ISSUED
25 September 2014

COMPANY PROFILE & FINANCIAL STRENGTH REPORTS

Partnership

AKG

Accessible - Comparative - Independent

Analysis by AKG Actuaries & Consultants Ltd

Introduction

Background

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

This is a FULL report.

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

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

About AKG

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

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

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

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

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

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

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

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

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Group Overview

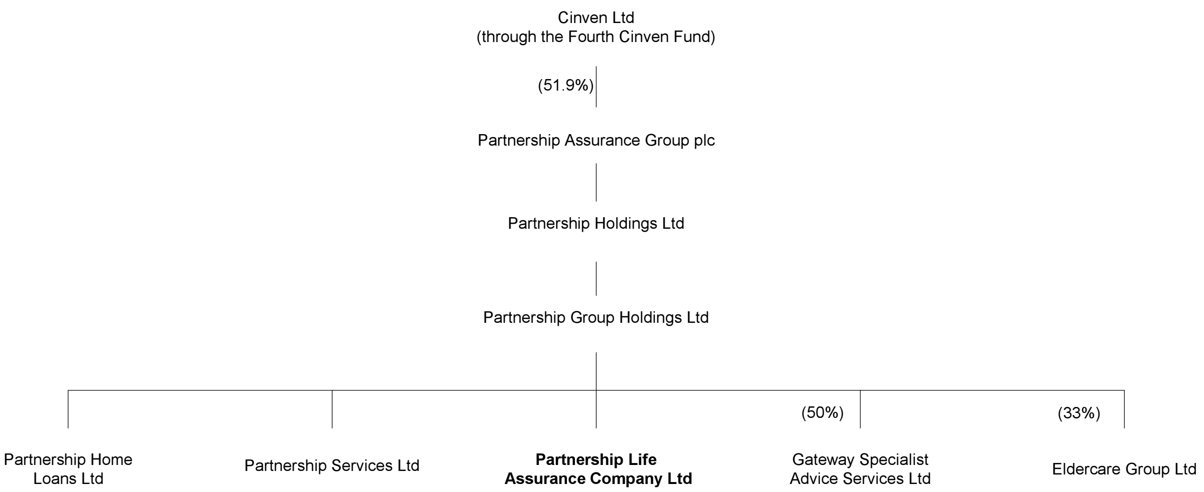
Partnership Life Assurance Company Ltd came into operation at the end of September 2005. It was established by Phoenix Equity Nominees Ltd (Phoenix) using their Phoenix Equity Partners Fund IV. On 30 September 2005, The Pension Annuity Friendly Society Ltd (PAFS) demutualised and its business was transferred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

On 5 August 2008, Cinven Ltd (Cinven) became the principal owner of Partnership taking a 77% ownership, having agreed to buyout the Phoenix Equity Partners' holding. The remaining 23% stayed under the ownership of Partnership's management. Cinven, founded in 1977, is one of Europe's largest private equity firms with currently €30bn invested. In November 2011, Cinven acquired Guardian Financial Services (GFS) from Aegon for £275m. Cinven typically looks to hold its investments from between four to six years.

On 26 February 2013 Partnership Assurance Group plc was incorporated, becoming the holding company of the group, ahead of its listing on the London Stock Exchange on 12 June 2013, a flotation which raised £125m and valued the group at around £1.5bn. Both Cinven, through the Fourth Cinven Fund, and Partnership’s management retain a reduced shareholding in the group, with Cinven retaining overall control.

