

ISSUED
November 2010

COMPANY PROFILE	&	FINANCIAL STRENGTH
R E P O R T S		

Partnership

AKG

Accessible - Comparative - Independent

Analysis by AKG Actuaries & Consultants Ltd

Background

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

This is a FULL report.

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

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

About AKG

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

Assistance to Provider Companies

AKG assists providers in:

- Financial strength analysis, ratings and presentation
- Data and information provision
- Actuarial consultancy
- Distribution consultancy

Assistance to Financial Intermediaries

AKG assists intermediaries in:

- Financial strength analysis
- Best advice panel services
- Data and information provision
- Actuarial and technical support

Information Products

AKG also provides other regularly updated information products to assist providers and intermediaries, including:

AKG's Offshore Profile & Financial Strength Reports

Available free of charge to IFAs registering online at www.akg.co.uk

AKG's UK Life Office With Profits Report

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

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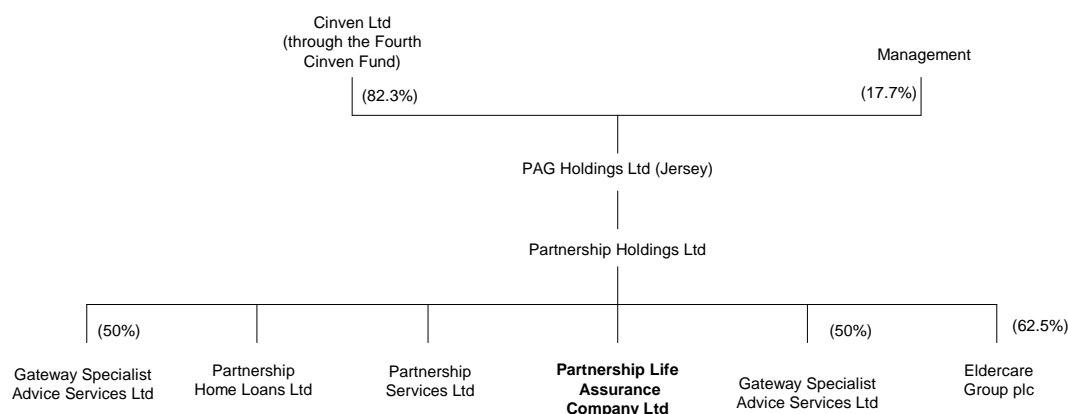
Group Overview

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

On 5 August 2008, Cinven Ltd (Cinven) became the principal owner of Partnership taking, initially, a 77% ownership, having agreed to buyout Phoenix Equity Partners. 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 €9bn invested. It acquires European-based companies that require equity investment of €100m or above. Cinven specialises in six sectors: Business Services, Consumer, Financial Services, Healthcare, Industrials, and Technology, Media and Telecommunications (TMT). Its investments include Gondola, the casual dining group which encompasses Pizza Express, Ask and Zizzi, as well as Spire Healthcare, the rebranded Bupa hospitals group. Partnership was acquired by the Fourth Cinven Fund for £138m, which also invested a further £10m in the group at that time. The Fourth Cinven Fund stands at around €6.5bn. Cinven looks to hold its investments for between four to six years.

The Partnership Group's aim is to deliver growth in its chosen market providing highly differentiated risk based life and health products in the UK. Partnership Home Loans commenced operations in April 2006, when it launched an impaired life equity release product. Partnership now operates primarily within three main areas: Long Term Care, Retirement and Protection, having withdrawn from the Equity Release market early in 2009, although it has re-entered the Equity Release market in June 2010 providing funding for More 2 Life, and is planning to launch its own branded product. Partnership has also made selected portfolio purchases (from Hodge Bank) to take advantage of capital benefits and a favourable environment. In 2007 the Group established Annuity Direct Ltd (initially known as Enhanced Financial Solutions Ltd), a specialist IFA dealing primarily in the retirement annuity market, which was subsequently sold in 2010. It also acquired stakes in Eldercare Group plc, an IFA specialising in the long term care market, and Gateway Specialist Advice Services Ltd, an annuity referral service.

