ISSUED
9 November 2015

COMPANY PROFILE & FINANCIAL STRENGTH

REPORTS

Partnership

AKG

Accessible - Comparative - Independent

Analysis by AKG Financial Analytics Ltd

Background

AKG's Company Profile & Financial Strength Reports are designed to meet the information needs of advisers in assessing the relative strengths of onshore UK life companies, friendly societies and similar 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 the supporting explanatory information which is available on-line at www.akg.co.uk .

About AKG

AKG is an independent organisation. Originally established as an actuarial consultancy AKG has, for over 20 years, specialised in the provision of assessment, ratings, information and market assistance to the financial services industry.

As the market has evolved over this period, the range of entities considered by AKG has expanded. Consequently AKG has brought additional skill sets into its operations. This has meant the inclusion of accounting, corporate finance, IT and market intelligence experience, alongside actuarial resources, to deliver an expanded professional capability.

Today AKG's core purpose is in the provision of financial analysis and review services and in the delivery of key value added financial information to support the wider financial services sector and its customers.

Regular Reports

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

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

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

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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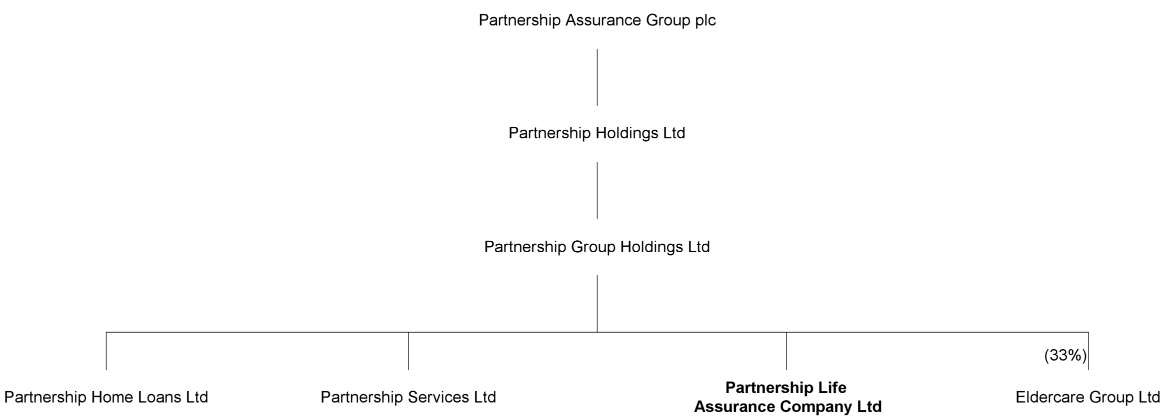
Group Overview

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 €11.5bn of assets under management. In November 2011, Cinven acquired Guardian Financial Services (to be sold to Admin Re) 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 a significant holding.

Partnership aims to deliver growth in its chosen markets: Retirement Income, Bulk Annuities, Long Term Care, Protection and Equity Release, providing highly differentiated risk based life and health products in the UK, leveraging its niche market position and specific intellectual captial/data. It also has a 33.33% stake in Eldercare Group Ltd, an intermediary specialising in the long term care market. It disposed of its share of its joint venture Gateway Specialist Advice Services Ltd, an annuity referral service, to Sesame Ltd in 2014, having written down its value to £nil.

In August 2015, the Boards of Just Retirement Group plc and Partnership Assurance Group plc announced an all share merger, to create JRP Group plc. The merger is expected to complete in 2015 and to result in Just Retirement and Partnership shareholders owning 60% and 40% respectively of JRP Group. Partnership Assurance shareholders will be entitled to 0.834 new Just Retirement shares for each Partnership Assurance share held. In addition Just Retirement and Partnership Assurance intend to raise £150m of additional capital to cover integration and transaction costs, provide further comfort for Solvency II and to support future growth.

