees.

Governance & Risk Management (continued)

Board Committees



The Executive Board consists of the following members:

- SJ Groves, Chief Executive Officer
- DL Richardson, Chief Financial Officer
- AM Dearsley, MD International
- J Kennedy, Chief Operating Officer
- K Purves, Chief Risk Officer
- A Megson, MD Retirement
- C Horlick, MD Care
- G Hosty, MD Equity Release
- A Chamberlain, Actuarial Function Holder

Internal Controls

The Board is ultimately responsible for maintaining the Group's system of internal control and monitoring its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

Partnership has adopted the "3 lines of defence" model for managing risk and providing internal control. This model establishes separate functional responsibilities to control the activities of the Partnership Group, with front-line operating functions, second-line control functions, and third-line independent review functions, designed to monitor and control total exposure to different risks to within agreed tolerance or appetite levels.

The key features of the system of internal control are:

- A detailed Board Governance Manual, setting out a clear organisational structure, composition of the Board, roles and responsibilities, systems and controls framework, authorities and matters reserved for each Board and standing investment committee;

Governance & Risk Management (continued)

- A strategic plan process which sets a medium term strategy based on a clear understanding of the risk inherent in the markets in which the Group operates;
- A planning and budget process that delivers detailed annual and quarterly forecasts and targets for Board approval;
- Management information systems enabling the Board to receive comprehensive reporting of financial and operational performance on a regular basis;
- A Risk Management function which maintains the risk management framework and facilitates management's regular identification, assessment and reporting of the key risks;
- A set of formal policies, including clearly defined risk appetites, which govern the management, control and oversight of the key risks faced by the Group;
- A detailed point in time capital assessment on a realistic basis is performed at least annually, and results in a greater understanding of the financial consequences of the risks faced by the business enabling effective capital management;
- An "Own Risk and Solvency Assessment" is carried out at least annually, which is intended to provide a view for the Board as to the overall solvency position of the regulated companies and the Group, taking into consideration the risk profile and risk appetite and tolerances and the way in which these elements are expected to develop across the business planning cycle;
- An Internal Audit function which provides assurance to the Board on the effectiveness of internal controls in relation to the key risks identified. Internal audits are undertaken in accordance with an annual risk based plan approved by the Audit Committee; and
- A Compliance function which identifies and monitors the control of our compliance risks and ensures compliance with regulatory requirements.

The Board considers that the controls effective during 2012 were appropriate to the needs of the Group. Nevertheless, it is committed to the highest standards of governance and business conduct and will ensure that those controls continue to develop in line with the requirements of the business, the FSA and industry best-practice. A number of subsidiaries of the Group are regulated and as such are subject to the supervision of the FSA over their activities, including their systems of business control. Members of the Board and senior management regularly meet the supervisor, conducting the relationship in an open and constructive manner.

Management of risk

In the course of its business activities, the Group is exposed to insurance, market, credit, liquidity and operational risks. Overall responsibility for the management of these risks is vested in the Board. Partnership Group has a risk management framework in place comprising formal committees, risk assessment processes and risk review functions. The framework, which is based on the "3 lines of defence" model, provides assurance that risks are being appropriately identified and managed and that an independent assessment of risks is being performed. During 2012, we have continued to invest in risk management and internal audit personnel, and have brought together the core risk and compliance functions to report to the newly created post of Chief Risk Officer.

The Partnership Holdings Risk Committee is the formal committee charged with monitoring, on behalf of the Board, the effectiveness of the risk management framework and system of internal control. The Committee is chaired by a non-executive director. Other committees provide oversight over particular risks groups and are chaired by executive directors.

The Risk Management function works closely with the business to monitor risk issues, identify new and emerging risks, and establish appropriate procedures to mitigate those risks. This enables the Risk Management function to assess the overall risk exposure and maintain a risk profile that is reviewed each month by management and reported to the Board.

There are a number of principal risks and uncertainties that could have a material impact on the Group's long-term performance, and could cause actual results to differ from expected or historical results. These are considered in more detail below. Further detail of the insurance and financial risks the Group is exposed to, together with the procedures adopted to manage those risks, is given in note 28 to the Financial Statements.

Principal risks and uncertainties

The Group issues contracts that accept insurance risk in return for a premium. In addition, the Group is exposed to risk through its financial assets and liabilities, its reinsurance assets and policyholder liabilities and through its operations.

The Group's key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from contracts with policyholders. The most important components of this financial risk are interest rate risk and credit risk. The Group is not exposed to any equity price risk, and is only exposed to currency risk to an immaterial extent as any exposure to non-sterling currency is matched with derivative contracts to swap that exposure to sterling. The Group is exposed to property price risk through its equity release assets.

Governance & Risk Management (continued)

The principal risks and uncertainties faced by the Group are summarised in the table below.

Category	Description	Mitigating factors
Insurance risk	**Underwriting, pricing and reserving** Underwriting and pricing risk is the risk that insurance contracts will be written that are not within the Board's risk appetite, or that the premium charged for that business is not adequate to cover the risks borne by the Group. Reserving risk is the risk that the reserves have been calculated incorrectly, or the assumptions used in the calculations are inappropriate.	As the Group's insurance business is targeted at people with conditions affecting their life expectancy, or people seeking to fund domiciliary or residential care, the underwriting risk is managed through the use of highly trained, and qualified underwriting staff, together with tailored underwriting manuals designed to cover a large array of medical conditions. Partnership has developed its own proprietary underwriting manuals for retirement annuity business and those seeking Care funding, based on industry standard mortality tables modified to take account of experience data recorded by Partnership and its predecessor. The assumptions used in the reserving for future policyholder payments are set based on available market and experience data, on the advice of Partnership's Actuarial Function Holder. The assumptions are approved by the Partnership Board. The reserves are calculated using recognised actuarial methods with due regard to the actuarial principles set out in the FSA's Prudential sourcebooks, including appropriate levels of prudential margin against future adverse experience.
	Specific insurance risk Insurance risk on the annuity contracts arises through longevity risk and through the risk that operating factors, such as administration expenses, are worse than expected. Insurance risk on the protection policies arises through higher than expected mortality levels.	Longevity and mortality experience is monitored on a regular basis and compared to the underlying assumptions used to reserve for future insurance payments. The exposure to longevity and mortality risk is reduced through the use of re-insurance. Expense risk is managed through regular assessment and quarterly reforecasting of expenses incurred against budgets.
	Concentration risk The Group writes annuity contracts for the provision of retirement income or care fees, and protection insurance contracts, primarily for individuals in the UK with one or more medical conditions that is likely to reduce their overall life expectancy. The Group's insurance risk is therefore concentrated on longevity and mortality risk.	This risk is primarily managed through the use of external reinsurance arrangements.

Governance & Risk Management (continued)

Category	Description	Mitigating factors
Investment risk	**Interest rate risk** Interest rate risk arises from open positions in fixed and variable rate stock issued by government and corporate bodies that are exposed to general and specific market movements. The Group is exposed to the market movements in interest rates to the extent that the asset value movement is different to the accompanying movement in the value of insurance liabilities. The difference between asset and liability movements can arise from both a change in the absolute level of interest rates, and from a change in the 'spread' (that is the level of interest rates applying to an asset in excess of the risk-free interest rate).	The Group manages its interest rate risk within an asset liability management (ALM) framework that has been developed to achieve investment returns in excess of its obligations under insurance contracts. The principal technique of the ALM framework is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to policyholders.
	Market credit risk Market credit risk is the risk that the Group invests in assets that may default. If an asset fails to repay either interest or capital, or that payment is significantly delayed, the Group may make losses and be unable to meet liabilities as they fall due.	The Group's Investment Management Guidelines set out maximum exposure to bonds issued by a single, or related group of, counterparty(/ies) and to credit ratings. The allowance made for issuer default in the Group's valuation is regularly monitored and kept up to date.
	Property risk Property risk arises from the provision of a protected equity guarantee on the mortgages underlying the equity release assets purchased. The Group is exposed to the risk that property values do not raise sufficiently, or that the property is not maintained properly, to recover the full value of the loan made plus accrued interest.	The purchase prices of the loan assets reflect a prudent assessment of future property price growth. The total loan value is restricted to a maximum "loan to value ratio" that limits the risk exposure for the Group. The Group seeks to avoid excess concentration of property holdings in any geographical area. Certain funding arrangements include an ability for the Group to offset losses arising on individual properties against profits arising on other properties within the same pool of properties the Group has lent against, which further reduces the overall exposure to property price risk for those pools of properties.
Liquidity risk	Liquidity risk arises where cash flows from investments and from new premiums prove insufficient to meet our obligations to policyholders and other third parties as they fall due.	The Group's ALM framework ensures that cash flows are sufficient to meet both long- and short-term liabilities. In current and expected market conditions and operating environments, cash flows from new business considerably exceed the obligations to existing policyholders. In addition, the Group maintains a minimum level of cash and highly liquid assets such that, in the extreme scenario of new business cash flows being insufficient to meet current obligations, those obligations can continue to be met.
Counterparty credit risk	Credit risk arises if another party fails to honour its obligations to the Group including failure to honour these obligations in a timely manner. The Group's primary credit risk exposure arises from the inability of the reinsurers to meet their claim payment obligations.	The Group has arrangements with its reinsurers whereby most reinsurance premiums are either deposited back to the Group or held by a third party in a trust arrangement. In addition, the Group's reinsurance policy is to seek to choose companies with a minimum 'A' credit rating.

Governance & Risk Management (continued)

Category	Description	Mitigating factors
Operational (including compliance) risk	Operational risk arises from inadequate or failed internal processes, people and systems or from external events.	The Group maintains a suite of risk management tools to help manage its operational risks including facilitated risk and control self-assessments, risk event management and loss reporting. Underlying and informing the operation of these tools is a framework of formal policies and controls which govern the management and oversight of the risks faced by the Group. These include business continuity and disaster recovery arrangements. Operational risk is overseen by the Executive Operational Risk Committee.
Regulatory, legal and political environment risk	Regulatory, legal and political environment risk arises where changes in regulation or legislation may result in a detrimental effect on the Group's strategy and profitability.	The Group's strategic planning process sets a medium term strategy based on a clear understanding of the regulatory, legal and political risks inherent in the markets in which it operates. Our planning and response capability is supported by continued monitoring of the regulatory, legal and political landscape.