The Group's aim is to deliver growth in its chosen markets, providing highly differentiated risk based life and health products in the UK, leveraging its niche market position and specific intellectual capital/data. Partnership Home Loans commenced operations in April 2006, launching an impaired life equity release product. Partnership now operates within four areas: Long Term Care, Retirement Income, Protection and Equity Release, having re-entered the equity release market, firstly in June 2010 providing funding for more 2 life, and then by launching its own branded product in June 2011. Partnership has also made selected portfolio purchases (from Hodge Bank and other providers of Equity Release) to take advantage of capital benefits and a favourable environment. In 2007 the group established Annuity Direct Ltd (initially known as Enhanced Financial Solutions Ltd), a specialist intermediary dealing primarily in the retirement annuity market, which was subsequently sold in 2010. It has also acquired stakes in Eldercare Group Ltd, an intermediary specialising in the long term care market, and Gateway Specialist Advice Services Ltd, an annuity referral service. In October 2013, Partnership formally acquired B&CE's annuity portfolio, which it had previously accepted via reinsurance.

Corporate Structure (simplified)



Ratings

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

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Partnership Life Assurance Company Ltd

Corporate Data

Company Type	Life Insurer
Ownership	Fourth Cinven Fund, managed by Cinven Ltd (51.9%)
Open to New Business?	Yes
Year Established	2005
Head Office	Heron Tower 110 Bishopsgate London EC2N 4AY
Tel:	0845 108 7240
Website	www.partnership.co.uk

Key Personnel

Chairman	Dr C Gibson-Smith
Chief Executive Officer	S J Groves
Chief Finance Officer	D Richardson
Chief Operating Officer	J A Kennedy
Managing Director, International	A M Dearsley
Managing Director, Retirement	A Megson
Managing Director, Equity Release	G M Hosty
Chief Risk Officer	K Purves
Chief Investment Officer	A Veys
Director of Corporate Affairs	J Boyd
Actuarial Function Holder	A J M Chamberlain

Company Background

Partnership Life Assurance Company Ltd was established in October 2005 to receive the business of the Pension Annuity Friendly Society (PAFS) following its demutualisation, the first ever by a UK Friendly Society. PAFS was founded in 1995 to provide financial services products for people with non-standard medical requirements. The Anderton Mortality Tables were constructed specifically for PAFS to assess the anticipated life expectancy for individuals with medical conditions. These were replaced with the Enhanced Mortality Tables (EMT) in 2004. Partnership is now recognised as one of the leading providers of retirement and care annuities for people with health conditions. In October 2013, the company acquired B&CE's annuity portfolio.

Overall Financial Strength

B

2008 saw the company change ownership, from Phoenix Equity Partners to Cinven Ltd. 2008 also saw a capital injection of £9.8m. There were also further drawdowns of its £16m subordinated debt arrangement with Lloyds Banking Group in 2008 and 2009 - at which stage it was fully drawn down. 2012 saw capital injections totalling £111.8m from funds raised partly by Cinven and partly by Lloyds Banking Group. This enabled the company to repay the subordinated debt and also, along with retained profits, substantially boost its solvency coverages. The solvency position improved again in 2013 due to retained earnings, at which point, its economic capital coverage was 159% of its capital requirement.

This healthy position was somewhat overshadowed by the March 2014 Budget statement with its significant implications for the decumulation market and the role of annuities within it; and resulting in huge share price falls for annuity providers. Time will tell how successful the company has been in reacting to the strategic challenge that this presents.

Reinsurance

Approach

Growth in business, coupled with capital injections has seen the company gradually increase its retention. At 31 December 2013, 14 reinsurance treaties were in force, 5 being open to new business. 2013 saw £733.8m paid in reinsurance premiums [2012: £554.6m] or 63% of gross premiums [2012: 38%]. 70% of all medically underwritten impaired annuities written after 1 April 2012 is reinsured to Pacific Life Re (premiums of £603.3m paid and reserves of £883.0m ceded in 2013) as is 85% of all medically underwritten smoker annuities written after 3 February 2008 (premiums of £61.5m and reserves of £224.1m) and 70% of all medically underwritten impaired defined benefit scheme annuities (premiums of £43.1m and reserves of £37.9m). Hannover Re reinsures 42.5% of all medically underwritten care annuities written after 1 July 2009 (premiums of £23.6m and reserves of £76.2m). The largest closed annuity treaties are with Hannover Re in respect of retirement annuity business for medically underwritten impaired retirement annuities written after 31 March 2008 and closed 30 June 2011 (where Partnership retains 15% of the longevity risk and 100% of the investment risk - reserves of £708.5m and premiums of £0.3m) and medically underwritten impaired annuities written after 30 June 2011 and closed 31 March 2012 (where Partnership retains 30% of the longevity risk and 100% of the investment risk - nil premiums and reserves of £273.9m). Protection business written before 1 February 2009 is reinsured to two companies in the RGA group with 10% of the first £500k sum assured retained. Protection business written after 31 January 2009 is reinsured to GenRe with the company retaining 35% of the first £214,286 (i.e. a max of £75,000). The reinsurance with Imagine Re was recaptured in 2012.