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	▤	★★★★	★★★★	★★★★★	★★★	★★★★

Corporate Data

Company Type	Life Insurer
Ownership	Partnership Assurance Group plc
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 S 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
Executive Director to the CEO	K Purves
Chief Investment Officer	A Veys
Actuarial Function Holder/Interim CRO	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. December 2015 is expected to see the all share merger of Partnership Group plc and Just Retirement plc, creating JRP Group plc.

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.

A healthy solvency 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. Further, solvency reduced in 2014, primarily due to the fall in risk free rates, despite capital injections totalling £23m, but has since been bolstered by a £100m 10 year bond issued to Cinven. Whilst not without its own challenges, a successful merger and capital raising with Just Retirement will bring advantages in terms of strategic development as well as providing significant comfort over long term prospects.

Reinsurance

Approach

The company has gradually increased its retention as it has grown. At 31 December 2014, 15 reinsurance treaties were in force, 4 being open to new business. 2014 saw £308.0m paid in reinsurance premiums [2013: £733.8m] or 40% of gross premiums [2013: 63%].

The open treaties are: Hannover Re reinsures 42.5% of all medically underwritten care annuities written after 1 July 2009 (premiums of £26.3m and reserves of £84.2m), Pacific Life Re reinsures 85% of all medically underwritten smoker annuities written after 21 January 2008 (premiums of £16.9m and reserves of £247.1m), Pacific Life Re reinsures 50% of all medically underwritten impaired annuities written after 21 May 2014 (premiums of £69.8m and reserves of £71.4m) and Gen Re reinsures protection business written after 26 January 2009 with Partnership retaining 35% of the first £214,286 (i.e. a max of £75,000) (premiums of £0.7m and reserves of £1.8m). The most significant closed treaties are: Hannover Re reinsures 85% of all medically underwritten impaired retirement annuities written after 31 March 2008 and closed 30 June 2011 (reserves of £740.2m), 70% of all medically underwritten impaired annuities written after 30 June 2011 and closed 31 March 2012 (reserves of £289.0m) and impaired annuities written as follows - 47.5% co-reinsured with Partner Re (also 47.5%) up to 31 December 1999, 95% between 1 January 2002 and 31 July 2002, 85% between 1 August 2002 and 31 December 2003 and 85% between 1 November 2006 and 31 March 2008 (reserves of £196.2m), whilst Pacific Life Re reinsures 80% of all medically underwritten lifestyle annuities written between 1 December 2008 and 31 December 2012 (reserves of £504.1m) and 70% of all medically underwritten impaired annuities written between 1 April 2012 and 21 May 2014 (reserves of £1.1bn).

Analysis of Reserves	**2012 £000's**	**2013 £000's**	**2014 £000's**
Gross reserves	3,723,298	4,347,588	5,237,118
Reinsurance ceded - external	2,412,552	2,840,749	3,246,008
Reinsurance ceded - internal	0	0	0
Net mathematical reserves	1,310,746	1,506,839	1,991,110

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 £4.6bn and £192m respectively at the end of 2014) although there is a small amount of term assurance and income protection. The gross reserves of £4.8bn at the end of 2014 were split £254m UK Life, £4.6bn UK Pensions and £18k Overseas (Long Term Care written in France and Germany).

Non Profit Reserves	**2012 £000's**	**2013 £000's**	**2014 £000's**
UK Life	141,592	132,449	135,332
UK Pensions	1,130,003	1,307,781	1,548,321
Overseas	47	18	18
Total net NP reserves	1,271,642	1,440,248	1,683,671

Non Profit Financial Strength (★★★★)

Solvency levels reduced in 2014, but the company has acted to redress this. It also maintains a diversified range of reinsurers that are periodically reviewed.

Unit Linked Business

Approach
A relatively small amount of annuities are written on an index linked basis, although this increased in 2014 due to bulk transfers (total new business premiums of £225m). As at 31 December 2014, there were total index linked gross reserves of £429m and net reserves of £307m.