Corporate and Social Responsibility

Partnership's approach to Corporate and Social Responsibility is rooted firmly in our principal value of fairness which underpins our business and the way in which we conduct ourselves with our customers, business partners, staff, stakeholders and the environment.

Our customers
Partnership was the first company in the UK to offer higher retirement incomes for individuals with complex health issues. We have led the way in providing products designed specifically for individuals whose health or lifestyle is likely to result in reduced life expectancy.

By looking at each of our customers individually and assessing their particular needs we are able to offer a product where the costs and benefits are based on the customer's own unique set of circumstances.

Our years of accumulated data and knowledge give us an un-matched level of understanding of the impact of health and lifestyle choices on longevity. This enables us to offer a more accurate assessment of an individual's life expectancy and therefore, where appropriate, offer better insurance terms to the individual. Working with our business partners to understand how customers want to engage with us is also an important aspect of what we do, and through this process, we have made important developments, like our PA Lite (shortened underwriting) process which means significantly more people are able to benefit from the uplift in income that our products can provide.

But we take our commitment to our customers much further than providing the best product.

Our customers are the best advocates - and critics - of our business and we engage with them on a regular basis to seek their thoughts and ideas as to how we can improve. During 2009 we launched an on-going policyholder survey whereby all new policyholders are asked for their views on the service we provide. From our annual policyholder survey in May 2012, 88% of our policyholders strongly agreed/agreed that they would definitely or most probably recommend Partnership.

Our business partners
Our products are primarily sold through IFAs, small and large, and an increasing number of corporate partners. Irrespective of size, we aim to offer all partners excellent service and to act in the spirit of true partnership.

It was in this spirit that, in May and October 2012, we held a series of Later Life Forums across the UK, to support advisers in their understanding of issues surrounding the financial aspirations of people within the later life market.

The Forums outlined the make-up of the later life market as a whole and considered the expectations of the diverse population which is encapsulated within that broad definition. They also considered the skills and experience – and product knowledge – which advisers who were looking to focus on this market required in order to understand and support the needs of these clients. In addition, in the May Forums, there was a particular focus on the issues around funding long term care and the challenges and opportunities offered to advisers by the RDR. The October Forums focused on retirement and the impact of the banking crisis and legislative changes such as the Gender Directive.

The Forums were very well attended, bringing together a wide range of advisers from different backgrounds and business models, each of whom had the opportunity to question the Partnership team and each other on issues which were particularly key in this market.

Charitable donations
We are very pleased to announce two major initiatives during 2012, the first being our sponsorship of sporting talent local to the Redhill area in this Olympic and Paralympic year and the second being our engagement with Dogs for the Disabled, our chosen charity. We were also one of the lead sponsors of the annual ESSN Sports Awards in November 2012, which celebrates local sporting achievements across the Surrey area. Partnership sponsored two awards: The Young Sports Person of the Year and Young Team of the Year. We also continue to support other charities chosen by our staff.

Our staff
We recognise that to provide the high levels of technical expertise and service excellence that we look for we need to recruit and retain the highest possible calibre of staff.

Corporate and Social Responsibility (continued)

We do this in a number of ways:

- An extensive and thorough recruitment process
- The adoption of a core set of values in FIRST – Fairness, Integrity, Respect, Service and Trust
- A remuneration and reward structure designed to encourage decision making for the long term good of the business. In addition to industry benchmarked salaries, there is significant staff participation in the equity of the business which we believe is the best way to reward ongoing commitment, discourage short-termism and build long term success
- Investing extensively in our staff and actively encouraging them to enhance their knowledge, skills and qualifications by supporting them through programmes of personal and professional development, in line with a robust Training and Competency scheme
- Building a positive working environment in which everyone is encouraged to contribute

Partnership commissions an independent staff survey every two years. Staff engagement in the survey has been consistently above 80% in each year that the survey has been delivered. Results in 2011 continued to evidence that Partnership's staff believe strongly in the products and services Partnership provides and support the core values for which Partnership stands (both areas achieving a response rate of over 90%). The results of the survey are used to inform and underpin Partnership's business, Human Resources and Training and Competency scheme strategies.

Our stakeholders
Partnership seeks to engage actively with key stakeholders from the insurance industry, Government, Parliament and among consumer groups, charities and the media. It also seeks to shape the policy environment within which it operates to address key problems faced by consumers and to promote practical solutions which provide consumer benefits. Partnership campaigned throughout 2012 on the impact of the RDR on financial advice for those with small pension pots and the funding of adult social care.

We have worked closely with the leading policy unit, International Longevity Centre (ILC-UK) to seek to raise awareness of the potential for the RDR changes to result in an advice gap for those with small pension pots. This engagement has resulted in the publication of reports which have been launched in both the House of Lords and within Westminster and a first Retirement Income Summit, which provided practical recommendations to address this issue and has resulted in heightened awareness of this issue within Government, Members of Parliament, and the media and consumer groups.

We have also called for the inclusion of appropriate independent care fees advice within the Draft Care and Support Bill. Partnership sponsored a report by the All Party Parliamentary Local Government Group, made up of MPs and Peers from the main political parties, which was launched in the House of Commons. We have engaged with MPs, Peers, local authorities, civil servants, think tanks and charities to ensure that the problems faced by self-funders are recognised and appreciated. Partnership has been invited to provide oral evidence to the Joint Committee scrutinising the draft Bill.

We continue to be one of the major backers of SOLLA – The Society of Later Life Advisers, which seeks to raise awareness amongst consumers, families and advisers about financial issues in later life and promotes the Later Life Advisers Scheme which has been developed by the Financial Services Skills Council. SOLLA aims to bring together those needing advice with accredited advisers who have had to demonstrate not only technical knowledge and competence, which is externally and independently validated, but also demonstrate excellent softer skills relating to the understanding of the needs, capacities and issues of older customers.

At an industry level we are active members of the Association of British Insurers (ABI) and the Equity Release Council (ERC, formerly the Safe Home Incomes Plan) in relation to the equity release market.

The Environment
We recognise that we all have a role to play in looking after the environment for future generations, and have adopted a number of environmental policies across our sites including:

- Recycling - we aim to recycle the majority of our paper and other items including ink cartridges, batteries, old IT equipment and general recyclable waste where appropriate, and reduce our generation of paper by automatically printing double-sided and encouraging individuals not to print emails. During 2012 the confidential waste in London was reported at 8,738kg of paper recycled and in Redhill was reported as 312.5 trees saved
- We re-use furniture and electrical equipment where appropriate and also consider its sale or donation to charity where re-use is not possible
- Saving energy - we save electricity by having movement sensor operated lighting systems. We also use filtered tap water rather than plastic bottles

Corporate and Social Responsibility (continued)

- Reducing our carbon footprint: we do not use company cars and we encourage all of our staff to travel by public transport whenever possible

In 2012 we will continue to improve and enhance our waste recycling and disposal policy to reduce the volume of waste generated through the course of Partnership's business operations.

In summary, our ambition is to grow our business in a way that benefits all our stakeholders whilst being aware of, and sensitive to, our wider environment.

Directors' Report

For the year ended 31 December 2012

The Directors present their Annual Report and the audited Financial Statements of the Group for the year ended 31 December 2012.

Principal activities and review of the business

The principal activity of the Company is that of a holding company. The principal activities of the Group are the transaction of life assurance and annuities, primarily in the United Kingdom.

The Chairman's Statement, Chief Executive's Review and business review on pages 5 to 12 outline the Group's activities, performance and future outlook and are incorporated by reference into this Directors' Report. Particulars of the principal subsidiary undertakings affecting the profits or net assets of the Group are listed in note 30. The principal risks and uncertainties of the business are set out in the business review and note 28 to the financial statements. Having regard to the Group's financial position, its expected performance in the future, and having made appropriate enquiries the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Results and dividends

The results for the year are set out in the Consolidated Statement of Comprehensive Income on page 27. The Directors do not recommend the payment of a dividend (2011: nil).

Directors

The Directors who served the Company during 2012 and up to the date of this report were:

IB Owen	
PA Catterall	
C Berendsen	(resigned 30 April 2012)
MD Crewe	
RA Phipps	
DTM Young	
AM Dearsley	
SJ Groves	
DL Richardson	(appointed 11 February 2013)

Directors' indemnities

The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for Directors and officers of the Company and the Group in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers, including any liabilities relating to the defence of any proceedings brought against them which relate to anything done or omitted, or alleged to have been done or omitted, by them as officers or employees of the Company and the Group.

Directors' and officers' liability insurance cover is in place in respect of all of the Company's Directors.

Equal Opportunities

Partnership is committed to applying its Equality and Diversity policy at all stages of recruitment and selection. Shortlisting, interviewing and selection will always be carried out without regard to gender, gender reassignment, sexual orientation, marital or civil partnership status, colour, race, nationality, ethnic or national origins, religion or belief, age, pregnancy or maternity leave or trade union membership. Any candidate with a disability will not be excluded unless it is clear that the candidate is unable to perform a duty that is intrinsic to the role, having taken into account reasonable adjustments. Reasonable adjustments to the recruitment process will be made to ensure that no applicant is disadvantaged because of his/her disability. Line managers conducting recruitment interviews will ensure that the questions that they ask job applicants are not in any way discriminatory or unnecessarily intrusive.

Charitable and political donations

During the year the Group made charitable donations of £53,318 (2011: £4,200). None of these donations were for political purposes.

Directors' Report (continued)

For the year ended 31 December 2012

Auditor

Each of the persons who is a Director at the date of approval of this report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- The Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP has indicated their willingness to continue in office as auditor.

Approved by the Board and signed on its behalf by:

FE Darby, Solicitor
Company Secretary
Sackville House
143 – 149 Fenchurch Street
London
EC3M 6BN

27 March 2013

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 have elected to prepare the Financial Statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. 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 company and of the profit or loss of the company for that period.

In preparing these Financial Statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent Auditor’s Report

To the Members of Partnership Holdings Limited

We have audited the Financial Statements of Partnership Holdings Limited for the year ended 31 December 2012 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated and Company Statement of Financial Position, the Consolidated Cash Flow Statement and the related notes 1 to 34. 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, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited Financial Statements. If we become aware of any apparent material misstatement or inconsistencies we consider the implications for our report.