Analysis of Reserves	2011 £000's	2012 £000's	2013 £000's
Gross reserves	2,158,537	3,723,298	4,347,588
Reinsurance ceded - external	1,352,887	2,412,552	2,840,749
Reinsurance ceded - internal	0	0	0
Net mathematical reserves	805,651	1,310,746	1,506,839

Non Profit Business

General

The company's business is entirely non-profit in nature with the vast majority of reserves relating to impaired annuity and long term care business (gross reserves of £3.9bn and £189m respectively at the end of 2013) although there is a small amount of term assurance and income protection. The gross reserves of £4.2bn at the end of 2013 were split £243m UK Life, £3.9bn UK Pensions and £18k Overseas (Long Term Care written in France and Germany).

Non Profit Reserves	2011 £000's	2012 £000's	2013 £000's
UK Life	106,860	141,592	132,449
UK Pensions	668,584	1,130,003	1,307,781
Overseas	47	47	18
Total net NP reserves	775,491	1,271,642	1,440,248

Non Profit Financial Strength ★★★★

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

Unit Linked Business

Approach
A small amount of annuities are written on an index linked basis. As at 31 December 2013, this amounted to gross reserves of £170m and net reserves of £67m.

Linked Reserves	**2011**	**2012**	**2013**
	£000's	**£000's**	**£000's**
UK Life	14,746	18,801	21,031
UK Pensions	15,414	20,303	45,559
Overseas	0	0	0
Total net linked reserves	30,160	39,104	66,590

Unit Linked Financial Strength ★★★★
The small amount of index linked business written by the company is considered by AKG to have the same level of financial strength as the company's non profit business.

With Profits Business

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

Partnership Life Assurance Company Ltd

Key Financial Data (for y/e: 31/12/13)

Long Term Business Admissible Assets	2011 £000's	2012 £000's	2013 £000's
Fixed Interest	1,373,493	2,612,483	2,926,936
Equities	0	0	0
Property	0	0	0
Linked	30,160	39,104	66,590
Other	369,858	976,108	931,206
Total Assets	1,773,511	3,627,695	3,924,732

Total long term asset increased by 8% in 2013. There is a very high proportion of fixed interest assets, reflecting the policy of closely matching liability cashflows. Other assets include £840m of equity release mortgages and £26m of derivatives. Linked assets are held to match index linked annuity liabilities.

LT Capital Resources	2011 £000's	2012 £000's	2013 £000's
Core tier one capital	128,822	329,121	415,503
Tier one waivers	0	0	0
Other tier one capital	0	0	0
Tier one deductions	-2,333	-2,332	-2,332
Total tier one capital	126,489	326,789	413,171
Tier two capital	12,640	0	0
Adjustments and deductions	0	0	0
Total Capital Resources	139,129	326,789	413,171
CR outside the fund	62,415	163,638	221,718

Total capital resources increased by 26% in 2013 due to retained profits of £86.4m. The subordinated debt (tier two capital) arrangement with Bank of Scotland, which was becoming increasingly capital inefficient, was repaid in 2012.