Corporate Structure (simplified)



Ratings

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

Corporate Data

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

Key Personnel

Chairman	I B Owen
Chief Executive Officer	S J Groves
Chief Finance Officer	A M Dearsley
Chief Pricing Officer	R J Houghton
Chief Operating Officer	J Kennedy
Managing Director, Retirement	A Megson
Managing Director, Care	C Horlick
Chief Investment Officer	A Veys
Director of Corporate Affairs	J Boyd
Chief Financial Actuary	A J M Chamberlain

Company Background

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

Overall Financial Strength

B

2008 saw the company change ownership, from Phoenix Equity Partners to Cinven Ltd. 2008 also saw a substantial capital injection of £9.8m. There were also further drawdowns of its subordinated debt arrangement in 2008 and 2009 - this is now fully drawdown and provides £16m of additional capital. The company continues to trade profitably, notwithstanding a further reserve increase following changed default assumptions. The management team, in which Cinven looks to have confidence was strengthened in 2009. Partnership continues to benefit from the support and commitment of one of Europe's leading private equity companies and AKG would expect further capital to be made available as and when required to support the growth aspirations.

Reinsurance

Approach

The growth in the company's business and the injection of capital has seen the company gradually increase its retention. At 31 December 2009 it had 14 reinsurance treaties in force. There were 5 treaties open to new business at the year end. 2009 saw the company pay £255.7m in reinsurance premiums [2008: £210.6m] or 62% of its gross premiums [2008: 67%].

The largest treaty both in terms of reserves ceded (£311.8m) and premiums paid (£178.2m) is with Hannover Re in respect of its retirement annuity business for medically underwritten impaired retirement annuities written on or after 1 April 2008 (where Partnership retains 15% of the longevity risk and 100% of the investment risk). The next largest in premium terms (premiums of £23.3m and reserves of £59.2m) is with Pacific Life Re and is in respect of medically underwritten smoker annuities written on or after 1 February 2008 (where Partnership retains 15% of the liability quota share). As well as Hannover Re and Pacific Life Re, annuities are also reinsured to Partner Re and Imagine Re under treaties closed to new business.

In 2009, the company entered into new reinsurance arrangements enabling it to offer cover for a significantly wider level of medical conditions, that would normally not be included. Protection business written before 1 February 2009 is reinsured to two companies in the RGA group with Partnership retaining 10% of the first £500k sum assured. Protection business written after 31 January 2009 is reinsured to GenRe with the company retaining 35% of the first £214,286.

Analysis of Reserves	2007	2008	2009
	£000's	£000's	£000's
Gross reserves	498,985	733,651	1,057,115
Reinsurance ceded - external	426,804	602,831	803,400
Reinsurance ceded - internal	0	0	0
Net mathematical reserves	72,181	130,820	253,716

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 £906m and £165m respectively at the end of 2009) although there is a small amount of term assurance and income protection. The gross reserves of £1,057m at the end of 2009 were split £199m UK Life, £858m UK Pensions and £55k Overseas.

Non Profit Reserves	2007	2008	2009
	£000's	£000's	£000's
UK Life	24,515	44,698	67,750
UK Pensions	46,854	83,071	180,184
Overseas	42	55	55
Total net NP reserves	71,411	127,824	247,988

Non Profit Financial Strength

★★★★

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

Unit Linked Business

The company does not have any Unit Linked business, so this section does not apply.

With Profits Business

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

Key Financial Data (for y/e: 31/12/09)

Capital Resources	2007	2008	2009
	£000's	£000's	£000's
Core tier one capital	19,093	29,973	49,632
Tier one waivers	0	0	0
Other tier one capital	0	0	0
Tier one deductions	-2,482	-2,333	-2,333
Total tier one capital	16,611	27,640	47,299
Tier two capital	8,200	12,200	15,520
Adjustments and deductions	-57	-532	0
Total Capital Resources	24,754	39,308	62,819
CR outside the fund	4,114	15,028	40,060

Total capital resources increased again in 2009 due to retained profits of around £20m and the drawdown of the remaining £3.8m of subordinated debt (tier two capital) available under the arrangement with Bank of Scotland.