Linked Reserves	2012 £000's	2013 £000's	2014 £000's
UK Life	18,801	21,031	23,368
UK Pensions	20,303	45,559	284,072
Overseas	0	0	0
Total net linked reserves	39,104	66,590	307,440

Unit Linked Financial Strength ★★★★
The relatively small, albeit increased in 2014, 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: 31/12/14)

Long Term Business Admissible Assets	2012 £000's	2013 £000's	2014 £000's
Fixed Interest	2,612,483	2,926,936	3,100,223
Equities	0	0	0
Property	0	0	0
Linked	39,104	66,590	321,038
Other	976,108	931,206	1,347,435
Total Assets	3,627,695	3,924,732	4,768,696

Total long term assets increased by 22% in 2014. There is a very high proportion of fixed interest assets, reflecting the policy of closely matching liability cashflows. Other assets include £1.2bn of equity release mortgages and £11m of derivatives. Linked assets are held to match index linked annuity liabilities.

LT Capital Resources	2012 £000's	2013 £000's	2014 £000's
Core tier one capital	329,121	415,503	451,401
Tier one waivers	0	0	0
Other tier one capital	0	0	0
Tier one deductions	-2,332	-2,332	-2,332
Total tier one capital	326,789	413,171	449,069
Tier two capital	0	0	0
Adjustments and deductions	0	0	0
Total Capital Resources	326,789	413,171	449,069
CR outside the fund	163,638	221,718	254,715

Total capital resources increased by 9% in 2014 due to retained profits and capital contributions. The subordinated debt (tier two capital) arrangement with Bank of Scotland, which was becoming increasingly capital inefficient, was repaid in 2012.

LT Free Assets	2012 £000's	2013 £000's	2014 £000's
Available Capital Resources	326,789	413,171	449,069
Capital Resources Req't (CRR)	163,113	191,416	224,027
Free Assets (Published)	163,676	221,755	225,043
Financial Engineering	0	0	0
Free Assets (Exc Fin Eng)	163,676	221,755	225,043

LT Free Asset Ratios	2012 %	2013 %	2014 %
FAR (Published)	4.5	5.7	4.7
FAR (Exc Fin Eng)	4.5	5.7	4.7

LT CRR Coverage Ratios	2012 %	2013 %	2014 %
CRRCR (Published)	200.3	215.8	200.5
CRRCR (Exc Fin Eng)	200.3	215.8	200.5

Free assets increased by 1% in 2014, a much lower rate than in previous years. The CRR increased by a greater amount (17%), which led to a reduced coverage but the CRR coverage ratio continued to exceed both the 120% target agreed with the PRA and the 125% minimum target set by management.

Long Term Business Liabilities & Margins	2012 £000's	2013 £000's	2014 £000's
Non Linked Non Profit	1,271,642	1,440,248	1,683,671
Non Linked With Profits	0	0	0
Accum'lg With Profits	0	0	0
Linked	39,104	66,590	307,440
Surplus c/f	142,739	171,041	173,942
Other liabilities	2,153,798	2,226,440	2,583,232
Investment Reserves	20,412	20,412	20,412
Total Liabilities/Margins	3,627,695	3,924,732	4,768,696

The company has a credit default margin for its corporate bond portfolio of 42% of the spread of the yield on corporate bonds to gilts. It has not experienced any defaults, however. Other liabilities included £2.5bn of reinsured annuities deposited back. The table above excludes reinsurance deposits, which amounted to £3.2bn as at 31 December 2014.

Key Revenue Items	2012 £000's	2013 £000's	2014 £000's
INCOME			
Premiums	913,388	425,712	452,679
Investment Income	52,771	62,338	65,263
Investment Increase	235,015	74,330	218,821
EXPENDITURE			
Commissions	34,049	11,367	3,985
Policy claims	85,192	115,849	134,613
Expenses	77,505	104,046	110,912
Transfer to P&L	0	84,000	0
Increase in fund	591,531	224,395	487,172

The long term fund continued to grow. Gross premiums reduced by 34% in 2014 to £761m, reflecting lower new business volumes. Reduced reinsurance meant that net premiums increased by 6% to £453m. Claims primarily comprise annuity payments and increased as expected reflecting the growing block of business. Commissions reduced by 65% whilst expenses increased by 7%. There was no transfer from the Long Term Fund [2013: £84m].