LT Free Assets	2011 £000's	2012 £000's	2013 £000's
Available Capital Resources	139,129	326,789	413,171
Capital Resources Req't (CRR)	89,328	163,113	191,416
Free Assets (Published)	49,800	163,676	221,755
Financial Engineering	0	0	0
Free Assets (Exc Fin Eng)	49,800	163,676	221,755

LT Free Asset Ratios	2011 %	2012 %	2013 %
FAR (Published)	2.8	4.5	5.7
FAR (Exc Fin Eng)	2.8	4.5	5.7

LT CRR Coverage Ratios	2011 %	2012 %	2013 %
CRRCR (Published)	155.8	200.3	215.8
CRRCR (Exc Fin Eng)	155.8	200.3	215.8

Free assets, which had more than trebled in 2012, increased by 35% in 2013. The CRR coverage also increased, continuing to exceed both the 120% target agreed with the PRA and the 125% minimum target set by management.

Long Term Business Liabilities & Margins	2011 £000's	2012 £000's	2013 £000's
Non Linked Non Profit	775,491	1,271,642	1,440,248
Non Linked With Profits	0	0	0
Accum'lg With Profits	0	0	0
Linked	30,160	39,104	66,590
Surplus c/f	56,303	142,739	171,041
Other liabilities	891,146	2,153,798	2,226,440
Investment Reserves	20,411	20,412	20,412
Total Liabilities/Margins	1,773,511	3,627,695	3,924,732

The company has a credit default margin for its corporate bond portfolio of 47% of the spread of the yield on corporate bonds to gilts. It has not experienced any defaults, however. Other liabilities included £2.2bn of reinsured annuities deposited back. The table above excludes reinsurance deposits, which amounted to £2.8bn as at 31 December 2013.

Key Revenue Items	2011 £000's	2012 £000's	2013 £000's
INCOME			
Premiums	491,460	913,388	425,712
Investment Income	68,222	52,771	62,338
Investment Increase	18,311	235,015	74,330
EXPENDITURE			
Commissions	23,182	34,049	11,367
Policy claims	53,607	85,192	115,849
Expenses	51,006	77,505	104,046
Transfer to P&L	15,000	0	84,000
Increase in fund	387,855	591,531	224,395

The long term fund continued to grow. Gross premiums reduced by 21% in 2013 to £1,160m, reflecting lower new business volumes. Increased reinsurance, meant that net premiums reduced by 53% to £426m. Claims primarily comprise annuity payments and increased as expected reflecting the growing block of business. Commissions reduced by 67% whilst expenses increased by 34%. There was a transfer of £84m from the Long Term Fund [2012: nil].

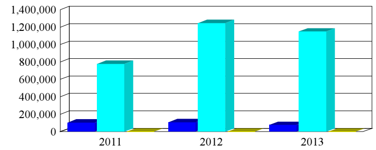
Expense Ratios	2011	2012	2013
New business (% APE)	72.8	72.0	75.8
Renewal (% reg premiums)	n/a	n/a	n/a
Renewal (% p.a. of mean fund)	0.67	0.51	0.59

Overall expenses and commissions increased by 3% in 2013. Within this initial costs reduced by 5% to £93.1m, primarily due to the 67% reduction in commissions, whilst other costs, impacted by one off costs of £13.5m (more than double the previous year), increased by 61% to £22.3m. These movements include the impact of the RDR, reduced new business volumes, increased staff numbers (average staff numbers in the group over the year were 539 [2012: 418]) and the costs associated with the implementation of Solvency II. The new business expense ratio increased in 2013 as new business volumes reduced by more than the associated expenses. Similarly the renewal expense ratio, as the long term fund increased by less than the associated expenses.

