

# Guaranteeing incomes for life

**PARTNERSHIP ASSURANCE GROUP PLC**  
Annual Report and Accounts 2014

Reforms to the UK pension system have had, and will continue to have, a significant impact on our business.

What hasn't and won't change though, is that people retire with a fixed pot of money which has to last for the rest of their life.

By pooling risk, an annuity can provide a guaranteed income for life.

At the heart of our strategy is our focus on delivering better outcomes for our customers by using our unique intellectual property, which allows us to better understand and, therefore more accurately price, longevity for customers with health conditions.

As we look to the future for Partnership, I believe our three-pronged strategy based on doing the best for customers within the UK retail, Defined Benefit and US Care markets, positions us well to deliver profitable growth and long-term shareholder value.



**Steve Groves**  
Chief Executive Officer

**i** Chief Executive Officer's statement  
See page 6

**i** What regulatory change means for Partnership  
See page 9

## STRATEGIC REPORT

### WE ARE PARTNERSHIP

- 1 Guaranteeing incomes for life
- 2 Partnership at a glance
- 3 Our investment case
- 4 Chairman's statement
- 6 Chief Executive Officer's statement

### OUR PERFORMANCE AND OUR PLAN

- 12 How we are performing
- 12 Key performance indicators
- 14 2014 in review
- 17 Our strategic objectives
- 18 Leverage Partnership's proprietary intellectual property
- 19 Improve access for customers to individually underwritten, retirement care and bulk annuities
- 20 Maximise risk-adjusted returns on capital to shareholders

### OUR MARKET AND OUR BUSINESS

- 22 The marketplace context
- 26 Our business model
- 28 Our resources and relationships
- 34 How we manage our risks
- 36 Our principal risks and uncertainties
- 40 Corporate responsibility

## GOVERNANCE

### HOW WE ARE GOVERNED

- 44 Board of Directors
- 46 Senior Management
- 47 An introduction from our Chairman
- 48 Leadership
- 53 Effectiveness
- 54 Accountability
- 55 Relations with shareholders
- 56 Nomination Committee report
- 57 Audit Committee report
- 60 Risk Committee report
- 61 Directors' report
- 63 Directors' responsibilities

### HOW WE ARE REWARDED

- 64 An introduction from our Committee Chairman
- 65 Annual Report on Remuneration
- 73 Directors' Remuneration Policy

## FINANCIAL STATEMENTS

### IFRS FINANCIAL STATEMENTS

- 80 Critical accounting estimates and judgements
- 81 Independent auditor's report
- 86 IFRS consolidated financial statements
- 95 Notes to the financial statements

### MCEV FINANCIAL STATEMENTS

- 133 Statement of Directors' responsibilities
- 134 Independent auditor's review report
- 135 MCEV consolidated financial statements
- 138 Notes to the financial statements

### OTHER INFORMATION

- 145 Shareholder information
- 146 Glossary

An income guaranteed for life.  
It's what people want, and it's  
what we offer our customers.

We know that our annuities underpin  
our customers' finances in retirement.  
There are other options out there,  
of course. But annuities are, and will  
remain, a vital part of the retirement  
mix for many. For others, we will  
develop innovative solutions.

In this year's Annual Report, we showcase some of the customers  
who enjoy a guaranteed, lifelong income from Partnership.



**i** John's story  
See page 10



**i** Sylvia's story  
See page 11



**i** Steven's story  
See page 13



**i** Ron's story  
See page 21



**i** John's story  
See page 42



**i** Dudley's story  
See page 43



# We were the first in the UK to offer an impaired annuity



Over 20 years we have assessed health and lifestyle conditions affecting annuity pricing for over **755,000** lives



During the process of assessing over 755,000 lives we have collected more than **160,000,000** data points



2015 marks our 20th anniversary



We are the **largest provider** of care annuities in the UK



We manage **£4.9bn** of funds



We offer **award-winning products** and **award-winning service**

# We have taken action to adapt to regulatory changes, and have a clear strategy to deliver diversification and growth

- A clear strategy to **diversify our business model** with identified opportunities for profitable growth in UK retail, Defined Benefit and US Care markets
- Strong core **proprietary intellectual property** and expertise, which we have a track record of deploying innovatively to achieve competitive advantage and better outcomes for customers
- Where reinsurance is attractively priced, **longevity risk is reduced** through reinsurance arrangements which increase capital efficiency and reduce earnings volatility
- The proforma **economic capital position\*** remains comfortably in excess of the Board's minimum target
- **Strong, cash generative business model** and **conservative asset portfolio**, which is well matched against long-dated illiquid insurance liabilities
- An **experienced management team** committed to delivering long-term shareholder value

\* See page 12.

# A year of unprecedented change

Our first full year as a listed company has been characterised by unprecedented changes in our core individually underwritten annuity market, brought about by the 2014 Budget announcement in March (the Budget).

The Chancellor's proposal for increased freedoms for pension savings is the most fundamental reform in this area since the 1920s and was unforeseen by the insurance industry, financial advisers, customers and, indeed, shareholders. The effect of the announcement was considerable and instant, with both our sales and share price immediately impacted.

Since March, a period of disruption has followed, while legislation and regulations have been drafted and the details of the Guidance Guarantee, which will provide free impartial guidance for all retirees, have been developed. Implementation of these changes is set for April 2015, but it is likely that adviser recommendations and customer behaviour will take longer to stabilise.

However, it is clear that Partnership's underlying proposition, which is to remove the significant financial uncertainty our retirement and care customers face as

a result of a highly variable future lifespan in retirement through a guaranteed income for life, remains as valid now as it was before the Budget. Indeed, recent independent research by the International Longevity Centre – UK shows that nearly 70% of customers with Defined Contribution savings would prefer their pensions to deliver a guaranteed income for life over anything else.

In February 2015, we celebrated our 20th anniversary, and the structural drivers and ageing demographics which supported our rapid growth in previous years remain intact. Our customers' need for financial security has not changed and the new regulations provide opportunities to utilise our unique intellectual property to develop more flexible products in the "new world".

## NEW OPPORTUNITIES

At our investor day in November, we emphasised two further strands to the Group's strategy, which I believe will help the Company generate long-term shareholder value; our Defined Benefit proposition and the US care opportunity.

Our Defined Benefit proposition brings the benefits of medical underwriting to trustees who are seeking to de-risk their defined benefit pension scheme through a bulk annuity. The overall bulk annuity market is forecast to be above £20bn per annum by

# “It will be some time before the dust settles, but I look forward with confidence to a strong future for Partnership.”

2020\* and Partnership is well positioned to secure an increasing proportion of this growing market through its extended and strengthened medically underwritten bulk annuity proposition. For example, our top-slicing proposition, which allows trustees to insure pensioners with the largest liabilities, who represent a disproportionate risk concentration for the scheme, means we can help to de-risk even the largest pension schemes. The £206m top-slicing transaction we announced in December is testament to the strength of our proposition and the traction gained with Employee Benefit Consultants during the year.

The market opportunity in the US for a care annuity sold at the point of need is potentially significant, which is evidenced by a sizeable market, supportive demographics, lack of alternatives for customers at the point of need and the validity of our dataset for use in the US. A care annuity, which guarantees an income for life to meet the costs of care funding, would allow us to provide peace of mind to US customers, who currently face significant financial uncertainty as a result of the cost of an extended stay in care. Our proposed market entry strategy through a reinsurance arrangement is, we believe, lower risk and will require less capital than other options. We will set

out an implementation timetable for this attractive proposition when our partner selection discussions have concluded.

## DIVIDEND

Recognising the on-going disruption in our core market and the need to balance investment in the business with our desire to also deliver shareholder returns in the form of a dividend, the Board has recommended a 2014 final dividend of 1 pence per share, bringing the total dividend for the full year to 1.5 pence per share. Given the on-going uncertainty in our core individual annuity market, and the varying stages of development of our Defined Benefit and US Care propositions, the Board will keep the dividend policy under review.

## BOARD AND GOVERNANCE

Your Board has also undergone change throughout the year. I would like to thank Marisa Cassoni, Maxim Crewe, Robin Phipps and David Young, who left the Board during the year, for their significant contributions during their tenures and the support they provided to me as Chairman. I would also like to welcome Paul Bishop, Clare Spottiswoode and Simon Waugh, who joined the Board during the year as non-Executive Directors, bringing a breadth

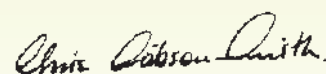
of experience and skills from a variety of sectors, which will be invaluable to the Company in its next phase of development.

## OUR PEOPLE AND DISTRIBUTORS

On behalf of the Board, I would like to take this opportunity to extend my thanks to my colleagues within Partnership; without their commitment and expertise, the Company would have fared less well through this challenging period. Finally, I would like to thank our suppliers and distributors for their support throughout the year, and particularly through the market disruption since the Budget.

## LOOKING AHEAD

It will be some time before the dust settles on the changes brought about by the Budget, but I look forward with confidence to a strong future for Partnership, where we continue to use our unique intellectual property to deliver better outcomes and peace of mind for our customers in both existing and new markets.



Chris Gibson-Smith  
Chairman  
2 March 2015

\* KPMG 2014 Bulk Annuity Market Insight Report.

Delivering better  
outcomes for our  
customers is at the  
heart of our strategy





# “We took immediate action to adapt to the changes.”

## OVERVIEW

The Budget's effect on our core business was significant and immediately impacted sales within our core individual annuity market, with advisers pausing to digest the changes and customers deferring their retirement income decision until post April 2015 when there is more clarity on products and the guidance guarantee.

The consequence of this for Partnership was a 57% reduction in sales of individual annuities in 2014 versus 2013. However, I am comforted by the fact that although the total market for individual annuities in the nine months post Budget fell by approximately £4.2bn, sales of drawdown contracts in the same period increased by only £0.7bn, indicating that, rather than investing in alternative products, a significant proportion of customers are simply leaving their pension savings untouched while uncertainty remains. I continue to expect a significant proportion of these deferred pension savings to return to the at-retirement market over time, and believe the higher annuity rates offered by Partnership mean we are well placed to secure a share of this market, whose structural growth continues to be underpinned by supportive demographics.

Our efforts to develop the market for individually underwritten bulk annuities are now delivering results, with £247m of Defined Benefit sales in 2014; a near threefold increase compared with £84m achieved in 2013. In December we announced the completion of the UK's largest individually underwritten bulk annuity transaction. Although quarterly

performance has been, and will continue to be, variable, this £206m top-slicing transaction is a perfect example of how Partnership is able to bring the advantages of our unique intellectual property and underwriting expertise to trustees, corporates and pension scheme members across the entire spectrum of pension scheme sizes within the growing UK defined benefit market.

We achieved £76m of sales of our immediate needs care annuities, which compares favourably to sales of £66m in 2013, as the prior year's market disruption reversed and we undertook an intensive adviser education campaign. Finally, we secured £3m of protection sales, in line with 2013.

## ACTION TAKEN ON COSTS

After the Budget, we took immediate action to realign our cost base to the level required to support lower sales of individual annuities. The cost reductions were less extensive than implied by the size of annuity market reduction, but were targeted so that we could maintain our technical and product development expertise to allow new initiatives to be pursued and to be ready for the return to growth. We targeted a reduction of £21m versus our planned £101m 2015 cost base. I am pleased to report that we reduced our 2014 operating expenses to £78m\* compared with £84m in 2013 and we are now targeting operating expenses of £75m in 2015, representing a £26m reduction against the planned 2015 cost base.

## OPERATING PROFITS

We monitor a range of financial measures in managing the business, including operating profits, MCEV and capital. New business is assessed and priced taking into account these metrics. Despite the market disruption, we have remained true to our pricing discipline, seeking to ensure that new business covers its capital requirement.

However, as total new business sales fell by 36% in 2014 without an equivalent reduction in operating expenses, new business operating profits for the year totalled £39m, a 55% reduction compared with £86m achieved in 2013. This is reflected in our overall new business margin of 4.9% for 2014 versus 7.0% in 2013.

We believe that it is important, particularly in a period of market disruption like this, to deploy shareholder resources in a way which generates long-term value and have therefore concentrated our efforts on prioritising margin as much as possible, albeit on lower sales, rather than potentially eroding capital by chasing sales volumes.

We also continue to generate operating profits from our in-force business and the return on excess assets, which were £9m and £16m respectively in 2014. Operating profits for 2014 totalled £64m compared with £131m in 2013.

\* See Note 5 on page 100

“It is challenging periods like this which bind an organisation more closely together and enable it to survive, and then thrive.”

## BALANCE SHEET

Despite the market conditions, the value of our assets under management increased by 20% to £4.9bn in 2014.

At 31 December 2014, the surplus over our economic capital requirement was £132m representing a coverage ratio of 134%. The reduction in the position since 2013 (surplus £173m, coverage 159%) is largely due to the impact of long-term risk-free rates falling to all time lows, which increased the capital requirement. The position has also been impacted by the temporary mismatch in the cost base relative to new business and the natural dilution of the position as business is written at a lower coverage ratio. The Board continues to target a minimum coverage ratio of 125%.

At 31 December 2014, we were entirely equity funded. In January we began to explore opportunities to provide financial flexibility with a prudent level of leverage. On 3 March 2015 we announced a £100m bond issue via private placing to Cinven, our majority shareholder. The Tier 2, Solvency II compliant 10 year bond has been issued by PAG plc with a coupon of 9.5%. After taking the bond into account, on a proforma basis at 31 December 2014, our gearing\* remains low at 17%, versus a sector average of between 25 and 30%. Our economic capital surplus and coverage increased on a proforma basis to £232m/159% respectively, providing us with financial flexibility to invest in our new initiatives and helping to support a prudent transition to Solvency II.

Our MCEV increased by £56m during the year to £57m, representing MCEV per share of 144 pence. The increase in MCEV is due to an increase in the value of in-force business which came largely from new business written in the period. The net

worth also increased due to retained profits after dividend payments.

We have maintained a conservative asset management portfolio, driven by our focus on closely matching our assets with the cash flows of our illiquid long dated liabilities. 73% of the portfolio comprises bonds with an average credit rating of “A”, with the majority of the remainder invested in equity release assets which diversify our risk profile. In December, we completed a bulk equity release deal, securing £61 million of assets with a higher risk adjusted return, which are a particularly good match for our illiquid liabilities. We will continue to explore bulk equity release opportunities where they are economically attractive.

## SOLVENCY II

Our Solvency II programme is designed to ensure the Group meets the Solvency II requirements, when they go live on 1 January 2016.

Our programme is planned so as to deliver the standard formula approach to capital measurement. We will keep the option of developing an internal model under review, with a view to being ready to apply for an internal model for certain risks if and when it is considered appropriate.

Although the way that the regulation will be applied in practice is still uncertain, based on our current interpretation of the Solvency II regulations, the Group is expected to remain well capitalised. We are putting in place plans to mitigate risks in the regulation, such as the treatment of equity release assets in the matching adjustment calculation.

## PEOPLE AND VALUES

Following the Budget, we took immediate action to manage our cost base in light of significantly reduced new business volumes, which resulted in our headcount being reduced by 129 roles to 427 at the end of year. Whilst this is regrettable, we believed it was necessary to manage our cost base to reflect the impact of the Budget on sales of individual annuities.

Despite this, the core strength which underpins our unique intellectual property is still the expertise of our people. It is challenging periods like this which bind an organisation more closely together and enable it to weather the storm, and then thrive. The tireless dedication of our people in 2014 has been outstanding and I would like to thank them for their continued support and the way in which they have exemplified our values of fairness, integrity, respect, service and trust.

## STRATEGY AND OUTLOOK

Significant uncertainty surrounds future customer behaviour, product opportunities and the impact of the Pension Wise service and the FCA's “Additional Protection” in our core market. As we approach the April 2015 implementation date of the pension changes, we expect deferrals to increase and, in the short term, our sales of individual annuities to therefore reduce from the £62m achieved in the fourth quarter. Given the time delay between quote and conversion, we believe that a significant recovery in sales is unlikely to begin before the second half of 2015. Longer term, we believe the value of a guaranteed income for life, whether in the form of an annuity or as part of a broader retirement account, will continue to form the cornerstone of individual retirement income planning.

\* Gearing calculated as debt/MCEV.

As we head into 2015, the pipeline of medically underwritten bulk annuities in the market remains strong. We believe the strength and quality of our current pipeline and market activity is consistent with defined benefit sales of at least £200m during 2015. However, timing remains unpredictable and so quarterly completions will continue to be variable and subject to changes in economic conditions.

We continue to progress our plans to launch an immediate needs care annuity in the US, and our advanced discussions with potential partners are on-going. We will provide further updates on our implementation timetable in due course, once the partner selection process has concluded.

At the heart of our strategy is our focus on delivering better outcomes for our customers by using our unique intellectual property, which allows us to better understand, and therefore more accurately price, longevity for customers with health conditions. As we look to the future for Partnership, I believe our three-pronged strategy based on doing the best for customers within the UK retail, Defined Benefit and US Care markets positions us well to deliver profitable growth and long-term shareholder value.



**Steve Groves**  
Chief Executive Officer  
2 March 2015

## An overview of the Budget changes and Partnership's reaction

### WHAT'S CHANGING?

- Up to 25% of pension savings can be taken as a tax-free lump sum. The remainder can be used to buy annuity/other products or withdrawn in one or several lump sum(s) and taxed at marginal income tax rates
- Despite this, the Financial Conduct Authority (the "FCA") believes income drawdown is "unlikely to be suitable for pension pots under £50,000"
- Upon death aged under 75, pension funds can be passed on tax free. If aged over 75, tax will be payable at the marginal rate
- DB to DC transfers allowed, compulsory guidance for pots above £30,000
- Free and impartial guidance to be offered to all retirees at the point of retirement by the new Pension Wise service, which will inform consumers about the importance of considering their options, including health and long-term care needs
- "Additional Protection" – the FCA is to require pension providers to give extra protection to their customers by asking customers about key aspects of their circumstances, which is expected to include health

### HOW HAVE WE REACTED AND ADAPTED?

#### Immediate


- Action taken to reduce cost base
- Work started to develop new products for retail market, including focus groups to understand customer needs and appetite
- Accelerated development of Defined Benefit proposition
- Lobbying for effectiveness of Guidance Guarantee
- Advertising campaigns with advisers to highlight importance of guaranteed income in retirement planning

#### Future

Diversification of business model founded on Intellectual Property:

- New longevity protection products for UK retail market
- New customers in Defined Benefit space
- New US care market






**“I’m still working,  
so I can’t spend all  
of my time fishing  
just yet, but I really  
appreciate the extra  
financial security.”**

John Halsey

John Halsey, 66, took out a joint life annuity with Partnership in 2013. John’s still working, but he wanted the security of a guaranteed stream of income as he started to wind down his career. Despite the budget announcements, he’s happy to have taken out an annuity.





**“I’d planned to work for longer, but discovered that I could afford to retire. Now I’m planning caravan trips!”**

Sylvia Dexter

For Sylvia Dexter, 62, who suffers from high cholesterol, high-blood pressure and diabetes, an annuity meant that she was able to retire earlier. A quick internet search led her to an advisory service that recommended Partnership, and we were very pleased to be able to meet her needs.

# Key performance indicators

## TOTAL OPERATING PROFIT £m

2014	64
2013	131
2012	112
2011	79

Total operating profit is considered by the Board to be the core measure of underlying performance for the Group.

The lower operating profit in 2014 is principally due to a lower contribution from new business as new business volumes fell after the March 2014 Budget announcement.

## NEW BUSINESS PREMIUMS £m

2014	791
2013	1,229
2012	1,265
2011	889

New business premiums are one of the key indicators of the health of our new business franchise and our success in bringing individually underwritten annuities to those eligible.

Total new business premiums fell as a result of the March 2014 Budget announcement, but within this there was a more than threefold increase in Defined Benefit sales and an increase in care sales which were unaffected by the Budget changes.

Following a review of key performance indicators, the Directors have concluded that "In-force operating profit" and "Long-term expected return on surplus assets" presented in the prior year as KPIs, are of lesser importance in assessing the performance and prospects of the Group and are therefore not presented in the current period.

The Directors have also concluded that MCEV is a key measure for assessing the financial position of the Group.

## IFRS PROFIT BEFORE TAX £m

2014	24
2013	83
2012	67
2011	38

IFRS profit before tax indicates the (pre-tax) level of profit contributing to regulatory capital and potentially available for distribution to shareholders.

The lower profit before tax in 2014 is a result of lower new business profits, lower in-force profits, and adverse investment variances.

## NEW BUSINESS OPERATING PROFIT £m

2014	39
2013	86
2012	94
2011	74

New business operating profit indicates the level of return being generated on the business sold in the year with the objective that profitable new business will cover the capital requirements of the business written.

The drop in new business operating profit in the year is primarily due to lower sales of individually underwritten annuities following the 2014 Budget announcement.

## ECONOMIC CAPITAL COVERAGE RATIO %

2014	134	159*
2013	159	
2012	141	

Economic capital (EC) is the principal risk-based capital measure used by the Board. The ratio expresses the available capital as a percentage of the required capital.

The underlying reduction in 2014 to 134% was primarily driven by the reduction in risk-free rates during the year and the mismatch between costs and revenues on lower sales.

\* The proforma economic capital, allowing for the additional £100m of capital raised in March 2015, remained at a coverage ratio of 159%.

## MARKET CONSISTENT EMBEDDED VALUE (MCEV) £m

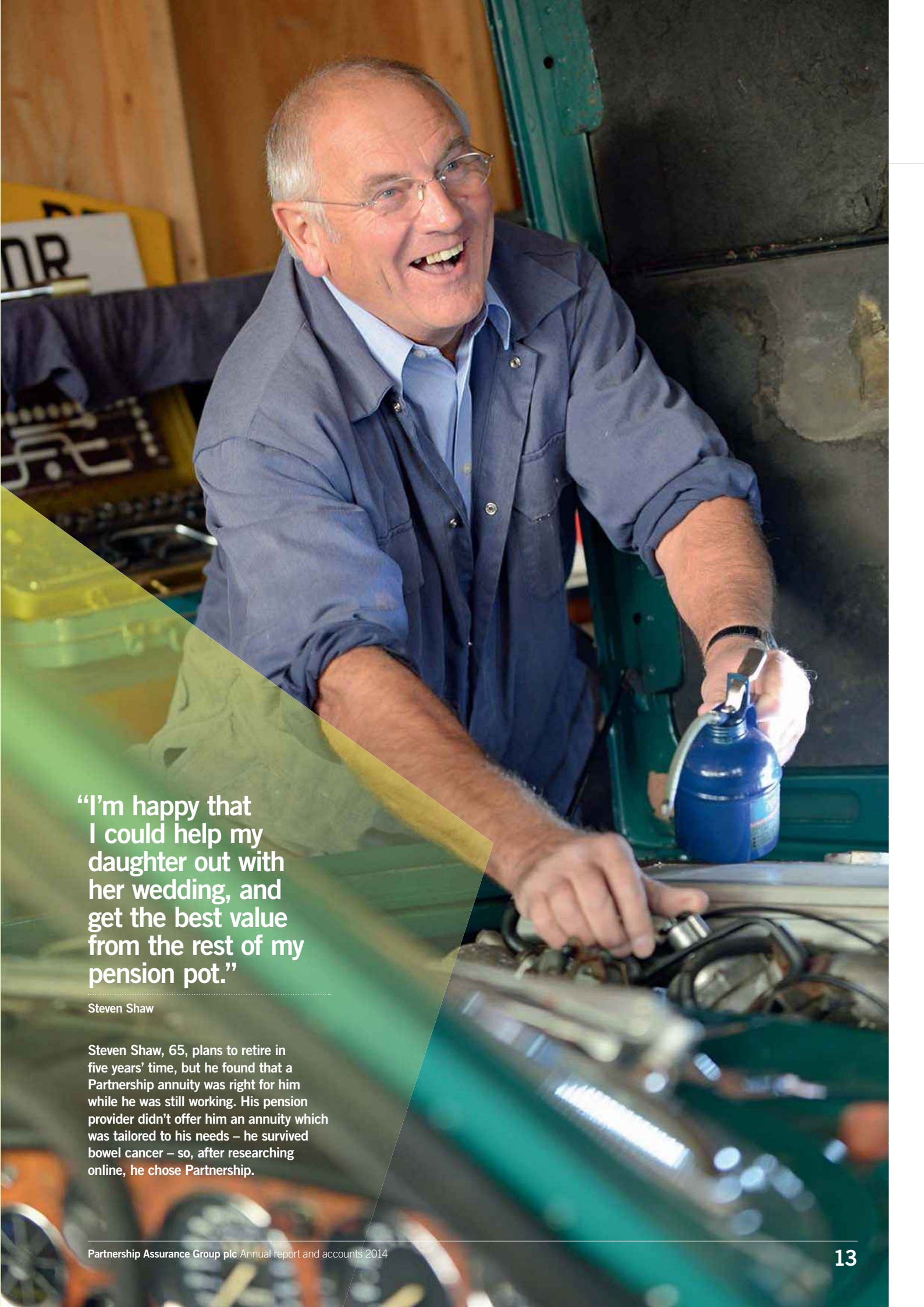
2014	576
2013	520
2012	384†
2011	166†

MCEV provides a view of the overall worth of the in-force business and Partnership's net assets.

The increase in MCEV in 2014 is primarily due to the value of new business written in the year.

† The 2012 and 2011 MCEV represents MCEV for covered business only, as MCEV for non-covered business was not disclosed prior to 2013.



A photograph of Steven Shaw, a middle-aged man with glasses and a blue work shirt, smiling while working on a car engine in a workshop. He is holding a blue air hose. The background shows various tools and equipment.

**“I’m happy that I could help my daughter out with her wedding, and get the best value from the rest of my pension pot.”**

Steven Shaw

Steven Shaw, 65, plans to retire in five years’ time, but he found that a Partnership annuity was right for him while he was still working. His pension provider didn’t offer him an annuity which was tailored to his needs – he survived bowel cancer – so, after researching online, he chose Partnership.

# 2014 in review

## PERFORMANCE REVIEW

Total new business premiums were £791m for the year ended 31 December 2014, maintained at two-thirds of 2013 levels, despite significant disruption following the Budget.

	2014 £m	2013 £m
Individual retirement annuities	466	1,076
Defined Benefit annuities	247	84
Care annuities	76	66
Protection	3	3
<b>New business premiums</b>	<b>791</b>	<b>1,229</b>

## INDIVIDUAL RETIREMENT ANNUITIES

The Budget had a significant impact on sales. Despite the uncertainty that the announcement caused, the majority of customers with annuities in our pipeline at the time of the Budget decided to continue with their purchase after discussion with their advisers. However, the Budget has resulted in lower quote volumes and conversion levels which has resulted in lower completions from the second quarter of the year.

In May, we launched a new flexible product the Enhanced Choice Annuity, in response to the requirement for increased flexibility for customers. Sales of this product have been below expectations, but the accelerated development and launch of this product demonstrated our innovation and speed of response.

There remains significant uncertainty over the near-term level of annuity sales as research indicates that people are currently deferring their retirement or their at-retirement decumulation decisions. This level of deferral is likely to increase as we approach April 2015 and the changes to the Pensions Taxation rules are implemented. We do not expect a recovery in sales to begin until the second half of 2015.

In the longer term, it is likely that the increased flexibility will lead to fewer people buying an annuity. However, consumer research indicates that a guaranteed income for life continues to be an attractive retirement option. It is also clear that longevity risk cannot be managed on an individual basis.

After April 2015, we see the potential for our addressable market to increase as more retirees are encouraged to shop-around through the Pension Wise service. We are pleased to note that the guidance process will be impartial and we will continue to work with government, regulatory and industry stakeholders as the new regime is developed.

The “Additional Protection”, where the FCA is expected to require pension providers to ask customers about key aspects of their circumstances that relate to the choice they are making, is also expected to be helpful.

The long-term structural drivers behind the growth of the defined contribution pension market remain intact. The new regulations create the opportunity to develop new products where our unique intellectual property and versatile product development capability mean we are well positioned for success in the future.



## DEFINED BENEFIT ANNUITIES

Defined Benefit bulk annuity (DB) sales were unaffected by the Budget.

We have continued to invest in the development of our defined benefit de-risking proposition with investments into our support infrastructure, pricing capability and our sales capability throughout the year to ensure that we are best-placed to succeed in this nascent and potentially material medically underwritten market.

This investment was rewarded with the completion of the UK's largest medically underwritten defined benefit de-risking transaction in December 2014. This £206m transaction confirms the potential of the market opportunity and our ability to compete within it.

Our focus is on increasing the proportion of deals that are medically underwritten. In 2014 we have extended and strengthened our distribution network and Employee Benefits Consultant (EBC) relationships and are encouraged by the increased acceptance of medically underwritten transactions amongst EBCs, scheme trustees and sponsoring companies.

We have a strong, high-quality pipeline moving into 2015.

## CARE ANNUITIES

Sales of care annuities were increased by 15% to £76m (2013: £66m) following an intensive adviser education campaign.

After subdued trading in 2013, which reflected the outcome of the RDR on advisers selling Care Annuities and uncertainty surrounding Government Care policy, advisers appear to be returning to the market.

However, the conversion from quote to policy for Care Annuities can be lengthy and unpredictable and the impact on sales may take longer to be seen.

## PROTECTION

Protection sales are unaffected by the Budget and remained flat at £3m (2013: £3m).

Partnership regards protection as an opportunity to leverage our proprietary Intellectual Property (IP) to be able to provide protection cover for people that other insurers cannot quote for.