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 2012 and of the Group’s profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Alexander Arterton BSc (Hons) ACA, Senior Statutory Auditor
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
27 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	2012	2011
		£000's	£000's
Gross premiums written	2	1,468,008	892,216
Outward re-insurance premiums		(554,620)	(400,756)
Net premiums earned before restucture of reinsurance treaty		913,388	491,460
Premium on restructure of reinsurance treaty	3	(495,803)	-
Net premiums earned		417,585	491,460
Net investment income	4	290,738	51,863
Share of results of joint venture accounted for using the equity method	12	(40)	(751)
Other Income		179	83
Total income		**708,462**	**542,655**
Gross claims paid		(273,655)	(201,577)
Reinsurers' share		188,668	147,971
Recovery on recapture of reinsurance	3	99,542	-
		14,555	(53,606)
Change in insurance liabilities:			
Gross amount		(1,564,761)	(682,045)
Reinsurers' share before restructure and recapture		663,453	331,599
Reinsurers' share on restructure and recapture	18	396,213	-
		(505,095)	(350,446)
Acquisition costs		(34,566)	(23,318)
Investment expenses and charges		(8,178)	(4,713)
Interest on subordinated debt		(496)	(621)
Other operating expenses		(68,965)	(45,950)
		(112,205)	(74,602)
Total claims and expenses		**(602,745)**	**(478,654)**
Profit from continuing operations before tax	5	**105,717**	**64,001**
Income tax charge from continuing operations	7	(17,245)	(10,946)
Profit for the year from continuing operations		**88,472**	**53,055**
Loss for the year from discontinued operations	30	(28)	-
Profit for the period		**88,444**	**53,055**
Profit attributable to:			
- Owners of the Parent		88,431	53,057
- Minority Interests		13	(2)
		88,444	**53,055**

Profit for each year was entirely attributable to equity.
The notes on pages 32 to 58 are an integral part of these Financial Statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

		Attributable to Owners of the Parent					Minority interest	Total
	Note	Share Capital	Share Premium	Retained earnings	Other reserves	Total		
		£000's	£000's	£000's	£000's	£000's	£000's	£000's
At 1 January 2011		159,937	15	41,932	2,360	**204,244**	(33)	**204,211**
Shares issued for cash	**17**	142	-	-	-	**142**	-	**142**
Profit for the year		-	-	53,057	-	**53,057**	(2)	**53,055**
At 31 December 2011		**160,079**	**15**	**94,989**	**2,360**	**257,443**	**(35)**	**257,408**
At 1 January 2012		160,079	15	94,989	2,360	**257,443**	(35)	**257,408**
Shares issued for cash	**17**	111,851	-	-	-	**111,851**	-	**111,851**
Profit for the year		-	-	88,431	-	**88,431**	13	**88,444**
At 31 December 2012		**271,930**	**15**	**183,420**	**2,360**	**457,725**	**(22)**	**457,703**

Profit for each year was entirely attributable to equity.

As permitted by section 408 of the Companies Act 2006, no Statement of Comprehensive Income for the Company is presented.

The Company's loss for the year was £5,000 (2011: £10,000).

The notes on pages 32 to 58 are an integral part of these Financial Statements.

Consolidated Statement of Financial Position

As at 31 December 2012

	Note	2012 £000's	2011 £000's
Assets			
Property, plant and equipment	**8**	3,688	1,667
Goodwill	**9**	126,207	126,207
Other intangible assets	**10**	12,343	6,221
Financial assets	**11**	3,159,001	1,750,378
Investment in joint ventures accounted using the equity method	**12**	368	408
Reinsurance assets	**18**	2,412,551	1,352,886
Insurance and other receivables	**13**	98,569	11,154
Prepayments and accrued income	**14**	63,123	36,226
Deferred tax assets	**15**	158	147
Cash and cash equivalents	**16**	161,789	46,350
Total assets		**6,037,797**	**3,331,644**
Equity			
Share capital	**17**	271,930	160,079
Share premium	**17**	15	15
Retained earnings		183,420	94,989
Other reserves		2,360	2,360
Total equity and reserves attributable to owners of the Parent		**457,725**	**257,443**
Minority interest		(22)	(35)
Total equity and reserves		**457,703**	**257,408**
Liabilities			
Insurance liabilities	**18**	3,723,298	2,158,537
Insurance and other payables	**19**	67,178	46,684
Financial liabilities	**20**	1,778,764	843,583
Subordinated debt	**21**	-	15,925
Current tax liabilities	**22**	10,854	9,507
Total liabilities		**5,580,094**	**3,074,236**
Total equity and liabilities		**6,037,797**	**3,331,644**

The notes on pages 32 to 58 are an integral part of these Financial Statements.

Statement of Financial Position of the Company

As at 31 December 2012

	Note	2012 £000's	2011 £000's
Assets			
Investment in subsidiaries	**30**	264,056	152,256
Insurance and other receivables	**13**	5,699	5,971
Cash and cash equivalents	**16**	2,287	1,993
Total assets		**272,042**	**160,220**
Equity			
Share capital	**17**	271,930	160,079
Share premium	**17**	15	15
Retained earnings		97	102
Total equity and reserves		**272,042**	**160,196**
Liabilities			
Insurance and other payables	**19**	-	24
Total liabilities		**-**	**24**
Total equity and liabilities		**272,042**	**160,220**

The notes on pages 32 to 58 are an integral part of these Financial Statements.

The Financial Statements of the Group were approved by the Board of Directors and authorised for issue on 27 March 2012.

They were signed on its behalf by:

SJ Groves, FIA
Chief Executive Officer
Company Registered Number: 6610600

Consolidated Cash flow Statement

For the year ended 31 December 2012

	Note	2012	2011
		£000's	£000's
Cash generated/ (used) in operations	**25**	**1,269**	**(993)**
Investment expenses and charges paid		(8,178)	(4,713)
Tax losses purchased from parent undertakings		-	47
Income taxes paid		(17,074)	(1,954)
Net cash used in operating activites		**(23,983)**	**(7,613)**
Cash flows from Investing activities:			
Interest received from financial assets	**4**	101,088	74,987
Interest payable on financial liabilities	**4**	(46,579)	(42,291)
Investment in joint venture using the equity method	**12**	-	(150)
Purchase of property, plant and equipment	**8**	(3,057)	(497)
Purchase of intangible assets	**10**	(7,385)	(1,894)
Interest on subordinated debt		(496)	(621)
Net cash from investing activities		**43,571**	**29,534**
Cash flows from financing activities:			
Proceeds from issuance of share capital	**17**	111,851	142
Repayment of subordinated debt	**21**	(16,000)	-
Net cash from financing activities		**95,851**	**142**
Net decrease in cash and cash equivalents		**115,439**	**22,063**
Cash and cash equivalents bought forward		46,350	24,287
Cash and cash equivalents carried forward	**16**	**161,789**	**46,350**

Cash flows related to the sale and purchase of financial investments are included in operating cash flows as they are associated with the origination of insurance contracts and payment of insurance claims.

The notes on pages 32 to 58 are an integral part of these Financial Statements.

Notes to the Financial Statements

For the year ended 31 December 2012

1 Significant accounting policies

General Information

The principal activity of the Company is that of a holding company.

The Chairman's Statement, Chief Executive's Review and business review on pages 5 to 12 outline the Company's activities, performance and future outlook. Note 28 to the Financial Statements sets out the Group's policies and procedures for managing insurance and financial risk, and note 29 sets out how the Group manages its capital resources. Having regard to the Group's financial position, its expected performance in the future, and having made appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Basis of preparation

These Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union as defined by IAS 1, and in accordance with the provisions of Sections 1165 (5) and 1165 (6) of the Companies Act 2006 and the special provisions relating to insurance companies of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008, Schedule 3.

The financial information has been prepared in accordance with applicable accounting standards and under the historical cost convention, modified to include the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through income.

The consolidated Financial Statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed during the year are included from/up to the effective date of acquisition or disposal. Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein.

As permitted by section 408 of the Companies Act 2006, no Statement of Comprehensive Income for the Company is presented.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial information in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial information and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Insurance contracts

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event would cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

The Group's long-term insurance contracts include annuities to fund retirement income, annuities to fund care fees (immediate needs and deferred), long-term care insurance and whole of life and term protection insurance. These contracts are expected to remain in force for an extended period of time, and insure events associated with human life.

Premiums

Premiums are recognised in the accounting period in which an insurance contract is commenced, gross of any commission paid. Premiums which have been received and for which no contract is yet in-force are classified as creditors arising out of direct insurance operations. Where a contract has been issued but premiums have not yet been received, a debtor arising out of direct insurance operations is recognised for the expected premiums due. Reinsurance premiums and recoveries are accounted for in the accounting period in accordance with the contractual terms of the reinsurance treaties. Premiums exclude any taxes or duties based on premiums.

Claims

Maturity claims and annuities are charged against revenue when due for payment. Death claims and all other claims are accounted for when notified. Claims reinsurance recoveries are accounted for in the same period as the related claim. Where reinsurance treaties are commuted, amounts received to compensate for the transfer of risk from the reinsurer are accounted for when received or, if earlier, on the date the treaty ceases to be included within the calculation of the reinsurers' share of long term business provision.

Long term business provision

One of the purposes of insurance is to enable policyholders to protect themselves against future uncertain events such as death or specific types of illness. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. As a consequence of this uncertainty, estimation techniques are employed by suitably qualified personnel in computing the levels of provisions held against such uncertainty.

The long-term business provision is determined by the Partnership Board on the advice of the Group's Actuarial Function Holder on the modified statutory basis using recognised actuarial methods with due regard to the actuarial principles set out in the FSA's Insurance Prudential Sourcebook. In particular, a prospective gross premium valuation method has been adopted for major classes of business.

Although the process for the establishment of insurance liabilities follows specified rules and guidelines, the provisions that result from the process remain uncertain. As a consequence of this uncertainty, the eventual value of claims could vary from the amounts provided to cover future claims. The Group seeks to provide for appropriate levels of contract liabilities taking known facts and experiences into account but nevertheless such provisions remain uncertain.