Long Term Business Admissible Assets	2007	2008	2009
	£000's	£000's	£000's
Fixed Interest	72,959	247,917	590,823
Equities	0	0	0
Property	0	0	0
Linked	0	3,215	5,727
Other	29,273	33,587	38,923
Total Assets	102,232	284,719	635,473

Total long term assets increased by 223% in 2009. There is a very high proportion of fixed interest assets, reflecting the policy of closely matching liability cashflows. The balance is largely cash providing suitable liquidity. Linked assets are held to match index linked annuity liabilities.

Free Assets	2007	2008	2009
	£000's	£000's	£000's
Free Assets (Exc Fin Eng)	7,127	13,788	24,556
Financial Engineering	0	0	0
Free Assets (Published)	7,127	13,788	24,556

Free Asset Ratios	2007	2008	2009
	%	%	%
FAR (Exc Fin Eng)	7.0	4.8	3.9
FAR (Published)	7.0	4.8	3.9

CRR Coverage Ratios	2007	2008	2009
	%	%	%
CRRCR (Exc Fin Eng)	140.4	154.0	164.2
CRRCR (Published)	140.4	154.0	164.2

Free assets increased by 78% in 2009, boosted by increased capital resources and notwithstanding further reserve strengthening. The CRR coverage, which improved further to 164%, continued to exceed both the 120% target agreed with the FSA and the 140% optimum target set by management.

Long Term Business Liabilities & Margins	2007	2008	2009
	£000's	£000's	£000's
Non Linked Non Profit	71,411	127,824	247,988
Non Linked With Profits	0	0	0
Accum'lg With Profits	0	0	0
Linked	770	2,996	5,727
Surplus c/f	3,973	4,376	2,348
Other liabilities	9,385	129,609	358,998
Investment Reserves	16,693	19,914	20,411
Total Liabilities/Margins	102,232	284,719	635,473

Against the background of the credit crunch the company again strengthened its default assumptions on its investment portfolio. It also strengthened some of its mortality assumptions. The combination of which added some £12m to liabilities. It has not experienced any defaults, however. The table above excludes reinsurance deposits, which amounted to £803m as at 31 December 2009.

Key Revenue Items	2007	2008	2009
	£000's	£000's	£000's
INCOME			
Premiums	50,569	103,063	154,088
Investment Income	4,531	9,273	24,824
Investment Increase	-2,789	-12,078	34,093
EXPENDITURE			
Commissions	6,029	9,327	12,055
Policy claims	10,074	15,369	25,999
Expenses	11,285	16,015	25,921
TRANSFER to P&L	0	0	20,000
INCREASE in fund	23,865	59,042	120,868

The long term fund increased again in 2009, with net premiums increasing by 50% to £154m. Gross premium income increased by 31% from £314m in 2008 to £410m in 2009. Claims primarily comprise annuity payments and increased as expected reflecting the growing block of business. There was a transfer of £20m from the Long Term Fund, which was retained in the Shareholders' Fund.

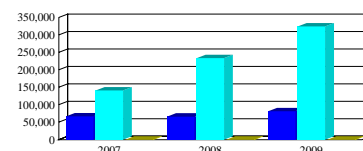
Expense Ratios	2007	2008	2009
New business (% APE)	65.8	80.4	82.8
Renewal (% reg premiums)	n/a	n/a	n/a
Renewal (% p.a. of mean fund)	1.50	0.60	0.73

Overall expenses increased by 62%, reflecting increased volumes of business allied to increased staff numbers (average staff numbers in the group over the year were 234 [2008: 155]). The acquisition ratio increased but remains reasonable whilst the renewal expense ratio as a percentage of the mean fund also increased slightly.