Expense Ratios	2012	2013	2014
New business (% APE)	72.0	75.8	102.5
Renewal (% reg premiums)	n/a	n/a	n/a
Renewal (% p.a. of mean fund)	0.51	0.59	0.81

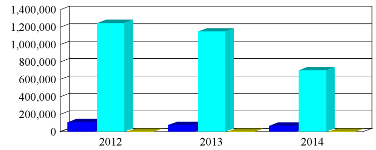
Overall expenses and commissions were at a similar level in 2014. Within this initial costs reduced by 15% to £79.6m, including a 65% reduction in commissions, whilst other costs, impacted by one off costs of £26.7m (double the previous year), increased by 58% to £35.3m. The new business expense ratio increased significantly in 2014 as new business volumes reduced by more than the associated expenses. Similarly the renewal expense ratio increased as the long term fund increased by less than the associated expenses.

Partnership Life Assurance Company Ltd

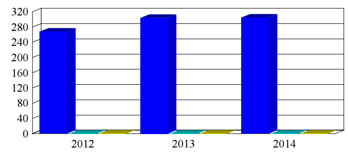
New Business Data (for y/e: 31/12/14)

		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		60,226	0
Miscellaneous		8,275	0
Total Investment		**68,501**	**0**
Protection			
Whole Life	With Profits	0	0
	Unitised WP	0	0
	Unit Linked	0	0
Term	Ordinary	0	181
	Pension	0	0
IP	Individual	0	0
Critical Illness		0	0
Long Term Care		2	124
Miscellaneous		0	0
Total Protection		**2**	**305**
Pensions			
Individual	With Profits	0	0
	Unitised WP	0	0
	Unit Linked	0	0
CPA		20,831	0
CPA (Impaired Life)		437,915	0
Bulk Transfer Annuities		245,900	0
Miscellaneous		0	0
Total Pensions		**704,646**	**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		**773,149**	**305**
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	**2012 £000's**	**2013 £000's**	**2014 £000's**
UK Life	107,639	76,484	68,503
UK Pensions	1,245,712	1,149,209	704,646
Overseas	0	0	0
Total (Direct + External Reins)	1,353,350	1,225,694	773,150
Growth Rate	53.2%	-9.4%	-36.9%
Reins Accepted (Intra-Group)	0	0	0



New Regular Premiums	**2012 £000's**	**2013 £000's**	**2014 £000's**
UK Life	268	304	305
UK Pensions	0	0	0
Overseas	0	0	0
Total (Direct + External Reins)	268	304	305
Growth Rate	-50.1%	13.4%	0.3%
Reins Accepted (Intra-Group)	0	0	0



The March 2014 Budget had a significant impact on sales, with lower new business volumes from the 2nd quarter of 2014. As a consequnce, new business APE fell by 37%.

Sales of retirement annuities reduced by 39% from £1.1bn to £705m. Within this, sales of defined buy-in/buy-out business launched in 2013 and not impacted by the Budget, increased from £83m to £246m, including the completion at £206m of the UK's largest medically underwritten defined benefit de-risking transaction in December 2014.

Care annuity sales, a market which Partnership continues to dominate, increased by 15% in 2014, amounting to £76m [2013: £66m].

Regular premium protection sales, also unaffected by the Budget, were flat at £305k [2013: £304k] and 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 2014 totalled £171m [2013: £129m]. In December 2014 the group completed a bulk acquisition, acquiring loans with a value of £61m [2013: £287m]. The level of equity release mortgage assets as a proportion of total assets under management at 31 December 2014 increased to 25% [2013: 21%]. At the end of 2014, the group had total loans outstanding of £1.2bn [2013: £840m].

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 and 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 agreements with firms such as Bankhall, Openwork, Tenet, SimplyBiz, 360 services, Intrinsic and Paradigm and had taken a 50% stake, since disposed of, in Gateway, a specialist advice centre within the former Sesame network. Additionally, Partnership sees corporate partnerships as an important part of its distribution strategy. It has arrangements with St James's Place 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 company also has relationships with all major Employee Benefit Consultancies (EBCs) for its growing activity in the bulk buy out/buy in market.