The estimation process used in determining the long-term business provision involves projecting future annuity payments and the costs of maintaining the contracts. For non-annuity contracts, the long-term business provision is determined as the sum of the discounted value of future benefit payments and future administration expenses less the expected value of premiums payable under the contract. The key sensitivities are the assumed level of interest rates and the mortality experience.

At the balance sheet date, provision is made for all notified claims plus an estimate for those claims that have been incurred but not reported. The principal assumptions underlying the calculation of the long-term business provision are set out in note 18.

Acquisition costs

Acquisition costs comprise direct costs such as commissions and indirect costs of obtaining and processing new business. They are allocated to particular categories of business based on available information. Acquisition costs are not deferred as they are largely recovered at inception through profit margins.

Long term reinsurance contracts

Long-term business is ceded to reinsurers under contracts to transfer part or all of one or more of the following risks: mortality, morbidity, investment, persistency and expenses. The benefits to which the Group are entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within "Insurance and other receivables") as well as longer term receivables that are dependent on the expected benefits arising under the related reinsured contracts.

Amounts recoverable from reinsurers are estimated in a consistent manner with the long-term business provision, and are classified as "reinsurance assets".

Some contracts, which provide for the transfer of significant risk, are also structured to provide financing. When, under such contracts, financing components are to be repaid in future accounting periods, the amount outstanding under the contract at the balance sheet date are classified as "payables arising from reinsurance contracts".

If the reinsurance asset were impaired, the Group reduces the carrying amount accordingly and recognises that impairment loss in the income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract, and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Investment income & expenses

Investment income comprises interest received on financial investments, realised investment gains and losses and movements in unrealised gains and losses.

Expenses and charges are included on an accruals basis.

Realised gains and losses on investments are calculated as the difference between net sales proceeds less costs of sale and original cost. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or if they have been previously valued their valuation at the last balance sheet date. The movement in unrealised gains and losses recognised in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Goodwill

Goodwill represents the excess of cost of acquisition over the fair value of the separable net assets of businesses acquired. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill that is recognised as an asset is reviewed for impairment at least annually, or when circumstances or events indicate there may be uncertainty over this value and any impairment is recognised immediately in the income statement and is not subsequently reversed.

Other intangible assets

Other intangible assets comprise intellectual property in the form of specific mortality tables derived from data collected over an extended period. The intangible asset is deemed to have an indefinite life and consequently no amortisation is charged against its carrying value.

Impairment of tangible and intangible assets excluding goodwill

The carrying amounts of tangible and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable and at least at each balance sheet date. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its net selling price (fair value less selling costs) and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit, or company of units, to which the asset belongs.

Development costs and intangible assets

Development costs that are directly attributable to the design and testing of identifiable and software products, controlled by the Group, are recognised as intangible assets when it can be demonstrated that it is technically feasible to complete the product so that it is available for use and will generate probable future economic benefits. Computer software development costs with a definite useful life are amortised using the straight line method over 3 years. These assets are tested for impairment annually.

Investments in Subsidiaries

Investments in Subsidiaries are stated at cost less impairment, as determined by the Company's Directors.

Investments in joint ventures

The Group has chosen to take advantage of the option under IAS 31 to use the equity method to consolidate its investment in its joint venture. Under the equity method of accounting the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the joint venture.

Financial instruments

The Group classifies its financial investments, loans backed by mortgages, derivative financial instruments and other financial liabilities at fair value through profit and loss. The category of fair value through profit and loss has two sub-categories – those that meet the definition as being held for trading and those that the Group chooses to designate as fair value. The fair value through profit and loss is used as the Group's strategy is to manage its financial instruments as a portfolio on a fair value basis.

Financial investments

Purchases and sales of debt securities and other fixed income securities are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets, at their fair values. Transaction costs are expensed as incurred. These investments are derecognised when the contractual rights to receive cash flows from the investments expire, or where the investments have been transferred, together with substantially all the risks and rewards of ownership.

Debt securities and other fixed income securities are subsequently carried at fair value with changes in fair value included in the Consolidated Statement of Comprehensive Income in the period in which they arise.

The fair values of debt securities are based on quoted bid prices, or based on modelled prices (using observable market inputs) where quoted bid-prices are not available.

Loans secured by mortgages

Loans secured by mortgages are recognised when the cash is advanced to borrowers at their fair values. These loans are derecognised when the contractual rights to receive cash flows from the investments expire, or where the investments have been transferred, together with substantially all the risks and rewards of ownership.

Loans secured by mortgages are subsequently carried at fair value with changes in fair value included in the Consolidated Statement of Comprehensive Income in the period in which they arise.

The fair value of loans secured by mortgages is initially deemed to be the transaction price and subsequently marked to model. The underlying model follows the methodology used to establish transaction prices. It uses longevity assumptions to derive expected cash flows and the Black Scholes option pricing methodology to establish the value of the no negative equity guarantee that is embedded in the product. The discount rates that are applied to cash flows to produce fair value are based on long dated swaps adjusted so that they would produce transaction date prices on the date of transaction.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rates, inflation, credit default and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps, credit default swaps and inflation swaps.

Derivative contracts are traded either through an exchange or over-the-counter (“OTC”). OTC derivative contracts are individually negotiated between contracting parties and can include options, swaps, caps and floors.

Derivatives are initially recognised at fair value at the date that a derivative contract is entered into and are subsequently remeasured to fair value at each balance sheet date. The resulting gain or loss is recognised in the Consolidated Statement of Comprehensive Income. The fair values are obtained from quoted market prices or, if these are not available, by using standard valuation techniques based on discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair value is positive and liabilities when the fair values are negative. Premiums paid for derivatives are recorded as an asset on the balance sheet at the date of purchase representing their fair value at that date.

Financial liabilities

As well as derivative financial liabilities, the Group carries financial liabilities where assets under specific reinsurance treaties are legally and physically deposited back to the Group by reinsurers. Financial liabilities are initially recognised at fair value on the same date that the value of underlying deposited assets is recognised and are subsequently remeasured at fair value at each balance sheet date. The resulting gain or loss is recognised in the Consolidated Statement of Comprehensive Income. The net gain or loss recognised in the income statement incorporates any interest paid on the financial liability. Fair value is determined as the amount payable discounted from the first date that the amount is required to be paid.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Subordinated debt

Subordinated debt is recognised initially at fair value, net of transaction costs incurred. Subordinated debt is subsequently stated at amortised cost; any difference between the proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Taxation

Provision is made for taxation on taxable profits for the year, using tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. A deferred tax asset is recognised to the extent that it is regarded as more likely than not that it will be recovered. Deferred tax assets and liabilities are not discounted.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the financial period. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held on call with banks and other short term highly liquid investments with original maturities of 90 days or less. Bank overdrafts are included in cash and cash equivalents.

Operating segments

The Group is not required to include a segmental analysis as it is not a listed company with traded debt or equity. The ultimate parent undertaking and one of its subsidiaries has debt that is listed on the Guernsey stock exchange which is not traded.

Adoption of new and revised standards

a) None of the new standards or revisions or amendments to standards that have been adopted has affected the amounts reported or the disclosure and presentation of information in these financial statements.

b) None of the new standards or revisions of amendments to standards that have been adopted has affected the amounts reported, or the disclosure and presentation of information in these financial statements, but may impact the accounting for future transactions and arrangements.

c) The following new and revised or amended standards are not relevant to the Company's operations.

Standard/ Interpretation	Content/ amendment	Applicable for financial periods beginning on or after
IAS 12 (amendment)	Income taxes: Recovery of underlying assets	1 January 2012

IAS 12 (amendment) – Amends IAS 12 Income taxes to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS40 Investment property will, normally, be through sale. This change is not relevant to the Company’s operations.

d) At the date these financial statements were authorised, the following new or revised or amended standards, in issue, were not yet effective, or in some cases not yet adopted by the EU. The Company has not early adopted any of these standards.

Standard/ Interpretation	Content/ amendment	Applicable for financial periods beginning on or after
IAS 1 (amendment)	Financial statement presentation regarding other comprehensive income	1 July 2012
IAS 19 (amendment)	Employee benefits	1 January 2013
IAS 27	Separate financial statements	1 January 2013
IAS 28	Associates and joint ventures	1 January 2013
IFRS 9	Financial instruments	1 January 2013
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 11	Joint arrangements	1 January 2013
IFRS 12	Disclosures of interests in other entities	1 January 2013
IFRS 13	Fair value measurement	1 January 2013

2 Gross premiums written

Premiums are recognised at the point an insurance contract exists. During 2012, the Company changed the terms of its offer to potential policyholders such that an insurance contract would come into force at the point of their acceptance of the offered terms. Previously a contract only came into force when all funds had been received from the policyholder. As a result of this change, premiums totalling £109m were recognised in 2012 that would not otherwise have been recognised without a change to the contract terms. This also gives rise to amounts due from policyholders for premiums not yet received, as shown in note 13.

3 Impact on Statement of Comprehensive Income arising from specific actions

In accordance with IAS 1, additional disclosure is provided in relation to the following actions occurring during 2012 that have had a material impact on profit, or on specific elements of the statement of financial position.

(i) On 30 September 2012, a reinsurance treaty was recaptured and an amount of £99.7m was received from the reinsurer to compensate for the transfer of risk. On the same date the reinsurers' share of long term business provision was reduced by £94.5m. This recapture resulted in a net increase in profit before tax of £5.2m.

(ii) During 2012, another reinsurance treaty was restructured from a longevity swap treaty to a quota-share treaty. The treaty was in respect of business written from 2009 up to the point of restructure on 31 December 2012. As a result of this change, a single premium of £495.8m covering all business written under the terms of this treaty was paid to the reinsurer and an increase in the reinsurers' share of long term business provision of £480.0m was recognised in the income statement. The premium paid was then deposited back with the Company in exchange for a commitment to pay fixed amounts to the reinsurer over the expected life of the reinsured contracts, such that a financial liability was recognised on the balance sheet. The subsequent decrease in this financial liability during 2012 was £35.2m (note 21). Overall this restructure resulted in a net increase in profit before tax of £19.4m.