Whilst a small component of our business in 2014, there are opportunities to grow in the future, as we increase the pool of potential customers we are able to protect.

## FINANCIAL HEADLINES

Further detail on the IFRS result and economic capital position is set out in the Financial review on pages 87, 89, 91, 93 and 94.

Total operating profit in 2014 was £64m (2013: £131m), a decrease of 51%. Within this overall result, we have delivered new business operating profits of £39m (2013: £86m), achieving a new business operating margin of 4.9% (2013: 7.0%).

The fall in new business operating profit is largely due to the lower sales resulting from the 2014 Budget announcement. The overall impact of reduced volumes on new business operating profit and margin has been mitigated to an extent by our maintenance of pricing discipline, prioritisation of margin over volume and by expense reduction actions.

The cost management proposals announced in June together with the actions taken immediately post Budget are now expected to generate cost savings of £26m against the anticipated 2015 cost base of £101m, resulting in us targeting underlying operating expenses of approximately £75m in 2015.

Profits emerging from the in-force book in 2014 were £9m (2013: £34m). The 2013 result included the benefit from the release of expense reserves due to economies of scale realised on in-force business, in part due to the transfer of the administration of a significant acquired block of in-force annuities onto our in-house administration platform. The 2014 result is therefore more representative of the underlying level of in-force profits. The net impact of assumption changes made during 2014 was £(3)m.

We delivered an expected return on surplus assets of £16m (2013: £11m), reflecting the growth in surplus assets in the period and allocation into higher-yielding assets, including equity release.

The level of excess economic capital at 31 December 2014 was £132m (2013: £173m), giving a capital coverage ratio of 134% (2013: 159%), which is in excess of our targeted minimum of 125% under normal economic circumstances.

Taking into account the March 2015 bond issue, the economic capital excess increased to £232m/159% on a proforma basis.

The close matching of assets and liabilities, efficient use of reinsurance, and monitoring of risk levels against our Board tolerances means the proforma economic capital position remains in excess of the Board's minimum targets for the stress and scenario tests we perform.

Assets under management have increased to £4.9bn (2013: £4.1bn), including accrued interest, but excluding £270m (2013: £272m) of assets that the Group manages on behalf of reinsurers under certain reinsurance arrangements.

Our focus remains on seeking superior risk-adjusted yields and capital efficiency for the benefit of policyholders and shareholders.

Our investment portfolio is of high overall quality with (excluding equity release assets) in excess of 64% (2013: 66%) invested in bonds rated A or better and 99% (2013: 99%) rated BBB or better.

We continue 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 we 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%). This increased proportion is due in part to the reduction in risk-free rates during the year, as well as a slightly higher proportion of equity release assets allocated to back new annuity business.

In September 2014 we made our first investment into commercial real estate mortgages, which offer an attractive risk-adjusted return and are a good match for our annuity liabilities. At the end of 2014 we had £38m invested in high quality assets and are expecting to increase this investment over the course of 2015. We have in place a mandate with NM Rothschild & Sons Ltd and we are actively investigating other alternative assets that can provide superior risk-adjusted returns for the benefit of shareholders or to match insurance liabilities.

Total market consistent embedded value (MCEV) as at 31 December 2014 was £576m (2013: £520m). The majority of the increase in the year is due to the MCEV of new business which was £56m (2013: £81m) net of tax.

## INVESTING IN OUR FUTURE

Despite the disruption to our business caused by the Budget changes, we have continued to innovate and invest for the benefit of our customers and shareholders.

In 2015 we will continue to invest and innovate and expect to incur approximately £12m on non-recurring cash items. This investment includes expenditure on Solvency II as well as circa £5m on development of our Retirement Account and US Care initiatives.

Our investments in both human capital and technology enable the continued improvement in Partnership's Intellectual Property (IP), underpinning our core competitive advantage in the individually underwritten annuity market.

# Our strategy remains unchanged as we diversify and strengthen our business



## Leverage Partnership's proprietary intellectual property

 See page 18

### Plans for the future:

- ▶ Maximise the scale, breadth and useability of our IP
- ▶ Continue to align our underwriting and mortality bases
- ▶ Continue to develop our underwriting and mortality bases

- ▶ Enhance our presence in the impaired market
- ▶ We plan to use our IP to work towards launching a US Care product



## Improve access for customers to individually underwritten, retirement, care and bulk annuities

 See page 19

### Plans for the future:

- ▶ Support our distribution relationships through the next period of difficult change
- ▶ Develop and launch products for the post April 2015 environment
- ▶ Continue to grow the medically underwritten Defined Benefit market

- ▶ Enhance our protection proposition
- ▶ Continue to develop our strong relationships with specialist Financial Advisers and Financial Advice networks
- ▶ Continue to maintain and build upon our reputation for first class service



## Maximise risk-adjusted returns on capital to shareholders

 See page 20

### Plans for the future:

- ▶ Focus on pricing discipline to generate long-term value to shareholders
- ▶ Develop new pricing methodologies and more capital-efficient asset strategies

- ▶ Maintain a group of "A" rated or better global reinsurers
- ▶ Maintain a conservative investment strategy which delivers attractive risk-adjusted returns



### Leverage Partnership's proprietary intellectual property

#### WHY THIS MATTERS

Our individually underwritten annuity products are priced using our longevity IP, comprised of our proprietary mortality assumptions and underwriting systems and processes. This longevity IP has been developed and refined using medical and mortality data gathered from our customer base over 20 years, influenced by extensive analysis of population trends and research into medical advances.

We apply our longevity IP to estimate future mortality rates of individuals, who generally have a reduced life expectancy compared to healthy individuals. With this information we are typically able to offer a higher annuity to customers with medical or lifestyle issues than a standard annuity provider can achieve.

Our medical and mortality data, our ability to use it to price our existing products competitively and profitably, and the application of this data to develop new, innovative products and propositions in both existing and new markets, are critical components of our competitive advantage and future growth prospects.

#### PROGRESS UPDATE

What we said we would do	What we actually did in 2014
<p>We intend to continue to grow our proprietary IP to deepen our understanding of future longevity trends amongst those retiring with medical conditions.</p> <p>As we grow, we enrich our proprietary IP, collecting and analysing information on a growing number of customers and potential customers.</p>	<p>Increases in our mortality database reduced the uncertainty around our mortality assumptions by 9% year-on-year.</p> <p>We performed two major reviews of our mortality experience for each product.</p> <p>Developments to our underwriting systems allow us to store and evaluate all data points on past business, not just those used as rating factors in the initial assessment.</p> <p>We have increased the review of historic business.</p>
<p>We will leverage this growing understanding of individual and combinations of medical conditions to identify areas where we can improve the terms being offered to customers.</p> <p>We will also use this information to help identify pricing inefficiencies in parts of the market to improve customer rates and product margins.</p>	<p>We implemented two material refinements to our Retirement underwriting basis during the year, with particular focus on the interaction between multiple conditions.</p>
<p>Our proprietary IP has become increasingly extensive and high quality. To fully utilise this to our benefit, we have established a research and development function to continue to develop and enhance our IP and consolidate our core competitive advantage.</p>	<p>Eleven research papers and thematic reviews were compiled during the year, targeted to areas of specific interest given our quote mix and experience. This research was directly used in our mortality and underwriting basis developments implemented.</p> <p>Our longevity experts improved industry and public understanding of longevity issues by presenting at conferences and seminars, as well as participating in panels and governmental discussions.</p>
<p>We have committed resources to developing our international strategy further with a view to launching an international business in the future.</p>	<p>We have confirmed that our IP is transferrable to the US Care market and have developed draft underwriting and mortality bases for that market.</p>

#### PLANS FOR THE FUTURE

We intend to maximise the scale, breadth and usability of our longevity IP, and leverage this to regularly review, refine and enhance our market-leading underwriting and mortality assumptions, systems and processes and to improve our understanding of longevity risk.

We will continue to bring our underwriting and mortality bases into ever closer alignment, bringing together our evolving mortality experience, findings from our medical research and leading-edge underwriting developments.

We will continue to conduct research into, and thematic reviews of, key elements of our underwriting and mortality bases, and melding these with emerging thinking on the theoretical and conceptual foundations of our mortality models.

The refinements and enhancements we make to our underwriting and mortality bases will be used to enhance our presence in the impaired market, improving returns to customers wherever possible.

We plan to continue to use our IP to work towards launching a US Care product.





## Improve access for customers to individually underwritten, retirement care and bulk annuities

### WHY THIS OBJECTIVE MATTERS

In the new, flexible, pension market, customers still need a secure, guaranteed income for life as an underpin to their retirement income planning. If they choose an annuity to provide this security those who are eligible will achieve a higher income for life from an individually underwritten annuity than they will from a standard annuity.

Access to individually underwritten and care annuities is good for customers and provides an increased market size for specialist providers to service.

### PROGRESS UPDATE

What we said we would do	What we actually did in 2014
With only approximately half of those who may be eligible for individually underwritten annuities currently purchasing these products, we intend to develop new routes for potential customers to access our products.	This aim was partially undermined by the Budget as fewer people purchased individually underwritten annuities in 2014. We leveraged our IP to develop individually underwritten bulk annuity business.
Our multi-channel distribution model aims to raise awareness and improve access through all major channels of distribution including Financial Advisers (FAs), FA networks, banks, EBCs and corporate channels.	We continued to operate a multi-channel distribution model and 9,700 new customers benefited from Partnership's expertise and now enjoy a guaranteed income for life.
We aim to improve the quotation and take-up rates of individually underwritten annuities amongst the customers of those distributors with whom Partnership has long-term relationships. We will help educate intermediaries to increase their understanding of our products' benefits.	Partnership worked to engage with intermediaries to provide support at what was an uncertain time. This included adverts in national newspapers highlighting the benefits of the reforms, 16 national adviser forums, technical briefings and face-to-face meetings with key advisers.
We will increase our footprint with EBCs.	We have increased our footprint amongst EBCs, with 12 now actively involved in medically underwritten business.
We intend to leverage supportive regulatory and political developments to develop further our relationships with corporate partners, assisting them in discharging their responsibilities to "treat customers fairly" and/or provide better value.	This aim was partially undermined by the Budget. We worked to persuade the FCA to introduce back-stop guidance highlighting the importance of securing retirement income to meet basic needs.
We will fully support government and regulatory initiatives that are aimed at improving customer outcomes.	We have engaged fully and positively with government and regulators since the Budget to help ensure that the Guidance Guarantee would be impartial and give appropriate consideration to the role that individually underwritten annuities can play in retirement planning.

### PLANS FOR THE FUTURE

Continue to work with the regulator and government to ensure best outcomes for customers and the continuing role of individually underwritten annuities as a key part of retirement planning.

Support our distribution relationships through the next period of change for the industry, ensuring that we, and they, are best placed to provide the retirement products that customers require.

Develop a Retirement Account that satisfies the customer's need for flexibility but with a guaranteed income for life.

Continue to grow the medically underwritten defined benefit market and further expand and deepen the relationships with EBCs.

Develop an enhanced protection proposition.

Continue to develop our strong relationships with specialist Financial Advisers and Financial Advice networks.

Continue to maintain and build upon our reputation for first class service.



## Maximise risk-adjusted returns on capital to shareholders

### WHY THIS OBJECTIVE MATTERS

As a regulated insurance company, we have a rigorous approach to risk management and a strategy to maximise risk-adjusted returns to shareholders, subject to remaining within clearly defined, prudent risk parameters.

We are required to hold sufficient capital to ensure that we can satisfy our obligations to policyholders under stressed conditions.

Delivering an appropriate return on the capital invested in our business enables us to price our products competitively, invest for the future, and generate long-term value to share-holders.

### PROGRESS UPDATE

What we said we would do	What we actually did in 2014
We will continue to maintain a strong capital position within the business and monitor it through internal capital management tools to ensure that appropriate buffers are maintained above our risk-based capital requirements.	Our capital position remains strong and able to withstand extreme shocks and stresses.  In March 2015 we raised £100 million of additional debt capital to further strengthen our capital position and enable us flexibility to pursue new growth opportunities.
We will continue to develop new pricing methodologies and more capital efficient asset strategies. This will help to ensure that we can aim to write capital generative new business, which is a critical component of our strategic objectives.	During 2014 we investigated and began investing in commercial real estate mortgages. This asset class provides a good risk-adjusted return and is a good cashflow match for our insurance liabilities.
We will maintain a diversified group of global reinsurers with ratings or collateral structures equivalent to a rating of "A" or better. This will assist in the management of our capital, transfer longevity risk and support our pricing competitiveness. We intend to continue to improve these arrangements by strengthening our relationships with current and potential reinsurance partners.	We have maintained our existing relationships with our reinsurers, all of whom remain financially strong.
We will maintain a prudent investment strategy focussed on delivering a competitive risk-adjusted yield in a capital efficient manner and by duration matching its liabilities with cash flows from a diversified asset base.	The investment strategy was diligently applied to ensure that the risk adjusted yield is competitive and assets are closely matched to liabilities. This includes selling corporate bonds into risk-free assets and more efficient inflation hedging.

### PLANS FOR THE FUTURE

We will continue to maintain a strong capital position within the business and monitor it through internal capital management tools to ensure that appropriate buffers are maintained above our risk-based capital requirements.


We will continue to develop new pricing methodologies and more capital efficient asset strategies and will investigate other asset classes that might diversify our asset portfolio and further improve our risk-adjusted yield. This will help to ensure that we can aim to write capital generative new business and therefore continue to self-fund our growth, which is a critical component of our strategic objectives.

We will maintain a diversified group of global reinsurers with ratings or collateral structures equivalent to a rating of "A" or better. This will assist in the management of our capital, transfer longevity risk and support our pricing competitiveness. We intend to continue to improve these arrangements by strengthening our relationships with current and potential reinsurance partners.

We will maintain a prudent investment strategy focussed on delivering a competitive risk-adjusted yield in a capital efficient manner and by duration matching its liabilities with cash flows from a diversified asset base.

We will focus on pricing discipline to generate long-term value to shareholders.





**“A guaranteed income means that I can concentrate on helping out my local community. The Budget didn’t change my mind.”**

Ron Macrae

Ron Macrae, 64, knew that his pension provider was unlikely to offer him the best deal. After considerable online research, he decided to go with a Partnership single life annuity. He took out his annuity amidst the Budget changes, but opted to go ahead because he wanted a guaranteed income.



# Individually underwritten retirement and care annuities

Until 2014, annuities represented a significant and growing proportion of the at-retirement market in the UK. Partnership achieved significant growth through its individually underwritten annuity proposition, which allows customers with health conditions to benefit from better annuity rates.

## RETIREMENT

The 2014 Budget announcement in relation to the proposed reforms of pension taxation had an immediate impact on the annuity market. There is a wide range of views about the eventual effect of the proposed reforms on the size of the annuity market, on customer behaviour and how the market will develop.

In the nine months post-Budget to 31 December 2014, annuity sales across the market fell by approximately £4.2bn, or approximately 50%, compared with the same period in the prior year. Meanwhile, sales of drawdown contracts increased by approximately £0.7bn. It is evident that, since the Budget, most of those who have decided not to buy an annuity have also not chosen to invest in alternative products. Rather, they have deferred making any retirement income decision until the regulatory changes are implemented next month and there is more clarity regarding potential new products which may be launched subsequently.

Despite this recent disruption, we believe that the evidence supports a recovery in this market over time:

- An independent study published in January 2014 by the International Centre for Longevity-UK showed that 70% of people with defined contribution pensions rank an income guaranteed for life as the most important consideration in retirement planning. This is consistent with our own research immediately after the Budget which showed that 64% of customers held this view;
- The structural drivers of the market which helped to deliver the growth we achieved in the years prior to the Budget remain intact; the transition from defined benefit to defined contribution schemes is ongoing and the value of defined contribution pension pots reaching retirement is still expected to grow by 10–15% each year for the next 20–30 years, with the at-retirement market expected to reach £29bn in premiums by 2020; and
- Finally, more customers may be prompted to shop around than before the Budget due to the increased awareness of retirement income options, the introduction of the Guidance Guarantee, and the “Additional Protection” expected to be introduced by the FCA. In aggregate, these factors may potentially increase the number of customers who may look to purchase an annuity in the open market, in which we operate.

We expect products to be developed to meet evolving customer preferences, but there is increasing recognition of the benefits of an annuity being used to secure a core level of income guaranteed for life to cover essentials such as eating, heating and council tax. For others, a retirement account product, which uses a proportion of a customer's pension savings to provide an income guaranteed for life, and allows the remainder to be invested in more risky alternatives, might be appropriate.

## PARTNERSHIP'S PLACE WITHIN THIS MARKET

During 2014, sales of individually underwritten annuities were £466m (around a third of the pre-Budget levels). In the short term it is possible that deferrals will increase further as the April 2015 implementation date approaches, but we believe that annuities, or another form of individually underwritten longevity protection, will continue to form a key part of retirement planning after April 2015.

For our average customer with a pension pot of £50,000–£60,000, it is likely that the vast majority of the pot will be required to secure a level of income sufficient to cover basics, even with our enhanced individually underwritten annuity rates and the state pension.



# “There are a wide range of views on the eventual impact of the proposed reforms on the size of the annuity market.”

We continue to develop a retirement account proposition, although confirmation of the product legislation is required for this to be finalised. However, as market and customer preferences develop, we believe that we are well placed to use our unique proprietary intellectual property to develop individually underwritten alternatives within the at-retirement market.

## CARE ANNUITIES

Care annuities offer a guaranteed fixed income paid directly to a registered care provider for the life of the customer, in exchange for an up-front lump sum premium.

Care has featured on the political agenda this year, with the Care Act receiving Royal Assent in May 2014. Amongst other features, this Act seeks to increase public awareness about the need to make provisions for the cost of care. It makes provisions for local authorities to establish and maintain a service for providing people with information and advice on how to access independent financial advice on matters relevant to care and support needs.

There is considerable structural growth potential in the market. The population aged 80 and over is projected to grow from 3m in mid-2012 to 6.2m by mid-2037, more than doubling over 25 years. By mid-2087 the projections suggest there will be 11.3m people aged 80 and over in the UK (source: ONS).

## PARTNERSHIP'S PLACE WITHIN THIS MARKET

Care annuities represent a smaller revenue driver for us than individual and bulk annuities, but we have led this market for 15 years, writing £76m of care annuities in 2014.

# Defined benefit

There are approximately £1.8tn of defined benefit liabilities on the balance sheets of UK companies.

The market for bulk annuities has been active for over 25 years, as corporate sponsors and trustees focus on active deficit and risk reduction management strategies for these legacy schemes. Bulk annuities provide a guaranteed retirement income to pension scheme members, whilst removing or reducing exposure to pension risk and uncertainty for the corporate sponsor and the pension scheme trustees.

Bulk annuities have been unaffected by the proposed pension reforms and market commentators predict significant growth in this market. It is projected that the overall DB market will increase to over £20bn per annum by 2020 (source: KPMG Bulk Annuity Market Insight Report).

## PARTNERSHIP'S PLACE WITHIN THIS MARKET

By bringing our high data approach to the defined benefit market, we are able to use our expertise and unique proprietary intellectual property in medical underwriting to more accurately price the longevity risk of pensioners within defined benefit schemes, often resulting in more attractive prices for trustees.

We were the first company to offer this proposition to the UK defined benefit market and are the market leader, having written £84m and £247m of medically underwritten bulk annuities in 2013 and 2014 respectively.

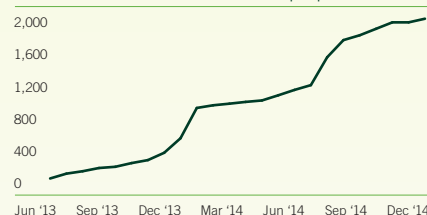
Our core market is pension schemes with liabilities under £100m, as these schemes are typically not large enough for traditional low data pricing to accurately reflect their risk profile. There are approximately 5,000 schemes in this sector of the market, representing £180bn of liabilities.

Beyond our core market, pension schemes larger than £100m can benefit from medical underwriting via our "top-slicing" and "selective risk removal" propositions, which transfer the risk for a specific population of scheme members, rather than the whole scheme. This allows trustees to insure those pensioners with the largest liabilities, and hence the highest concentration of risk, or to selectively remove risks within the scheme, for example, purchasing a bulk annuity to cover pensioners who retire early due to ill health. We can therefore bring the benefits of medical underwriting to the entire spectrum of DB pension scheme sizes.

### DEFINED BENEFIT SALES £m

2014	247
2013	84
2012	0

### CUMULATIVE PENSIONERS BEING UNDERWRITTEN (COMPETITIVE BULK ANNUITY PROCESSES) Number of people



“Bulk annuities have been unaffected by the proposed pension reforms.”

# International care

## US CARE MARKET

There is a wide spectrum of long-term care provision in the US, including:

- Independent Living Facilities, where care recipients do not require assistance with daily activities;
- Assisted Living Facilities for care recipients who are not able to live independently, but may need personal care or assistance with meal preparation;
- Skilled Nursing Facilities which are staffed 24 hours a day by medical staff for those with chronic conditions requiring long-term care or those needing a shorter-term acute recovery period after hospitalisation; and
- Home Health Care, where caregivers are hired to provide care in the home.

It is estimated that there are approximately 3.5m long-term care recipients in the US at any one time. Each year, there are a further 850,000 new entrants to Assisted Living Facilities, Skilled Nursing Facilities and Home Health Care settings, self-funding approximately \$45bn per annum on care provision (Source: Towers Watson). Government funding provides for initial care via Medicare and Medicaid schemes, but duration and means-tested limitations apply and eligibility and services covered vary from state to state, resulting in this large residual self-funding market.

US demographics support an increase in the number of individuals who may require these facilities; the 5.5m people over the age of 85 in the US in 2010 is projected to grow to 8.7m in 2030 and 19m in 2050 (source: 2010 US census).

For those who plan early enough, pre-funded long-term care insurance products are available. However, applicants must be able to pass underwriting criteria to determine that they are healthy when purchasing the policy. Many insurers have withdrawn from the market and it has undergone significant re-pricing due to initial assumptions overestimating investment returns and lapse rates, resulting in insufficient premium levels. As a result, US insurers participating in this market have had to strengthen reserves and de-scope the benefits on new products to improve profitability.

Options are limited for those at the point of need who do not have a pre-funded long-term care insurance product.

## PARTNERSHIP'S PLACE WITHIN THIS MARKET

We have identified a significant opportunity in the US for an immediate needs care annuity, similar to Partnership's existing UK care product.

We have evaluated its intellectual property and the results confirm the validity of the dataset for application to the US market.

We believe a reinsurance arrangement with a US partner is likely to provide an attractive risk/reward balance and speed to launch. It is expected that this structure will allow the key strengths of Partnership (e.g. product development, leverageable intellectual property and pricing) and a US partner (e.g. brand, distribution network, infrastructure to support regulatory compliance) to be combined.

Our discussions with US partners are progressing and further updates will be provided in due course.

Proposition resonates with wide range of interested parties

### CUSTOMER



- Certainty of lifelong income to fund care
- Protection of residual assets
- Avoid Medicaid dependency

### FAMILY



- Peace of mind
- No call on family
- Potential early access to residual assets

### SENIOR LIVING FACILITY



- Self-funder fees guaranteed
- Marketing opportunity for new residents

### GOVERNMENT



- Positive solution to address key policy area
- Reduction in Medicare costs

# We have a robust, differentiated business model

1

## We deploy our unique resources and skills...

- ▶ Proprietary Intellectual Property
- ▶ Underwriting and pricing expertise
- ▶ Investment management
- ▶ Capital management
- ▶ Reputation and brand

2

## ...and capitalise on our key relationships...

- ▶ Customers
- ▶ Regulators and industry groups
- ▶ Distributors
- ▶ Reinsurers
- ▶ Suppliers
- ▶ Our people

## ...across our value chain.



### Product and proposition

#### Individual annuities

Our individually underwritten annuities are designed for customers with a reduced life expectancy as a result of diseases such as cancer or other medical conditions, and also for customers with lifestyle conditions such as high blood pressure, obesity or high cholesterol, who smoke or have any combination of these factors. Income rates on our individually underwritten annuities typically exceed income rates on standard products.

#### Care annuities

Our care annuities provide a guaranteed level of income for customers who are entering residential care or who are receiving domiciliary care. Care annuities are structured so that payments are made by Partnership directly to the care provider, usually on a monthly basis, for the rest of the customer's life. This results in tax-free payments being made to the care provider on the customer's behalf.

#### Defined benefit

We introduced the medically underwritten pricing approach to the UK bulk annuity market based on our proprietary intellectual property in 2013. Under the medically underwritten bulk annuity approach, we conduct a review of the scheme liabilities by performing individual assessments of life expectancy and therefore assessing longevity on a member-by-member basis. For schemes with an appropriate member composition, we may be able to offer attractive bulk annuity pricing to scheme trustees.

#### Associated principal risks

Underwriting, pricing and reserving risk (see page 36); distribution risk (see page 38); regulatory, legal and political environment risk (see page 39).



### Distribution

#### Individual annuities

Our individual annuities are sold through intermediaries. These intermediaries do business with us because we offer market leading products to our customers; products with benefits that they can market effectively. But we also make sure that we build the very strongest relationships possible with our partners and provide them with the efficient service that they need to manage their businesses effectively.

Our ability to develop and leverage these relationships position us well for future growth.

#### Care annuities

Care annuities are a specialist product requiring a high level of adviser knowledge and were historically distributed principally through specialist advisers. However, a growing awareness of the potential benefits of care annuities is leading to more care annuities being distributed by traditional intermediaries. An increasing number of these traditional intermediaries are now able to provide advice on care annuities and we work with these advisers to streamline sales processes and increase adviser and customer awareness.

#### Defined benefit

We do not provide advice to scheme trustees. The advisory component of the transfer is provided by a scheme trustee's Employee Benefit Consultant (EBC) – individual members do not receive advice in connection with a DB de-risking transfer. Our traction in this nascent market is beginning to grow, as demonstrated by a growing pipeline of DB deals and broader spread across different EBCs reflecting both the increasing recognition of medical underwriting in defined benefit de-risking and the stronger and broader relationships that we are cultivating with EBCs.

#### Associated principal risks

Distribution risk: (see page 38); regulatory, legal and political environmental risk (see page 39).





## Underwriting and pricing

### Individual annuities

We have our own proprietary underwriting manuals which, when combined with our mortality data and our underwriting and actuarial expertise, allow us to assess an individual customer's likely life expectancy – rather than simply taking the average – and so we can then usually offer better benefits than a mainstream insurer can.

### Care annuities

Our care annuities are underwritten using a system with a series of questions relevant to the customer and their medical history and taking into consideration a wide range of prognosticating factors such as demographic factors, medical conditions, symptoms, treatment and care needs.

### Defined benefit

The cost of the bulk annuity is typically priced more accurately than that provided by a traditional bulk annuity provider, which means that Partnership may win business where a traditional bulk provider has priced using aggregate mortality data and the membership-specific underwriting we use gives rise to a greater than average incidence of lifestyle or medical conditions.

#### Associated principal risks

Underwriting, pricing and reserve risk (see page 36); specific insurance risk (see page 36).



## Administration

### Individual annuities and care annuities

Our back office processes and operating platform have been developed to offer consistently high levels of service for both customers and our distributors. Our expert administration teams support both Care and Retirement annuities and the achievement of industry awards are testament to the high levels of service we provide. The administration of these products is outsourced to Capita with whom we have worked with for over five years, consistently delivering positive outcomes for our customers.

### Defined benefit

The administration of our defined benefit business is outsourced to JLT Retirement Solutions. As market leader, this approach utilises JLT's specialist expertise in achieving a positive outcome and high level of service for both the trustee and end beneficiary. This is evidenced by the efficient on-boarding and administration of schemes supported to date.

Further growth and product enhancements throughout 2015 will provide ongoing opportunity to ensure that the high levels of service and satisfaction that individual customers receive is replicated for our Defined Benefit proposition.

#### Associated principal risks

Operational risk (see page 39).



## Investment

### Individual annuities, care annuities and defined benefit

As our assets under management grow, we are able to take advantage of different asset strategies to diversify the asset risk we take (which also reduces our capital costs) and improve the return that we make on investments. Our investment portfolio is held in fixed income securities, commercial mortgages, cash and equity release assets which match the cash flow and duration of our annuity liabilities. Our illiquid liabilities allow us to allocate a prudent amount to illiquid asset classes such as equity release and commercial mortgages. Derivatives are used to hedge out unwanted or unrewarded risks.

#### Associated principal risks

Interest rate and spread risk (see page 37); market credit risk (see page 37); property risk (see page 37); liquidity risk (see page 38); regulatory, legal and political environment risk (see page 39).

# Our business model succeeds because it is underpinned by key resources and relationships

### KEY RESOURCES AND SKILLS

#### Proprietary intellectual property

A significant amount of medical information is required to correctly price an individually underwritten annuity.

Our pricing engine is driven by a very high number of rating factors, significantly improving mortality assessment.

The Partnership medical questionnaire asks approximately 250 questions, whereas for a standard annuity provider, no medical questions are asked. Therefore, there are around 250 rating factors considered, almost all medical related, in setting the annuity price, compared to typically less than five non-medical factors for a standard writer.

This proprietary Intellectual Property (IP) allows us to reserve more accurately for our business and the feedback loop from existing business experience helps to refine the mortality estimates for each applicant.

Our proprietary IP allows us to offer better rates to annuity customers because of greater confidence around longevity. It also supports a significant new business franchise and large distribution footprint and allows us to quote competitively on every medical or lifestyle condition.