Distribution Split	Regular Premium %	Single Premium %
Intermediary	100.0	100.0

Image and Strategy ★★★

Partnership has become an established specialist provider, having successfully grown the nascent market previously occupied by PAFS. Its strategy being 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.

Since the March 2014 Budget, the company has had a clear imperative to adjust and develop its proposition in the light of implications for annuity volumes. It has adjusted its cost base to reflect reduced annuity new business volumes in the short to medium term, and has actively developed new products, accelerated activity in 'newer' markets and pursued overseas opportunities. Its ability to prosper as an independent entity for the long term has been a question for stock market analysts and participants. The proposed merger with Just Retirement therefore marks a strategic reaction to a changed landscape with a focus on product diversification within the UK retail market, growth in the bulk annuity market and international expansion in the US.

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 four categories: Retirement Annuities, Bulk Annuities, Long Term Care and Protection, all with a focus on the impaired life market, and are designed with financial advisers aiming to meet their clients' needs as closely as possible. A lesser impaired smoker annuity was launched 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, PA Lite (an underwritten retirement annuity that uses a simplified electronic underwriting process) and Smoker Plus (allowing other lifestyle conditions to be considered) were launched. 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. The Enhanced Choice Annuity, which has a one year cash-in option, was launched in May 2014 in response to the Budget.

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. Partnership provides these equity release products directly and via distributors through the more2life and Pure Retirement brands.

2013 saw the company enter the buy-in/buy-out Defined Benefit pension scheme market. In October 2015, Partnership launched an 'Enhanced Retirement Account' in response to customer and adviser needs post Pension Freedoms. The hybrid flexible drawdown annuity product, marketed by Partnership, uses a SIPP from IFDL, (the client contract being with IFDL) and investment options from Vanguard.

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
- Retirement Account

Product Awards and Benchmarks

Partnership was voted Investment Life & Pensions Moneyfacts "Best Enhanced Annuity Provider" for the fifth year in a row in 2014. It has also been named as 'European Pensions Buyout Firm of the Year' in the bulk market at the European Pension Awards 2015.

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 adjusted 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 and have since been argumented by a number of new systems and technologies to support the growth and diversity of the business, particularly in the last 5 years.

2013 saw a move to a new London head office in the Heron Tower, whilst maintaining Redhill as the primary administration centre.

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. An agreement is 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, 2014 saw the purchase of £232m [2013: £416m] of equity release mortgages. An investment management agreement has been signed with Rothschild to manage a portfolio of commercial mortgages and Partnership 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. 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 22% over the year to £4.8bn as at 31 December 2014 [2013: £3.9bn]. Group assets under management increased by 20% to £4.9bn.

Annual Review ★★★★

Following a successful listing on the London Stock Exchange in 2013, 2014 was a challenging year impacted by the 2014 Budget Announcement and its effect on annuity providers, which saw Partnership's new business volumes reduce by 37%. Partnership took actions to reduce its cost base to reflect this, reducing its head count by around 25%.

Pre-tax profits within the life company reduced by 82% from £134m to £24m in 2014 and no dividend was paid [2013: £25m]. Solvency levels reduced, despite capital injections of £23m, but have since been improved by a Tier 2 capital loan of £100m.

An FCA investigation into the compliance of its distribution services agreement with one advisory firm, which had created some adverse publicity for the business, came to nothing and Partnership continued to win awards for its service and products.

2015 has been an eventful year for Partnership, with the announcement of the merger with Just Retirement not unexpected given the changed landscape for specialist annuity providers and somewhat overshadowing Partnership's 20th anniversary.

Cinven has €11.5bn of assets under management. This includes Cinven's fourth fund, currently €6.5bn which includes a significant shareholding in Partnership, while a fifth fund raised €5.3bn. In September 2015, Cinven announced it was to sell Guardian Financial Services to Admin Re.

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.

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.

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

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 independent organisation specialising in the provision of assessment, ratings, information and consultancy to the financial services industry