(iii) Also during 2012, the basis on which the Company calculates its credit default provision (within insurance liabilities) was amended to provide for an allowance for the spread in yield between invested assets and gilts. Previously the Company made an allowance on the spread measured against the yield on a composite of AAA sterling denominated sub-sovereign bonds. The changes made to the allowance for credit default risk decreased profit before tax in 2012 by £22.8m.

The net impact to these items is an increase in profit before tax of £1.8m in 2012.

4 Net investment income

	Group	
	2012	**2011**
	£000's	**£000's**
Interest receivable from financial assets	101,088	74,987
Interest payable from financial liabilities	(46,579)	(42,291)
Movement in fair value of financial assets	206,886	26,024
Movement in fair value of financial liabilities	1,453	(13,709)
Realised gains on financial assets	65,531	12,382
Realised losses on financial liabilities	(37,641)	(5,530)
	290,738	**51,863**

All financial assets and liabilities are classified at fair value through profit and loss.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

5 Profit before tax

Profit before tax is stated after charging the following items to operating expenses:

	Note	Group 2012 £000's	Group 2011 £000's
Staff costs, including directors' remuneration	**6**	34,242	21,255
Depreciation of property, plant and equipment	**8**	1,036	846
Amortisation of intangible assets	**10**	1,263	1,000
Rental of leased premises	**31**	949	4,492
Other operating leases	**31**	9	12
Auditor's remuneration		417	340

The analysis of auditor's remuneration for the year is as follows:		
a) Fees payable to the Group's auditor for the audit of the Group's accounts	233	225
b) Fees payable to the Group's auditor for other services:		
- Taxation services	127	55
- Other services	57	60
	417	340

Fees payable for the audit of the Group's accounts include £12,000 (2011: £7,000) in respect of the audit of the Company's Financial Statements.

6 Staff costs

The aggregate staff costs, including Directors' remuneration in the year were:

	Group 2012 £000's	Group 2011 £000's
Wages & salaries	29,369	18,264
Social security costs	3,784	2,263
Other pension costs	1,089	728
	34,242	**21,255**

The average number of persons employed during the year were:		
Administration and finance	323	227
Sales and marketing	95	84
	418	**311**

An analysis of Directors' remuneration is included in note 34.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

7 Income tax

Group:	Note	Discontinued operations 2012 £000's	Continuing operations 2012 £000's	Continuing operations 2011 £000's
Current taxation:				
Tax charge for the year		-	17,555	11,068
Adjustment in respect of prior periods		-	(299)	(101)
		-	17,256	10,967
Deferred taxation:				
Tax credit for the year	**15**	-	(11)	(21)
Net taxation charge		**-**	**17,245**	**10,946**

The actual tax charge of the group differs from the expected tax charge, computed by applying the average rate of UK corporation tax for the year of 24.5% (2011: 26.5%), as follows:

	Discontinued operations 2012 £000's	Continuing operations 2012 £000's	Continuing operations 2011 £000's
(Loss)/ profit before tax	(28)	105,717	64,001
Current taxation at 24.5% (2011: 26.5%)	(7)	25,906	16,960
Disallowable expenses	-	25	252
Difference between depreciation and capital allowances for tax purposes	-	42	63
Utilisation of losses of other group companies transferred without charge	7	(8,429)	(6,228)
Adjustment in respect of prior periods	-	(299)	(101)
Net taxation charge	**-**	**17,245**	**10,946**
Unutilised tax losses		14,139	14,139
Unrecognised deferred tax assets		2,828	2,828

Unutilised tax losses relate to excess management expenses that are only available to offset against certain profits in Partnership, and taxable losses arising in other group entities. No deferred tax asset is recognised for these losses because the Group does not expect to be able to utilise them.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

8 Property, plant and equipment

	Computer equipment	Fixtures & Fittings	Office refit costs	Group Total
Cost:	**£000's**	**£000's**	**£000's**	**£000's**
At 1 January 2012	2,566	470	1,871	4,907
Additions at cost	2,019	3	1,035	3,057
At 31 December 2012	**4,585**	**473**	**2,906**	**7,964**
Accumulated depreciation:				
At 1 January 2012	1,849	295	1,096	3,240
Charge for the year	547	80	409	1,036
At 31 December 2012	**2,396**	**375**	**1,505**	**4,276**
Net book value:				
At 31 December 2011	717	175	775	1,667
At 31 December 2012	**2,189**	**98**	**1,401**	**3,688**

9 Goodwill

	Group	
	2012	**2011**
	£000's	**£000's**
At 1 January	126,207	126,207
At 31 December	**126,207**	**126,207**

Goodwill and other intangible assets were first recognised when the assets of PAFS were acquired in October 2005.

10 Other intangible assets

	Group	
	2012	2011
Intellectual property:	£000's	£000's
At 31 December	3,100	3,100
At 31 December	**3,100**	**3,100**
Software development costs:		
At 31 December	4,365	2,490
Additions at cost	7,385	1,894
Disposals	-	(19)
At 31 December	**11,750**	**4,365**
Accumulated amortisation:		
At 31 December	1,244	263
Charge for the year	1,263	1,000
Eliminated on disposals	-	(19)
At 31 December	**2,507**	**1,244**
Total intangible assets at 1 January	6,221	5,327
Total intangible assets at 31 December	**12,343**	**6,221**

The Intellectual property comprises specific mortality tables derived from data collected over an extended period. Its value has been determined based upon an estimate of the costs to employ adequately skilled individuals over an appropriate period of time to develop intellectual property of a similar nature sufficient to enable the Group to replicate the estimated future cash flows and profits deriving from that intellectual property.

The Intellectual property is continually updated through the collection of further data, updated analyses, and conversion into new and more detailed underwriting manuals and mortality tables. For this reason, the intangible asset is deemed to have an indefinite life, and consequently, no amortisation is provided against the value of the intangible asset. The carrying value of the intangible asset is assessed for impairment at each reporting date, by considering the future cash flows generated through its use.

The amortisation period for Software development costs is 3 years. A substantial proportion of the additions in the year relate to ongoing development and therefore the amortisation period has not yet begun.

11 Financial assets

		Group	
	Note	2012	2011
		£000's	£000's
Financial investments		2,645,997	1,399,252
Loans secured by mortgages		478,097	316,729
Derivative assets	23	34,907	34,397
Total financial assets		**3,159,001**	**1,750,378**

Financial investments include debt securities and fixed income securities.

Financial investments and loans secured by mortgages are designated at fair value through profit and loss. Derivative assets are carried at fair value through profit and loss.

	Group	
	2012	2011
Cost of Financial investments and Loans secured by mortgages:	£000's	£000's
Financial investments	2,464,790	1,454,099
Loans secured by mortgages at cost	414,500	280,319

The methodology used to derive the fair values is set out in note 24.

12 Investment in joint ventures accounted for using the equity method

On 3 June 2011 the Group entered into a joint venture agreement with Digitalis Retail 1 Limited. As a result of this agreement, the Group acquired 49 shares in Pension Annuity Limited (the joint venture entity) representing 49% of its issued share capital, for a total consideration of £150,000.

On 9 March 2012, the Group acquired the remaining 51 shares in Pension Annuity Limited from Digitalis Retail 1 Limited for a total consideration of £30,000, at which time Pension Annuity Limited became a wholly owned subsidiary.

	2012	2011
Group's holding in joint ventures:	£000's	£000's
At 1 January	408	1,009
Investment in joint venture	-	150
Share of losses in the year	(40)	(751)
At 31 December	**368**	**408**

13 Insurance and other receivables

	Group		Company	
	2012	2011	2012	2011
Amounts falling due within 12 months:	£000's	£000's	£000's	£000's
Debtors arising out of insurance contracts (note 2)	85,153	-	-	-
Debtors arising out of reinsurance contracts	5,627	7,408	-	-
Other debtors	3,220	3,746	-	-
Amounts due from parent undertakings	4,347	-	3,012	2,945
Amounts due from subsidiary undertakings	-	-	2,687	3,026
Amounts due from joint ventures	222	-	-	-
	98,569	**11,154**	**5,699**	**5,971**

The Directors consider that the carrying value in the balance sheet is a reasonable approximation of the fair value.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

14 Prepayments and accrued income

	Note	Group 2012	Group 2011
Amounts falling due within 12 months:		**£000's**	**£000's**
Accrued interest		54,425	34,965
Prepayments		8,698	1,261
		63,123	**36,226**

15 Deferred tax assets

	Note	Group 2012	Group 2011
		£000's	**£000's**
At 1 January		147	126
Credit to income statement	**7**	11	21
At 31 December		**158**	**147**

16 Cash and cash equivalents

	Group		Company	
	2012	**2011**	**2012**	**2011**
	£000's	**£000's**	**£000's**	**£000's**
Short term bank deposits	151,529	42,878	-	-
Cash at bank and in hand / (Bank overdraft)	10,260	3,472	2,287	1,993
	161,789	**46,350**	**2,287**	**1,993**

17 Share capital and share premium

	Group & Company 2012	Group & Company 2011
The authorised share capital of the Company is:	**£000's**	**£000's**
200 million ordinary shares of £1 each	-	200,000
	-	**200,000**
The allotted and issued share capital of the Company is:		
Allotted, issued and fully paid - ordinary shares of £1 each:		
Share capital	271,930	160,079
Share premium	15	15
	271,945	**160,094**

On 21 August 2012, the retention and authorised share capital of the Company was revoked and deleted as in accordance of section 28 of the Companies Act 2006.

On 13 April 2012, 51,101 ordinary share of £1 each were issued at par for cash. On 21 August 2012, 61,975,000 ordinary shares of £1 each were issued at par for cash. On the 24 August 2012, a further 49,500,000 ordinary shares of £1 each were issued at par for cash.

At the end of 2012 no shares issued remained unpaid (2011: nil).