#### Underwriting and pricing expertise

In contrast to other individually underwritten annuity market competitors, we own the underlying mortality data and have developed our own underwriting tables and manuals.

We have also collected our data since 1995, far longer than any competitor.

All underwriting is undertaken within Partnership, with a small number of complex cases reviewed by its medical officers.

The underwriting team comprises a technical underwriting function, which is responsible for developing and maintaining the underwriting manuals and ensuring compliance with those manuals, and an operational underwriting function which undertakes the day-to-day assessment of life expectancy decisions on a case-by-case basis.

We have automated the process of performing the assessment of life expectancy for the majority of fully underwritten cases to produce annuity quotes directly from an annuity online portal after input of policyholder medical information by the financial adviser. For paper based applications, the automated process speeds up the initial stage of life expectancy assessment whilst also allowing the underwriters to make manual adjustments based on the specifics of each case.

We have established a separate pricing team to work on defined benefit buy in/ buy out business. This team works very closely with the underwriting and pricing teams for the individual business to ensure that we utilise our IP to best advantage.

#### Investment management

Our objective is to invest in assets that provide a high risk-adjusted yield and which are efficient from an economic capital perspective. Our investment strategy is subject to prudent risk management through close matching of liabilities and diversification of risk across the investment portfolio.

Our investment portfolio is high quality and held in fixed income securities, cash, equity release and commercial real estate mortgage assets. Investment in commercial real estate mortgages commenced in 2014.

The fixed income investment policy is set by the Board and based on advice from the Chief Investment Officer and the Investment Committee. The day-to-day implementation of this policy for fixed income securities is outsourced to Insight Investment Management (Global) Limited (Insight Investment Management) under an investment management agreement which specifies strict portfolio allocation and risk limits, including interest rate, credit and concentration limits.

Our equity release mortgage investments are focussed on those with relatively short expected terms, either by originating loans with individuals with shortened life expectancies or by acquiring existing books of older equity release mortgages from third party originators.

Our commercial real estate mortgages are managed by NM Rothschild & Sons Ltd under an investment management agreement that sets limits on the type, duration and quality of real-estate asset that may be mortgaged.

#### Capital management

We set our product margins with the aim of ensuring that new business written in a particular period is capital generative, across the new business portfolio as a whole.

#### Reputation and brand

Partnership is the longest established UK insurer specialising in the design and manufacture of financial products for people whose health means that their life expectancy is likely to be reduced. Our brand and reputation are key to the success of our business.

# “Our proprietary Intellectual Property allows us to offer better rates to annuity customers because of greater confidence around longevity.”

We cater for customers with a wide variety of health conditions, from the relatively minor such as high blood pressure, to the more serious such as heart failure, stroke, diabetes, kidney failure and cancer. By looking at every aspect of our customers' health we aim to deliver the maximum benefit we can.

In November 2014 we won a 5 Star Service Rating at the prestigious Financial Adviser Service Awards. The Financial Adviser Service Awards are considered the benchmark for service standards within the retail financial services marketplace with companies working hard to secure a rating between one and five stars. These are compiled based on intermediary voting across a number of key criteria with only the providers who show outstanding performance in all areas having a chance to secure a five star rating.

This is the fifth year that we have won this accolade and it highlights our continued commitment to providing intermediaries with top quality products and service.

We have won a number of other awards in 2014 including:

- Moneywise Pension Awards – best Enhanced Annuity Provider;
- Moneyfacts Awards – best Enhanced Annuity Provider; and
- Moneyfacts lifetime mortgage 5 stars

## KEY RELATIONSHIPS

### Customers

We continue to recognise the responsibility we have to our customers, and we have a programme of customer research ongoing with our policyholders, to ensure we are meeting their expectations. The results have been consistently positive, with customers scoring all aspects of service highly.

From our last survey in 2014, 82% of policyholders agreed that their policy met their needs and 88% rated our service as good or excellent. Despite these positive scores, we have considered the feedback received and are planning a range of initiatives to help us to improve our service proposition further in 2015. This research is key in helping us provide a responsible, fair and helpful service.

We treat all customer complaints seriously and aim to ensure fair and prompt treatment. Although allowed eight weeks by regulation, we aim to resolve 95% of all complaints within four weeks. In addition, our front-line staff resolve a significant number of customer queries at the point of contact, meaning that customers receive the required response without the need to follow a formal complaints process. Regular “Root Cause Committee” meetings provide the opportunity for us to have constructive discussions and engender change where necessary, to ensure continuous improvement. This highlights our commitment to customer service.

We share a good relationship with the Financial Ombudsman, who has supported us in the majority of our decisions and has also commended us for the quality of our complaint handling and file submissions.

**“88% of customers rated our service as good or excellent.”\***

\* 2014 Partnership Customer Survey.

“...the right annuity purchased on the open market offers good value for money relative to alternative drawdown strategies – FCA.”\*

### Regulators and industry groups

With significant changes to the retirement and care markets to be implemented in 2015, we are working hard to ensure that good consumer outcomes are at the heart of legislation. While the Chancellor was clear that no-one need purchase an annuity, we believe annuities will remain the best option for those who value the security of a guaranteed income for life. Significant time has been devoted to develop understanding among key stakeholders of the intrinsic value of these important products.

We have always been a strong advocate for people making the most of their pension savings – both by shopping around for the best deal and providing encouragement to access financial advice. The new pensions regime takes several positive steps towards this, but we believe more still needs to be done. That is why we are actively engaging in the legislative process to deliver better consumer outcomes.

We continue to help develop industry thinking by providing speakers or members for key representative organisations in the pensions’ arena.

We have submitted responses to legislative and policy consultations including Retirement Reforms and the Guidance Guarantee to the FCA and Freedom and Choice in Pensions to Her Majesty’s Treasury (HMT). We have produced written briefings for and met with MPs and Peers as Pensions Bills have passed through Parliament. We have sought to increase understanding and awareness about the implications of legislation within Government and have met regularly with HMT and the Department of Work and Pensions (the DWP).

We have engaged with leading “Think Tanks” which provide informed insight and play a valuable role in policy development, including acting as a sponsor of the Pensions Policy Institute’s “Transition to Retirement Series”, which is examining the challenges facing consumers as they engage in the complex decisions undertaken at retirement, among other areas.

We have also sought to generate awareness among parliamentarians and Government about the importance of financial education among the elderly.

A critical part of the new legislation is the Pension Wise guidance service, which is designed to help people ask informed questions about their retirement finances, rather than providing definitive answers. We see this service as being complementary to rather than in competition with independent financial advice. This service informs consumers about the importance of considering their options including health and long-term care needs.

To encourage positive adviser engagement with the new pensions legislation, we held 16 national roadshows with more planned for 2015, and senior members of staff spoke at industry events such as the Personal Finance Society conference attended by 1,500 advisers, Money Marketing Wired’s and the Institute of Financial Planning’s event with 400 intermediaries present.

As part of our bid to inform the pensions legislative development process, independent research has been commissioned which highlights the key outcomes for consumers as well as advisers and the potential pitfalls that they face.

In addition, we sponsored two Defaqto guides and a series of model consumer profiles which were intended for use by advisers with their clients. Launched at a debate attended by stakeholders such as the FCA, the Financial Services Consumer Panel and Age UK, these encouraged serious debate around consumer outcomes, the Guidance Guarantee and pension reform.

Partnership played a significant role in ensuring greater awareness of the importance of financial advice within the care planning process, which was reflected in its inclusion in the Care Act which will be introduced in 2015.

We continued to work closely with organisations such as the Institute and Faculty of Actuaries and the Association of British Insurers to help shape the legislation to ensure good consumer outcomes. As part of our commitment to raising awareness about opportunities and challenges presented by the Care Act, we launched our Third Care Index in June 2014.

### Distribution

Our distribution approach for our at-retirement annuity products has been designed to cultivate a diverse set of distribution channels and develop long-term relationships with our most productive distribution partners.

Over recent years, the large majority of our retirement annuities were distributed via the financial adviser (FA) channel. Whilst FAs remain a key channel we have diversified our distribution activities in order to access new pools of demand from retirees.

\* FCA – Market Study MS14/3.2 – “Retirement income market study: Interim Report”, “Provisional findings and proposed remedies December 2014” and “Thematic Review TR14/20 – Annuities sales practices December 2014”



For retirees actively exercising their Open Market Option (OMO), we operate through a network of FAs, across specialist and general financial advisers. Recently a new set of specialist annuity FAs has emerged with a view to taking advantage of the growth in the individually underwritten annuity market.

Where appropriate we have also put in place marketing services agreements with certain of our FA network partners. These agreements provide us with improved access to market our products and services to individual advisers.

For retirees who do not actively exercise their OMO and purchase an annuity through their incumbent pension provider, we work closely with selected UK life assurance companies and pension providers to offer individually underwritten annuities where the corporate partner is unable or unwilling to provide a quote. These arrangements provide access to vesting pension customers who may not otherwise take advantage of OMO. We are beginning to explore additional distribution approaches, including direct to consumer and retail brand partnership distribution.

For retirees who are part of employer defined benefit (DB) schemes, we work with employee benefit consultants (EBCs) to offer total pension income exchanges (TPIE) and buy-outs or buy-ins of small and mid-sized DB schemes as de-risking processes for scheme participants, trustees and corporates. During 2014, we strengthened and extended our DB proposition to offer trustees a greater range of de-risking options, including “top-slicing”. We also strengthened our team by recruiting high quality and experienced people. Through these services, we offer our annuity products to retirees who would not otherwise require a pension product with a guaranteed income.

There is a chronic lack of awareness among self-funders for care that they have to pay for their social care. The website [www.payingforcare.org](http://www.payingforcare.org) enables consumers to understand how the care system works for self-funders and provides access to specialist care fees advice.

### Reinsurers

Transferring a proportion of longevity risk to our reinsurance partners is a strategic component of our underwriting model, which reduces the volatility of future profits, improves pricing competitiveness and improves the return on capital.

The amount of reinsurance will vary from year to year. As the business grows, we have more flexibility to vary the level of reinsurance dependent on the business that we are writing and the attractiveness of the reinsurance rates available to us. In 2014, we reinsured a lower proportion of new business than in recent years and the overall proportion of our longevity risk reinsured was 65% at the end of the year.

We manage our reinsurance counterparty credit exposure by utilising global reinsurers who are all currently rated “A” or above (Standard & Poor’s or equivalent). In addition, credit risk is mitigated via collateral arrangements. The uncollateralised credit exposure to each reinsurer is matched by either assets deposited back as collateral to Partnership or deposited in trust for the benefit of Partnership. We become the legal owner of the collateral assets on default of a reinsurer under these arrangements.

### Suppliers

Our business model is to outsource certain operational and administrative functions where appropriate. This includes areas such as: investment management, customer medical assessments, the administration of annuity payments for both individual and defined benefits annuities and premium collection for protection products.

The relationships with the suppliers of these services are managed through a dedicated team.

## Our people

Our Corporate Responsibility policy focuses on staff engagement, well-being and commitment to the highest levels of performance.

Partnership has created a fresh and modern working environment in both the London and Redhill offices, providing facilities to enhance our staff's daily working lives.

## Listening to our people

We conduct staff surveys periodically to gauge levels of engagement in areas of the business.

With 2014 being one of the most challenging years for the Company, we issued a staff survey in December 2014 which focussed on engagement, retention, management, communication, organisational change, competitiveness and customer focus. This would also help to inform our employee engagement in the run up to the introduction of the pension reforms in April 2015 and also allow us to offer additional support or information as needed.

Staff are more positive when compared to organisations going through similar changes. Engagement scores have remained high at 82 and staff are more positive about the future of Partnership. Areas to work on are: improved internal communications; visibility of Executives; and career development.

The Staff Liaison Group (SLG), in place since 2013, comprising management levels, volunteers and elected staff, is an information and consultative group providing an opportunity for communication and an exchange of views on issues of concern and interest. The SLG is also in place to test new ideas and approaches with staff and provide an

opportunity for views of staff to be taken into account when making certain business decisions relating to Partnership. For example, the SLG plays a key part in developing actions arising from the results of staff surveys.

## Developing our people

We believe in investing in our people's development, enhancing their skills and cultivating talent. We already invest extensively in our people and actively encourage them to enhance their knowledge, skills and qualifications by supporting them through programmes of personal and professional development, in line with a robust training and competency scheme.

We want to attract and retain people of the highest possible calibre and recognising and rewarding performance plays a key part in this. Staff are rewarded through competitive remuneration and benefits alongside performance related bonuses and long-term incentive plans.

The Learning and Development Team ran a series of Leadership programmes throughout 2014, designed to reinforce and further develop key leadership skills.

We underwent a cost restructuring during 2014 and, whilst some roles were removed, other new roles were created to support the change in focus of the business going forward. Of the 40 new roles created, 17 were filled by internal moves.

Following the restructure, redundant staff received outplacement support, including CV writing, tips on how to market oneself and information on vacancies from relevant local employers. Line Managers were offered the opportunity to attend a programme on managing change and moving the business forward.

## Diversity

We have a diverse employee population in that 45% are female and 55% are male. At senior management level, 22% are female. We do not ask for, nor record, the religion or ethnicity of our staff, therefore this information is not available to report.

We aim to create and promote a safe and healthy environment for all employees, where diversity is valued and staff have a sense of well-being and feel free to question and discuss existing practices.

We will not tolerate discrimination on any grounds, whether it be on grounds of age, disability, sex, gender re-assignment, pregnancy, maternity, race (which includes colour, nationality and ethnic or national origins), sexual orientation, religion or belief, marital/civil partnership.

## Benefits

We value the contribution our employees make to the business, so in return we offer a wide range of policies and benefits designed to attract, develop and retain the best and most talented individuals. Our reward and remuneration programme, ensures market-related pay whilst enabling flexibility to recognise individual contribution. Our flexible benefits scheme allows staff on an annual basis to select a range of benefits to suit their individual needs. These benefits include BUPA health and dental membership, childcare and retail vouchers, travel insurance, health screening, holiday buy and sell and the cycle to work scheme. This is managed via an online benefits portal, through which staff can also manage their pension contributions and fund allocations. At the end of December, 91.3% of permanent and fixed-term staff were enrolled in the Group Personal Pension Plan.

# “Partnership underwent a cost restructuring during 2014, and, whilst some roles were removed, other new roles were created.”

A Share Save Scheme was offered to staff in 2014, the second scheme to be offered since its introduction in 2013 as a result of our listing on the London Stock Exchange. 57% of staff participated in the scheme. It is intended to offer these on an annual basis.

We offer an employee assistance scheme to staff called EmployeeCare. This offers information and counselling on a wide range of personal and work related topics such as debt management, family relations, health problems or career advice, with the end goal of helping employees lead and maintain a healthy lifestyle. We engage occupational health support for individuals returning to work following long-term sickness absence to facilitate a successful return to work, or where people may require adjustments to accommodate underlying health issues.

We support a range of flexible working arrangements, both formal and informal, including part time and homeworking.

## Community

We undertook a number of community initiatives during 2014, designed to help the business engage with the local communities in which its offices are based.

## Heart of the Community

Heart of the Community is an annual initiative by ESSN Media through the Surrey Mirror newspaper and 2014 was the second year running that we supported this. We offered a prize fund of £20,000 which was allocated to local projects and charity activities across areas which

included environment, education and community in the Surrey area around Redhill. Initiatives were voted for by readers of the newspaper and a number of cash prizes were awarded to the winners.

A number of staff attended the awards event to meet the winners and see the work and enthusiasm of those people who give up their time and put in so much energy to support their local communities in such diverse and creative ways. The newspaper will track the development of the local projects and charity activities over the coming year with the progress feedback to its readership and Partnership staff.

## ESSNM Sports Awards

In addition to Heart of the Community, we also sponsored the 2014 ESSNM Sports Awards. This was a legacy of our 2012 sponsorship of young Olympic hopefuls from the Surrey area, supporting sporting talent and our continued support in 2013.

## School Engagement Programme

We are proud of the extensive and varied knowledge and experience of staff and keen to help to share this within the communities in which we operate. During Q3 2014, we established a school's engagement programme, through which staff members could participate in various activities in primary and secondary schools based in Redhill and Tower Hamlets, London, the areas close to both our offices. In Tower Hamlets, staff spend time at a primary school helping students with their reading during lunchtimes. In Redhill, a number of maths and business awareness events take place where employees attend and help the students in problem solving and teamwork activities. In addition to the primary programme, a mentoring programme for secondary students was established in the year, providing further opportunities for people to engage with schools in the local community.

## Charitable donations

We support Dogs for the Disabled as our corporate charity and make regular donations. In addition, we also encourage staff to become involved in fundraising activities for their own preferred charities. For example, in 2014, this included members of the actuarial department tackling the three-peaks challenge and raising over £4,000 for Macmillan, Save the Children and Dogs for the Disabled.

As part of our commitment to supporting communities and its staff, the Company matches or makes a contribution under these circumstances.

We also support fundraising events held at our offices, either in support of the corporate charity or others such as the annual Macmillan Coffee Morning and Children in Need.



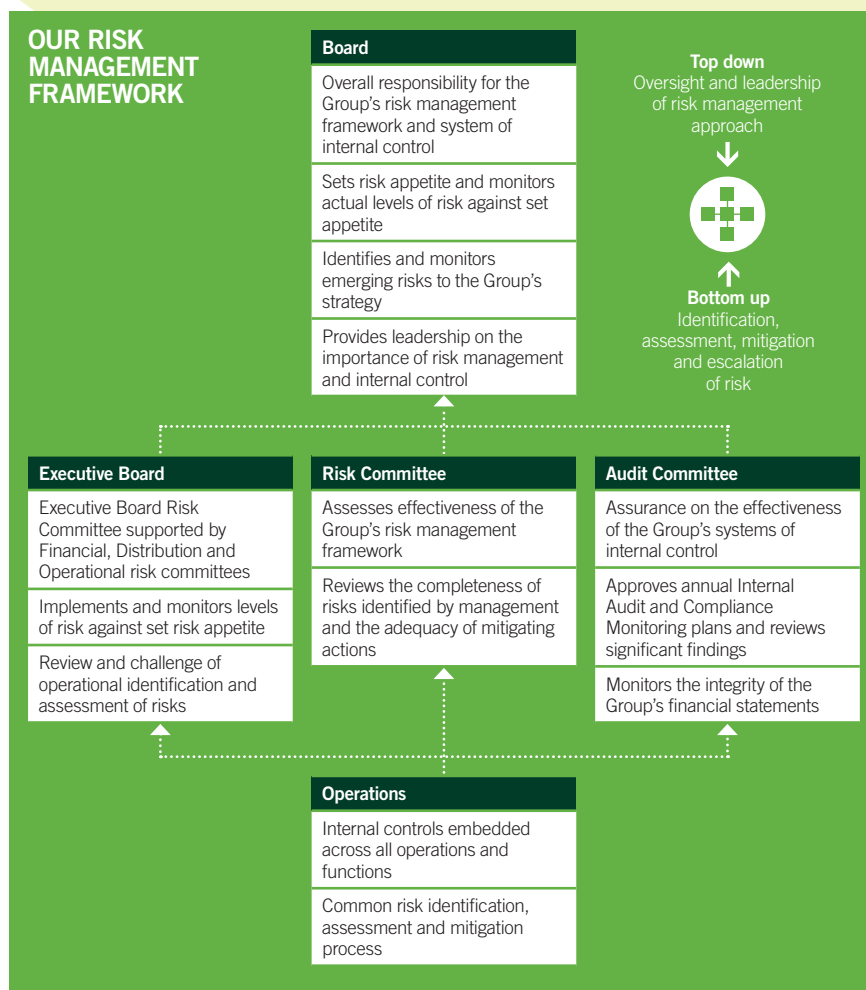
# We have in place tried and tested risk management processes that enable us to execute our strategy

The Board is ultimately responsible for maintaining the Group's risk management framework and system of internal control, and monitoring their effectiveness. However, such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives. As such, they can provide only reasonable, and not absolute, assurance against material misstatement or loss.

### THE GROUP'S RISK MANAGEMENT FRAMEWORK

The Group has a risk management framework in place comprising formal committees, a suite of formal policies, a common risk assessment process and risk review functions. The framework is underpinned by the concept of "three lines of defence" with first-line operations, second-line control functions and third-line review functions, including internal audit, designed to monitor and control total exposure to different risks within the risk appetite levels set by the Board.

The Group's Risk Committee is the committee of the Board with formal responsibility to monitor, on behalf of the Board, the effectiveness of the risk management framework and system of internal controls. The Board Risk Committee is chaired by an independent non-Executive Director, Ian Cormack (see the Risk Committee report on page 60). In addition, the Group has an Executive Board Risk Committee supported by three sub-committees tasked with overseeing the management of financial, distribution and operational risks, respectively. The Executive Risk Committees are chaired by the Chief Risk Officer and meet each quarter.



The Group's risk management function works closely with the business to monitor risk issues, identify new and emerging risks and establish appropriate procedures to mitigate those risks. This enables the risk management function to assess the overall risk exposure and maintain a consolidated key risk profile that is reviewed each quarter by management and the Executive Risk Committees, and reported to the Board Risk Committee and Board. Supporting risk profiles are maintained at executive sub-committee and individual department levels.

We maintain a consistent Group-wide process for the timely identification and assessment of the risks to which it is exposed. The risk assessment process extends to all activities including the evaluation of new and changed business activities and the management of outsourced environments. Risks are identified and assessed against our business objectives and risk appetite. All risks are assessed with and without the mitigating effect of existing controls. If existing controls do not reduce the risk to an acceptable level then additional management and operational procedures

## KEY AREAS OF FOCUS IN 2014

This year we have focussed on the following areas of the Group's risk management framework:

- Embedding the suite of Key Risk Indicator (KRI) metrics we introduced in 2013 to support management and the Board in the monitoring of the Group's risks;
- Reviewing and updating our risk management and wider corporate policies to align them with the requirements of the incoming Solvency II capital regime;
- Developing our Own Risk and Solvency Assessment (ORSA) which will be delivered at least annually and is intended to provide a comprehensive analysis of the Group's solvency position over the life of the business planning cycle; and
- Embedding the Board's view of, and appetite for, conduct risk and the sources of conduct risk in our operations and reporting.

are identified and implemented. Clear criteria exist for the escalation of new or changed risks and the ongoing status of key risks is reported each quarter through the consolidated key risk profile.

## THE GROUP'S SYSTEM OF INTERNAL CONTROL

The key elements of the Group's system of internal control are:

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

- A strategic planning process which sets a medium term strategy based on a clear understanding of the risk inherent in the markets in which the Group operates;
- A planning and budget process that delivers detailed annual and quarterly forecasts and targets for Board approval;
- Management information systems enabling the Board to receive comprehensive reporting of financial and operational performance;
- A set of formal policies, including clearly defined risk appetites, which govern the management, control and oversight of risks;
- A detailed point in time capital assessment is performed regularly. This provides a greater understanding of the financial consequences of the risks faced by the business;
- An Actuarial Assurance function, reporting to the Actuarial Function Holder, which independently reviews the work and reporting of the actuarial teams and the management of insurance and investment risk;
- A Compliance function which identifies and monitors the control of our conduct related risks and ensures compliance with regulatory requirements; and
- An Internal Audit function which provides assurance to the Board on the effectiveness of internal controls in relation to the key risks identified.

The Board considers that the controls effective during 2014 were appropriate to the needs of the Group. Nevertheless, it is committed to the highest standards of governance and business conduct and will ensure that those controls continue to develop in line with the requirements of the business, and industry best-practice.

A number of subsidiaries of the Group are regulated and as such are subject to the supervision of the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA), including over their systems of business control. Members of the Board and senior management regularly meet the Group's regulatory supervisors, conducting the relationships in an open and constructive manner.

## The risks listed overleaf are those most likely to materially affect our business

Partnership Life Assurance Company (PLACL) issues contracts whereby it accepts insurance risk, principally longevity risk, in return for a premium. In addition, the Group is exposed to risk through its financial assets and liabilities, its reinsurance assets and policyholder liabilities, and through its operations.

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

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

# The risks listed here are those most likely to materially affect our business

## UNDERWRITING, PRICING AND RESERVE RISK



**Business model**  
See pages 26, 27



**Strategic objectives**  
See page 18

Strategic objective	How we manage the risk	Change in 2014	Description of risk change
<p><b>Leveraging Partnership's proprietary IP</b></p> <p>Underwriting and pricing risk is the risk that insurance contracts will be written that are not within the Board's risk appetite, or that the premium charged for that business is not adequate to cover the risks borne by the Group.</p> <p>The accurate pricing of non-standard annuities is dependent on the Group's assessment of the impact on prospective customers' longevity of various medical and lifestyle factors and an estimate of future investment yields and credit default.</p> <p>The actual timing of deaths and investment income experience may be inconsistent with the assumptions and pricing models used in underwriting and setting prices for its products.</p> <p>Reserving risk is the risk that the reserves have been calculated incorrectly, or the assumptions used in the calculations are inappropriate.</p>	<p>As the Group's insurance business is targeted at people with conditions affecting their life expectancy, or people seeking to fund domiciliary or residential care, the underwriting risk is managed through the use of highly trained and qualified underwriting staff, together with detailed underwriting manuals designed to cover a large range of medical conditions.</p> <p>We have developed our own proprietary underwriting manuals for retirement annuity business and those seeking care funding, based on industry standard mortality tables modified to take account of our experience data.</p> <p>The assumptions used in the reserving for future policyholder payments are set based on available market and experience data, on the advice of our Actuarial Function Holder. The assumptions are approved by the Board. The reserves are calculated using recognised actuarial methods with due regard to the actuarial principles set out in the PRA's sourcebooks, including appropriate levels of prudential margin against future adverse experience.</p>	<p>➔</p>	<p>We continued to refine our assessment of life expectancy during 2014 based on our mortality experience and view on future mortality improvements. This led to new underwriting tables being introduced for the majority of the Group's retirement annuity business and for the developing Defined Benefit business during 2014.</p>

## SPECIFIC INSURANCE RISK



**Business model**  
See page 27















**Strategic objectives**  
See page 20

Strategic objective	How we manage the risk	Change in 2014	Description of risk change
<p><b>Maximising risk adjusted returns</b></p> <p>Insurance risk on the Group's annuity contracts arises through longevity risk and through the risk that operating factors, such as administration expenses, are worse than expected. Insurance risk on the Group's protection policies arises through higher than expected mortality levels.</p>	<p>The Group's longevity and mortality experience is monitored on a regular basis and compared to the underlying assumptions used to reserve for future insurance payments. The exposure to longevity and mortality risk is reduced through the use of reinsurance. Expense risk is managed through regular assessment and quarterly reforecasting of expenses incurred against budgets.</p>	<p>⬆</p>	<p>Risk increased in 2014 as long-term risk-free interest rates fell close to historic all-time lows in the latter part of the year which increased the financial consequences of longevity risk should that risk materialise.</p> <p>In addition, the underlying risk increased in 2014 following the reduction in the level of longevity risk the Group transfers to reinsurers.</p> <p>Action was taken in the year to reduce expenses as the level of new business fell.</p>



## Risk change in 2014

-  Increased risk
-  No change
-  Decreased risk

INTEREST RATE AND SPREAD RISK			
		 Business model See page 27	 Strategic objectives See page 20
Strategic objective	How we manage the risk	Change in 2014	Description of risk change
<p><b>Maximising risk adjusted returns</b></p> <p>Interest rate risk arises from open positions in fixed and variable rate stock issued by government and corporate bodies that are exposed to general and specific market movements. The Group is exposed to the market movements in interest rates to the extent that the asset value movement is different to the accompanying movement in the value of its insurance liabilities.</p> <p>The difference between asset and liability movements can arise from both a change in the absolute level of interest rates, and from a change in the “spread” (that is the level of interest rates applying to an asset in excess of the risk-free interest rate).</p>	<p>The Group manages its interest rate risk within an asset liability management (ALM) framework that has been developed to achieve investment returns in excess of its obligations under insurance contracts. The principal technique of the ALM framework is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to policyholders.</p>		<p>The strategy to continue to investigate alternative assets, as evidenced by our first investment in commercial real estate mortgages in 2014, is intended to reduce the Group's exposure to spread risk through increased diversification.</p>
MARKET CREDIT RISK			
		 Business model See page 27	 Strategic objectives See page 20
Strategic objective	How we manage the risk	Change in 2014	Description of risk change
<p><b>Maximising risk adjusted returns</b></p> <p>Market credit risk is the risk that the Group invests in assets that may default. If an asset fails to repay either interest or capital, or that payment is significantly delayed, the Group may make losses and be unable to meet liabilities as they fall due.</p>	<p>The Group's Investment Management Guidelines set out maximum exposure to bonds issued by a single, or related group of, counterparty(/ies) and by credit ratings. The allowance made for issuer default in the Group's valuation is regularly monitored and kept up to date.</p>		<p>No change in 2014.</p>
PROPERTY RISK			
		 Business model See page 27	 Strategic objectives See page 20
Strategic objective	How we manage the risk	Change in 2014	Description of risk change
<p><b>Maximising risk adjusted returns</b></p> <p>Property risk arises from the provision of a protected equity guarantee on the mortgages underlying the equity release assets purchased. The Group is exposed to the risk that property values do not rise sufficiently, or that the property is not maintained properly, to recover the full value of the loan made plus accrued interest.</p>	<p>The Group manages its purchase of loan assets to a level appropriate to its liability profile and ensures that the purchase prices of loan assets reflect a prudent assessment of future property price growth. Appropriate limits are applied to the “loan-to-value ratio” in order to limit the risk exposure to the Group. The Group seeks to avoid excess concentration of property holdings in any geographical area.</p>		<p>Equity release assets as a proportion of total assets under management at the end of 2014 were 25%, an increase from 21% at the end of 2013.</p>

## LIQUIDITY RISK



Business model  
See page 27



Strategic objectives  
See page 20

Strategic objective	How we manage the risk	Change in 2014	Description of risk change
<b>Maximising risk adjusted returns</b> Liquidity risk arises where cash flows from investments and from new premiums prove insufficient to meet our obligations to policyholders and other third parties as they fall due.	The Group's ALM framework ensures that cash flows are sufficient to meet both long- and short-term liabilities.  The Group maintains a minimum level of cash and highly liquid assets such that, in the extreme scenario of new business cash flows being insufficient to meet current obligations, those obligations can continue to be met.		No change in 2014.