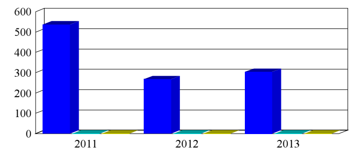
New Business Data (for y/e: 31/12/13)

		Single £000's	Regular £000's
Investment			
Bonds	With Profits	0	0
	Unitised WP	0	0
	Unit Linked	0	0
Endowment	With Profits	0	0
	Unitised WP	0	0
	Unit Linked	0	0
Guaranteed Bonds		0	0
ISA / tax exempt		0	0
Annuities		9,581	0
Miscellaneous		15,026	0
Total Investment		**24,607**	**0**
Protection			
Whole Life	With Profits	0	0
	Unitised WP	0	0
	Unit Linked	0	0
Term	Ordinary	55	304
	Pension	0	0
IP	Individual	0	0
Critical Illness		0	0
Long Term Care		51,823	0
Miscellaneous		0	0
Total Protection		**51,878**	**304**
Pensions			
Individual	With Profits	0	0
	Unitised WP	0	0
	Unit Linked	0	0
CPA		29,124	0
CPA (Impaired Life)		1,036,845	0
Bulk Transfer Annuities		83,240	0
Miscellaneous		0	0
Total Pensions		**1,149,209**	**0**
Group Business			
Pension		0	0
Life		0	0
IP		0	0
Critical Illness		0	0
Miscellaneous		0	0
Total Group Business		**0**	**0**
TOTAL DIRECT BUSINESS		**1,225,694**	**304**
Overseas Direct *(incl above)*		0	0
External Reins *(excl above)*		0	0
Intra-Group Reins *(excl above)*		0	0
Industrial Branch *(incl above)*		0	0

New Single Premiums	2011 £000's	2012 £000's	2013 £000's
UK Life	104,151	107,639	76,484
UK Pensions	778,966	1,245,712	1,149,209
Overseas	0	0	0
Total (Direct + External Reins)	883,117	1,353,350	1,225,694
Growth Rate	51.6%	53.2%	-9.4%
Reins Accepted (Intra-Group)	0	0	0



New Regular Premiums	2011 £000's	2012 £000's	2013 £000's
UK Life	537	268	304
UK Pensions	0	0	0
Overseas	0	0	0
Total (Direct + External Reins)	537	268	304
Growth Rate	-9.9%	-50.1%	13.4%
Reins Accepted (Intra-Group)	0	0	0



New business APE fell by 9.4% in 2013, albeit the last quarter of 2012 was boosted by people choosing to take out annuities ahead of the implementation of the EU Gender Directive and accelerated sales ahead of the introduction of the RDR. Within this, Partnership increased its overall market share.

Sales of retirement annuities, which included £84m of defined buy-in/buy-out business for the first time, reduced by 1% in 2013 to £1,160m [2012: £1,168m]. Partnership states that its share of the non-standard annuity market was 31% in 2013 [2012: 26%].

Care annuity sales, a market which Partnership continues to dominate, reduced by 30% in 2013, amounting to £66m [2012: £94m].

Whilst protection sales, £304k in 2013 [2012: £268k], increased by 13%, they remained a small component in new business terms.

Elsewhere in the group, having re-entered the equity release market in 2010, Partnership continues to source equity release loans through a combination of newly originated loans and bulk purchases. Newly originated loans in 2013 totalled £129m [2012: £87m]. In the second half of the year the group completed two bulk acquisitions, acquiring loans with a value of £287m [2012: £62m]. The level of equity release mortgage assets as a proportion of total assets under management at 31 December 2013 increased to 21% [2012: 15%]. At the end of 2013, the group had total loans outstanding of £840m [2012: £478m].