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

18 Insurance liabilities and reinsurance assets

	Group	
	2012	**2011**
	£000's	**£000's**
Long term business provision	3,723,298	2,158,537
Re-insurers' share of long term business provision	(2,412,551)	(1,352,886)
Net provision	**1,310,747**	**805,651**

a) Principal assumptions

The principal assumptions underlying the calculation of the long-term business provision are as follows:

		Mortality tables	Valuation discount rates
Medically underwritten annuity products	2012	Modified PML/PFL92(U2013) modified avg MC & LC floor 1.5%	3.76%
	2011	Modified PML/PFL92u2011 avg mc & lc floor 1.5%	5.36%
Other annuity products	2012	Modified PMA/PFA00u2013 p-spline	2.26%
	2011	Modified PMA/PFA00u2011 p-spline	3.22%
Term and whole of life products	2012	86.25% TM/TF00Select	1.07%
	2011	115% TM/TF00Select	2.41%

Valuation discount rate assumptions are set with regards to yields on supporting assets. An allowance for risk is included by making an explicit deduction from the yields on debt and other fixed income securities based on historical default experience and expected experience of each asset class. The allowance for credit risk has been set at 37% (2011: 26%) of the spread on the yield of corporate bonds over gilts.

The changes in the valuation discount rates at each period end reflect changes in yields on the supporting assets and changes made to the allowance for risk. The allowance for credit default risk has been strengthened during 2012, and this change in assumption results in an increase to the insurance liabilities of £12.8m.

The mortality tables used have been adjusted to reflect additional mortality based on the proprietary data held by the Group developed from actual experience incurred. The allowance for mortality risk on medically underwritten annuity products has been strengthened during 2012, and this change in assumption results in an increase to the insurance liabilities of £3.9m. The valuation basis used to calculate the long-term business provisions includes an allowance for future expenses.

b) Movements

Movements in the carrying amount of insurance liabilities and reinsurance assets are explained as follows:

Group	Gross	Re-insurance	Net
	£000's	£000's	£000's
At 1 January 2012			
Carrying amount at start of year	2,158,537	(1,352,886)	805,651
Increase in liability from new business	1,324,979	(532,265)	792,714
Release of in-force liability	(48,465)	30,083	(18,382)
Release of liability due to recorded deaths	(61,815)	36,098	(25,717)
Recapture and restructure of reinsurance treaties *	-	(396,213)	(396,213)
Economic changes	335,573	(200,464)	135,109
Non-economic changes	11,266	-	11,266
Other	3,223	3,095	6,318
At 31 December 2012	**3,723,298**	**(2,412,552)**	**1,310,746**
At 1 January 2011			
Carrying amount at start of year	1,476,493	(1,021,287)	455,206
Increase in liability from new business	749,341	(367,191)	382,150
Release of in-force liability	(42,092)	33,295	(8,797)
Release of liability due to recorded deaths	(54,425)	34,193	(20,232)
Economic changes	(5,961)	4,251	(1,710)
Non-economic changes	32,152	(32,345)	(193)
Other	3,029	(3,802)	(773)
At 31 December 2011	**2,158,537**	**(1,352,886)**	**805,651**

* The impact of the recapture and restructure of reinsurance treaties has been calculated at 31 December 2012 before the impact of year end basis changes.

c) Analysis of expected maturity

The following table analyses insurance liabilities and reinsurance assets by duration.

Group	Expected cashflows (undiscounted)				Carrying value (discounted)
	less than one year	one to five years	five to ten years	more than ten years	
At 31 December 2012	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Gross	300,885	1,080,196	1,122,562	2,998,611	**3,723,298**
Reinsurance	(191,170)	(711,459)	(767,756)	(2,028,997)	**(2,412,551)**
Net	109,715	368,737	354,806	969,614	**1,310,747**
At 31 December 2011	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Gross	221,578	772,133	767,747	1,994,115	**2,158,537**
Reinsurance	(138,749)	(494,089)	(491,451)	(1,197,104)	**(1,352,886)**
Net	82,829	278,044	276,297	797,011	**805,651**

d) Sensitivity analysis

Life insurance results are inherently uncertain due to actual experience being different to modelled assumptions. Sensitivity analysis is provided below to illustrate the impact of changes in key assumptions.

Sensitivity factor	Description of sensitivity factor applied
Interest rate & investment return	The impact of a change in the market interest rates by + / - 1% (e.g. if a current interest rate is 5%, the impact of an immediate change to 4% and 6% respectively). The test allows consistently for similar changes to investment returns and movements in the market backing fixed interest securities.
Credit spreads	The impact of credit spreads widening by 50bps with a corresponding change to defaults.
Expenses	The impact of an increase in maintenance expenses by 10%.
Mortality rates	The impact of a decrease in mortality rates by 5%.
Property values	The impact of an immediate decrease in the value of properties by 10%. The test allows for the impact on the annuity liabilities arising from any change in yield on the equity release assets used to back the liabilities.
Voluntary redemptions	The impact of an increase in voluntary redemption rates on equity release loans by 10%. The test allows for the impact on the annuity liabilities arising from any change in yield on the equity release assets used to back the liabilities.

The table below demonstrates the effect of a change in a key assumption whilst other assumptions remain unchanged. In reality, such an occurrence is unlikely due to correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results. The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed and may vary at the time that any actual market movement occurs.

	Increase / (decrease) in profit before tax	
	2012	**2011**
Change in assumption:	**£000's**	**£000's**
Interest rates +1%	1,362	(2,368)
Interest rates -1%	(8,610)	1,706
Credit spreads -1%	(779)	(6,342)
Expenses +10%	(8,894)	(4,088)
Mortality -5%	(19,791)	(9,984)
Property Prices - 10%	(11,093)	(5,455)
Voluntary redemptions - 10%	2,861	524

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

19 Insurance and other payables

	Group		Company	
	2012	2011	2012	2011
Amounts payable within one year:	**£000's**	**£000's**	**£000's**	**£000's**
Payables arising from insurance contracts	40,208	35,038	-	-
Amounts due to parent undertakings	5,890	1,998	-	23
Other creditors and accruals	21,080	9,648	-	1
	67,178	**46,684**	**-**	**24**

The Directors consider that the carrying value in the balance sheet is a reasonable approximation of the fair value.

20 Financial liabilities

		Group	
	Note	2012	2010
		£000's	£000's
Payables arising from reinsurance contracts		1,728,997	809,641
Derivative liabilities	23	49,767	33,942
		1,778,764	**843,583**

Payables arising from reinsurance contracts at fair value through profit and loss are designated as such on initial recognition. Derivative liabilities are carried at fair value through profit and loss.

21 Subordinated debt

	Group	
	2012	2011
	£000's	£000's
Amounts payable between one and five years	-	8,000
Amounts payable in more than five years	-	8,000
Principal amount	-	16,000
Less capitalised debt issuance costs	-	(75)
Net carrying value	**-**	**15,925**

An unsecured subordinated loan facility of £16 million was arranged with the Bank of Scotland on 2 September 2005. The interest rate is at 3% over LIBOR. All covenant requirements relating to this facility were met during the period.

On 21 August 2012, the subordinated loan facility was repaid in full.

22 Current tax liabilities

	Group	
	2012	2011
Amounts payable within one year:	**£000's**	**£000's**
Income taxes	7,127	6,945
Other taxes and social security costs	3,727	2,562
	10,854	**9,507**

23 Derivative financial instruments

The Group uses various derivative financial instruments to manage its exposure to interest rates, counterparty credit risk, inflation and foreign exchange risk, including foreign exchange forward contracts, interest rate swaps, credit default swaps and inflation swaps.

	Group		
31 December 2012	**Asset fair value**	**Liability fair value**	**Notional amount**
Derivatives	**£000's**	**£000's**	**£000's**
Forward currency positions	327,393	329,490	620
Interest rate swaps	33,657	41,187	792,980
Inflation swaps	390	5,623	121,355
Total at 31 December	**361,440**	**376,300**	**914,955**
31 December 2011	**£000's**	**£000's**	**£000's**
Forward currency positions	2,444	1,085	247,675
Interest rate swaps	30,851	30,728	681,573
Inflation swaps	337	2,129	95,949
Credit default swaps	765	-	3,634
Total at 31 December	**34,397**	**33,942**	**1,028,829**

All over-the-counter derivative transactions are conducted under standardised ISDA (International Swaps and Derivatives Association Inc) master agreements and the Group has collateral agreements between the individual group entities and relevant counterparties in place under each of these market master agreements.

At 31 December 2012, the Group had pledged £13.8m (2011: £6.0m) and held collateral of £0.5m (2011: £8.6m) in respect of over-the-counter derivative transactions.

24 Financial instruments - fair value methodology

All financial instruments are classified at fair value through profit and loss.

In accordance with IFRS 7 Financial Instruments Disclosures, financial instruments at fair value have been classified into three categories.

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

	Level 1	Level 2	Level 3	Total
31 December 2012	**£000's**	**£000's**	**£000's**	**£000's**
Financial investments (a)	2,645,997	-	-	2,645,997
Loans secured by mortgages (b)	-	-	478,097	478,097
Derivative assets (c)	-	34,907	-	34,907
Total financial assets held at fair value	**2,645,997**	**34,907**	**478,097**	**3,159,001**
Payables arising from reinsurance contracts (d)	-	-	1,728,997	1,728,997
Derivative liabilities (c)	-	49,767	-	49,767
Total financial liabilities held at fair value	**-**	**49,767**	**1,728,997**	**1,778,764**
31 December 2011	**£000's**	**£000's**	**£000's**	**£000's**
Financial investments (a)	-	1,399,252	-	1,399,252
Loans secured by mortgages (b)	-	-	316,729	316,729
Derivative assets (c)	-	34,397	-	34,397
Total financial assets held at fair value	**-**	**1,433,649**	**316,729**	**1,750,378**
Payables arising from reinsurance contracts (d)	-	-	809,641	809,641
Derivative liabilities (c)	-	33,942	-	33,942
Total financial liabilities held at fair value	**-**	**33,942**	**809,641**	**843,583**

During 2012, the financial investments have been reclassified from Level 2 to Level 1. Since the financial crisis in 2008, there has been a continual improvement in the level of liquidity in the fixed and variable rate securities markets, and having considered this during 2012, the Directors now consider that the market is sufficiently active to allow classification of the financial investments as Level 1. There have been no other transfers between levels 1,2 or 3.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

The table below reconciles the opening and closing recorded amount of level 3 financial liabilities and financial assets which are stated at fair value.