## COUNTERPARTY CREDIT RISK (EXCLUDING INVESTMENT ASSETS)



Strategic objectives  
See page 20

Strategic objective	How we manage the risk	Change in 2014	Description of risk change
<b>Maximising risk adjusted returns</b> Credit risk arises if another party fails to honour its obligations to the Group including failure to honour these obligations in a timely manner. The Group's primary credit risk exposure arises from the inability of the reinsurers to meet their claim payment obligations.	The Group has arrangements with its reinsurers whereby most reinsurance premiums are either deposited back to the Group or held by a third party in a trust arrangement.  In addition, the Group's reinsurance policy is to seek to choose companies with a minimum "A" credit rating.		No change in 2014.

## DISTRIBUTION RISK



Business model  
See page 26



Strategic objectives  
See pages 19 and 20

Strategic objective	How we manage the risk	Change in 2014	Description of risk change
<b>Improving access for customers</b> Distribution risk arises from adverse changes in customer need for the Group's products, the Group's competitive landscape or its relationships with intermediaries.	The Group seeks to derive competitive advantage from its proprietary underwriting intellectual property which it considers to be unique in the individually underwritten annuity and individual care annuity markets. It is the Group's strategy to continue to innovate and introduce new products and propositions that meet customer needs and leverage this intellectual property to protect its competitive position.  The Group maintains a multi-channel distribution strategy in order to diversify and reduce concentration risk.		<p>The Budget announcement in March 2014 introduced uncertainty to the UK at-retirement market in the lead up to April 2015. This resulted in a decrease in the individually underwritten annuity market in 2014 as customers deferred their retirement income decisions.</p> <p>Whilst the longer term consequences of the pensions reforms are not clear, it is likely that from April 2015 the Group's products will need to compete with a wider range of alternative at-retirement propositions in the UK.</p> <p>The successful acceleration of the Group's Defined Benefit proposition and the development of the Group's US Care opportunity are critical to the Group's ability to diversify its product portfolio.</p>

### Risk change in 2014



Increased risk



No change



Decreased risk

## OPERATIONAL RISK



Business model  
See page 27



Strategic objectives  
See page 20

Strategic objective	How we manage the risk	Change in 2014	Description of risk change
<b>Maximising risk adjusted returns</b> Operational risk arises from inadequate or failed internal processes, people and systems or from external events.	<p>The Group maintains a suite of risk management tools to help manage its operational risks including facilitated risk and control self-assessments, risk event management and loss reporting. Underlying and informing the operation of these tools is a framework of formal policies and controls which govern the management and oversight of the risks faced by the Group.</p> <p>These include business continuity and disaster recovery arrangements. Operational risk is overseen by the Executive Operational Risk Committee.</p>		No change in 2014. Any potential impacts arising from the Group's reduction of operating expenses to support lower individual annuity sales following the Budget were carefully managed and continue to be monitored to ensure operational risk is kept within agreed risk appetites.

## REGULATORY, LEGAL AND POLITICAL ENVIRONMENT RISK



Business model  
See pages 26, 27



Strategic objectives  
See page 20

Strategic objective	How we manage the risk	Change in 2014	Description of risk change
<b>Maximising risk adjusted returns</b> Regulatory, legal and political environment risk arises where changes in regulation or legislation may result in a detrimental effect on the Group's strategy and profitability.	<p>The Group's strategic planning process sets a medium term strategy based on our understanding of the regulatory, legal and political risks inherent in the markets in which it operates. This is informed by active and constructive engagement with policymakers and regulators both directly and indirectly through trade associations.</p> <p>Our planning and response capability is supported by continued monitoring of the regulatory, legal and political landscape.</p>		<p>Whilst the Group's risk management framework had identified the risk of adverse political changes to its markets, the March 2014 Budget announcement was unforeseen by the Group and the wider industry. The further changes to tax treatment of withdrawals from pension funds and the transfer of unused defined contribution pensions to nominated beneficiaries announced in October 2014 evidence that the at-retirement landscape remains subject to political and legislative change.</p> <p>Additionally, the FCA's approach to setting and monitoring the standards for the delivery of the Guidance Guarantee may result in further regulatory change, as may the final findings of the FCA's retirement income market study expected in 2015.</p> <p>The Group remains heavily engaged with policymakers, its regulators and trade bodies to positively contribute to the shaping of the at-retirement landscape.</p> <p>From 1 April 2015 European member states are required to commence their implementation of the new Solvency II rules which will become binding on insurers from 1 January 2016. The Group continues to work with the PRA in preparation for the new regime and take steps to mitigate any potentially adverse effects of the regulation, including restructuring assets where necessary.</p>



# Partnership is a resource efficient, sustainable business

## ENVIRONMENT

Partnership recognises that we all have a role to play in looking after the environment for future generations, and have adopted a number of environmental policies across our sites.

We aim to recycle the majority of our paper and other items, including ink cartridges, batteries, old IT equipment and general recyclable waste where appropriate, and reduce our generation of paper by automatically printing double-sided.

We re-use furniture and electrical equipment where appropriate and also consider its sale or donation to charity where re-use is not possible.

## GREEN HOUSE GAS

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within our consolidated financial statement.

We do not have responsibility for any emission sources that are not included in our consolidated statement.

We have used the Green House Gas (GHG) Protocol Corporate Accounting and Reporting Standard (revised edition), and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2014.

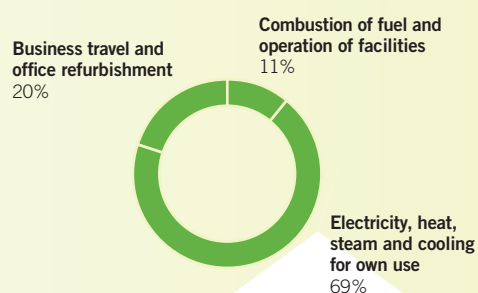
## EMISSIONS DATA

	2014	2013
For the year ended	Tonnes of CO <sub>2</sub> e	Tonnes of CO <sub>2</sub> e
Combustion of fuel and operation of facilities	84	90
Electricity, heat, steam and cooling for our own use	515	534
Business travel and office equipment	148	341
<b>Total Emissions</b>	<b>748</b>	<b>969</b>
Intensity measurement "Tonnes of CO <sub>2</sub> e per FTE (427 full-time employees <sup>1</sup> )"	1.72	1.67
Intensity measurement "Tonnes of CO <sub>2</sub> e per total £m sales revenue"	0.95	0.79

The reduction in emissions in 2014 is due to:

- A full year in our new, more efficient building;
- The absence of office refit costs in 2014; and
- A lower average number of people employed in 2014.

## TOTAL CO<sub>2</sub> BY EMISSION TYPE



Notes to GHG emissions data:

1. Number of full-time employees as of 31 December 2014.
2. Business travel emissions include the following travel modes: car, taxi, train, London underground, bus, flights & tram.

Despite the reduction in emissions, the intensity measures increased due to lower sales and lower staff numbers in 2014.

### Reporting period and approach

Our reporting period is 1 January 2014 – 31 December 2014, which we set using a fixed-base year approach. We have followed the Government's Guidance on how to measure and report greenhouse gas emissions.

We have used the financial control approach to identify the GHG emissions for which we have responsibility. The boundaries of our reported emissions comprise all locations operating in the United Kingdom.

### Operational scopes

We have measured our scope 1, 2 and significant scope 3 emissions.

	GHG Emissions 2014 in tonnes of CO <sub>2</sub> e
<b>Scope 1: Combustion of fuel and operation of facilities</b>	
Gas consumption	76
Fugitive emissions	9
<b>Total</b>	<b>84</b>
<b>Scope 2: Electricity, heat, steam and cooling for our own use</b>	
Purchased electricity	515
<b>Total</b>	<b>515</b>
<b>Scope 3: Business travel and office refurbishment</b>	
Business travel <sup>2</sup>	148
<b>Total</b>	<b>148</b>

### Base year

Our base year was 2013 which we set using a fixed base year approach. We have compared our 2014 results against this base year.

### Results

Our emissions reduction target for 2014 was to reduce our global GHG emissions (CO<sub>2</sub>e), scopes 1, 2, and 3 (for scope 3 only those emissions which relate to business travel) by 5% from 2013 to 2014. We achieved a reduction of 7.7% against this target.

Overall energy usage has been reduced at our offices because of three factors:

- Our London office move to a more energy efficient office;
- Energy awareness amongst employees; and
- Implementation of an ISO14001 Energy Management System.

### Targets

We have set targets for 2015 to minimise our largest environmental impacts, which have been identified as energy usage and waste from our offices, and business travel emissions.

We have implemented measurable targets, that have been designed to reduce our overall GHG emissions by a further 3% (i.e. scope 1, 2 & significant scope 3 emissions), as well as contribute to our UK sustainability and corporate social responsibility goals.

Additionally the Group will conduct an Energy Savings Opportunity Scheme compliant energy audit (ESOS Regulations 2014).

### Intensity measurement

We use both a financial emissions intensity metric (tonnes CO<sub>2</sub>e per £m revenue) and a headcount intensity metric (tonnes CO<sub>2</sub>e per FTE) to normalise our data and provide useful performance indicators.


Office energy usage and business travel account for the majority of our carbon footprint. Since our revenue is largely relative to our business activity levels with our clients (which in turn influences our level of business travel and revenue growth), these are the most appropriate and useful intensity measurements for our sector.

### Approach to assurance

Alphacello Ltd conduct an annual review of our environmental data collation and calculation processes and provide verification of our GHG Emissions Statement.

### Carbon offsets

At present, carbon offsets do not form part of our carbon mitigation strategy.



**“I would always  
recommend an  
enhanced annuity  
to other people in  
poor health.”**

John Cameron

John Cameron, 83, took out a single life policy with Partnership in 1998, after being told about enhanced annuities by his doctor following a period of severe ill-health. John is pleased with his policy, but worries about former colleagues and friends who might not be thinking about their own retirement.



A photograph of an elderly couple, Dudley Ginn and his wife Marian, standing outdoors in front of a green hedge. Dudley is in the foreground, wearing a white polo shirt with a 'KIMPTON BOWLS CLUB' logo, white trousers, and glasses. He is holding a bowling ball. Marian is behind him, also wearing a white shirt and glasses. A green diagonal graphic element is overlaid on the bottom left of the image.

**“We’re both very happy to have financial security for the rest of our lives – and plenty of time to spend out on the bowling green!”**

Dudley Ginn

Dudley Ginn, 78, has two annuities with Partnership, taken out in 1996 and 1997. Concerned about running out of money in retirement, he found Partnership after reading an article in *The Telegraph*. He instructed his financial adviser and is now, along with his wife Marian, very happy to have a secure income – and peace of mind.

## BOARD OF DIRECTORS



**Chris Gibson-Smith**  
Chairman

**Appointment** Chris was appointed as Chairman of Partnership in April 2013.

**Key strengths** Over 45 years of business experience across a wide range of industries. This includes 30 years of FTSE100 main Board experience, 20 years as Chairman.

**Experience, skills and qualifications** Chris has served as Chairman of London Stock Exchange Group plc since 2003. He was also Chairman of The British Land Company PLC from 2007 to 2012 and a Director of the Qatar Financial Centre Authority from 2006 to 2012. Chris was Group Managing Director of BP from 1997 to 2001 and was awarded the CBE in 2011 for services to the financial industry.

**Committee membership** Chairman of Nomination and a member of Remuneration Committee.

**External appointments** Chairman of London Stock Exchange Group plc and of the Advisory Board of the think tank "Reform".



**Steve Groves FIA**  
Chief Executive Officer

**Appointment** Steve joined the Group in 2005 and was appointed Managing Director in 2006 and Chief Executive Officer of the predecessor company in 2008. He was appointed a Director of the Company in May 2013.

**Key strengths** Extensive experience in the insurance industry. He has substantial financial knowledge, strategic and executive leadership experience.

**Experience, skills and qualifications** Steve was previously the Admin Re Senior Actuary for Swiss Re Life and Health. Prior to joining Swiss Re, Steve was the Head of Actuarial Services and then Executive Head of Business Development for Britannic Retirement Solutions. Steve is a Fellow of the Institute and Faculty of Actuaries and was a founder member of its equity release working group.

**Committee membership** None.

**External appointments** Director of Guardian Financial Services.



**David Richardson FIA, CFA**  
Chief Financial Officer

**Appointment** David joined Partnership in February 2013 and was appointed a Director in May 2013.

**Key strengths** Financial management, investment expertise, broad based life insurance experience and longevity knowledge.

**Experience, skills and qualifications** David led the financial aspects of Partnership's IPO in June 2013 and has successfully brought the Company's financial reporting procedures up to PLC standards. He was previously Group Chief Actuary of Phoenix Group. Prior to this, David worked in a number of senior roles at Swiss Re, including Chief Actuary of its Life and Health business, Head of Products for UK and South Africa and Global Head of its Longevity Pricing teams. David commenced his career at the actuarial consultancy Tillinghast. David is a Fellow of the Institute and Faculty of Actuaries and a CFA Charter holder.

**Committee membership** Member of Investment Committees.

**External appointments** None.



**Paul Bishop**  
Independent non-Executive Director

**Appointment** Paul was appointed to the Board in May 2014.

**Key strengths** In depth experience of financial reporting, financial management, risk and controls, based on over 30 years' experience in the life insurance industry.

**Experience, skills and qualifications** Paul has spent the majority of his career at KPMG, and from 1993 to the end of January 2014 was a Partner, apart from a brief period when he was employed at Atos KPMG Consulting as a Managing Director. Paul has specialised in the insurance sector for over 30 years, particularly life insurance, and led KPMG's insurance consulting practice for much of his time as a Partner. Paul also spent 18 months on secondment at Standard Life as Head of Finance Change in the period leading up to its demutualisation and IPO. Paul is a Chartered Accountant (ACA) and qualified in 1980.

**Committee membership** Chairman of the Audit and member of Remuneration, Nomination and PAG plc Investment Committee.

**External appointments** None.



**Peter Catterall**  
Non-Executive Director

**Appointment** Peter was appointed to the Board in February 2013, having been a Director of the predecessor company since 2008.

**Key strengths** Relevant investment experience in UK life assurance, mergers and acquisitions and strategy.

**Experience, skills and qualifications** Peter joined Cinven in 1997 and is a member of the Executive Committee at Cinven. Peter has been involved in numerous investments at Cinven, including Guardian Financial Services, Avolon Aerospace and the Gondola Group.

**Committee membership** None.

**External appointments** Director of Guardian Financial Services and Gondola Group Holdings. Member of Cinven Partners LLP.



**Ian Cormack**  
Senior Independent non-Executive Director

**Appointment** Ian joined the Board in May 2013.

**Key strengths** Strong general business experience in senior leadership roles and is an experienced strategist.

**Experience, skills and qualifications** Ian spent over 30 years at Citibank up to 2000, latterly as UK Country Head and Co-Head of the Global Financial Institutions Group. From 2000 to 2002, he was Chief Executive Officer of AIG Europe. He was previously a non-Executive Director of Pearl Group (2005 – 2009), Aspen Insurance Holdings (2002 – 2012) and Qatar Financial Centre Authority (2006 – 2012) and previously Chairman of the CHAPS hi-value payment system.

**Committee membership** Chairman of Risk Committee and Member of Nomination Committee.

**External appointments** Chairman of Maven Income & Growth VCT 4, Senior Independent Director of Xchanging and Bloomsbury Publishing, Senior Independent Director of Phoenix Group and Chairman of Phoenix Life Holdings Limited and Phoenix Group Remuneration Committee Chairman.





**Douglas Ferrans FFA**  
Independent non-Executive Director

**Appointment** Douglas joined the Board in May 2013.

**Key strengths** Direct and extensive experience of relevant investment management, was founding Chief Executive of Insight Investment Management and is an experienced actuary.

**Experience, skills and qualifications** Douglas stepped down as a Chairman of the Board of the Investment Management Association in 2014 having been on the board for nine years and Chairman since 2010. Prior to that, he was Chief Executive of Insight Investment Management from 2001 to 2009, having previously held senior executive management positions at Britannia Asset Management (1997 – 2001) and Scottish Amicable Investment Management (1977 – 1997). Douglas was previously a non-Executive Director, and then Chairman, of Invista Real Estate Investment Management (2006 – 2012). He is a Fellow of the Institute and Faculty of Actuaries and was a member of the Takeover Panel until 2014.

**Committee membership** Member of Audit, Risk and Investment Committees.

**External appointments** None.



**Dr Ian Owen FIA**  
Non-Executive Director

**Appointment** Ian chaired Partnership for nine years from its formation in 2005 to April 2013.

**Key strengths** Strategic insight, entrepreneurial business drive coupled with deep understanding of insurance business models and finances.

**Experience, skills and qualifications** Ian is a Fellow of the Institute and Faculty of Actuaries. He has previously served as non-Executive Director of Resolution Life, AA Insurance and Endsleigh Insurance and Group Director of Liverpool Victoria. His executive career encompassed being CEO of Eagle Star International Life, Managing Director of Eagle Star Life and Managing Director of Zurich Personal Lines. He had been a member of the Association of British Insurers' Life Insurance Council and Chair of the Medical Committee.

**Committee membership** Member of Nomination, Risk and Chairman of Investment Committees.

**External appointments** Chairman of A-Plan Insurance, Canopus Managing Agents, Guardian Group and non-Executive Director of Unum Limited.



**Clare Spottiswoode**  
Independent non-Executive Director

**Appointment** Clare joined the Board in October 2014.

**Key strengths** Clare brings to the Board a breadth of experience and skills from a variety of sectors, and considerable experience in the gas and oil industry.

**Experience, skills and qualifications** Clare is a mathematician and economist by training. In June 2010, she was appointed by HM Treasury to the Independent Commission on Banking (the Vickers Commission). The Commission reported in September 2011 and its recommendations were broadly incorporated into legislation. Clare's career has involved acting as Policyholder Advocate for Norwich Union's with-profits policyholders at Aviva, in which role she acted on behalf of 1m policyholders tasked with reattributing Aviva's inherited estate, and included time as Director General of Ofgas, the UK gas regulator, where her achievements included extending competition through the gas supply chain.

**Committee membership** Member of Risk Committee.

**External appointments** Non-Executive Director of BW Offshore Limited, EnQuest plc, Ilika plc, G4S plc, Payments Council, Seven Energy, and British Management Data Foundation and Chairman of Gas Strategies Limited and Flow plc.



**Dr Richard Ward**  
Independent non-Executive Director

**Appointment** Richard joined the Board in May 2013.

**Key strengths** A wealth of insurance background. He stepped down as CEO of Lloyd's at the end of December 2013 and sat on the Council of Lloyd's and the Lloyd's Franchise Board.

**Experience, skills and qualifications** Richard was Chief Executive Officer of Lloyd's from April 2006 to December 2013. He previously worked for over 10 years at International Petroleum Exchange (IPE) – re-branded ICE Futures – as both Chief Executive Officer and Vice-Chairman. Prior to the IPE, Richard held a range of senior positions at BP and was Head of Marketing & Business Development for energy derivatives worldwide at Tradition Financial Services. Between 1982 and 1988, Richard worked as a Senior Physicist with the Science and Engineering Research Council, leading a number of research and development projects. Richard was a non-Executive Director of the LCH. Clearnet Group (previously London Clearing House Limited) from 1999 to 2006.

**Committee membership** Chairman of Remuneration Committee and member of Nomination Committee.

**External appointments** Chairman of Brit plc and Brit Syndicates Limited, Chairman of Cunningham Lindsey, Member, PRA Practitioner Panel, Bank of England, Member, PwC Advisory Board.



**Simon Waugh**  
Independent non-Executive Director

**Appointment** Simon was appointed to the Board in March 2014.

**Key strengths** Considerable experience in retail financial services industry; particular expertise in distribution, customer services, operations, strategy, compliance and regulation.

**Experience, skills and qualifications** Simon was Chief Executive of AWD Group plc, from 2005, Chairman in 2007 until 2009. Prior to this, his career was spent in an executive capacity at Centrica Plc, SAGA Services Ltd, Lloyds Bank PLC (Lloyds Bank Insurance Services) and American Express. Between 2003 and 2009 he was a non-Executive Director of Johnston Press Plc.

**Committee membership** Member of the Audit and Remuneration Committees.

**External appointments** Non-Executive chairman of CMC Markets PLC, MyDrive Solutions, The Consulting Consortium and Southern Health NHS Foundation Trust and a trustee of Age UK.

Directors who served the Company during 2014 and up to the date of this report:

	Date of appointment	Date appointment ceased
Chris Gibson-Smith	12 May 2013	
Steve Groves	12 May 2013	
David Richardson	12 May 2013	
Paul Bishop	1 May 2014	
Marisa Cassoni	12 May 2013	11 March 2014
Peter Catterall	26 February 2013	
Ian Cormack	12 May 2013	
Maxim Crewe	26 February 2013	23 October 2014
Douglas Ferrans	12 May 2013	
Ian Owen	12 May 2013	
Robin Phipps	12 May 2013	7 March 2014
Clare Spottiswoode	23 October 2014	
Richard Ward	12 May 2013	
Simon Waugh	7 March 2014	
David Young	12 May 2013	31 December 2014

## SENIOR MANAGEMENT



**Andrew Chamberlain FIA**  
Actuarial Function Holder

Andrew joined Partnership in August 2010, though he had already been the Actuarial Function Holder for over two years whilst working for Towers Watson, the global consulting firm. Andrew had joined the predecessor firm Watson Wyatt as a partner in 2000 and had led the regulatory and tax teams in the Insurance Practice. Andrew has previously worked for Hill Samuel Life Assurance, latterly as Director and Deputy Actuary, until 1990, and then spent four years as Chief Actuary and Director for Aetna UK before joining the GAD in 1994 to advise the life assurance regulators, as Chief Actuary from 1996. He is also a Deputy Chairman of the Life Board of the Institute and Faculty of Actuaries.



**Mark Dearsley ACA**  
Managing Director, International

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



**Jane Kennedy**  
Chief Operating Officer

Jane joined Partnership in 2006 from Barclays. She has many years' experience leading high performing best in class operational divisions across a number of financial services' companies. Jane's experience spans a wide range of product areas including General Insurance and Investments at SAGA and SAGA Investment Direct, Life and Pensions at Colonial Life and Scottish Widows and mortgage operations at Global Home Loans in the UK and offshore.



**Andrew Megson**  
Managing Director, Retirement

Andrew joined Partnership in June 2009. Andrew was previously Sales Director of Just Retirement where he held primary responsibility for the strategic and practical aspects of Just Retirement's sales distribution and IFA communications. Prior to this, Andrew held a number of senior roles with investment specialist NPI and successfully launched Britannic Retirement Solutions into the IFA market in 2000, being instrumental in positioning them as a leader in enhanced/impaired annuities. Andrew qualified as a Master of Business Administration in 2003.



**Kathryn Purves**  
Chief Risk Officer

Kathryn joined Partnership as Executive, Office of the CEO in August 2008 and was appointed Commercial Director in February 2012 and Chief Risk Officer in November 2012. Previously Kathryn was an Executive and later a Consultant to Phoenix Equity Partners for four years working on a variety of different transactions in relation to due diligence, negotiation, documentation and on-going portfolio management. Prior to that Kathryn worked as an Investment Manager for Deutsche Bank within the European fund of funds team, and UBS Capital in Australia.



# We believe that good governance underpins our core values



To be successful, a strong board must be supported by robust and effective corporate governance structure. I believe that, at Partnership, our governance procedures facilitate board effectiveness, support our strategy and underpin our core values of fairness, integrity, respect, service and trust.

In this section of our Annual Report we have set out our approach to governance and provided further information on the operation of the Board and its committees.

## GOVERNANCE

During 2014 we have continued to follow and develop the strong set of corporate governance principles we put in place at our listing in 2013. We recognise that our procedures must be kept under constant review to ensure that they continue to be relevant and appropriate for our market and circumstances.

During the year under review the Company has complied with the UK Corporate Governance Code issued in September 2012 and have also considered and, where possible, applied the requirements of the updated 2014 version of the UK Corporate Governance Code which will apply for financial years beginning on or after 1 October 2014.

## BOARD COMPOSITION AND SUCCESSION PLANNING

I believe we have a talented Board with the appropriate mix of skills and experience. The Nomination Committee, which I chair, is tasked with regularly reviewing the Board's structure, size and composition and makes recommendations on succession planning, taking into account the challenges and opportunities facing the Company. We also recognise the need for diversity and, in particular, we are seeking to increase female representation on the Board. Our Directors' experience is predominantly in the financial sector, principally insurance, which we consider to be appropriate for our business and they bring a wealth of experience and skills to bear on all aspects of the management of the Company. Biographical details for all our Directors, which include a summary of their particular experience, skills and qualifications are set out on pages 44 and 45 of this report. Details of the Company's senior management team are set out on page 46. Senior management are regularly invited to attend Board meetings and there is an effective level of communication, challenge and support between the Board and management.

During the year, we were delighted to welcome Simon Waugh, Paul Bishop and Clare Spottiswoode to the Board. All three have a great deal of experience and we believe that their skills and experience complement the skills of our existing non-Executive Directors. As part of the selection process, Steve Groves and I, and a number of our non-Executive Directors, met a shortlist of candidates.

Robin Phipps stood down from the Board on 7 March and Marisa Cassoni stood down on 11 March 2014. Maxim Crewe stepped down on 23 October 2014 and David Young retired from the Board on 31 December 2014. On behalf of the Board, I should like to thank each for their contribution.

## BOARD FOCUS

Naturally the Board has concentrated much of its work on managing the widespread disruption in our core individual annuity market as a result of the Budget announcement in March 2014, which resulted in sharp falls in individual retirement annuity sales.

Supported by the Risk Committee, the Board has increased and deepened its focus on risk over the period as the Board feels that the strong management of risk is one of its core duties. The Financial Reporting Council has also highlighted, in the 2014 Code, that companies are expected to give a broader and clearer view of risk management than may have been the case previously. We have a separate report from the Risk Committee on page 60. I stood down as a member of the Risk Committee on 23 October.

Further detail on the key topics discussed by the Board through the year is set out on page 54 of this report.

## DIVERSITY

The Board continues to focus on improving diversity, has an on-going commitment to strengthening the female representation on the Board and recognises the benefit of having input from people with a wide range of backgrounds and nationalities throughout the Group.

**Chris Gibson-Smith**  
Chairman

### **“Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.”**

The UK Corporate Governance Code, September 2014

#### **COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE**

The Board of Directors and the Group remain fully committed to the principles of best practice in corporate governance and throughout 2014 have complied fully with the UK Corporate Governance Code issued in September 2012 (the Code) and have also considered and, where possible, applied the requirements of the updated 2014 version of the UK Corporate Governance Code (the 2014 Code) which will apply for financial years beginning on or after 1 October 2014. Both documents can be found at [www.frc.org.uk](http://www.frc.org.uk).

#### **THE ROLE OF THE BOARD**

The Board is responsible to the Shareholders and sets the Group's strategy for achieving long-term success. It is also ultimately responsible for the management, governance, controls, risk management, direction and performance of the Group.

#### **MATTERS RESERVED FOR THE BOARD**

The Board is responsible for the Company's strategy and for its overall management. The operation of the Board is documented in a formal schedule of matters reserved for its approval, which is reviewed annually. These include matters relating to:

- The Group's strategic aims and objectives;
- The structure and capital of the Group;
- Financial reporting, financial controls and dividend policy;
- Internal control, risk and the Group's risk appetite;
- The approval of significant contracts and expenditure;
- Effective communication with shareholders; and
- Any changes to Board membership or structure.

#### **COMPOSITION OF THE BOARD AND BOARD MEETINGS**

The Board currently consists of the Chairman, two Executive Directors and eight non-Executive Directors. The Code requires that over half the Board, excluding the Chairman should be independent and

free of any business relationships that could compromise the exercise of independent and objective judgement. Six non-Executive Directors are independent and the Board has complied with the Code. Ian Owen, as the Company's former Chairman, and Peter Catterall, who is nominated by the Company's major shareholder, are not considered to be independent. All non-Executive Directors, whether independent or not, challenge assumptions effectively and assist Executive management in the development of strategy thus supporting the effective leadership of the Company.

The Board met regularly throughout the period. There were eight scheduled meetings in 2014 and a strategy day. Non-Executive Directors communicate directly with Executive Directors and senior management between formal Board meetings. The Board holds an annual strategy day at which it considers key issues relevant to the Company as part of the business planning process. Directors are expected to attend all meetings of the Board, and the Committees on which they sit, and to devote sufficient time to the Company's affairs to enable them to fulfil their duties as Directors. In the event that Directors are unable to attend a meeting, their comments on papers to be considered at the meeting are discussed in advance with the Chairman so that their contribution can be included in the wider Board discussion.