Distribution

Method
The main focus for distribution is the intermediary market and Partnership has been widening its base from a core market of national regional specialists and wealth management intermediaries to add an increased focus on networks larger distributors. As well as relationships with specialist distributors such as Key Retirement Solutions and Age Partnership, the company has secured key panel positions and has established 5 year agreements with Sesame Bankhall, Openwork, Tenet, SimplyBiz, 360, Positive Solutions and Paradigm and taken a 50% stake in Gateway, a specialist advice centre within Sesame. Additionally, Partnership sees corporate partnerships as an important part of its distribution strategy. It has arrangements with Lloyds Banking Group to provide Long Term Care Insurance and Standard Life and B&CE to provide enhanced annuities to their vesting pension customers with medical conditions. Partnership has developed both an online annuity proposition and a simplified underwriting proposition, leveraging its intellectual property which potentially proves difficult to replicate. The proposition, PA Lite, is focused on the small annuity funds in all segments but has a specific application in the EBC and Corporate Partner space. Further corporate partnerships are under negotiation with a dedicated team focused on EBCs.

Distribution Split	Regular Premium %	Single Premium %
Intermediary	100.0	100.0

Image and Strategy ★★★
Partnership is now an established specialist provider, having successfully enhanced and grown the market presence previously occupied by PAFS. Its strategy is to use its Intellectual Property "to develop and bring to market insurance products that provide enhanced financial benefits, or protection cover, for customers with medical or lifestyle factors that lead to a reduced life expectancy".

Over recent years Partnership has grown its brand product offering and distribution footprint in the intermediary market, whilst at the same time looking to take this to a wider audience with a diversification of its product range into areas, such as Defined Benefit Scheme de-risking, which remain true to its niche focus.

Following the March 2014 Budget, the company has a clear imperative to adjust and develop its proposition in the light of implications for annuity volumes. Whilst it has also begun to adjust its cost base to reflect reduced annuity new business volumes in the short to medium term, its ability to prosper as an independent entity in the long term, will be determined by its strategical proposition reaction to this changed landscape.

In 2011, the company led the Sunday Times "Top Track 250" of leading mid-market private companies. This illustrated the organisation's increasing reputation as a successful and growing provider, which alongside recognised development potential, contributed to a successful IPO in June 2013. Some negative publicity occurred in September 2013, however, with the announcement of an investigation by the FCA into an existing distribution agreement.

Products/Proposition

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

Products fall into three categories: Retirement Annuities, Long Term Care and Protection - all with a focus on the impaired life market. Products are designed with financial advisers aiming to meet their clients' needs as closely as possible. A lesser impaired smoker annuity was launched early in 2008. The company also introduced a money back guarantee, for the first 6 months, on all immediate funding LTC plans. In 2009 Partnership added a feature to its Immediate Needs Annuity whereby payment can be deferred until the property is sold. In 2010, Partnership launched PA Lite (an underwritten retirement annuity that uses a simplified electronic underwriting process) and Smoker Plus (which allows other lifestyle conditions to be considered). Recent developments also include a facility to annuitise GMPs, a derisking proposition for Pension Scheme Trustees and an OMO for Section 32 Bonds. The company completed its first Total Pension Income Exchange (TPIE) in the first half of 2012.

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

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

2013 saw the company enter the buy-in/buy-out Defined Benefit pension scheme market. Significant proposition development in respect of changes to the decumulation environment is anticipated in the run up to April 2015 and thereafter.

Products Currently Marketed

Protection Products
- Immediate Needs Annuities
- Term Assurance
- Whole of Life
- Family Income Benefit
- Gift Inter Vivos

Pension Products
- Impaired Life Annuities
- Smoker Annuities
- Bulk Transfer Annuities

Product Awards and Benchmarks
Partnership was voted Investment Life & Pensions Moneyfacts "Best Enhanced Annuity Provider" for the fourth year in a row in 2013.

Service

★★★★★

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

As the business has grown, the operation has invested in increased staffing. This process was ongoing as the operation focused on its delivery of scalability but has since been reversed as the organisation adjusts to lower new business flows in the wake of the March 2014 Budget. Recent years have also seen some redesign in processes and increased use of resource forecasting and management information reporting to facilitate higher volumes of new business. The company's IT systems, inherited from PAFS, are all developed and maintained in-house.