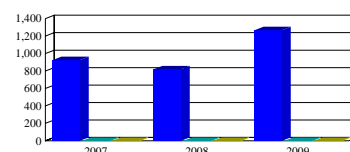
New Business Data (for y/e: 31/12/09)

		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		12,845	0
Miscellaneous		0	0
Protection			
Whole Life	With Profits	0	0
	Unitised WP	0	0
	Unit Linked	0	0
Term	Ordinary	283	1,151
	Pension	0	0
IP	Individual	114	55
Critical Illness		0	0
Long Term Care		67,988	0
Miscellaneous		0	62
Pensions			
Individual	With Profits	0	0
	Unitised WP	0	0
	Unit Linked	0	0
CPA		324,231	0
Bulk Transfer Annuities		0	0
Miscellaneous		0	0
Group Business			
Pension		0	0
Life		0	0
IP		0	0
Critical Illness		0	0
Miscellaneous		0	0
TOTAL DIRECT BUSINESS		405,461	1,268
Overseas Direct (inc above)		0	0
External Reins (exc above)		0	0
Intra-Group Reins (exc above)		0	0
Industrial Branch (inc above)		0	0

New Single Premiums	2007 £000's	2008 £000's	2009 £000's
UK Life	66,640	65,962	81,230
UK Pensions	140,976	233,631	324,231
Overseas	0	0	0
Total (Direct + External Reins)	207,616	299,593	405,461
Growth Rate	76.8%	44.3%	35.3%
Reins Accepted (Intra-Group)	0	0	0



New Regular Premiums	2007 £000's	2008 £000's	2009 £000's
UK Life	925	820	1,268
UK Pensions	0	0	0
Overseas	0	0	0
Total (Direct + External Reins)	925	820	1,268
Growth Rate	90.7%	-11.4%	54.6%
Reins Accepted (Intra-Group)	0	0	0



Another good year for new business with the company recording growth in retirement sales in a market where overall new business volumes were down.

Sales of enhanced retirement annuities increased by 36% from £245m to £332m. The company claimed a 23% share of the non-standard annuity market in the last quarter of 2009.

Care annuities, a market where the company claims to be the market leader with 73% market share, increased by 11% to £73m.

Protection, which is not currently a significant part of the company's business, also saw a rise in sales of 78%, more than reversing the fall of just over 11% in the previous year.

Partnership established new distribution relationships with major IFA networks and recorded an increased number of intermediaries using its service with over 10,500 IFAs seeking quotes in 2009 (up 20% from over 8,700 in 2008).

Elsewhere in the group, having arranged £11.8m of equity release in 2008 (more than double that for 2007) the decision was made in early 2009 to withdraw from the equity release market due to significant changes in the wholesale funding markets. The group has recently re-entered this market.

Distribution

Method

The main focus for distribution is the intermediary market and Partnership is looking to widen its base from its core market of National regional specialists and wealth management IFAs with an increased focus on networks and has established 5 year sponsorship agreements with Sesame Bankhall, Tenet, SimplyBiz, 360 and Paradigm. Additionally Partnership has taken a 50% stake in Gateway a specialist advice centre within Sesame. Following regulatory changes, Partnership looks to enhance and supplement its business by distributing through other providers' product offerings to their clients with health conditions. Additionally, it sees corporate partnerships as an important part of its distribution strategy. It has arrangements with Lloyds Banking Group to provide Long Term Care Insurance and Standard Life 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 proposal 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 focussed on EBCs.

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

Image and Strategy



Partnership is now an established specialist provider, successfully enhancing and growing the market presence previously occupied by PAFS. This has seen both a widening of the group's product offerings and distribution and a commensurate growth in new business volumes.

Its strategy is "To develop and bring to market insurance products that provide enhanced financial benefits, or protection cover, for customers with medical or lifestyle factors that lead to a reduced life expectancy." Its investment in distribution companies, which operate independently of Partnership, is intended to facilitate access to customers who may benefit from its products.

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

In the medium to long term, it is important that the company emphasises its strength in the effective and profitable exploitation of niche markets in order to positively differentiate its proposition from that of larger, better known brands.

Products

Overall Product Philosophy

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

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

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

The group previously offered medically underwritten equity release products, both mortgage and reversion variants through the sister company Partnership Home Loans Limited, which commenced operations in April 2006 and is a member of SHIP. The group temporarily withdrew the products in 2009 in the wake of the "credit crunch" and the increased cost of funding, but is re-entering the market using its own and More 2 Life brands.