The following table shows Directors' attendance at scheduled Board and Committee meetings in 2014:

	PAG						PLACL Investment (4)
	Board (8)	Audit (6)	Remuneration (7)	Nomination (3)	Risk (4)	Investment (1)	
Chris Gibson-Smith <sup>1</sup>	8/8	n/a	7/7	3/3	3/4	n/a	n/a
Steve Groves	8/8	n/a	n/a	n/a	n/a	n/a	n/a
David Richardson	8/8	n/a	n/a	n/a	n/a	1/1	4/4
Clare Spottiswoode (appointed 23 October 2014)	2/2	n/a	n/a	n/a	1/1	n/a	n/a
Marisa Cassoni (resigned 11 March 2014)	0/1	0/1	0/1	n/a	n/a	n/a	n/a
Paul Bishop (appointed 1 May 2014)	6/6	4/4	4/4	1/1	n/a	1/1	n/a
Peter Catterall	7/8	n/a	n/a	n/a	n/a	n/a	n/a
Ian Cormack	8/8	1/1	n/a	3/3	4/4	n/a	n/a
Maxim Crewe <sup>2</sup> (resigned 23 October 2014)	5/7	n/a	n/a	n/a	n/a	n/a	n/a
Douglas Ferrans	8/8	6/6	n/a	n/a	4/4	1/1	4/4
Ian Owen <sup>3</sup>	8/8	n/a	n/a	2/3	2/4	1/1	3/4
Robin Phipps (resigned 7 March 2014)	0/1	0/1	0/1	n/a	n/a	n/a	n/a
David Young (resigned 31 December 2014)	8/8	6/6	2/2	2/3	4/4	n/a	n/a
Richard Ward <sup>4</sup>	8/8	n/a	7/7	2/3	n/a	n/a	n/a
Simon Waugh <sup>5</sup> (appointed 7 March 2014)	6/7	3/5	3/5	n/a	n/a	n/a	n/a

Given the timing of the appointment of the Directors part way through the year, a number of meetings were rescheduled to avoid long-standing commitments of the Directors. It was not always possible to accommodate all of their commitments.

- 1 Chris Gibson-Smith was unable to attend the Risk Committee meeting on 21 May due to an unavoidable prior commitment.
- 2 Maxim Crewe was unable to attend the Board meetings on 26 June and 13 August due to long-standing prior engagements.
- 3 Ian Owen was unable to attend the Nomination, Investment and Risk Committee meetings on 14 March and the Risk Committee meeting on 12 August due to a long-standing prior engagement.
- 4 Richard Ward was unable to attend the meeting Nomination Committee on 14 March due to a long-standing prior engagement.
- 5 Simon Waugh was unable to attend the Board meeting on 13 August, Audit Committee on 14 March and 12 August and Remuneration meetings on 11 March and 22 May due to long-standing prior engagements.

There were further Board meetings called at short notice to deal with financial, risk and regulatory matters.

## GOVERNANCE STRUCTURE

### Division of responsibilities between the Chairman and Chief Executive

The Board has formally documented the separate roles and responsibilities of the Chairman and Chief Executive. Chris Gibson-Smith, the Chairman, leads the Board, and is responsible for its effectiveness and governance. He sets the tone for the Company and ensures the links between the Board and management and between the Board and shareholders are strong. He sets the Board agenda and ensures that sufficient time is allocated to important matters, in particular those relating to strategy issues. Steve Groves, the Chief Executive Officer is responsible for the day-to-day management of the Group's operations, for recommending the Group's strategy to the Board and for implementing the strategy agreed by the Board. He is supported in decision making by an Executive Board of senior managers.

### Chairman

- Acts as an independent non-Executive Director and chairs the Board of the Company;
- Builds an effective and complementary Board and, with the Nomination Committee, plans succession in Board appointments;
- Ensures, in collaboration with the Chief Executive Officer, that the Board considers the strategic issues facing the Company;
- Acts as a sounding board for the Chief Executive Officer and provides general advice relating to the management and development of the Company's business; and
- Supports the commercial activities of the Company.

## CHIEF EXECUTIVE OFFICER

### Supported by the Executive Board:

- Formulates the strategic direction of the Company agreed with the Board;
- Recommends to the Board an annual budget and five-year financial plan and ensures their achievement following Board approval;
- Ensures an appropriate risk management framework is in operation;
- Ensures the Company's strategy and values are effectively understood and applied by management and staff;
- Ensures effective communication with shareholders;
- Ensures, in conjunction with the Chairman, that the Company is represented at a business, political and community level;
- Ensures there is a clear management structure with appropriately delegated responsibilities staffed by suitably experienced and qualified staff; and
- Chairs the Executive Board.

## Senior Independent Director

Ian Cormack is the Senior Independent Director in which capacity he is available to shareholders should they wish to discuss governance or other issues that have not been resolved through the normal channels of communication with the Chairman, or Chief Executive Officer, or Chief Financial Officer, or in cases when communication would be more appropriate with the Senior Independent Director. The Senior Independent Director's role also includes deputising for the Chairman in his absence, being available to act as a sounding board for the Chairman and to advise and counsel all Board colleagues.

## Board Committees

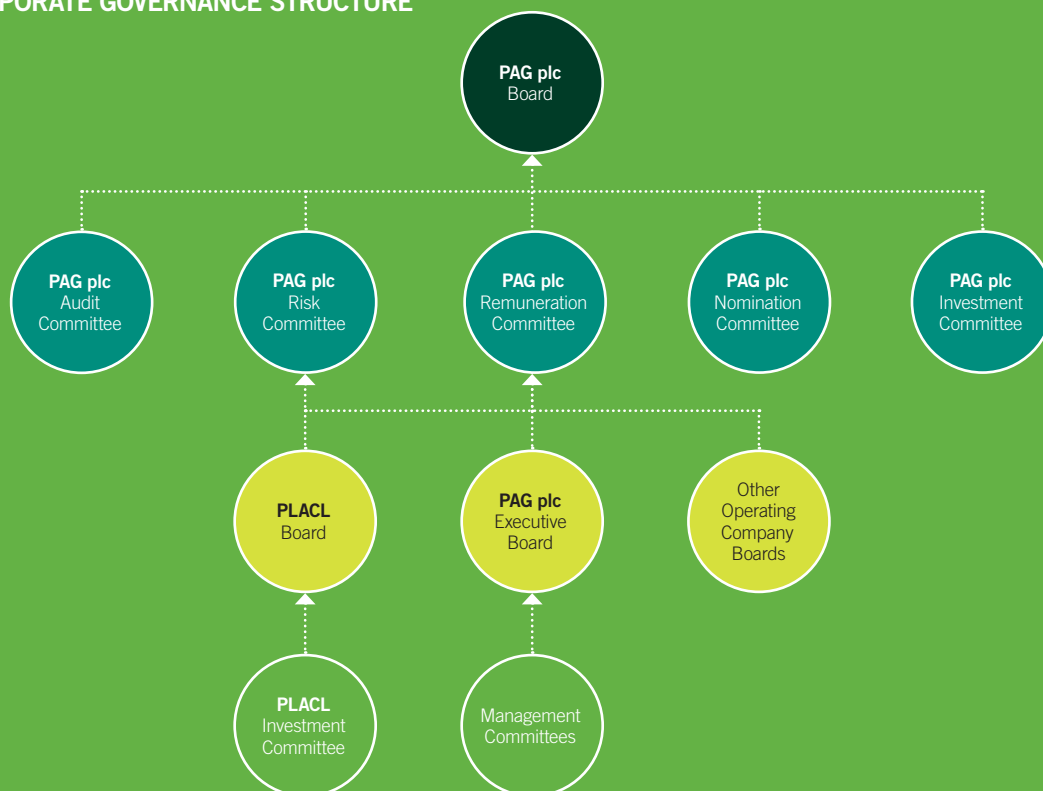
The Board has delegated specific responsibilities to each of the Audit, Risk, Remuneration, Nomination and Investment Committees, details of which are set out on below. Each Committee has written terms of reference setting out its duties, authority and reporting responsibilities.

Copies of all the Committee terms of reference (excluding the Investment Committee) are available on the Company's website [www.partnership-group.com](http://www.partnership-group.com) or on request from the Group Company Secretary.

The terms of reference are kept under continuous review to ensure they remain appropriate and reflect any changes in legislation, regulation or best-practice.

They are reviewed formally on an annual basis by the relevant Committee and the Board. Each Committee is comprised of non-Executive Directors of the Company who were appointed by the Board following review and recommendation by the Nomination Committee. The Group Company Secretary is the secretary of each Committee. The Chairman of each Committee reports on the proceedings of the previous Committee meeting at the next following Board meeting.

## OUR CORPORATE GOVERNANCE STRUCTURE



**i** Board  
See page 44

**i** Audit Committee  
See page 57

**i** Risk Committee  
See page 60

**i** Remuneration Committee  
See page 64

**i** Nomination Committee  
See page 56

**i** Executive Board  
See page 46



AUDIT COMMITTEE	RISK COMMITTEE	REMUNERATION COMMITTEE
<b>Chairman</b> Paul Bishop	<b>Chairman</b> Ian Cormack	<b>Chairman</b> Richard Ward
<b>Other members</b> Douglas Ferrans Simon Waugh	<b>Other members</b> Douglas Ferrans Ian Owen Clare Spottiswoode	<b>Other members</b> Paul Bishop Chris Gibson-Smith Simon Waugh
<b>Number of meetings required annually</b> 4	<b>Number of meetings required annually</b> 4	<b>Number of meetings required annually</b> 2
<b>Number of meetings held in 2014</b> 6	<b>Number of meetings held in 2014</b> 4	<b>Number of meetings held in 2014</b> 7
<b>Role of the Committee</b> <p>The Audit Committee's role is to assist the Board with the discharge of its responsibilities in relation to financial reporting, internal and external audits and controls, including reviewing the Group's financial statements, accounting policies, reviewing and monitoring the scope of the annual audit and the extent of the non-audit work undertaken by the external auditor, advising on the appointment of the external auditor and reviewing the effectiveness of the internal audit activities, internal controls, whistle-blowing and fraud internal controls, and the risk management systems in place within the Group.</p>	<b>Role of the Committee</b> <p>The Risk Committee is responsible for providing oversight and advice to the Board in relation to risk management systems, risk appetite, strategy and exposure, reviewing and approving risk assessment reporting processes and promoting a risk awareness culture within the Group.</p>	<b>Role of the Committee</b> <p>The Remuneration Committee recommends the Group policy on executive remuneration, determines the levels of remuneration for Executive Directors and the Chairman and other senior executives. The Remuneration Committee also prepares an annual remuneration report for approval by shareholders at the Annual General Meeting.</p>

**i** **Audit Committee**  
See page 57

**i** **Risk Committee**  
See page 60

**i** **Remuneration Committee**  
See page 64

NOMINATION COMMITTEE
<b>Chairman</b> Chris Gibson-Smith
<b>Other members</b> Paul Bishop Ian Cormack Ian Owen Richard Ward
<b>Number of meetings required annually</b> 2
<b>Number of meetings held in 2014</b> 3
<b>Role of the Committee</b> The Nomination Committee assists the Board in reviewing the structure, size and composition of the Board. It is also responsible for reviewing succession plans for Directors, including the Chairman and Chief Executive Officer and for other senior Executives.

**i** Nomination Committee  
See page 56

**There is also a Disclosure Committee which meets in the event that material information comes to light which had not been anticipated and which may require disclosure.**

INVESTMENT COMMITTEE
<b>Chairman</b> Ian Owen
<b>Other members</b> Paul Bishop Douglas Ferrans David Richardson
<b>Number of meetings required annually</b> 1
<b>Number of meetings held in 2014</b> 1
<b>Role of the Committee</b> To monitor PAG plc's investment in cash.

The members of the Disclosure Committee are Chris Gibson-Smith (Chairman), Steve Groves (Chief Executive Officer), David Richardson (Chief Financial Officer), Kathryn Purves (Chief Risk Officer) and the Group Company Secretary. This Committee met four times during 2014.

INVESTMENT COMMITTEE OF THE PARTNERSHIP LIFE ASSURANCE COMPANY LIMITED (PLACL) BOARD
<b>Chairman</b> Ian Owen
<b>Other members</b> Douglas Ferrans David Richardson (Chief Financial Officer) Andrew Chamberlain (Actuarial Function Holder)
<b>Number of meetings required annually</b> 4
<b>Number of meetings held in 2014</b> 4
<b>Role of the Committee</b> The Investment Committee is responsible for reviewing and making recommendations to the Board of Partnership Life Assurance Company Limited on investment risk policy, overall investment strategy within the agreed investment risk policy, appropriate arrangements for the management of investments and asset allocation.

## COMMITTEE MEMBERSHIP

	PAG					PLACL Investment
	Audit	Remuneration	Nomination	Risk	Investment	
Chris Gibson-Smith	–	Member	Chair	–	–	–
Steve Groves	By invitation	By invitation	By invitation	By invitation	–	By invitation
David Richardson	By invitation	–	–	By invitation	Member	Member
Paul Bishop	Chair	Member	Member	By invitation	Member	–
Peter Catterall	–	By invitation	By invitation	–	–	By invitation
Ian Cormack	By invitation	–	Member	Chair	–	–
Douglas Ferrans	Member	–	–	Member	Member	Member
Ian Owen	–	–	Member	Member	Chair	Chair
Clare Spottiswoode	–	–	–	Member	–	–
Richard Ward	–	Chair	Member	–	–	–
Simon Waugh	Member	Member	–	–	–	–

### **“The board and its committees should have the appropriate balance of skills, experience, independence and knowledge.”**

The UK Corporate Governance Code, September 2014

The skills and experience of the Board are set out in their biographical details on pages 44 and 45. The experience and knowledge of each of the Directors gives them the ability to constructively challenge strategy and to scrutinise performance.

#### **INDUCTION OF NEW DIRECTORS**

On joining the Board, Directors undergo a thorough induction programme which was developed in accordance with the guidelines issued by the Institute of Chartered Secretaries and Administrators, and tailored to the existing knowledge and experience of newly appointed external Directors. Non-Executive Directors meet the Chairman and the Chief Executive as part of the Nomination Committee's selection process, and again on appointment, for a thorough briefing on all relevant aspects of the Company. They also meet with the Group Company Secretary, senior management and the Company's lawyers and other relevant advisers for briefings on their responsibilities as Directors and on the Company's business, finances, risks, strategy, procedures and the markets in which the Company operates.

Directors are advised of the time required to fulfil the role prior to appointment and are asked to confirm that they can make the required commitment before an appointment is made. The Board is satisfied that each of the non-Executive Directors is able to devote sufficient time to the Company's business.

#### **EVALUATION**

The Company is committed to annual Board evaluation with external evaluation at least every three years. A formal internal

evaluation of the Board and the Board Committees took place during 2014. The assessment concluded that the Board and Committees were effective and structured correctly. Some development points were identified and acted upon, for instance, there was a request for increased provision of financial information between board meetings and support for increased focus on succession planning.

#### **DEVELOPMENT**

All Directors are advised of changes in relevant legislation and regulations and changing risks, with the assistance of the Company's advisers where appropriate. Executive Directors are subject to the Company's performance development review process through which their performance against predetermined objectives is reviewed and their personal and professional development needs considered.

An annual performance appraisal of non-Executive Directors is undertaken by the Chairman. As part of this the training and personal development requirements of non-Executive Directors are reviewed and agreed. Non-Executive Directors are encouraged to attend seminars and briefings, at the Company's expense, in areas considered to be appropriate for their own professional development including governance and issues relevant to the Committees on which they sit. A record of such training is maintained by the Group Company Secretary who is responsible for induction and on-going development.

#### **EXTERNAL APPOINTMENTS**

In the appropriate circumstances, the Board may authorise Executive Directors to take non-Executive positions in other companies and organisations, provided the time commitment does not conflict

with the Director's duties to the Company, since such appointments should broaden their experience. The appointment to such positions is subject to the approval of the Board.

#### **CONFLICTS OF INTEREST**

At each meeting the Board considers Directors' conflicts of interest. The Company's Articles of Association provide for the Board to authorise any actual or potential conflicts of interest.

#### **INDEPENDENT PROFESSIONAL ADVICE**

Directors have access to independent professional advice at the Company's expense. In addition, they have access to the advice and services of the Group Company Secretary who is responsible for advice on corporate governance matters to the Board.

#### **DIRECTORS' AND OFFICERS' LIABILITY INSURANCE**

The Group has purchased Directors' and Officers' liability insurance during the year as allowed by the Company's articles.

#### **ELECTION OF DIRECTORS**

In accordance with the provisions of the Code, all continuing Directors of the Company offer themselves for election or re-election at the Annual General Meeting.

## BOARD DECISIONS AND ACTIVITY DURING THE YEAR

There is a schedule of regular business, financial and operational matters to be addressed by the Board and its Committees during the course of the year and this ensures that all areas for which the Board has responsibility are reviewed. Directors receive Board and Committee papers one week prior to meetings.

Matters considered by the Board during 2014 included:

Each meeting	Annually	Throughout the year
Reports from the Chief Executive including an update on trading, performance in each of the business areas, personnel, regulatory and strategic matters	Evaluation of Board effectiveness	Detailed consideration and approval of transactions
Reports from the Chief Financial Officer on the financial performance and position of the Group, investment management, capital management, pricing, financial re-engineering, research and development, reinsurance and investor relations	Executive and non-Executive Succession Planning	Discussion of changes to the Group's risk profile
Strategic discussion	Off-site strategy day	Discussion and approval of Group strategy
Updates from the Board Committees	Budget	Presentations on the annuity market and distribution
Review of Conflicts of Interest	Business Plan	Shareholder interaction
	Review of independence of Directors pursuant to UK Corporate Governance Code	Corporate Governance

Senior management and advisers are invited to attend Board and Committee meetings where appropriate to contribute to discussion and advise members on particular matters. The involvement of senior management at Board and Committee discussions strengthens the relationship between the Board and senior management and helps to provide the Board with a greater understanding of operations and strategy.

The annual strategy day provides a forum at which all Directors are able to help develop future strategy.

### DIVERSITY

Partnership has a comprehensive Company Equality and Diversity policy that covers all levels within the business.

Our recruitment practices have long included a commitment to recruit and promote employees on the basis of the suitability for the job without discrimination on any grounds. We offer flexible training and development and mentoring programmes to assist all our employees achieve their potential, taking account of their diverse development needs against the skills and competencies required for

their existing and future roles. In addition, our reward practices are designed to eliminate any race, gender or age bias.

When searching for candidates for Board appointments, Partnership seeks to make appointments on merit against objective criteria with due regard for the benefits of diversity. This includes gender diversity.

We recognise the benefit throughout the Group in having access to the diversity of input from people with a wide range of backgrounds and nationalities.

The Board supports the Davies Review's conclusion that greater efforts should be made in improving the gender balance of corporate boards and that quotas for female Board representation are not the preferred approach.

The promotion of women to Board and other senior positions within the Company is dependent on the recruitment, development and retention of women in the workforce, both within the Company and in the wider pool of female executive talent in the business and professional community.

The key direct reports of the Chairman and CEO comprise two (25%) females and six (75%) males. The female representation includes key executive roles such as Chief Operating Officer and Chief Risk Officer.

The Board will continue to ensure that appointees are the best candidates to promote the success of the Company, that

appointments are based on merit and that they also meet the requirements of the Equality Act. Subject to these requirements, we have an on-going commitment to strengthening female representation at Board and senior management level. At Board level, this has included requesting that headhunters ensure that a significant proportion of the long list of candidates in any search is female.

### ACCOUNTABILITY

The Directors believe that this Annual Report presents a fair, balanced and understandable assessment of the Group's position and prospects and the Audit Committee confirmed this view to the Board when it considered both the interim and full year financial statements.

The Board is responsible for determining the nature and extent of its principal risks and for determining the extent of the Group's risk appetite. The Risk Committee is tasked with keeping the effectiveness of the Group's risk management framework under review and the Group's approach to the management of risk is set out on pages 34 to 35.



### **“The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place”**

The UK Corporate Governance Code, September 2014

The Group has a dedicated Investor Relations function and a website focussed on information and updates relevant to public shareholders (“[www.partnership-group.com](http://www.partnership-group.com)”).

Cinven continues to be the majority shareholder, and to have Director representation on the Board. For public shareholders, the Group has engaged in active discussion, both on an individual basis, and through attendance at investor conferences and roadshows.

The Board receives regular updates on investor communication activity, changes to the shareholder register, and analysis of share price performance.

#### **INSTITUTIONAL INVESTORS**

Institutional investors represent the largest proportion of public shareholders, and as a result the majority of investor communication is focussed on that community. A number of roadshows were held throughout 2014 primarily targeted at institutional investors in London and Edinburgh. The Chief Executive Officer and Chief Financial Officer have also attended several investor conferences and hosted numerous one to one face-to-face meetings and calls with existing and potential institutional shareholders.

Communication with institutional shareholders also constitutes regular briefings and updates with the analyst community. The Company is covered by nine analysts who publish regular independent research on the Group.

The Company held an investor day in November 2014, to provide an update on the business and strategy and gave investors the opportunity to question a number of the Executive management team on topics or themes specific to the business.

#### **CONTROLLING SHAREHOLDERS**

On 14 November 2014, the Company and Cinven Funds entered into an amendment to the Relationship Agreement in which the parties agreed to comply with the “independence provisions” as set out in paragraph 6.1.4DR of the Listing Rules (the independence provisions). Furthermore, the Cinven Funds agreed to procure that they and their respective associates also comply with such provisions. As at 31 December 2014 and as at the date of this report, the Cinven Funds exercise or control an aggregate of 51.9% of the votes to be cast on all or substantially all matters at general meetings of the Company.

The Company confirms that, since 14 November 2014, it has complied with the independence provisions and, so far as it is aware, the Cinven Funds and their respective associates have complied with the independence provisions.

#### **APPOINTMENT AND REMOVAL OF DIRECTORS PURSUANT TO THE RELATIONSHIP AGREEMENT**

Pursuant to the relationship agreement (the “Relationship Agreement”) entered into between the Company and the Cinven Funds, and subject to the Company’s Articles of Association and applicable law and regulation, the Cinven Funds are able to appoint two non-Executive Directors to the Board for so long as they and their associates are entitled to exercise or to control the exercise of 30% or more of the votes able to be cast on all or substantially all matters at general meetings of the Company.

The Cinven Funds are able to appoint one non-Executive Director to the Board for so long as they and their associates are entitled to exercise and control the exercise of 15% or more of the votes able to be cast on all or substantially all matters at general meetings of the Company. Currently, Peter Caterall is an appointee of the Cinven Funds.

#### **PRIVATE INVESTORS**

Private investors comprise employee shareholders as well as individual shareholders. All private investors have access to the investor website, and have the ability to question the Company through the Investor Relations or Company Secretarial functions. Updates on financial and operating performance, including the presentations made to analysts and institutional investors, are available on the website.

#### **ANNUAL GENERAL MEETING**

All shareholders are invited to attend the Company’s Annual General Meeting. Separate resolutions are proposed on each substantially separate issue. All Directors normally attend the Annual General Meeting and the Chairmen of the Audit, Remuneration, Risk, Nomination and Investment Committees are available to answer questions. For each resolution, the proxy appointment forms provide shareholders with the option to direct their proxy vote either for or against the resolution or to withhold their vote. The proxy appointment form and any announcement of the results of a vote make it clear that a “vote withheld” will not be counted in the calculation of the proportion of the votes for and against the resolution. All valid proxy appointment forms are properly recorded and counted. For each resolution, after the vote has been taken, information on the number of proxy votes for and against the resolution, and the number of shares in respect of which the vote was withheld will be made available on the Company’s website.

This 2015 AGM will be held on 19 May 2015 at 28 Portland Place, London W1B 1LY.

### ROLE AND RESPONSIBILITIES

The Nomination Committee's role is to review the size and structure of the Board, succession planning and to make recommendations to the Board on potential candidates for the Board and for membership and chairmanship of the Board's Committees.

As part of this process, and as part of its continuing duties, the Committee ensures that Directors have sufficient time to undertake their duties as Directors and members of the Company's Audit, Remuneration, Nomination and Risk Committees.

The Committee is scheduled to meet twice a year but it will meet more frequently if required. The Committee normally invites the Chief Executive Officer and the Chief Operating Officer, who has responsibility for human resources throughout the Company, to attend. Peter Catterall, a Director nominated by the Company's major shareholder, also attends meetings by invitation.

The Committee has written terms of reference, which are available from the Group Company Secretary or on the Company's website [www.partnership-group.com](http://www.partnership-group.com). The terms of reference are subject to continuous review by the Group Company Secretary to ensure they meet changing requirements in regulation, legislation and best-practice. These were formally reviewed by the Committee in December 2014 when some minor amendments were adopted to reflect the change in membership during the year.

### MEMBERSHIP

The Nomination Committee comprises five non-Executive Directors, the majority of whom are independent. The Group Company Secretary acts as secretary to the Committee.

The Committee has a schedule of matters for regular review during the year and formally met three times in 2014.

### Nomination Committee meeting attendance in the year ended 31 December 2014

Member	Number of meetings
Chris Gibson-Smith (Chairman)	3/3
Paul Bishop*	1/1
Ian Cormack*	3/3
Ian Owen	2/3
Richard Ward*	2/3

\* Independent.

Richard Ward was appointed to the Committee on 7 March 2014 and was unable to attend one meeting due to a previous long-standing commitment. Paul Bishop was appointed to the Committee on 1 May 2014. Ian Owen was unable to attend one meeting due to a long-standing commitment.

### ACTIVITY DURING THE YEAR

The key focus of the Committee has been succession planning and Board composition. In particular, the Committee has strengthened the skills, knowledge and experience on the Board with three new non-Executive appointments. Paul Bishop joined the Board on 1 May 2014, Simon Waugh joined the Board as a Director on 7 March 2014 and Clare Spottiswoode joined the Board on 23 October 2014.

The Committee also considered long-term succession planning at the senior management level recognising the need to ensure that the Company's long-term future is secure.

The Committee and the Board have sought to ensure that appointments are of the best candidates to promote the success of the Company and that appointments are based on merit, with due regard for the benefits of diversity on the Board, including gender (whilst also meeting the requirements of the Equality Act).

The Board is satisfied that the majority of the non-Executive Directors are independent from management and have no material commercial or other connection with the Company and are able to exercise independent judgement.

Ian Owen, as the Company's former Chairman, and Peter Catterall, a Director nominated by the Company's major shareholder, are not considered to be independent.

All non-Executive Directors, whether independent or not, challenge assumptions constructively and effectively and assist executive management in the development of strategy thus supporting effective leadership of the Company.

All the Directors have been appointed within the previous three years. However, the Committee has taken account of the service of Ian Owen as a non-Executive Director of the Company's predecessor company.

Having undertaken this review, the Committee has recommended to the Board that each of the Directors should be proposed for re-election at the Annual General Meeting to be held on 19 May 2015.



Chris Gibson-Smith  
Chairman, Nomination Committee

### ROLE AND RESPONSIBILITIES

The Committee's key role is to provide effective governance and assurance over the Group's financial reporting, the performance of the internal audit function, the external auditor, and the management of the Group's systems of internal financial controls and related compliance activities.

The Audit Committee is focussed on the integrity of the Group's financial reports. The Audit Committee liaises closely with the Risk Committee through some cross membership and close cooperation of the Chairmen, which ensures that audit work is focussed on higher risk areas and that the results of internal and external audit work can be used to inform the work of the Risk Committee.

### COMMITTEE COMPOSITION

The Committee members have been selected with the aim of providing the wide range of financial and commercial expertise necessary to fulfil the Committee's duties and include actuarial and accounting expertise. The Board considers that the Committee Chairman has recent and relevant financial experience as required by the UK Corporate Governance Code (the Code).

### SUMMARY OF MEETINGS DURING YEAR

The Committee held six meetings during the year of which two were organised around the Group's financial reporting cycle and were mainly concerned with the interim report and annual results, and one which was mainly concerned with the Annual Report. The main items covered were as follows:

### Financial reporting and actuarial assurance

- The Group's Annual Report and Interim Report.
- The actuarial assumptions used by the Group which have the most material impact on the Group's results.
- The main accounting assumptions including the going concern basis and the accounting for goodwill and intangibles.
- The annual plan from the actuarial assurance team and regular reports on progress and results.
- Regular updates on the resourcing and structuring of the finance function.

### External audit matters

- Regular reports from the external auditor including meetings with the audit engagement partner without the presence of management.
- The 2014 audit work plan including the scope of the audit and the materiality levels adopted by the auditor.
- The independence of the external auditor including approval for the use of non-audit services provided by them.
- The effectiveness of the audit process.
- The reappointment, remuneration and engagement letter of the external auditor.

### Internal audit and regulatory compliance assurance

- The annual plan from the Director of Internal Audit, regular updates on internal audit work carried out and his end of year report.
- The annual plan from the Director of Compliance and Money Laundering Reporting Officer, regular updates on compliance monitoring work carried out and her end of year report.
- The Committee Chairman also takes responsibility for the performance and reward of the Director of Internal Audit.

### 2014 FINANCIAL REPORTING

The primary role of the Committee in relation to financial reporting is to review with both management and the external auditor the appropriateness of the half-year and annual financial statements concentrating on, amongst other matters:

- The quality and acceptability of accounting policies and practices;
- The appropriateness and clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- Material areas in which significant judgements have been applied or there has been discussion with the external auditor; and
- Whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

To aid our review, the Committee considers reports from the Chief Financial Officer, the Actuarial Function Holder, and it also reviews reports from the external auditor on the outcomes of their half-year review and annual audit. As a Committee we support Deloitte LLP in displaying the necessary professional scepticism its role requires.