	Payables arising out of reinsurance contracts	Loans secured by mortgages
	£000's	**£000's**
At 1 January 2012	(809,641)	316,729
Loans advanced (to the Company)/ by the Company	(1,050,423)	148,030
Total (losses)/ gains in Income Statement excluding reinsurance restructure	(75,427)	7,246
Total gains in Income Statement from reinsurance restructure (note 3)	35,186	-
Redemptions paid by the Company/ (paid to the Company)	224,083	(13,847)
(Interest payable accrued)/ interest receivable accrued	(52,775)	19,939
At 31 December 2012	**(1,728,997)**	**478,097**

	£000's	**£000's**
At 1 January 2011	(531,453)	141,357
Loans advanced (to the Company)/ by the Company	(426,619)	147,571
Total gains in Statement of Comprehensive Income	24,527	23,680
Redemptions paid by the Company/ (paid to the Company)	160,964	(6,693)
(Interest payable accrued)/ interest receivable accrued	(37,060)	10,814
At 31 December 2011	**(809,641)**	**316,729**

a) Financial Investments

All financial investments are listed and are designated at fair value through profit and loss.

In assessing the fair value of the debt securities and other fixed income securities, the Directors have relied upon values provided by an independent third-party which specialises in providing such values to companies. The third-party provides prices based upon quoted market prices, or where not available, modelled prices using observable market inputs. At 31 December 2012, 100% of values provided were based on quoted prices that are observable for the asset or liability. At 31 December 2011, 100% of values provided were based on fair values measured using inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Alternative sources have also been reviewed by the Directors to verify the reasonableness of the values used.

b) Loans secured by mortgages

The fair value recognised in the financial statements is determined using a valuation technique where not all inputs are based on observable market data and so these assets are considered to be Level 3 within the valuation category prescribed by IFRS 7.

Discount rate: Loans secured by mortgages are valued using the swap rate appropriate to the term of each contract with adjustment to reflect the credit and liquidity risk associated with such long-dated contracts. The risk adjusted swap rate for the portfolio weighted by average value at 31 December 2012 was 5.89% (2011: 5.72%).

No-negative equity guarantee: The fair value of loans secured by mortgages takes into account an explicit provision in respect of the no-negative equity guarantee which is calculated using a variant of the Black Scholes option pricing model.

The valuation technique that the Group uses to assess the fair value of loans backed by mortgages is consistent with that used to derive the prices applied at the initial transaction. As such, there is no difference between the fair value of loans backed by mortgages at initial recognition and the amount that would have been determined at that date using the valuation technique.

c) Derivative assets and liabilities

The estimated fair value of derivative instruments reflects the estimated amount the Group would receive or pay in an arm's length transaction. All the derivatives held at 31 December 2012 were purchased over the counter and were valued using quoted prices from independent third parties.

d) Payables arising from reinsurance contracts

The estimated fair value of payables arising from reinsurance contracts is determined as the amount payable discounted from the first date that the amount is required to be paid.

25 Notes to the Consolidated Cash Flow Statement

Group	2012	2011
	£000's	£000's
Profit before income tax including discontinued operations	**105,689**	**64,001**
Adjustment for:		
Interest receivable from financial assets	(101,088)	(74,987)
Interest payable from financial liabilities	46,579	42,291
Depreciation of property, plant and equipment	1,036	846
Amortisation of intangible assets	1,263	1,000
Investment expenses and charges	8,178	4,713
Interest on subordinated debt	496	621
Share of loss of joint venture accounted using the equity method	40	751
Amortisation of capitalised subordinated debt issuance costs	75	10
Operating cash flows before changes in operating assets and liabilities	**62,268**	**39,246**
Increase in financial assets	(1,408,623)	(700,514)
Increase in reinsurance assets	(1,059,665)	(331,599)
(Decrease)/ increase in insurance and other receivables excluding Corporation t	(87,415)	(1,741)
Increase in prepayments and accrued income	(26,897)	(13,531)
Increase in insurance liabilities	1,564,761	682,044
Increase in insurance and other payables	20,494	18,829
Increase in financial liabilities	935,181	305,353
Increase in other taxes and social security payables	1,165	920
Cash used in operations	**1,269**	**(993)**

26 Employee benefits

Pension scheme
Details of the amounts payable for the year are included in 'Other pension costs', in note 6. No amounts are outstanding in respect of these contributions at the end of the year.

The Group is a Participating Employer for a money purchase group personal pension plan. The assets of the plan are held separately from those of the Group. The Group does not provide a final salary plan.

27 Deposits received from reinsurers

Financial assets arising from the payment of reinsurance premiums, less the repayment of claims, to certain reinsurers in relation to specific treaties are legally and physically deposited back with the Group. Although the funds are managed by the Group (as the Group controls the investment of the asset), no future benefits accrue to the Group as any returns on the deposits are paid to reinsurers. Consequently the deposits are not recognised as assets of the Group and the investment income they produce does not accrue to the Group.

In addition, the Group has trust agreements with one reassurer (2011: two) whereby the assets are held in trust in order to fully fund the reassurers' obligations under the reinsurance treaty. As the Group has no control over these funds and does not accrue any future benefit these funds are not recognised as assets of the Group.

	2012	2011
	£000's	£000's
Deposits managed by the Group	330,012	297,648
Deposits held in trust	192,781	227,622
	522,793	**525,270**

28 Management of insurance and financial risk

The Group issues contracts that accept insurance risk in return for a premium. In addition the Group is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from contracts with policyholders. The most important components of this financial risk are interest rate risk and credit risk. The Group is not exposed to any equity price risk and to currency risk only to an immaterial extent.

a) Insurance risk

a1) Underwriting, pricing and reserving risk
Underwriting and pricing risk is the risk that inappropriate business will be written, or an inappropriate premium will be charged for that business. Reserving risk is the risk that the reserves have been calculated incorrectly, or the assumptions used in the calculations are incorrect.

As the Group's insurance business is specifically targeted at people with medical conditions affecting their life expectancy, or people seeking to fund domiciliary or residential care, the underwriting risk is managed through the use of highly trained, and qualified underwriting staff, together with tailored underwriting manuals designed to specifically cover a large array of medical conditions.

The Group has developed its own proprietary underwriting manuals for retirement annuity business and those seeking care funding, based on industry standard mortality tables modified to take account of experience data recorded by the Group and its predecessor organisations.

The assumptions used in the reserving for future policyholder payments are set based on available market and experience data, on the advice of the Actuarial Function Holder. The assumptions are approved by the Partnership Board. The reserves are calculated using recognised actuarial methods with due regard to the actuarial principles set out in the Financial Services Authority's Prudential sourcebooks.

a2) Specific insurance risk
Insurance risk on the annuity contracts arises through longevity risk and through the risk that operating factors, such as administration expenses, are worse than expected. Insurance risk on the protection policies arises through higher than expected mortality levels. Longevity and mortality experience is monitored on a regular basis and compared to the underlying assumptions used to reserve for future insurance payments. The exposure to

longevity and mortality risk is also reduced significantly through the use of reinsurance. Expense risk is managed through regular assessment of expenses incurred against budgets and overall impact on profitability of the insurance contracts.

a3) Concentration of insurance risk

The Group writes annuity contracts for the provision of retirement income or care fees and protection insurance contracts, primarily for individuals in the UK with one or more medical conditions or lifestyle factors that are likely to reduce their overall life expectancy. The Group's insurance risk is therefore concentrated on longevity and mortality risk. These risks are significantly reduced through the Group's use of external reinsurance arrangements.

b) Interest rate and other market risk

Interest rate risk arises from open positions in fixed and variable rate stock issued by government and corporate bodies that are exposed to general and specific market movements. The Group is exposed to the market movements in interest rates to the extent that the asset value movement is different to the accompanying movement in the value of insurance liabilities.

The Group manages its interest rate risk within an asset liability management (“ALM”) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. The principal technique of the Group’s ALM framework is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to policyholders.

The Group monitors interest rate risk by calculating the mean duration and cash flow profile of the investment portfolio and the liabilities. The mean duration is an indicator of the sensitivity of the assets and insurance liabilities to changes in current interest rates but is not sufficient in isolation. The mean duration of the liabilities is determined by means of projecting expected cash flows from the contracts using best estimates of mortality and voluntary terminations. No future discretionary supplemental benefits are assumed to accrue. The mean duration of the assets is calculated in a consistent manner. Any gap between the mean duration of the assets and the mean duration of the liabilities is minimised by means of buying and selling fixed interest securities of different durations or purchasing interest rate swap derivatives to alter the effective mean duration of the assets.. Periodically the cash flow matching is reviewed and rebalanced.

At 31 December 2012, the mean duration of the assets was 7.74 years (2011: 7.31 years) and the mean duration of the liabilities was 7.82 years (2011: 7.82 years).

The Group has reinsurance arrangements in place which provide for fixed payments to the reinsurer over future periods. In assessing the fair value of this liability, the Directors have used a discount rate derived from current market yields earned on assets held to fund the future cash outflows, adjusted for the risk of default on those assets. No further adjustment to the discount rate to reflect any risk of the Group defaulting on those payments to the reinsurer was deemed appropriate.

c) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Group is exposed to credit risk are exposure to:

- the issuer of corporate bonds;
- counter-parties in derivative contracts;
- reinsurers’ in respect of their share of insurance liabilities; and
- reinsurers in respect of claims already paid.

The Group places limits on its exposures to a single counterparty, or groups of connected counterparties.

With respect to its investment in corporate bonds, the credit rating is derived from the Standard & Poor’s, Moody and Fitch ratings for each individual stock, if two or more ratings are available the second highest rating is used otherwise the single available rating is used. The Group places limits on the exposure to bond issuers with different credit ratings. Credit default swaps are also used to manage exposure to single issuers. Current restrictions do not allow investment in any corporate bond with a rating below ‘BBB’ (or equivalent). Where investments already held are subsequently downgraded, the Directors will review each holding to determine whether to retain that exposure.

At 31 December 2012, £0.5m of collateral (2011: £8.6m) had been pledged to the Group to mitigate the credit risk exposure associated with the derivative assets held at that time.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer, and consequently, if a reinsurer fails to pay a claim, the Group remains liable for the payment to the policyholder. As a result, the Group is exposed to credit risk in relation to the reinsurers' ability to fulfil its obligations to the Group. The creditworthiness of reinsurers is considered by reviewing their financial strength prior to finalisation of any contract and then subsequently at least on an annual basis.
We seek to place new business with reinsurers' with a minimum credit rating of 'A'. A share of in force liabilities were subsequently placed with a reinsurer that subsequently has gone into run-off and therefore no longer maintains a rating. Amounts recoverable from this reinsurer are covered by a trust agreement see note 27.