Products Currently Marketed

Protection Products

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

Pension Products

- Impaired Life Annuities
- Smoker Annuities

Service



Approach

Partnership is focused 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 and Protection. 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, with an increase in the number of business development managers and pro-active tele-service staff. Overall, there has also been a restructuring of responsibilities and reporting to facilitate higher volumes of new business. Telephony systems have also been upgraded, and the underwriting manual has been enhanced to cover additional medical conditions. The company's IT systems, inherited from PAFS, are all developed and maintained in-house.

e-Business

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

Partnership has recently invested significantly in its e-capability. In January 2008 it launched its first ever real time quotation facility on the Exchange, and is now extending this functionality to other industry and intermediary portals such as Assureweb and Weblines, providing 24/7 quotation functionality to intermediaries. Unusually, the same functionality is available via its own website. This enabled Partnership to qualify for the first time in the FTRC rankings for e-business where it scored third alongside the Prudential.

Partnership's e-proposition is a key area of focus which, having launched an online enhanced annuity solution for small annuities, continues into 2010. Partnership expects to increase its e-footprint significantly in response to IFA demand.

Service Standards & Awards

PAFS' service was highly regarded by the specialist advisers which have used it and whilst indications are that Partnership has been able to maintain and build on this platform, the company admitted to some issues during 2008 when volumes increased significantly. The company appears to have acted to rectify this. Regular policyholder surveys are conducted to measure satisfaction.

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

Outsourcing

Intellectual property and core skills are retained within Partnership and all other routine processes are considered for outsourcing. July 2009 saw the company sign a new contract with Capita Hartshead, who took over responsibility immediately 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. Further outsourcing may be implemented as deemed appropriate.

Investment

Overall Approach

Funds are substantially investment grade corporate bonds, with some UK gilts, matching the various insurance liabilities.

Insight, now owned by BNY Mellon, were appointed as asset managers 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. The Ampega business was closed during 2009 and therefore Ampega did not manage any funds at the year end. Brascan Strategic Asset Management manages the £146m portfolio arising from the policies reinsured with Imagine, the assets of which are held in trust with Brown Brothers Harriman. There is also a trust arrangement with PacLifeRe, with assets held in a segregated account with Bank of New York and managed by Schroeder.

A Chief Investment Officer has also been appointed.

Funds Under Management

Long term business assets increased by 223% over the year and totalled £635m as at 31 December 2009. Overall assets in the group totalled £1.6bn. The total deal value of the current investments that Cinven have is €9bn. This includes Cinven's Fourth Fund, currently €6.5bn, which includes Partnership.

Annual Review



2009 was the first full year under the ownership of Cinven. In a very good year, Partnership strengthened its management team with a number of new appointments. In a testing year, the Group reported a profit before tax of £27.7m [2008: loss of £4.3m]. Partnership remained the leading provider of long term care in new business terms and grew its share of the enhanced annuity market from 18.7% to 19.4%. New business grew by 36% in APE terms as Partnership continued to consolidate its market position under its changed ownership.

The company remained well capitalised and continued to trade profitably, although 2009 profits were impacted by a reserve strengthening adjustment based on more onerous default assumptions. Headcount again increased commensurate with increased new business volumes as did expenses, although these appear under control.

Partnership exited the equity release market citing market conditions.

Overall, Partnership looks set to maintain its growth and development, which should enable it to continue to widen its distribution presence in its chosen niche markets.

Elsewhere in the group, Partnership had majority shareholdings in two distribution companies, Annuity Direct and Eldercare. Both of these companies have been loss making in recent years and notably in late 2010, Partnership announced the disposal of Annuity Direct. It had previously taken a 50% stake in Gateway.

The Fourth Cinven Fund recorded a 6% growth in profit in 2009, through its eight principal investments. The Fund was 59% invested as at 31 December 2009.

Financial Strength Ratings - Introduction

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

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

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

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

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

With Profits Financial Strength Rating

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

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.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

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.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

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

Overall Financial Strength Rating

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

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

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

Supporting Ratings - Introduction

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

Service Rating

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

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

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

Image and Strategy Rating

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

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

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

Annual Review Rating

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

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

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

The logo for AKG, consisting of the letters 'AKG' in a bold, black, sans-serif font. The background of the entire page features large, overlapping, semi-transparent circles in shades of light orange and light blue.

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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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