The primary areas of judgement considered by the Committee in relation to the 2014 accounts, and how these were addressed, were:

### The valuation interest rate used to calculate the Group's insurance liabilities

The return on bond assets is adjusted for valuation purposes to allow for credit risk for each bond by considering the "spread" – the difference between the gross redemption yield and the yield on an equivalent duration "risk-free" reference instrument. Partnership sets the credit risk as a fixed minimum component plus a percentage of the spread, calibrated significantly in excess of historic default rates, which are provided by the leading rating agencies.

### Assumptions on annuitant longevity

The length of time the Group's annuitants will live and therefore the projected cash flows for annuities are key assumptions when setting the Group's insurance liabilities. Longevity experience is a key area of focus for the Board, and the Committee, through the Board, receives regular reports on the actual against expected number of deaths and the likely causes, by condition, of any positive or negative divergence.

During 2014, the Group conducted an in-depth investigation into mortality experience across all its major lines of business and policyholder groups, and has adopted a revised mortality basis more accurately to reflect past experience.

### The property assumptions used to value the Group's equity release assets

The value of the Group's equity release assets, which are largely in the form of roll-up mortgages are reliant on a range of assumptions as to future house-price growth, the volatility of house prices which determine the cost of the "No negative equity guarantee" which is given to all of PLACL's mortgagees.

The Committee addresses both the methodology underpinning these valuations and their calibration by reviewing and challenging the detailed analysis and recommendations put forward by the Actuarial Function Holder in the full and half year basis papers, which are also reviewed by Deloitte as part of their audit. Where appropriate, the Committee will also seek views of external experts and advisers.

### Impairment reviews of goodwill and intangible assets

In view of the lower sales volumes and profitability in the year, the impairment reviews of goodwill and intangible assets were an area of focus. The Committee was provided with views of the value in use of these assets based on a range of different scenarios and sensitivities to key variables.

### EXTERNAL AUDIT

The effectiveness of the external audit process is dependent on appropriate audit risk identification at the start of the audit cycle. We receive from Deloitte LLP a detailed audit plan, identifying its assessment of these key risks. For the 2014 financial year the primary risks identified were in relation to annuitant mortality, the valuation rate of interest, valuation of goodwill and intangible assets, large defined benefit transactions, and the valuation of equity release assets.

We challenged the work done by the auditors to test management's assumptions and estimates around these areas.

We assess the effectiveness of the audit process in addressing these matters through the reporting we receive from Deloitte LLP at both the half-year and year end. In addition we also seek feedback from management on the effectiveness of the audit process. For the 2014 financial year, management were satisfied that there had been appropriate focus and challenge on the primary areas of audit risk and assessed the quality of the audit process to be good. The Audit Committee concurred with the view of management.

### Auditor independence

The Committee believes that the independence of the external auditor is one of the primary safeguards for shareholders. The Committee reviewed audit independence and the scope of non-audit services and independence safeguards with Deloitte LLP. As part of this review, the Committee has received and reviewed written confirmation that, in Deloitte LLP's professional judgement, Deloitte LLP is independent within the meaning of all UK regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff is not impaired.

An analysis of auditor remuneration is shown in note 5 to the consolidated financial statements. The Committee was satisfied throughout the year that the objectivity and independence of Deloitte LLP was not in any way impaired by the nature of the non-audit services undertaken during the year, the level of non-audit fees charged or any other facts or circumstances. The Group has a policy on the provision by the external auditor of audit and non-audit services, and during 2014, Deloitte LLP was paid £246,000 for tax compliance and other assurance services.

These services were, in the opinion of the Committee, more efficiently provided by Deloitte LLP than other comparable firms due to it having information which it collects during the audit process.



### Tenure of external auditor

The appointment of Deloitte LLP as the Group's external auditor is kept under review. Deloitte LLP has audited the Group since the 2007 year end.

The previous audit partner rotated off the audit following the completion of the 2013 audit in accordance with the professional standards, having served seven years, six of which were prior to the Company listing. The Committee has approved Deloitte LLP's remuneration and terms of engagement and is fully satisfied with the performance, objectivity, quality of challenge and independence of the external auditor. The Committee has recommended that a resolution to reappoint Deloitte LLP as the Company's statutory auditor be proposed at the forthcoming AGM.

The Code now requires the Company to undertake a competitive tender for the role of external auditor every 10 years, although the transitional provisions would allow the Company not to tender until the end of the tenure of the incoming engagement partner, which we would expect to be in 2018. The Committee will comply with any further changes to the Code or law on audit tendering resulting from the recent Competition Commission report into the audit services market or EU regulation and will tender earlier than 2018 if it

believes that Deloitte LLP's independence, performance, objectivity and challenge are reduced. The Committee believes that, when a tender takes place, those asked to tender should have an equal chance of being appointed auditor. The Company therefore intends, where appropriate, to use audit firms other than Deloitte LLP for non-audit services so that relationships are enhanced with those firms capable of performing the role of external auditor. There are no contractual obligations which restrict the Committee's choice of auditor.

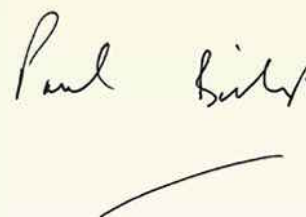
### RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for establishing and maintaining the Group's systems of internal financial control. The Audit Committee keeps under review the adequacy and effectiveness of the Group's internal financial controls and the project planning for significant changes in financial systems controls. Non-financial controls are considered by the Risk Committee.

The Committee has reviewed the effectiveness of the Group's internal financial control systems based on reports from the Director of Internal Audit and the Chief Financial Officer.

### INTERNAL AUDIT

Monitoring and review of the scope, extent and effectiveness of the activity of the Group Internal Audit department is an agenda item at each Committee meeting. The Committee considers and approves the internal audit plan annually and looks to ensure its alignment with the external audit and the Group's risk management approach. Reports from the Director of Internal Audit include updates on audit activities, progress of the internal audit plan, the results of any unsatisfactory audits and the action plans to address these areas. The Committee reviews the resource requirements of the Internal Audit department and is satisfied that it has the appropriate resources. We hold private discussions with the Director of Internal Audit as necessary during the year and the Committee Chairman also meets with him regularly outside the formal committee process and is responsible for his performance appraisal and setting his annual objectives. During the year the Committee sponsored a review of Internal Audit's conformance with the guidance from the Chartered Institute of Internal Auditors for internal audit functions of financial services companies. The Committee is supportive of the guidance and the actions which have been taken by Internal Audit to conform appropriately.



**Paul Bishop**  
Chairman, Audit Committee

### ROLE AND RESPONSIBILITIES

The Committee's key role is to keep under review, on behalf of the Board, the effectiveness of the Group's risk management framework, the Group's overall risk appetite, tolerance and strategy, and the Group's current risk exposures including the adequacy of mitigating actions. The Group's approach to the management of risk is explained in detail on pages 34 to 35.

### COMMITTEE COMPOSITION

All members of the Committee are non-Executive Directors. The Board considers that the composition of the Committee is appropriate and that Committee members have the knowledge and skills to effectively fulfil their responsibilities. The Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Actuarial Function Holder attend meetings of the Committee by invitation.

### SUMMARY OF MEETINGS DURING THE YEAR

The Committee held four meetings during the year. The principal activities of the Committee during 2014 were:

- Reviewing and recommending to the Board the Group's risk appetite
- Reviewing and recommending to the Board the Group's risk management policies which were updated during 2014 to align with the requirements of the incoming Solvency II capital regime
- Overseeing the development of the Group's Own Risk and Solvency Assessment (ORSA) and recommending its approval to the Board
- Reviewing the Group's consolidated key risk profile and key risk indicators with particular attention to risk appetite, risk trends and the adequacy of mitigating actions proposed by management
- Specific review, challenge and monitoring through focussed business reviews, of the changes to the Group's strategic and operating company risk profiles following the March 2014 Budget announcement
- Overseeing the embedding of the Board's view of, and appetite for, conduct risk and the sources of conduct risk in the Group's operations and reporting
- Consideration of any materialised Risk Events and breaches of the Group's risk appetite
- Approval of the Chief Risk Officer's annual review of the operation of the Group risk management framework and plan for the coming year
- Review of the minutes from the Group's executive risk committees

### RELATIONSHIP BETWEEN THE AUDIT COMMITTEE AND RISK COMMITTEE

The Chairmen of both Committees cooperate closely, and the Chairman of the Audit Committee has a standing invitation to attend the Risk Committee and vice versa. The areas of responsibility of each of the Audit Committee and Risk Committee are clearly defined and there is active consideration of areas of potential overlap between the Committees and where it would be helpful for an issue considered by one committee to also be considered by the other. The Audit Committee receives input from the Risk Committee to ensure that audit work is focussed on higher risk areas and that the results of internal and external audit work can be used to inform the work of the Risk Committee.



**Ian Cormack**  
Chairman, Risk Committee

The Directors present their Annual Report and the audited Financial Statements of the Group for the year ended 31 December 2014.

### EMPLOYEE SHARE SCHEMES

Details of the Company's Employee share schemes are set out on pages 110 to 112.

### RESULTS AND DIVIDENDS

The results for the year are set out in the Consolidated statement of comprehensive income on page 86. The Directors recommend the payment of a final dividend of 1 pence per share, which together with the interim dividend gives the total dividend of 1.5 pence per share (2013: 3 pence per share).

### CHANGE OF CONTROL: SIGNIFICANT AGREEMENTS

The Company does not have any agreements with any non-Executive Director, Executive Director or employee that would provide compensation for loss of office or employment resulting from a change of control.

### ARTICLES OF ASSOCIATION

Any amendments to the Articles of Association of the Company may be made by Special Resolution of the shareholders.

### Share Capital – Structure, Rights and Restrictions

Details of the Company's share capital are set out in note 31 to the Financial Statements on pages 126 and 127. The Company has one class of share capital: 399,999,971 ordinary shares of £0.10. The ordinary shares are listed on the London Stock Exchange. The rights and obligations attaching to these shares are governed by UK law and the Company's Articles of Association.

Ordinary shareholders are entitled to receive notice and to attend and speak at any general meeting of the Company. On a show of hands every shareholder present in person or by proxy (or being a corporation represented by a duly authorised representative) shall have one vote, and on a poll every shareholder who is present in person or by proxy shall have one vote

for every share held. The Notice of Annual General Meeting specifies deadlines for exercising voting rights and appointing a proxy or proxies.

There are no restrictions on the transfer of the ordinary shares other than:

- The standard restrictions for a UK-quoted company set out in article 43 of the Articles of Association
- Where, from time to time, certain restrictions may become imposed by laws and regulations (for example, insider trading laws)
- Pursuant to the Listing Rules of the Financial Services Authority whereby certain Directors, officers and employees of the Company require the approval of the Company to deal in the ordinary shares

No shareholder holds securities carrying special rights as to the control of the Company. There are no limitations on the holding of securities. There are no restrictions on voting rights or any arrangements by which, with the Company's co-operation, financial rights carried by securities are held by a person other than the holder of the securities. There are no agreements between holders of securities that are known to the Company which may result in restrictions on the transfer of voting rights.

### Authority to purchase own shares

The Company was authorised by a shareholders' resolution passed at the Annual General Meeting held in May 2014 to purchase up to 10% of its issued ordinary share capital. Any shares which have been bought back may be held as treasury shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the amount of the Company's issued and authorised share capital. This authority will expire at the forthcoming Annual General Meeting and a resolution to renew the authority for a further year will be proposed. No shares were purchased by the Company during the year.

### Directors' interests

The number of ordinary shares of the Company in which the Directors were beneficially interested at 1 January 2014,

or date of appointment if later, and at 31 December 2014 is set out in the Directors' Remuneration Report on page 69.

No Director had any dealings in the shares of the Company between 31 December 2014 and 2 March 2015.

### Directors' indemnities

The Company has deeds of indemnity in place with the Directors in respect of a liability arising against them in connection with the Company's (and any associated company's) activities and (if relevant) where Directors act as pension trustees. These deeds are in place at the date of this report and operate subject to the conditions set out in the Companies Act 2006.

### Directors' and Officers' liability Insurance

Directors' and Officers' liability Insurance cover is in place at the date of this report. A review of the cover was carried out in 2014. The Board remains satisfied that an appropriate level of cover is in place and a review of cover will take place on an annual basis.

### Major interests in shares

As at 2 March 2015, the Company had been advised, of the following notifiable interests (whether directly or indirectly held) in its voting rights:

Notification received from:	Number of voting rights	%
Cinven	207,593,567	51.9
GIC	16,582,676	4.15
MFS Investment Management	15,934,102	3.98

### Financial risk management

The Company's objectives and policies on financial risk management including information on the Company's exposures to Market risk, including foreign currency, commodity price, interest rate, inflation rate and equity price risks, Credit risk and Liquidity risk can be found in note 29 to the financial statements.

## DIRECTORS

The Directors who served the Company during 2014 and up to the date of this report are listed on page 45.

## DIRECTORS' INDEMNITIES

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

## EQUAL OPPORTUNITIES

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

## EMPLOYEE ENGAGEMENT

Information about employee engagement is set out on page 32.

## GREENHOUSE GAS EMISSIONS

Information about the Company's Greenhouse Gas emissions can be found on pages 40 and 41.

## AUDITOR

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

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Deloitte LLP has indicated its willingness to continue in office as auditor. A resolution to reappoint Deloitte LLP as auditor will be put to shareholders at the forthcoming AGM.

## ANNUAL GENERAL MEETING

The Company's Annual General Meeting will be held at 28 Portland Place, London W1B 1LY on 19 May 2015. Details of the meeting venue and the resolutions to be proposed are set out in a separate Notice of Meeting, which accompanies the Annual Report.

## CORPORATE GOVERNANCE STATEMENT

Throughout the year ended 31 December 2014, the Board considers that it and the Company has applied the UK Corporate Governance Code's (the Code) main principles and complied without exception with provisions of the Code. The Company's Corporate Governance Report is set out on pages 44 to 63 and is, together with the information on share rights set out in note 31 on pages 126 and 127, incorporated into this corporate governance statement by reference.

## GOING CONCERN STATEMENT

The Directors have undertaken a going concern assessment in accordance with "Going Concern and Liquidity Risk: Guidance for UK directors of UK Companies 2009", published by the Financial Reporting Council in October 2009.

As a result of this assessment, the Directors are satisfied that the Group and the Company have adequate resources to continue to operate as a going concern for the foreseeable future and have prepared the financial statements on that basis. In assessing whether the going concern basis is appropriate, the Directors have considered the information contained in the financial statements, the latest business plan, profit forecasts, and estimated forecast solvency of the regulated subsidiaries of the Group.

These forecasts have been subject to sensitivity tests and the Directors are satisfied that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future.

Key information in respect of the Group's risk management framework, objectives and processes for mitigating risks including liquidity risk are set out in detail on pages 34 to 39.

Approved by the Board and signed on its behalf by:



Prism Cosec Limited  
Group Company Secretary  
2 March 2015  
Registered office:  
10 Margaret Street  
London W1W 8RL



### The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of IAS Regulation and have chosen to prepare the Parent Company financial statements under IFRS as adopted by the European Union (EU). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, Internal Accounting Standard 1 requires that Directors:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the companies' transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### DIRECTORS' RESPONSIBILITY STATEMENT


We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The Directors' report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and

- The Board confirms that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the performance, strategy and business model of the Company.

Neither the Company nor the Directors accept any liability to any person in relation to the Annual Report except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A and schedule 10A of the Financial Services and Markets Act 2000.

By order of the Board:



Steve Groves  
Chief Executive Officer



David Richardson  
Chief Financial Officer  
2 March 2015

# Being fairly rewarded for what we do



## DEAR SHAREHOLDER

I am pleased to present shareholders with our remuneration report in the same format as last year in two separate parts: The Annual Report on Remuneration setting out the implementation of remuneration policy and the Directors' Remuneration Policy.

The Annual Report on Remuneration sets out payments made to Directors during the last year. This report and my letter are subject to an advisory vote at the Annual General Meeting.

The Directors' Remuneration Policy relates to a forward-looking policy which, assuming its approval at the Company's Annual General Meeting on 19 May 2015, will take effect immediately thereafter. It is subject to a binding vote at the Annual General Meeting.

As highlighted last year we examined our policy to ensure that what was put in place before the time of the listing continued to be appropriate. A review of both the equity instruments used and the performance measures used was undertaken during the year. There are two changes to our LTIP policy that we consider to be appropriate and we have consulted with the shareholder advisory bodies and major shareholders and now bring the proposed changes of policy to shareholders for approval at the 2015 Annual General Meeting.

These two changes are to introduce the facility for at-the-money (or market value) share options to be awarded under the LTIP. At present only nil-cost options

can be granted and we wish to have an instrument that rewards only the growth in share value from grant date rather than one which delivers the whole value of the share. The second change is to have performance measures that are better aligned to business strategy and objectives. Details are set out in the new Remuneration Policy and there is a separate vote for the amendment of the LTIP accordingly.

## THE CONTEXT OF REMUNERATION IN 2014

Details of the policy and the amounts paid during 2014 are given in the Directors' Remuneration Policy and the Annual Report on Remuneration respectively. The main context of 2014 for remuneration purposes was the announcement of the fundamental changes to the annuity regime in the UK. Regrettably the uncertainty surrounding the March 2014 announcement by the Chancellor of the Exchequer continues, as the final structure of the legislation will only emerge after April 2015.

Although the Company only became the holding company of the Group on listing in June 2013 the information given covers the whole of 2013 as comparative figures by the inclusion of information relating to the Company's predecessor company.

The Group's auditor, Deloitte LLP, has audited the information in the single total figure of remuneration section on page 65.

## PERFORMANCE IN 2014

The financial and operating performance for 2014 is set out on pages 12 to 16 in the Strategic Report. Overall the Company has had to face a difficult year with great uncertainty following the budget announcement.

The key issue for the Remuneration Committee in 2014 has been the effect on our business of the changes to the UK legislative environment dealing with the use of pensions savings. This has had a major

impact on our business and the objective of the Remuneration Committee is to have in place a Remuneration Policy that supports business strategy. The actions taken by the Company in new product development, geographical expansion and cost control have been taken into account in setting the objectives for the 2015 annual bonus and in better aligning performance measures with business strategy for the LTIP.

The Committee has considered the performance delivered in 2014 in determining the level of bonus to be awarded. The Committee had regard to deterioration in sales and operating profits as a result of the legislative changes, and considered that bonus should be reduced for 2014 as the Group's profit targets were not achieved.

## CONCLUSION

The key change to our business and indeed to the UK pensions industry as a whole has been the budget day announcement by the Chancellor of the Exchequer in March 2014. We are responding to those changes with minor amendments to our policy.

I hope you will find the reports helpful in understanding the Company's remuneration practices and that you will support resolutions relating to remuneration at the forthcoming Annual General Meeting.

A handwritten signature in black ink, appearing to read 'Richard Ward', with a long, sweeping horizontal line extending to the right.

**Richard Ward**  
Chairman, Remuneration Committee

## ANNUAL REPORT ON REMUNERATION

### SINGLE TOTAL FIGURE OF REMUNERATION

This report contains composite information on the remuneration of the Directors for 2014 and 2013 (that is the year under review and the previous year) in respect of the Directors of the Company, including, where relevant, information on those Directors who were previously Directors of PAG Holdings Limited.

Partnership Assurance Group plc was incorporated on 26 February 2013 and became the holding company of the Group on 12 June 2013. Chris Gibson-Smith, Peter Catterall, Maxim Crewe, Ian Owen, Robin Phipps, David Young, Steve Groves and David Richardson were Directors of the Company's predecessor company, PAG Holdings Limited (a Jersey registered company), prior to their appointment as Directors of the Company, and the emoluments shown as received by them include payments received from both companies.

	Note	2014									
		Base Salary/ fees	Voluntary reduction (note 7)	Car allowance	Taxable benefits	Annual bonus cash	Annual bonus share element	LTIP	Pension	Other	Total
		£000's	£000's		£000's	£000's	£000's	£000's	£000's	£000's	£000's
Executive Directors											
Steve Groves		625	(23)	10	2	375	187	n/a	85	3	1,264
David Richardson	1	438	(5)	10	2	250	125	n/a	60	3	883
Non-Executive Directors											
Chris Gibson-Smith Chairman		250	(5)	–	–	–	–	–	–	–	245
Paul Bishop	4	43	–	–	–	–	–	–	–	–	43
Marisa Cassoni	2	12	–	–	–	–	–	–	–	–	12
Peter Catterall	3	–	–	–	–	–	–	–	–	–	0
Ian Cormack	2	85	(5)	–	–	–	–	–	–	–	80
Maxim Crewe	3	–	–	–	–	–	–	–	–	–	0
Douglas Ferrans	2	60	(5)	–	–	–	–	–	–	–	55
Ian Owen		75	–	–	–	–	–	–	–	–	75
Robin Phipps		14	–	–	–	–	–	–	–	–	14
Clare Spottiswoode	4	12	–	–	–	–	–	–	–	–	12
Richard Ward	2	72	–	–	–	–	–	–	–	–	72
Simon Waugh		49	(5)	–	–	–	–	–	–	–	44
David Young	8	72	(5)	–	–	–	–	–	–	–	67

Notes:

- David Richardson was appointed a Director of PAG Holdings Limited on 11 February 2013. He received a benefits buyout payment of £483,000 (shown in "Other" 2013) on joining.
- Marisa Cassoni, Ian Cormack, Douglas Ferrans and Richard Ward were appointed Directors on 12 May 2013.
- Peter Catterall and Maxim Crewe, who were previously Directors of PAG Holdings Limited and who were appointed to the Board of the Company on 26 February 2013, are appointed to the Board by the Cinven Funds pursuant to the terms of a Relationship Agreement between the Cinven Funds and the Company. Their fees are paid to Cinven.
- Paul Bishop was appointed a Director on 1 May 2014, Clare Spottiswoode was appointed a Director on 23 October 2014.
- Written confirmation has been provided by each Director that they have not received any other items in the nature of remuneration other than those disclosed in the tables above and below.
- Pension details are shown in the table below.
- Voluntary reductions in salary/fees were made by Directors to fund part of the Company's restructuring costs.
- David Young resigned from the Remuneration Committee on 22 May 2014.

	Note	2013							
		Base salary/ fees	Car allowance	Taxable benefits	Annual bonus cash	Annual bonus share element	LTIP	Pension	Other
		£000's		£000's	£000's	£000's	£000's	£000's	£000's
<b>Executive Directors</b>									
Steve Groves		625	10	2	500	250	n/a	94	3
David Richardson	1	388	10	2	287	143	n/a	55	486
<b>Non-Executive Directors</b>									
Chris Gibson-Smith Chairman		250	—	—	—	—	—	—	—
Paul Bishop	4	—	—	—	—	—	—	—	—
Marisa Cassoni	2	38	—	—	—	—	—	—	—
Peter Catterall	3	—	—	—	—	—	—	—	—
Ian Cormack	2	67	—	—	—	—	—	—	—
Maxim Crewe	3	—	—	—	—	—	—	—	—
Douglas Ferrans	2	47	—	—	—	—	—	—	—
Ian Owen		113	—	4	—	—	—	—	—
Robin Phipps		66	—	—	—	—	—	—	—
Clare Spottiswoode	4	—	—	—	—	—	—	—	—
Richard Ward	2	47	—	—	—	—	—	—	—
Simon Waugh		—	—	—	—	—	—	—	—
David Young		70	—	—	—	—	—	—	—

See notes on page 65.

## PENSION

The total amounts paid to Executive Directors' individual defined contribution schemes and payments in lieu of pension contributions are shown in the table below:

	2014			2013		
	Payments to scheme £	Payments in lieu of pension contributions £	Total £	Payments to scheme £	Payments in lieu of pension contributions £	Total £
Steve Groves		85,223	85,223	—	93,750	93,750
David Richardson	16,406	43,250	59,656	54,688	—	54,688
<b>Total</b>	<b>16,406</b>	<b>128,473</b>	<b>144,879</b>	<b>54,688</b>	<b>93,750</b>	<b>148,438</b>



---

## Benefits

The benefits provided to the Executive Directors in 2014 and 2013 included, taxable: car allowance and private medical insurance; non-taxable: permanent health insurance, life assurance, season ticket loans and health screening.

## Annual bonus

### 2014

For 2014 the performance measures for the bonus of the Chief Executive Officer were based as to 65% on Group financial measures including profit measures and as to 35% on corporate performance measures. The performance measures for the Chief Financial Officer were based as to 60% on Group financial measures including profit measures and as to 40% on corporate performance measures. The actual target range for the financial and comparative measures has not been disclosed as this is considered by the Board to be commercially sensitive information.

As a result of the proposed changes to the annuity market in the UK the profit targets were not achieved and so no bonus related to profit for 2014 was payable and the bonuses are consequently lower than those paid in 2013. However, they achieved or partially achieved other financial measures and corporate objectives.

Overall, this resulted in the Chief Executive Officer receiving a bonus equal to 60% of the maximum for the year (150% of salary) comprising £375,000 cash and deferred shares of £187,000.

Overall the Chief Financial Officer received a bonus equal to 57% of the maximum for the year 2014 (150% of salary) comprising £250,000 cash and deferred shares of £125,000.

Any such bonuses are paid as to two-thirds in cash and one-third in deferred shares under a Deferred Share Bonus Plan with a three-year vesting period. Any bonus is discretionary and subject to achievement of a combination of financial and corporate performance measures. The Remuneration Committee has the discretion to adjust the deferral percentage if required, to comply with future regulatory requirements relevant to the insurance industry, including the remuneration-related terms of Solvency II when these are introduced.

### 2013

For 2013 the performance measures for the bonus of the Chief Executive Officer were based as to 65% on Group financial measures and as to 35% on corporate performance measures. The performance measures for the Chief Financial Officer were based as to 60% on Group financial measures and as to 40% on corporate performance measures. The actual target range for the financial and corporate measures has not been disclosed as this is considered by the Board to be commercially sensitive information.

In a challenging market environment, performance measures were within range and Steve Groves and David Richardson (having joined the Group in February 2013) achieved or partially achieved their financial related objectives which led to them receiving 30% and 30% bonus related to financial objectives for 2013. Additionally, they achieved or partially achieved their corporate objectives which led to them receiving 50% and 44% bonus relating to corporate objectives for 2013.

Overall, this resulted in the Chief Executive Officer receiving a bonus equal to 80% of the maximum for the year (150% of salary) comprising £500,000 cash and deferred shares of £250,000.

Overall the Chief Financial Officer received a bonus equal to 74% of the maximum for the year 2013 (150% of salary) comprising £286,667 cash and deferred shares of £143,333.

## SHARE SCHEME AWARDS GRANTED DURING THE YEAR

### 1 LONG TERM INCENTIVE PLAN (LTIP)

Awards under the LTIP were made over shares on 22 May 2014, as set out in the table below. Awards were made in the form of nil-cost options, which become exercisable on the third anniversary of the grant date, subject to the satisfaction of performance targets. Awards are then exercisable until the tenth anniversary of the grant date.

Name	Number of shares	Face value £000's	Percentage receivable if minimum performance achieved	End of performance period
Steve Groves	1,014,610	1,250	20%	22 May 2016
David Richardson	532,670	656	20%	22 May 2016

The awards were made based on a base salary multiple of 2.0 for Steve Groves and 1.5 for David Richardson. The calculation of number of shares and face value was based on the average closing price of the shares for 19, 20 and 21 May.

LTIP awards are subject to performance conditions which will determine the proportion (if any) of the LTIP to vest at the end of the performance period, which will normally be a period of at least three years. The performance conditions applicable to the LTIP awards made in 2014 are total shareholder return (TSR) performance.

The LTIP awards are subject to a performance condition measuring the Company's TSR performance relative to the constituent companies of the FTSE 250 index (excluding investment trusts, mining companies and oil and gas producers) over a three year period from grant date, with vesting as follows:

TSR performance	Proportion of LTIP vesting
Median performance	20%
Upper quartile performance	100%

Vesting is on a straight line basis between these two points. For performance below the median this part of the LTIP lapses.

### 2 DEFERRED SHARE BONUS PLAN (DSBP)

Awards under the DSBP were made over Shares as set out in the table below. Awards were made in the form of nil-cost options, which become exercisable on the third anniversary of the grant date. Options are then exercisable until the tenth anniversary of the grant date, unless the exercise period is shortened in accordance with the DSBP rules. The awards were made based on half of the cash amount of the bonus paid in respect of 2013. The calculation of number of shares and face value was based on the average closing price of the shares for 19, 20 and 21 May 2014.

Name	Number of shares	Face value £000's	Percentage receivable if minimum performance achieved	Lapse Date
Steve Groves	202,922	250	100%	22 May 2024
David Richardson	116,342	143	100%	22 May 2024

### 3 ALL EMPLOYEE SHARE PLANS

The Company operates a Save As You Earn Share Option Plan (SAYE) and a Share Incentive Plan (SIP), both of which are approved by HM Revenue & Customs, for all eligible employees. Executive Directors are entitled to participate in both these plans on the same terms as other eligible employees.

Awards of "free shares" under the SIP with a market value of £1,000 were made to all eligible employees, including the Executive Directors, on 12 June 2013, at the offer price of £3.85 per share. The "free shares" will, in all cases, be forfeited if the individual leaves employment in certain circumstances before 12 June 2016.