2013 saw a move to a new London head office in the Heron Tower, whilst maintaining Redhill as the primary administration centre and a second London base to deliver robust BCP.

e-Business
Partnership has invested significantly in its e-capability and its new operational infrastructure has been designed with e-business in mind. In January 2008 it launched its first ever real time quotation facility on the Exchange, and has since extended this functionality, providing 24/7 quotation functionality to intermediaries.

Having launched an online enhanced annuity solution for small annuities (PA Lite), Partnership expects to further increase its e-footprint in response to intermediary demand.

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

The company featured for the first time in the annual Financial Adviser Service Awards in 2006 when it was awarded 5 stars (retained in 2007). The company was awarded 4 stars in 2008 and 2009, returning to 5 stars in 2010, a position which it has maintained since. It has also won a number of other awards and takes part in quarterly Money Marketing and ORC benchmarking studies, with strong results being seen in Q2 2014.

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

Investment

Overall Approach
Whilst funds are substantially investment grade corporate bonds, with some UK gilts, matching the various insurance liabilities, 2013 saw the purchase of £416m [2012: £148m] of equity release mortgages. The company also invests a very small amount in Commodity Trade Finance and is investigating other alternative assets, which offer the potential of superior risk-adjusted returns.

Insight, now owned by BNY Mellon, was appointed as asset manager in 2009, replacing Conning Asset Management who were appointed asset manager in 2005 to replace Aberdeen Asset Managers, who had managed the funds on behalf of PAFS. There is a trust arrangement with Pacific Life Re, with assets held in a segregated account with Bank of New York and managed by Schroders.

Funds Under Management
Long term business assets increased by 8% over the year to £3.9bn as at 31 December 2013 [2012: £3.6bn]. Group assets under management increased by 30% to £4.1bn. The total value of the current investments that Cinven have is €30bn. This includes Cinven's Fourth Fund, currently €6.5bn, which includes Partnership. A Fifth Fund raised €5.3bn.

Annual Review

★★★★

On balance, 2013 was a good year for Partnership.

On the positive side, Partnership successfully listed on the London Stock Exchange with an initial capitalisation of £1.5bn and with the Fourth Cinven Fund retaining a 52% shareholding. The life company remained well capitalised and continued to trade profitably, profits before tax increasing by 27% from £105.6m to £134.4m and a dividend of £25m [2012: nil] being paid. Whilst new business volumes decreased, the company increased its market share and assets under management also grew. Partnership remained the leading provider of long term care in new business terms and grew its share of the non standard annuity market to 31%. Partnership also increased its presence in the Equity Release market. Headcount again increased commensurate with the growth of the business at that time. Partnership continued to win awards for its service and products.

Against this, the FCA investigation in relation to its distribution services agreement with one advisory firm remains ongoing, but Partnership states that it had reviewed its agreements to ensure that they were compliant under the new rules. Partnership is now also having to address the ramifications of the Budget changes and as part of this has announced a significant reduction in its workforce.

The Cinven Fourth Fund's portfolio companies have, on average, grown at a compound annual growth rate of 7.3% for revenues and 7.9% for profits, since acquisition.

2014 is undeniably a year of significant challenge for Partnership; dominated by the prospect of radically different decumulation landscape from 2015, which has seen a fall in share price and a scaling back of operations. Further strategic adjustment to this new reality will be pivotal.

In its 2014 Half Year Results, Partnership announced significant disruption to its core markets, together with a like for like fall in new business premiums and operating profits. It also provided an update on international development in the US.

Financial Strength Ratings - Introduction

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

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

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

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

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

With Profits Financial Strength Rating

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

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

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

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

Non Profit Financial Strength Rating

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

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

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

Unit Linked Financial Strength Rating

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

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

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

Overall Financial Strength Rating

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

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

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

Supporting Ratings - Introduction

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

Service Rating

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

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

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

Image and Strategy Rating

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

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

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

Annual Review Rating

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

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

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

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

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