The reinsurers' share of annuity insurance liabilities is backed by investments deposited back with the Group, or held in trust for the beneficial ownership of the Group. In this way, the Group's exposure to the credit risk relating to the reinsurer is significantly reduced. The investment risk on investments deposited back with the Group, or held in trust for the beneficial ownership of the Group, is borne by the reinsurers.

The following table analyses the credit exposure of the Group by type of asset and includes the credit risk arising out of reinsurance exposures, based on the credit ratings of the reinsurer, as published by Standard & Poors, or an equivalent rating from another recognised rating agency.

				Credit rating		
Group	**AAA**	**AA**	**A**	**BBB**	**Below BBB/ Unrated**	**Total**
At 31 December 2012	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Financial Investments	621,927	220,684	1,036,268	767,118	-	2,645,997
Derivative assets	-	-	-	-	34,907	34,907
Loans backed by mortgages	-	-	-	-	478,097	478,097
Reinsurance assets	-	1,353,220	1,059,331	-	-	2,412,551
Insurance and other receivables	-	-	5,627	-	92,942	98,569
	621,927	**1,573,904**	**2,101,226**	**767,118**	**605,946**	**5,670,121**
At 31 December 2011						
Financial Investments	58,312	243,506	619,391	478,043	-	1,399,252
Derivative assets	-	-	-	-	34,397	34,397
Loans backed by mortgages	-	-	-	-	316,729	316,729
Reinsurance assets	-	1,113,084	141,011	-	98,791	1,352,886
Insurance and other receivables	-	-	7,408	-	3,746	11,154
	58,312	**1,356,590**	**767,810**	**478,043**	**453,663**	**3,114,418**

d) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Partnership Board sets limits on the minimum proportion of highly liquid assets to be available to meet such obligations.

Short term cash requirements are monitored on a daily basis to ensure sufficient funds are available to meet immediate payments. The nature of the Group's business means that, in general, cash flows into the Group (through up-front premium payments) before annuity payments become due. Annuity payments are substantially fixed in nature, and consequently the cash requirements are not subject to excessive uncertainty.

Obligations to fund new equity release loans in the near term are less predictable. The Company holds cash reserves equal to approximately 3 months expected loan funding requirements in order to mitigate this risk.

In accordance with FSA regulations, the Company's assets are reviewed to ensure they are of sufficient amount and of an appropriate currency and term to ensure that the cash inflows from those assets will meet the expected cash outflows from the Company's insurance and other financial liabilities.
In the following table expected cash outflows for:

- net insurance liabilities have been modelled with reference to underlying mortality and longevity assumptions;
- payables arising from reinsurance include interest and payments due under the terms of reinsurance treaties;
- derivative liabilities have been modelled with reference to the yield curves that existed at the balance sheet date and assumed to be held to maturity; and
- subordinated debt is assumed to be repaid in accordance with the terms set out in the loan agreement.

The following table includes insurance and financial liabilities that are exposed to liquidity risk.

Group	Expected cashflows (undiscounted)				
	less than one year	one to five years	five to ten years	more than ten years	Carrying value (discounted)
At 31 December 2012	£000's	£000's	£000's	£000's	£000's
Net insurance liabilities (note 18)	109,716	368,737	354,806	969,613	1,310,747
Payables arising from reinsurance contracts (note 20)	114,153	576,795	619,048	1,496,027	1,728,997
Derivative liabilities (note 23)	8,406	27,856	5,412	11,971	49,767
	232,275	**973,388**	**979,266**	**2,477,611**	**3,089,511**
At 31 December 2011					
Net insurance liabilities (note 18)	82,829	278,044	276,297	797,011	805,651
Payables arising from reinsurance contracts (note 20)	69,498	314,585	325,012	723,626	809,641
Derivative liabilities (note 23)	5,378	20,830	3,062	8,196	33,942
Subordinated debt (note 21)	-	8,000	8,000	-	16,000
	157,705	**621,459**	**612,371**	**1,528,833**	**1,665,234**

e) Property risk

Property risk is the risk that property values do not rise sufficiently to recover the full value of equity release loans made plus accrued interest. The initial loan value is restricted to a maximum "loan to value" ratio that limits the risk exposure for the Company.

Loans backed by mortgages represent little credit risk as the debt is ultimately repayable from the proceeds of the sale of the property on death of the policyholder or on their transfer to long-term care.

29 Available capital resources

The Group manages its capital to ensure that entities within the Group will be able to continue to operate as going concerns, and to ensure that where a subsidiary is subject to regulatory capital requirements, that entity maintains an adequate capital surplus to ensure compliance with those requirements. The Group's capital consists of equity attributable to equity holders of the parent company, and for regulatory purposes, also includes subordinated debt, though the level of debt that can contribute to regulatory capital requirements is subject to certain limits. For the purposes of regulatory capital requirements, certain assets are restricted, or are inadmissible.

One subsidiary, Partnership, is required to comply with minimum capital requirements calculated at the level of its EEA parent company level, as well as its own single entity level. It must also calculate its available capital at the ultimate parent company level, but failure to cover the minimum capital requirement at this level has no consequence for the entity, or the Group. These capital requirements are determined in accordance with the FSA regulations and the EU directives, for insurance and other FSA regulated business. Any changes or release of capital from long-term funds is subject to there being an established surplus shown by an actuarial investigation.

	Note	Group 2012 £000's	Group 2011 £000's
Total Equity		**457,703**	**257,408**
Adjustments in respect of regulatory capital basis:			
Inadmissible intangible assets	**10**	(12,343)	(6,221)
Inadmissible goodwill	**9**	(126,207)	(126,207)
Inadmissible deferred tax asset	**15**	(158)	(147)
Equity and reserves related to non-regulated entities (excluded from regulatory capital calculation), adjusted for inadmissible assets already adjusted above		9,157	3,207
		328,152	128,040
Subordinated debt admissible in regulatory capital calculation		-	12,640
Total available capital resources (regulatory basis)		**328,152**	**140,680**
Group Minimum capital requirement (regulatory basis)		(163,213)	(89,428)
Group surplus against regulatory capital requirement		**164,939**	**51,252**

Movements in Equity are shown in the Consolidated Statement of Changes in Equity.

Throughout the year, each regulated subsidiary has maintained capital resources in excess of the minimum required by the FSA regulations and the EU directives.

30 Investment in subsidiaries

The Company owns 100% of the share capital of Partnership Group Holdings Limited, a holding company registered in England and Wales. At 31 December 2012 the Company carried this holding at £264,056,000 (2011: £152,256,000).

Set out below are the principal operating subsidiary undertakings of Partnership Group Holdings Limited. All of the companies are incorporated in England and Wales. The shares held are voting ordinary equity shares.

Name:	Principal activity:	Holding:
Partnership Life Assurance Company Limited	Life assurance and pension annuities	100.0%
Partnership Home Loans Limited	Provision of Lifetime Mortgage products	100.0%
Partnership Services Limited	Service company	100.0%
Payingforcare Limited	Website	100.0%
PASPV Limited	Investment activity	100.0%
Eldercare Group Limited	Independent financial advisors	62.5%
Gateway Specialist Advice Services Limited	Independent financial advisors	50.0%
Pension Annuity Limited	Website	100.0%

On 9 March 2012, the Group acquired 51 shares in Pension Annuity Limited from Digitalis Retail 1 Limited for a total consideration of £30,000. With this further acquisition the Group became the sole parent of Pension Annuity Limited. The operations of Pension Annuity Limited were discontinued during 2012 and on 29 January 2013, the company was dissolved and removed from the register of companies. The investment in Pension Annuity Limited was fully written down in 2011 and was carried at nil value at 31 December 2011 and 31 December 2012.

Loss arising from discontinued operations	Group 2012 £000's	Group 2011 £000's
Income arising in discontinued operations	-	-
Expenses arising in discontinued operations	(28)	-
Profit on sale of discontinued operation	-	-
Profit before tax arising on discontinued operations	(28)	-
Tax credit on discontinued operations	-	-
Profit after tax arising on discontinued operations	**(28)**	**-**

31 Operating lease commitments

The Group has annual commitments in respect of non-cancellable operating leases as follows:

	Group 2012 £000's	Group 2011 £000's
Leases expiring not later than one year	2,858,618	756
Leases expiring between one and five years	10,488,655	2,945
Leases expiring in more than five years	13,246,200	803
	26,593,473	**4,504**

	2012	2011
Operating leases are in respect of:		
Rental of premises	950	4,492
Rental of equipment	9	12
	959	**4,504**

32 Events after the balance sheet date

On 16 October 2012 the Company registered for Pension Annuity Limited to be struck off. On 29 January 2013, that company was dissolved and removed from the register of companies.

33 Ultimate holding company

The Company's immediate parent company is PAG Finance Limited (registered in Jersey). The parent undertaking of the smallest and largest group of undertakings for which Group consolidated accounts are drawn up is PAG Holdings Limited (registered in Jersey).

The Company's ultimate parent undertakings are the partnerships comprising the Fourth Cinven Fund (the "Cinven Funds"), being funds managed and advised by Cinven Limited, a company incorporated under the laws of England and Wales. Accordingly, the Directors consider the Company's ultimate controlling party to be Cinven Limited, the manager and advisor to the Cinven Funds.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

34 Related parties

a) Trading transactions
Amounts payable by the Company to its subsidiary undertakings at 31 December 2012 (and 31 December 2011) are shown in note 19.

b) Remuneration of key management personnel
The remuneration of the Directors, who are the key management personnel of the Group, for the year, is set out below:

	Group	
	2012	**2011**
	£000's	**£000's**
Aggregate emoluments including benefits	2,243	1,597
	2,243	**1,597**
The aggregate remuneration of the highest paid director was:		
Aggregate emoluments including benefits:	1,336	881
	1,336	**881**

During the year no Executive Directors contributed to the money purchase pension scheme (2011: nil).