The Executive Directors' interests in the SIP as at 31 December 2014 are as follows:

	Total SIP held 31 December 2013	Shares acquired as a result of reinvested dividends	Total SIP shares held 31 December 2014
Steve Groves	260	7	267
David Richardson	260	7	267

Under the SAYE scheme, eligible employees were invited to apply for options at an option price at a 20% discount to the average market value of a share over the three day period from 17–19 June 2013. Options become exercisable at the option price on the bonus date for a period of six months and will then lapse. A further invitation to apply for options at an option price at a 20% discount to the average market value of a share over the three day period from 18–20 August 2014 was made to eligible employees. The table below sets out details under the SAYE schemes during 2013 and 2014 for Executive Directors and the options outstanding as at 31 December 2013.

	Scheme date	Total options held 31 December 2013	Granted	Exercised	Lapsed	Total options held 31 December 2014	Exercise price	Market price on exercise date	Exercise date for outstanding options
David Richardson	2013	2,521	–	–	2,521	–	357p	n/a	n/a
David Richardson	2014	–	9,533	–	–	9,533	94.4p	n/a	1 May 2018

## SHARE OWNERSHIP

The interests of those persons who were Directors (and their Connected Persons) during the year are set out below showing whether or not they are fully compliant with the Company's share ownership guidelines for Executive Directors as at 31 December 2014:

	Required value of share interest	Shares held as at 31 December 2014	Share ownership guideline met
<b>Executive Directors</b>			
Steve Groves	150% of salary	<b>9,601,535</b>	Yes
David Richardson	100% of salary	<b>429,461</b>	Yes
<b>Non-Executive Directors</b>			
Chris Gibson-Smith	n/a	<b>698,787</b>	n/a
Marisa Cassoni	n/a	<b>12,987</b>	n/a
Peter Catterall	n/a	–	n/a
Ian Cormack	n/a	<b>12,987</b>	n/a
Maxim Crewe	n/a	–	n/a
Douglas Ferrans	n/a	<b>12,987</b>	n/a
Ian Owen	n/a	<b>7,491,776</b>	n/a
Robin Phipps	n/a	<b>663,009</b>	n/a
Richard Ward	n/a	<b>12,987</b>	n/a
David Young	n/a	<b>2,451,539</b>	n/a

There is no requirement for non-Executive Directors to meet any Company share ownership guidelines.

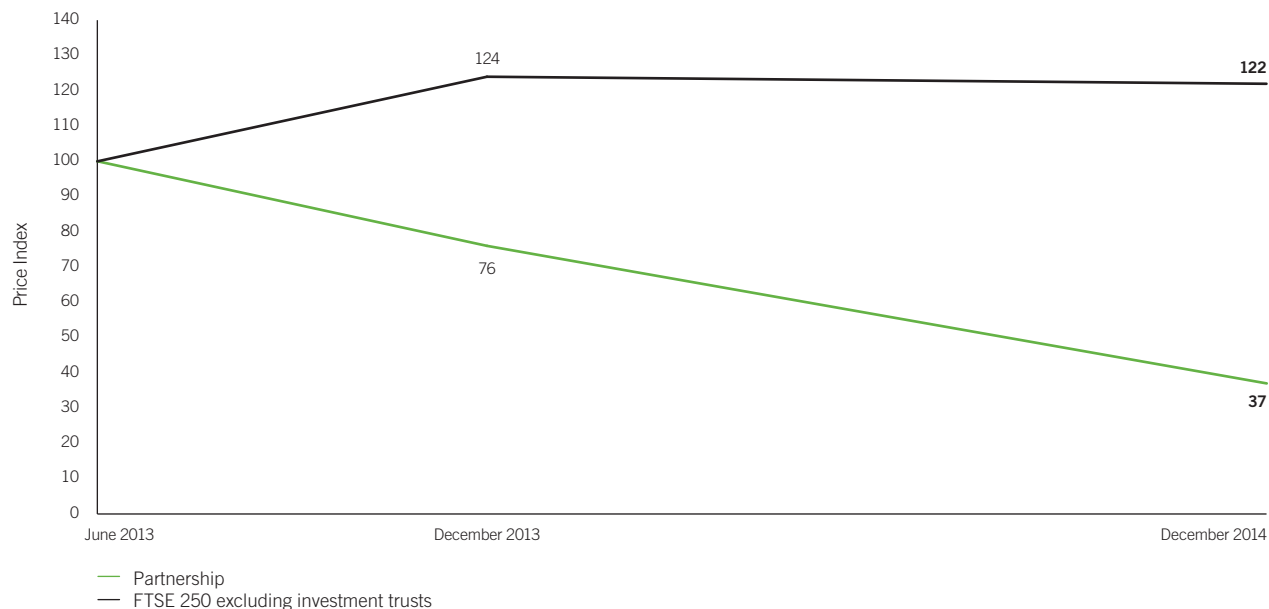
Pursuant to an Underwriting Agreement entered into in connection with Listing, Steve Groves and David Richardson have agreed that, subject to certain exemptions, during the period of 24 months from the date of Admission of the Company's shares to Listing (which took place on 12 June 2013), they will not dispose of shares held by them at Listing other than shares sold at the time of Listing.

A loan was made by PAG Holdings Limited to David Richardson in December 2012 of £378,000, in order to enable him to purchase shares held in the Employee Benefit Trust. The loan was subject to a commercial rate of interest. The sum of £96,312 was repaid by Mr Richardson in June 2013. The balance of the loan plus accrued interest remains outstanding.

There have been no payments to Directors for loss of office and no payments to past Directors in 2013.

## PERFORMANCE GRAPH AND TABLE

The graph below illustrates by way of comparator, the Company's share performance since listing on 12 June 2013 with the FTSE 250 X Investment Trust. This comparative index was chosen as the Company was a constituent of the index in 2013 and 2014.



## HISTORICAL CHIEF EXECUTIVE OFFICER REMUNERATION OUTCOMES

The table below summarises the Chief Executive Officer single figure for total remuneration, annual bonus pay out and share plan vesting as a percentage of maximum opportunity for the current year and previous year.

	Chief Executive	2014	2013	2012
Chief Executive single figure remuneration (in £000)	Steve Groves	<b>1,264</b>	1,483	1,338
Annual bonus pay out (as % maximum opportunity)	Steve Groves	<b>60%</b>	80%	100%
Share plan vesting (as % of maximum opportunity)	Steve Groves	<b>n/a</b>	n/a	n/a

## PERCENTAGE CHANGE IN CHIEF EXECUTIVE OFFICER'S REMUNERATION

The percentage change in the remuneration awarded to the Chief Executive Officer between the preceding year in relation to each of salary, benefits and bonus in comparison with the average change in respect of employees was as follows:

	Chief Executive Officer			Average (per capita)		
	2014 £000's	2013 £000's	% change	2014 £000's	2013 £000's	% change
Salary	<b>625</b>	625	0%	<b>51</b>	47	9%
Taxable benefits	<b>11</b>	11	0%	<b>0.77</b>	0.33	133%
Bonus	<b>562</b>	750	(25)%	<b>8</b>	12	(33)%

- Per capita for the purpose of salary is taken as all staff excluding the Executive Directors.
- Per capita for the purpose of taxable benefits is taken as actual amount based on staff employed in March each year calculated from P11D forms for all staff excluding the Executive Directors.
- Per capita for the purpose of Bonus is calculated based on the average staff count for each year excluding the Executive Directors.
- The per capita bonus amounts have been calculated based on the actual bonus paid to staff, excluding the Executive Directors, in 2014 and on the average number of employees in the year.



## RELATIVE IMPORTANCE OF SPEND ON PAY

	2014 £000's	2013 £000's
Total pay for all employees	33,830	41,052
Dividend paid in 2014	14,000	–

## CURRENT SALARY AND FEES

The salaries of the Executive Directors and the Chairman are reviewed annually with effect from 1 January and the fees of non-Executive Directors are reviewed at least every three years.

The base salaries for Executive Directors for 2014 and 2015 are set out below:

	2014 £	2015 £	Percentage increase
Steve Groves	625,000	625,000	0
David Richardson	437,500	437,500	0

The fee paid to the Chairman, which is determined by the Remuneration Committee, is currently £250,000 p.a.

The fees of the other non-Executive Directors are determined by the Board, which takes account of the fees payable to non-Executive Directors of competitor companies and are set to reflect the responsibilities of the role. In order to recognise the additional time commitment of the Senior Independent Director and those who chair the Audit, Risk, Remuneration, Nomination and Investment Committees, additional fees are payable in respect of those positions.

The non-Executive Directors are not entitled to participate in the Company's bonus, employee share plan or pension arrangements. The Company will reimburse Executive Directors and non-Executive Directors for all reasonable and properly documented expenses incurred in the performance of the duties of their office. Subject always to the approval of the Board of PAG plc, the Company will provide the Chairman and non-Executive Directors with such support services as are reasonably necessary to carry out their role as non-Executive Director, or in the event that the support services are provided by another party, the Company shall pay such amount to such other party as shall be agreed between the individual non-Executive and the Company for the provision of the support services.

The fees currently payable to the other non-Executive Directors are as follows:

	Fee £	Senior Independent Director £	Remuneration Committee Chair £	Audit Committee Chair £	Risk Committee Chair £	Investment Committee Chair £	Total £
Paul Bishop	60,000	–	–	15,000	–	–	75,000
Peter Catterall	60,000	–	–	–	–	–	60,000
Ian Cormack	60,000	10,000	–	–	15,000	–	85,000
Douglas Ferrans	60,000	–	–	–	–	–	60,000
Ian Owen	60,000	–	–	–	–	15,000	75,000
Clare Spottiswoode	60,000	–	–	–	–	–	60,000
Richard Ward	60,000	–	15,000	–	–	–	75,000
Simon Waugh	60,000	–	–	–	–	–	60,000

In accordance with the terms of the Relationship Agreement between the Company and the Cinven Funds, the fees payable to Peter Catterall, as a Cinven appointed Director, are payable to Cinven.

## IMPLEMENTATION OF REMUNERATION POLICY DURING 2015

Information is provided in the Directors' Remuneration Policy.

## CONSIDERATION BY THE DIRECTORS OF MATTERS RELATING TO DIRECTORS' REMUNERATION

### Committee membership

In 2014 the Committee comprised:

Robin Phipps (Chair) until 7 March 2014

Marisa Cassoni until 7 March 2014

Chris Gibson-Smith

Richard Ward (Chair from 7 March 2014)

David Young from 7 March 2014 until 1 May 2014

Simon Waugh from 7 March 2014

Paul Bishop from 1 May 2014

Robin Phipps stood down as Chair on 7 March 2014 when he left the Company. Marisa Cassoni also ceased to be a member of the Committee on 7 March 2014. Richard Ward was appointed as Chair of the Committee, and David Young and Simon Waugh were appointed as members of the Committee on 7 March 2014. David Young resigned from the Committee on 22 May 2014.

In accordance with the UK Corporate Governance Code, Chris Gibson-Smith is permitted to be a member of the Committee because he was considered to be independent on his original appointment to the Board. No Director has had any involvement in discussions about his or her own remuneration.

The Chair of the Committee reports on the Committee's activities to the Board at each meeting immediately following the preceding Committee meeting.

### Meetings

The Committee would normally be expected to meet at least three times each year. It met on seven occasions in 2014.

	Number of meetings attended	Number of meetings held
Robin Phipps	0	1
Marisa Cassoni	0	1
Chris Gibson-Smith	7	7
Richard Ward	7	7
David Young	2	2
Simon Waugh	3	5
Paul Bishop	4	4

Following the Company's Listing and in line with best-practice, the Committee identified a shortlist of potential independent advisers. Following presentations by each adviser and an interview with each adviser and consideration by the Committee, Alan Judes of Strategic Remuneration was appointed by the Committee as the Committee's remuneration adviser on 18 September 2013. Strategic Remuneration is a member of the Remuneration Consultants Group and complies with its Code of Conduct. The fees paid to Strategic Remuneration for the year 2014 were £54,000 excluding VAT (for the period from 18 September 2013 to 31 December 2013 fees were £21,000 excluding VAT). Fees are charged on a time spent basis.

In 2014 Strategic Remuneration also provided advice to the Company on human resources and share plan matters. The Committee is satisfied that there is no conflict in Strategic Remuneration providing such services. The Committee undertakes annual assessment of itself and its advisers including an assessment of the quality, independence and objectivity of advice received.

The following directors also attend meetings of the Committee by invitation to provide information, guidance and advice, except when their own remuneration is being discussed:

Steve Groves	Chief Executive Officer
Jane Kennedy	Chief Operating Officer with responsibility for Human Resources
Kathryn Purves	Chief Risk Officer
Peter Catterall	Non-Executive Director attending by invitation pursuant to the Relationship Agreement with Cinven

### STATEMENT OF VOTING AT ANNUAL GENERAL MEETING

The Company's first Annual General Meeting (AGM) was held on 22 May 2014. The results of the AGM voting, including on the Annual Report on Remuneration and Directors' Remuneration Policy, are placed on the Company's website shortly after the AGM and in 2014 were:

Resolutions at 2014 AGM	Votes for	% for	Votes against	% against	Votes withheld
Receive and approve the Remuneration report	300,575,077	99.5	1,519,712	0.5	660
Receive and approve the report on Remuneration Policy	298,359,970	98.76	3,735,299	1.24	260

## DIRECTORS' REMUNERATION POLICY

### FUTURE REMUNERATION POLICY

The Company's Remuneration Policy will be submitted to shareholders for approval at the Annual General Meeting on 19 May 2015 and, will take effect immediately on approval. It is the Company's policy to honour pre-existing remuneration obligations and commitments entered into prior to 19 May 2015, which may include obligations under service contracts, annual and long-term incentive plans and loan arrangements that differ from this policy.

Partnership's performance is dependent on the quality and commitment of its employees. The Remuneration Committee believes employees of the right calibre will be attracted and motivated to secure maximum returns for the shareholders if Partnership adopts a policy which is consistent with its mission and values and which is competitive with those of its peers in the insurance sector.

The Committee's terms of reference, which set out its role and responsibilities, are available on the Company's website.

The terms of reference were adopted by the Board on 12 May 2013 and are formally reviewed by the Committee annually. The last formal review and update was on 11 December 2014.

The Company's policy is to provide a remuneration package for senior executives, including the Executive Directors, which will attract, motivate, incentivise and retain individuals of the quality required to meet the Company's objectives. The policy is designed to be transparent, fair, consistent and straightforward throughout

the Company, to include an appropriate balance between fixed and variable pay, and such that it encourages a high performance culture within the business and recognises and rewards individuals for the achievement of the Company's strategy and objectives as set out in the Business Plan, both through their personal contribution and as a team. We believe that it is important for the strategy to align the interests of all employees with those of the Company's shareholders. It is also important that the policy is consistent with the Company's risk appetite and that it – and the associated processes and practices – is consistent with and promotes sound and effective risk management and does not encourage risk taking which exceeds the Company's level of acceptable risk.

To achieve the aims of the policy, base salary and total potential reward are set at levels which are competitive with life insurance and other companies of an equivalent size and complexity; performance related pay forms a significant element of the total potential reward; and, performance targets for both long and short-term performance are linked to the delivery of the Company's business strategy.

The remuneration of the Executive Directors comprises base salary, participation in annual bonus arrangements (including a deferred element) and Long Term Incentive Plan, contribution towards pension and provision of other benefits.

The key components of remuneration, their link to the Company's strategy and their operation are more fully described below:

### FUTURE POLICY TABLE

Executive Directors		
Purpose and link to strategy	Operation and maximum	Performance measures
<b>Base salary</b>		
<b>To pay Executive Directors at a level to ensure the Company can recruit and retain high quality employees required to deliver the business strategy</b>	<ul style="list-style-type: none"> <li>The policy is for base pay to be competitive with other life insurance peers in the FTSE 250 and other companies of equivalent size and complexity and will not exceed the highest in the peer group. Salary is paid monthly in 12 equal instalments.</li> <li>Base salary is typically reviewed annually by the Remuneration Committee which considers market and economic conditions, the need to remain competitive and current governance requirements. Increases in salary are generally effective from 1 January and will usually be in line with increases elsewhere in the Company and with inflation. In certain circumstances, including, but not limited to, increased responsibility and progression within the role, the Committee may award larger increases.</li> </ul>	None.
<b>Annual bonus</b>		
<b>To provide a short-term incentive determined by a combination of financial and non-financial performance measures appropriate to an individual's role and the achievement of individual objectives</b>	<ul style="list-style-type: none"> <li>Maximum bonus for Executive Directors is 150% of salary with the amount payable depending upon the assessment by the Committee of the achievement of performance over the relevant financial year.</li> <li>Two-thirds cash; one-third deferred shares with a three year vesting period. Dividend equivalents are payable on the deferred element and there is discretion to settle the deferred element in cash.</li> <li>Malus can be applied to the deferred shares and clawback to the cash paid if evidence of calculation error or misstatement of financial results or material failure of risk management later emerges.</li> </ul>	The performance measures for the Chief Executive Officer and the Chief Financial Officer will be based on Group financial measures and on corporate performance measures with each having a weighting of between 40% and 60%. Dependent on the degree of achievement of these measures the annual bonus for each Executive Director is in a range from an amount equivalent to zero per cent of their individual base salary to a maximum of 150% of base salary.

Executive Directors continued		
Purpose and link to strategy	Operation and maximum	Performance measures
<b>LTIP</b>		
<p>To align the interests of Executive Directors with shareholders in achieving long-term growth</p> <p>To further facilitate share ownership</p>	<ul style="list-style-type: none"> <li>Maximum LTIP grant for the current CEO and CFO is 200% and 150% of salary respectively. The LTIP rules set out a maximum annual grant of 300% of salary for the CEO and CFO and the Committee is empowered to make an award up to this level. The LTIP award can be in the form of grants of at-the-money or nil-cost options and the salary multiples above relate to the value of the instrument used.</li> <li>Typically awards are made on an annual basis.</li> <li>Performance is typically measured over a period of at least three years.</li> <li>The Board has discretion to apply dividend equivalents to vested nil-cost option awards under the DSBP scheme rules.</li> <li>The Board has discretion to decide not to deliver some or all of the shares to which an award relates and instead pay cash. It can decide to do so at any time up to vesting or, in the case of a nil-cost option, exercise. In addition, the Board has discretion under the Schedule to the LTIP rules to decide that instead of granting an award to acquire shares that it will grant a phantom award from the outset, being a right to a cash amount calculated by reference to the value of a certain number of shares.</li> <li>Malus can be applied to any unvested LTIP shares and clawback to any vested shares in circumstances including, but not limited to, calculation error or misstatement of financial results, individual misconduct or a material failure of risk management.</li> </ul>	<p>Performance measures are set to be aligned with the business strategy of the Company and can include key milestones for business achievement, financial performance measures and share price measures as the Committee considers to be appropriate at the time of the LTIP award. The Committee receives a report on actual performance against targets set and determines the level of vesting.</p>
<b>Pension</b>		
The Company offers contributions to a defined contribution pension or the same amount in lieu of pension contributions	The maximum amount payable is 15% of base salary.	None.
<b>Benefits</b>		
To provide a range of benefits in line with those generally provided by peer life insurance companies	<p>Benefits are provided at group rates available to employees of the Company and may include, but are not limited to:</p> <ul style="list-style-type: none"> <li>Car allowance</li> <li>Life assurance</li> <li>Permanent health insurance</li> <li>Medical expenses insurance</li> <li>Interest free season ticket loan</li> <li>Eye tests</li> <li>Medicentre</li> <li>Health screening</li> <li>Childcare vouchers</li> <li>Employee Assistance helpline</li> <li>Expatriate benefits.</li> </ul> <p>The maximum value of benefits is unlikely to exceed 10% of salary.</p>	None.
<b>All employee share plans</b>		
To provide a range of opportunities for employee share ownership in line with those generally provided by peer life insurance companies	<ul style="list-style-type: none"> <li>The Company operates HMRC approved SIP and SAYE share plans and the Executive Directors are eligible to participate on the same terms as all eligible employees.</li> <li>The maximum values of SIP and SAYE are prescribed by legislation.</li> </ul>	None.



## Non-Executive Directors

Purpose and link to strategy	Operation and maximum	Performance measures
<b>Fees</b>		
<p>To attract suitable individuals with a broad range of experience and skills to oversee shareholders' interests and Company strategy. Fees are set at appropriate levels to ensure non-Executive Directors are paid to reflect the individual responsibility taken</p>	<p>The Chairman's fee is decided by the Board of Partnership Assurance Group plc.</p> <ul style="list-style-type: none"> <li>• The fees of other non-Executive Directors are decided by the Chairman in consultation with the Executive Directors.</li> <li>• Fees comprise a base fee and, other than in the case of the Chairman, an additional fee is paid to those non-Executive Directors with additional responsibilities to reflect the increased time commitment of these positions. The Senior Independent Director also receives an additional £10,000 payment per annum for the associated responsibility of this role.</li> <li>• Non-Executive Directors (including the Chairman) are not eligible to participate in any pension, bonus or share plan.</li> <li>• The Company provides the Chairman and non-Executive Directors with such support services as are reasonably necessary to carry out their role as Chairman and non-Executive Directors of the Company, PLACL and Partnership Home Loans Limited. In the case of the Chairman, such support services may be provided by the London Stock Exchange plc (or another party) and the Company shall pay up to £50,000 (including VAT) to the London Stock Exchange plc (or another party) for the provision of the support services.</li> <li>• Non-Executive Directors (including the Chairman) are covered by the terms of the Company's Directors' and Officers' liability insurance.</li> <li>• Non-Executive Directors (including the Chairman) will be reimbursed for travel, accommodation and other expenses in attending meetings and in performing the duties of their office and any income tax liability on such expenses may be met by the Company.</li> <li>• The Company provides benefits and travel costs for Directors' spouses and partners to accompany them to certain board meetings or other corporate events of the Company. The amount of this expenditure is reported to and considered by the Remuneration Committee and procedures are in place for such costs to be authorised. The Committee is satisfied that such expenditure is reasonable and in the interests of the Company.</li> <li>• The fees payable for 2014 are set out in the Annual Report on Remuneration.</li> <li>• The Articles of Association of the Company provide that the ordinary remuneration of the non-Executive Directors, including the Chairman, shall not exceed in aggregate £1,000,000 per annum or such higher amount as the Company may from time to time by ordinary resolution determine.</li> </ul>	None.

## Executive and non-Executive Directors

Share ownership guidelines	Operation and maximum	Performance measures
<b>To encourage Executive Directors to build up required shareholdings in the Company</b>	<ul style="list-style-type: none"> <li>The Chief Executive Officer is required to maintain or build up a shareholding equivalent in value to 150% of a year's base salary.</li> <li>The Chief Financial Officer is required to maintain or build up a shareholding equivalent in value to 100% of a year's base salary.</li> <li>Executive Directors are expected to build up their shareholding by retaining all shares that vest under the Deferred Share Bonus Plan, the Long Term Incentive Plan (after selling sufficient shares to satisfy the tax liability on vesting) and, if applicable, acquired on exercise of an option under the SAYE Plan until the value of their share interest satisfies these guidelines.</li> <li>There is no requirement for non-Executive Directors to meet any Company share ownership guidelines.</li> </ul>	None.

### Explanatory notes

Any performance condition may be amended or substituted if one or more events occur which under the DSBP and LTIP cause the Remuneration Committee to consider that an amended or substituted performance condition would be more appropriate. Any amended or substituted performance condition would not be materially less difficult to satisfy.

There are malus and clawback provisions in respect of both the LTIP and DSBP under which the Company could reclaim the value of bonus (cash and deferred elements) and LTIP awards in certain circumstances within three years of the original determination of the bonus and within three years of the vesting date of the awards. The application of malus or clawback, and the extent of that application, is at the discretion of the Remuneration Committee.

The performance measures for the annual bonus are selected each year to reflect the financial and strategic objectives relevant for the year. The targets are set to reflect stretching achievement although the actual target range has not been disclosed as this is considered by the Board to be commercially sensitive information.

The LTIP performance measures were chosen to support business strategy and objectives and to be in alignment with the interests of shareholders. The LTIP performance measures can now include key milestones for the achievement of business objectives over a three-year period. This is relevant for geographical expansion of the business and the redesign of the business model to cope with legislative change. The LTIP targets are set by reference to a requirement for strong growth in the profits of the business in the medium to long term.

The SIP and SAYE plans do not have any performance measures attached for vesting to take place. This is in accordance with HMRC requirements and general practice for such plans.

The general structure of employee remuneration follows that of the Executive Directors. All employees are entitled to a base salary reviewed annually, a pension contribution and participation in the SAYE and SIP. Where appropriate, employees participate in annual bonus plans, the DSBP and LTIP.

The levels of annual bonus and LTIP awards for the Executive Directors and senior executives are greater than the levels for employees generally. The pension contribution by the Company for Directors and senior executives of 15% is also greater than for employees generally.

The Chief Risk Officer (CRO) plays a key role in reporting to the Committee and evaluating whether achievement of objectives and any payment from plans have taken into account the risk profile of the Company. The CRO specifically looks at the risk profile of the Company and whether Executive Directors have achieved objectives within the Company's risk appetite. The CRO also reviews Executive Directors' objectives for the forthcoming year to ensure they are in line with the risk parameters.

### Approach to recruitment remuneration

Partnership operates in a highly specialised sector and its competitors for talent can be found in insurance companies operating inside and outside the UK. The Committee's approach to recruitment remuneration is to pay no more than is necessary to attract appropriate candidates to the role.

As far as possible, any new remuneration package would include the same elements, and be subject to the same constraints as those of the existing Executive Directors. In making any decision on any aspect of the remuneration package for a new recruit, the Committee would balance shareholder expectations, current best-practice and the requirements of any new recruit and would strive not to pay more than is necessary to achieve the recruitment. The Committee would give full details of the terms of the package of any new recruit in the next Annual Report on Remuneration.

However, the Committee cannot always predict accurately the circumstances in which any new Directors may be recruited. The Committee may determine that it is in the interests of the Company and its shareholders to secure the services of a particular individual which may require the Committee to take account of the terms of that individual's existing employment and/or their personal circumstances. Examples of circumstances in which the Committee may find that it might need to do this are:

- where an existing employee of the Company is promoted to the Board, in which case the Company will honour all existing contractual commitments including any outstanding share awards or pension entitlements (even if they differ from the terms of this policy);

- where an individual is relocating in order to take up the role, in which case the Company may provide certain one-off benefits such as reasonable relocation expenses, accommodation for a short period following appointment and assistance with visa applications or other immigration issues and on-going arrangements such as tax equalisation, annual flights home, a housing allowance together with a payment for any tax on the benefits; and
- where an external recruit would be forfeiting valuable variable remuneration in order to join the Company, in which case the Committee may award appropriate compensation. There is no limit on the value of such compensatory awards. The Committee would require reasonable evidence of the nature and value of any forfeited award and would, to the extent practicable, ensure any compensation was no more valuable than the forfeited award.

The Committee will seek to match the expected value of the awards by granting awards that vest over a time frame similar to those given up, with a commensurate reduction in quantum where the new awards will be subject to performance conditions that are not as stretching as those on the awards given up.

Any new remuneration package would include the same elements, and be subject to the same constraints as those of the existing Directors as shown below. If any existing senior managers are to be promoted to the Board then any existing commitments to those individuals made before promotion would continue to be honoured.

Element of remuneration	Maximum percentage of salary
Salary	n/a
Benefits	10
Annual bonus	150
Long-term incentives	200
Pension allowance	15

### Policy on non-Executive Directors

The Company's approach is to pay competitive levels of fees to enable recruitment of appropriately qualified non-Executive Directors. Benchmarking will take place at least every three years. The current fee levels are a base fee of £60,000 a year with an additional fee of £15,000 a year for being a Committee Chairman and additional fee of £10,000 for acting as the Senior Independent Director. Fees are paid in monthly instalments.

The Company pays the Chairman a fee of £250,000 p.a. together with an amount up to £50,000 (including value added tax) for such support services as are reasonably necessary for the performance of his role. The Company may also provide non-Executive Directors with such support services as are reasonably necessary for them to carry out their role.

### Service contracts and policy on payment for loss of office

The service contracts of the current Executive Directors are terminable on 12 months' notice by either party. The employer is entitled to terminate employment by payment of a cash sum in lieu of notice equal to the sum of the basic salary which would have been payable plus the cost that would have been incurred in the provision of benefits (including pension allowance but excluding bonus) for any unexpired portion of the notice period. The employer may, instead of providing a cash sum in respect of the benefits, continue to provide those benefits.

The employer has a discretion to pay the payment in lieu of notice in monthly instalments, and the payment would then be subject to a reduction if the Executive Director commences alternative employment during the notice period paying a basic annual salary of more than £100,000 p.a. Departing Directors will benefit from run-off cover under the Company's Directors' and Officers' liability insurance.

As an alternative to making a payment in lieu of notice, the Company may terminate an Executive Director's service contract in breach of contract and seek to agree a payment of damages in respect of that breach, taking into account a variety of factors, including individual and Company performance, the obligation on the Executive Director to mitigate his or her own loss. It is expected that such payments would not exceed one year's base salary and benefits which is consistent with the Executive Director's notice period of 12 months.

In connection with the termination of an Executive Director's service contract, the Company may make a payment on account of accrued but unpaid leave, and may pay outplacement fees and the individual's legal expenses on termination.

Annual bonuses are discretionary. Executive Directors may receive a bonus in respect of the financial year of cessation, based on performance against pre-determined targets and pro-rated to their period of service in the year. Where an Executive Director leaves by reason of death, disability or ill-health they would receive a pro-rata bonus for the year of cessation.

The treatment of leavers under the share plans (LTIP and DSBP) is determined by the rules of the relevant plans. The plans provide that where a participant ceases to be employed by the Group by reason of death, ill-health, injury, disability, the sale of the entity that employs him out of the Group or for any other reason at the Remuneration Committee's discretion (except where the participant is summarily dismissed), a participant's unvested award will usually continue until the normal vesting date, unless the Remuneration Committee determines otherwise. A shorter vesting period for any share awards may apply on a change of control.

In determining the termination arrangements of a director, the Committee would have regard to all relevant circumstances, and would therefore distinguish between types of leaver and the circumstances under which the Director left the Company. The performance of the leaving Director would be taken into account in various respects. In particular, in deciding whether to exercise discretion to allow good leaver treatment under the DSBP and the LTIP, the Committee would have regard to the Director's performance during the performance cycle of the relevant awards, as well as a range of other relevant factors, including the proximity of the award to its vesting date.

The Committee would also have regard to all other relevant factors, including consideration of whether a contractual provision in the Director's arrangements complied with best practice at the time the Director's employment was terminated, as well as the time the provision was agreed.

There were no Directors who lost office in 2014.

The service contracts for the Executive Directors and Chairman are available for inspection at the Company's registered office.

### External Board appointments

Executive Directors are encouraged to hold appropriate external appointments to broaden their experience. Any such appointments and the retention of the fee by the individual are subject to the approval of the Board. Steve Groves is a Director of Guardian Financial Services Holdings Limited for which he received and retained a fee of £50,000 during 2014.

### Letters of appointment – non-Executive Directors

The Chairman and the other non-Executive Directors do not have service agreements with the Company. Their appointments are governed by letters of appointment, the terms of which take account of best-practice and which are available for inspection at the Company's registered office. A copy of the standard terms and conditions contained in the letters of appointment is available on the Company's website. There are no provisions in the letters of appointment for compensation on loss of office.

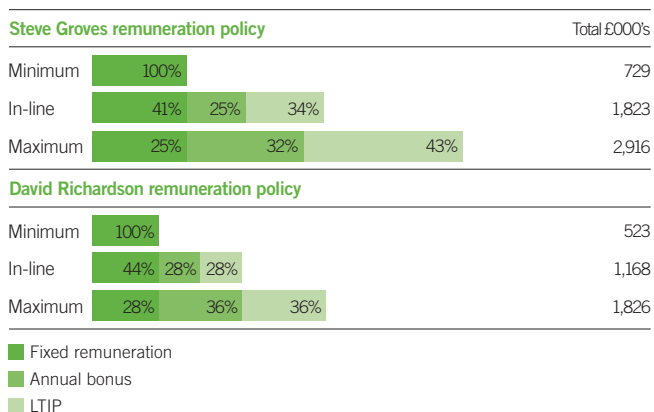
The dates of appointment of each of the non-Executive Directors are set out below. Independent non-Executive Directors are typically expected to serve two terms of three years' duration, although they may be invited to serve for an additional period. Accordingly their appointments are reviewed every three years. The Chairman was appointed on 12 May 2013 for a period of three years terminable by either party on six months' notice.

The Directors are also subject to re-election at each Annual General Meeting.

	Date of original appointment to board and commencement date of current term	Unexpired term at May 2015
Peter Catterall	26 February 2013	9 months
Ian Cormack	12 May 2013	1 year
Douglas Ferrans	12 May 2013	1 years
Chris Gibson-Smith	12 May 2013	1 years
Ian Owen	12 May 2013	1 years
Richard Ward	12 May 2013	1 years
Simon Waugh	7 March 2014	1 years, 10 months
Clare Spottiswoode	23 October 2014	2 years, 5 months
Paul Bishop	1 May 2014	2 years

### Illustration of the application of the remuneration policy

The illustrations are based on the following assumptions and ignore share price appreciation. At minimum there is no payout of annual bonus nor vesting of LTIP, at in-line 50% of the annual bonus is paid and 50% of LTIP vests, at maximum 100% of annual bonus is paid and 100% of LTIP vests.



### Shareholder engagement

The Committee seeks the opportunity to have open discussion with shareholders regarding remuneration and takes account of the guidelines of shareholder representative bodies. The Company's independent adviser, Strategic Remuneration, gives the Committee regular updates on legislative changes, corporate governance and guidance issued by investors.

### Consideration of employment conditions elsewhere

The Committee receives a report from Jane Kennedy (COO) on proposals for pay of employees generally before making its decision on pay for the Executive Directors. The Committee did not consult with employees when drawing up the Remuneration Policy and no remuneration comparison measurements against all employees were used.



## FINANCIAL REVIEW AND FINANCIAL STATEMENTS

Partnership Assurance Group plc supports the work of the Financial Reporting Council to “de-clutter” annual reports. These financial statements exclude disclosures that are immaterial and judged to be unnecessary to understand our results and financial position.

## FINANCIAL REVIEW WITHIN THE FINANCIAL STATEMENTS

For increased clarity, the Financial review, where practical, is positioned to provide a commentary next to the financial statements. It begins with an overview of the Primary financial statements and then provides more granular detail relevant to the segmental results.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
for the year ended 31 December 2024

**FINANCIAL REVIEW OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Year	2024	2023
Shareholders' returns			
Share premium (after tax)	1	764.10	1,108.27
Dividend income (after tax)	2	2,047.08	1,714.64
Share of associates' profits	3	464.49	405.73
Share of joint ventures' profits	3	108.13	127.02
Share of results of joint ventures and associates accounted for by the Group			
Share of results of joint ventures and associates accounted for by the Group	4	6,776	5,040
Share of results of joint ventures and associates accounted for by the Group	5	100	100
Profit or loss of subsidiary	6	297.17	219.13
Other income	7	1,044.78	1,044.78
Other gains	8	266.78	244.10
Other losses	9	255.47	355.27
Change in share of equity-accounted investees			
Share of results of equity-accounted investees	10	684.10	684.10
Share of results of equity-accounted investees	11	209.19	428.19
Share of results of equity-accounted investees	12	1,044.78	1,044.78
Share of results of equity-accounted investees	13	1,044.78	1,044.78
Share of results of equity-accounted investees	14	1,044.78	1,044.78
Share of results of equity-accounted investees	15	1,044.78	1,044.78
Share of results of equity-accounted investees	16	1,044.78	1,044.78
Share of results of equity-accounted investees	17	1,044.78	1,044.78
Share of results of equity-accounted investees	18	1,044.78	1,044.78
Share of results of equity-accounted investees	19	1,044.78	1,044.78
Share of results of equity-accounted investees	20	1,044.78	1,044.78
Share of results of equity-accounted investees	21	1,044.78	1,044.78
Share of results of equity-accounted investees	22	1,044.78	1,044.78
Share of results of equity-accounted investees	23	1,044.78	1,044.78
Share of results of equity-accounted investees	24	1,044.78	1,044.78
Share of results of equity-accounted investees	25	1,044.78	1,044.78
Share of results of equity-accounted investees	26	1,044.78	1,044.78
Share of results of equity-accounted investees	27	1,044.78	1,044.78
Share of results of equity-accounted investees	28	1,044.78	1,044.78
Share of results of equity-accounted investees	29	1,044.78	1,044.78
Share of results of equity-accounted investees	30	1,044.78	1,044.78
Share of results of equity-accounted investees	31	1,044.78	1,044.78
Share of results of equity-accounted investees	32	1,044.78	1,044.78
Share of results of equity-accounted investees	33	1,044.78	1,044.78
Share of results of equity-accounted investees	34	1,044.78	1,044.78
Share of results of equity-accounted investees	35	1,044.78	1,044.78
Share of results of equity-accounted investees	36	1,044.78	1,044.78
Share of results of equity-accounted investees	37	1,044.78	1,044.78
Share of results of equity-accounted investees	38	1,044.78	1,044.78
Share of results of equity-accounted investees	39	1,044.78	1,044.78
Share of results of equity-accounted investees	40	1,044.78	1,044.78
Share of results of equity-accounted investees	41	1,044.78	1,044.78
Share of results of equity-accounted investees	42	1,044.78	1,044.78
Share of results of equity-accounted investees	43	1,044.78	1,044.78
Share of results of equity-accounted investees	44	1,044.78	1,044.78
Share of results of equity-accounted investees	45	1,044.78	1,044.78
Share of results of equity-accounted investees	46	1,044.78	1,044.78
Share of results of equity-accounted investees	47	1,044.78	1,044.78
Share of results of equity-accounted investees	48	1,044.78	1,044.78
Share of results of equity-accounted investees	49	1,044.78	1,044.78
Share of results of equity-accounted investees	50	1,044.78	1,044.78
Share of results of equity-accounted investees	51	1,044.78	1,044.78
Share of results of equity-accounted investees	52	1,044.78	1,044.78
Share of results of equity-accounted investees	53	1,044.78	1,044.78
Share of results of equity-accounted investees	54	1,044.78	1,044.78
Share of results of equity-accounted investees	55	1,044.78	1,044.78
Share of results of equity-accounted investees	56	1,044.78	1,044.78
Share of results of equity-accounted investees	57	1,044.78	1,044.78
Share of results of equity-accounted investees	58	1,044.78	1,044.78
Share of results of equity-accounted investees	59	1,044.78	1,044.78
Share of results of equity-accounted investees	60	1,044.78	1,044.78
Share of results of equity-accounted investees	61	1,044.78	1,044.78
Share of results of equity-accounted investees	62	1,044.78	1,044.78
Share of results of equity-accounted investees	63	1,044.78	1,044.78
Share of results of equity-accounted investees	64	1,044.78	1,044.78
Share of results of equity-accounted investees	65	1,044.78	1,044.78
Share of results of equity-accounted investees	66	1,044.78	1,044.78
Share of results of equity-accounted investees	67	1,044.78	1,044.78
Share of results of equity-accounted investees	68	1,044.78	1,044.78
Share of results of equity-accounted investees	69	1,044.78	1,044.78
Share of results of equity-accounted investees	70	1,044.78	1,044.78
Share of results of equity-accounted investees	71	1,044.78	1,044.78
Share of results of equity-accounted investees	72	1,044.78	1,044.78
Share of results of equity-accounted investees	73	1,044.78	1,044.78
Share of results of equity-accounted investees	74	1,044.78	1,044.78
Share of results of equity-accounted investees	75	1,044.78	1,044.78
Share of results of equity-accounted investees	76	1,044.78	1,044.78
Share of results of equity-accounted investees	77	1,044.78	1,044.78
Share of results of equity-accounted investees	78	1,044.78	1,044.78
Share of results of equity-accounted investees	79	1,044.78	1,044.78
Share of results of equity-accounted investees	80	1,044.78	1,044.78
Share of results of equity-accounted investees	81	1,044.78	1,044.78
Share of results of equity-accounted investees	82	1,044.78	1,044.78
Share of results of equity-accounted investees	83	1,044.78	1,044.78
Share of results of equity-accounted investees	84	1,044.78	1,044.78
Share of results of equity-accounted investees	85	1,044.78	1,044.78
Share of results of equity-accounted investees	86	1,044.78	1,044.78
Share of results of equity-accounted investees	87	1,044.78	1,044.78
Share of results of equity-accounted investees	88	1,044.78	1,044.78
Share of results of equity-accounted investees	89	1,044.78	1,044.78
Share of results of equity-accounted investees	90	1,044.78	1,044.78
Share of results of equity-accounted investees	91	1,044.78	1,044.78
Share of results of equity-accounted investees	92	1,044.78	1,044.78
Share of results of equity-accounted investees	93	1,044.78	1,044.78
Share of results of equity-accounted investees	94	1,044.78	1,044.78
Share of results of equity-accounted investees	95	1,044.78	1,044.78
Share of results of equity-accounted investees	96	1,044.78	1,044.78
Share of results of equity-accounted investees	97	1,044.78	1,044.78
Share of results of equity-accounted investees	98	1,044.78	1,044.78
Share of results of equity-accounted investees	99	1,044.78	1,044.78
Share of results of equity-accounted investees	100	1,044.78	1,044.78

The above is presented in US\$ 100 million and is subject to audit by the Board of Directors.

<p><b>The Consolidated Statement of Comprehensive Income includes all of income and expenses for the year. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income.</b></p> <p><b>NET EARNING PERFORMANCE</b></p> <p>Shareholders' returns in 2024 of 24.3% were higher than the return of 2023 of 20.1%. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income.</p> <p><b>INVESTMENT EXPENSES AND CHANGES</b></p> <p>Shareholders' returns in 2024 of 24.3% were higher than the return of 2023 of 20.1%. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income.</p> <p><b>INTEREST ON FINANCIAL INSTRUMENTS</b></p> <p>Shareholders' returns in 2024 of 24.3% were higher than the return of 2023 of 20.1%. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income.</p> <p><b>OTHER OPERATING EXPENSES</b></p> <p>Shareholders' returns in 2024 of 24.3% were higher than the return of 2023 of 20.1%. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income.</p> <p><b>INCOME TAX CHARGE FROM CONTINUING OPERATIONS</b></p> <p>Shareholders' returns in 2024 of 24.3% were higher than the return of 2023 of 20.1%. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income.</p> <p><b>NET INVESTMENT INCOME</b></p> <p>Shareholders' returns in 2024 of 24.3% were higher than the return of 2023 of 20.1%. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income.</p> <p><b>CLAIMS AND LIABILITIES OF POLYMERIZABLE</b></p> <p>Shareholders' returns in 2024 of 24.3% were higher than the return of 2023 of 20.1%. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income.</p>	<p><b>INVESTMENT EXPENSES AND CHANGES</b></p> <p>Shareholders' returns in 2024 of 24.3% were higher than the return of 2023 of 20.1%. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income.</p> <p><b>INTEREST ON FINANCIAL INSTRUMENTS</b></p> <p>Shareholders' returns in 2024 of 24.3% were higher than the return of 2023 of 20.1%. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income.</p> <p><b>OTHER OPERATING EXPENSES</b></p> <p>Shareholders' returns in 2024 of 24.3% were higher than the return of 2023 of 20.1%. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income.</p> <p><b>INCOME TAX CHARGE FROM CONTINUING OPERATIONS</b></p> <p>Shareholders' returns in 2024 of 24.3% were higher than the return of 2023 of 20.1%. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income.</p> <p><b>NET INVESTMENT INCOME</b></p> <p>Shareholders' returns in 2024 of 24.3% were higher than the return of 2023 of 20.1%. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income.</p> <p><b>CLAIMS AND LIABILITIES OF POLYMERIZABLE</b></p> <p>Shareholders' returns in 2024 of 24.3% were higher than the return of 2023 of 20.1%. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income.</p>
--	---

Shareholders' returns in 2024 of 24.3% were higher than the return of 2023 of 20.1%. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income.

The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income.

Shareholders' returns in 2024 of 24.3% were higher than the return of 2023 of 20.1%. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income. The Group's income is primarily derived from its operations and is presented in the Consolidated Statement of Comprehensive Income.

Financial Review of Consolidated Statement of Comprehensive Income 87

The separate shaded sections included on the following pages comprise the Financial review. It is unaudited and forms part of the overall business review. It does not form part of the financial statements of the Group.

[illegible]

## Accounting policies

If separate accounting policies are needed they are identified within a box at the start of the note to which they relate.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Group's business that typically require such estimates are insurance contracts, determination of the fair value of financial assets and liabilities, impairment tests for intangible assets and income tax assets and liabilities.

The accounting for insurance contract liabilities is discussed below with further detail of the key assumptions made in determining insurance liabilities included in note 20. The estimation process used in determining insurance liabilities involves projecting future annuity payments and the costs of maintaining the contracts. For non-annuity contracts, the long-term business provision is determined as the sum of the discounted value of future benefit payments and future administration expenses less the expected value of premiums payable under the contract. The key sensitivities are the assumed level of interest rates and the mortality experience.

The classification and accounting for the fair values of financial assets and liabilities is discussed below. Where possible, financial assets and liabilities are valued on the basis of listed market prices by reference to quoted market bid prices for assets and offer prices for liabilities. These are categorised as "Level 1" financial instruments and do not involve estimates. If prices are not readily available, fair value is determined using valuation techniques including pricing models, discounted cash flow techniques or broker quotes. Financial instruments valued where valuation techniques are based on observable market data at the period end are categorised as "Level 2" financial instruments.

Financial instruments valued where valuation techniques are based on non-observable inputs are categorised as "Level 3" financial instruments. "Level 2" and "Level 3" financial instruments therefore involve the use of estimates. Further details are included in note 25.

Intangible assets are subject to regular impairment reviews. Impairments are measured as the difference between the carrying value of a particular asset and its recoverable amount. The key judgement applied in impairment tests of goodwill and indefinite life intangible assets is that these assets are part of the new business cash generating unit. Key estimates applied in the impairment tests are the future expected cash flows of the cash generating unit and the risk adjusted discount rate applied to these cash flows to determine the recoverable amount of the cash generating unit. Future expected cash flows are derived from management business plans. The risk adjusted discount rate is estimated with reference to observable rates and factors applied to business of similar size and nature.

Impairments are recognised in the consolidated statement of comprehensive income. Further details are included in notes 10 and 11.

Deferred tax assets are recognised to the extent that they are regarded as recoverable. That is to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which the losses can be relieved. The UK taxation regime applies separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a capital or trading nature may affect the recognition of deferred tax assets. Any judgements made, and uncertainties considered, in arriving at the carrying value of deferred tax in the financial statements are discussed in notes 17.

## INDEPENDENT AUDITOR'S REPORT

To the Members of Partnership Assurance Group plc

### OPINION ON FINANCIAL STATEMENTS OF PARTNERSHIP ASSURANCE GROUP PLC

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the consolidated statement of comprehensive income, the consolidated and Parent Company statements of financial position, the consolidated and Parent Company cash flow statements, the consolidated statement of changes in equity and the related notes on pages 95 to 132

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

### GOING CONCERN

As required by the Listing Rules we have reviewed the Directors' statement on page 62 that the Group is a going concern.

We confirm that:

- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

## INDEPENDENT AUDITOR'S REPORT

To the Members of Partnership Assurance Group plc  
CONTINUED

### OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
<p><b>Insurance liabilities (£5,231m)</b></p> <p>The Group predominantly writes enhanced annuities which it prices using its bespoke mortality data and internally generated intellectual property. The Group reserves for the future expected cost of these policies using complex actuarial models to project the insurance liabilities. These models are dependent on key assumptions made by management in respect of the following:</p> <ul style="list-style-type: none"> <li>projected cash flows – the expected payments on the portfolio based on assumptions as to the mortality of the policyholders based on their medical condition or lifestyle characteristics; and</li> <li>the valuation rate of interest based on the yield of the portfolio of assets that back the liabilities that is used to discount the expected cash flows, which also needs to reflect a deduction for the credit risk of the underlying assets.</li> </ul> <p>Further detail on these principal assumptions can be found in note 20 to the financial statements. Management's own assessment of critical accounting estimates is disclosed on page 80 of the financial statements.</p> <p>The significance and inherent subjectivity of these assumptions means that we view this as an area of significant risk.</p>	<p>We used our actuarial specialist auditors to test the controls over the end-to-end reserving process, focussing on the controls over changes to the reserving model and changes to the underlying demographic and economic assumptions.</p> <p>We performed detailed substantive testing on the data inputs to the model including checks on policy data via agreeing a sample back to original policyholder documentation and checks that all assumptions had been input to the model accurately. In addition, we test the Group's controls over the completeness of the data.</p> <p>Management have updated their mortality basis for the largest policy group. We tested these assumptions, in addition to testing manual provisions, the closure reserve, reinsurance reserves, allowance for counterparty default risk, allowance for cash flow and currency mis-matching risk and statutory capital requirements. We used our actuarial specialist auditors to challenge management's assumptions by considering the Group's own experience, comparison to industry benchmarks and by testing compliance with regulations.</p> <p>An assessment on the overall results was made by reviewing the analysis of change in reserves over the period under audit.</p>
<p><b>Equity release assets (£1,212m)</b></p> <p>The Group's investments include loans secured by residential mortgages (equity release assets). In Q4 2014 the Group completed one bulk purchase deal with a face value of £61m, bringing the total value of the equity release book to £1.2bn.</p> <p>The fair value of the investment is dependent on the valuation of the underlying properties and the assumptions used in the fair value calculation, such as the property growth rate, property volatility, a revaluation index to revalue properties to the valuation date, swap rates, and mortality assumptions. Note 25b to the financial statements provides further detail as to the methodology used to calculate the fair value of these assets.</p> <p>The subjectivity of the key assumptions, coupled with the significance of the bulk transaction, means that we view this as an area of significant risk.</p>	<p>We tested the new bulk transaction through reviewing the due diligence work performed by the Group, and then tested the whole portfolio by challenging the valuation basis put forward by management based on independent macroeconomic advice received. We also tested the underlying data used in the valuation of the equity release assets via agreement of a sample of loans back to original policy documentation.</p> <p>We assessed the underlying portfolio of assets for indicators of impairment by segmenting the portfolio geographically and using applicable regional property valuation indices to check for signs of significant diminution in the value of underlying property.</p> <p>Our actuarial specialist auditors assessed management's methodology and assumptions used to value the equity release assets via comparison to industry benchmarks, consultation with real estate specialists and consideration of whether the valuation was sensitive to the mortality assumption.</p>



Risk	How the scope of our audit responded to the risk
<p><b>Valuation of Goodwill and intangible assets (£129m)</b></p> <p>The Group holds a significant amount of goodwill on its statement of financial position, in addition to intangible assets representing intellectual property. Further detail can be found in notes 10 and 11 to the financial statements.</p> <p>Goodwill and intangible assets have been identified as a significant risk area due to the uncertainties following the Chancellor's Budget announcement in March 2014 surrounding rules on the use of pensions. A key parameter within the goodwill and intangible assets valuation is current and projected new business sales, which have become more uncertain given the regulatory changes.</p> <p>There is also judgement over the allocation of assets and liabilities to the in-force and new business cash-generating units (see note 10 to the financial statements for further detail). This in turn affects the carrying value within the impairment assessment.</p> <p>Management's own assessment of critical accounting estimates is disclosed on page 80 of the financial statements.</p>	<p>Management's methodology for its impairment assessment has been reviewed, comparing it to the requirements of IAS 36 and checking for consistency with the prior year approach. Our procedures then included:</p> <ul style="list-style-type: none"> <li>• obtaining management's business plan and considering the methodology behind its production, as well as challenging the assumptions on which it is based. This included challenging management's market projections and scrutinising the underlying analysis for evidence of bias;</li> <li>• challenging whether all relevant assets and liabilities had been allocated to the new business cash-generating unit; and</li> <li>• engaging our valuation specialists to recalculate the discount rate used and verify the inputs to the impairment calculation, which is based on the capital asset pricing model, in conjunction with challenging the sophistication of management's assessment by checking that key parameters are supported by the most up-to-date information.</li> </ul>
<p><b>Defined benefit transactions (£247m)</b></p> <p>Individually underwritten bulk annuities are becoming an increasingly important source of revenue for the Group, representing 32% of the Group's gross written premium for 2014, including a single premium of £206m.</p> <p>The significance of the individual transactions means that we see this as an area of significant risk.</p>	<p>We have substantively tested 100% of the contracts written by tracing the premiums to signed quotations and agreeing the consideration received to bank accounts or custodian confirmations as appropriate.</p>

Last year the risk relating to Defined Benefit transactions concerned the model used to calculate the reserves for Defined Benefit business, which does not form part of the risk this year because the model has become embedded into the established reporting process.

Our description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 57.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

## INDEPENDENT AUDITOR'S REPORT

To the Members of Partnership Assurance Group plc  
CONTINUED

### OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £4.5m (2013: £4.2m), which is below 1% of net written premiums. We consider a turnover based measure to be the most suitable benchmark at this stage in Partnership Assurance Group plc's development as it drives one of the Group's key performance indicators and is a figure on which the users of the financial statements focus.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £86,000 (2013: £84,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Our Group audit has covered entities representing 100% of the Group's net assets, 100% of the Group's revenue and 100% of the Group's profit before tax (2013: 100% of net assets, revenue and profit before tax). The result of the Group is predominantly driven by a single trading company, Partnership Life Assurance Company Limited. All of the Group entities audited are based in the same location and were audited by the Group audit team and the Group engagement partner.

Our audit work was executed at levels of materiality applicable to each individual entity which were lower than Group materiality. Component materialities ranged from £0.03m to £4.28m (2013: £0.06m to £3.99m).

At the Parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

### OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

#### Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

#### Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

#### Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with 10 provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

#### Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

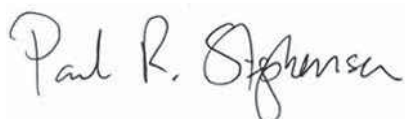
## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



**Paul Stephenson**  
BA ACA (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom  
2 March 2015

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	2014 £000's	2013 £000's
Gross premiums written	1	760,638	1,159,562
Outward reinsurance premiums		(307,959)	(733,849)
Net premiums earned		452,679	425,713
Net investment income	3	299,232	137,762
Share of results of joint ventures and associates accounted for using the equity method	14	(179)	(162)
Profit on loss of control of subsidiary	13	158	–
Other income		207	219
<b>Total income</b>		<b>752,097</b>	<b>563,532</b>
Gross claims paid		(390,570)	(341,124)
Reinsurers' share of claims paid		255,957	225,277
Change in insurance liabilities:			
Gross amount		(883,524)	(624,290)
Reinsurers' share		405,259	428,197
		(478,265)	(196,093)
Acquisition costs	4	(4,997)	(13,036)
Investment expenses and charges		(14,352)	(13,270)
Interest on external borrowings		–	(25,403)
Other operating expenses	5	(95,803)	(117,223)
		(115,152)	(168,931)
<b>Total claims and expenses</b>		<b>(728,030)</b>	<b>(480,871)</b>
<b>Profit from continuing operations before tax</b>	5	<b>24,067</b>	<b>82,661</b>
Income tax charge from continuing operations	7	(5,213)	(23,240)
<b>Profit for the year from continuing operations</b>		<b>18,854</b>	<b>59,421</b>
<b>Profit/(loss) attributable to:</b>			
– Owners of the Parent		18,852	59,465
– Non-controlling interest		2	(44)
<b>Profit for the period</b>		<b>18,854</b>	<b>59,421</b>
<b>Basic earnings per ordinary share</b>	8	<b>£0.05</b>	<b>£0.17</b>
<b>Diluted earnings per ordinary share</b>	8	<b>£0.05</b>	<b>£0.17</b>

The notes on pages 95 to 132 are an integral part of these financial statements.



## FINANCIAL REVIEW OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**The Consolidated Statement of Comprehensive income includes all our income and expenses for the year (the Group has no items required to be reported in Other Comprehensive Income and therefore a separate Comprehensive Income Statement has not been presented).**

Details of significant movements in the year are set out below:

### NET EARNED PREMIUMS

Gross premium written in 2014 is 34% lower than that written in 2013. The £572m decrease in sales of individual retirement annuities has been offset, in part, by the £164m increase in sales of defined benefit buy-in/buy-out annuities and a £10m increase in sales of individual care annuities (note 1 (d)).

Outwards reinsurance premiums in 2014 were 58% lower than 2013 reflecting the lower volume of retirement sales and an increase in the proportion of longevity risk retained on new business sales. The reduced cost of reinsurance premiums is balanced by a reduction to the benefit from the change in reinsurers' share of insurance liabilities (note 20 (b)).

The increase in net premiums earned in 2014 reflects lower sales of individual retirement business offset by a reduction in the share of longevity new business risk that was ceded to reinsurers.

### NET INVESTMENT INCOME

Net investment income comprises £71m of net interest receivable, £189m of net unrealised gains and £38m of net realised gains. Net interest receivable has increased 6% (2013: £67m) as funds under management have grown. Unrealised gains have increased by £145m (2013: £44m) and realised gains have increased by £11m (2013: £27m) both driven by the fall in yields on fixed income investments in 2014. The increased profit from realised and unrealised gains is balanced by an increase to the charge from the change in net insurance liabilities (note 20(b)).

### CLAIMS PAID AND MOVEMENT IN POLICYHOLDER LIABILITIES

Gross claims paid and the reinsurers share of claims paid continue to increase as the number of policyholders and annuities in payment increases. The amount of net claims paid in 2014 is £19m more than 2013.

The net cost of claims paid offset by the benefit from the recovery of the reinsurers' share of those claims is balanced by a net benefit from a reduction in net insurance liabilities (note 20(b)). Details of all of the changes in the gross and reinsurers' share of insurance liabilities, including the release of in-force liability as claims are paid, is included in note 20(b).

### ACQUISITION COSTS

The Group's main acquisition expenses are commissions. A small number of other indirect costs, mainly related to sales and marketing activities, are also included. Acquisition costs are 62% lower in 2014. This reduction reflects the fall in new business sales and the continuing industry trend away from non-advised sales, on which commission rather than an up-front adviser fee can be levied, following the introduction of the Retail Distribution Review in December 2012.

### INVESTMENT EXPENSES AND CHARGES

These expenses and charges continue to grow with funds under management.

### INTEREST ON EXTERNAL BORROWINGS

All external loans were repaid in 2013 and therefore interest on external borrowings reduced to £nil in 2014.

### OTHER OPERATING EXPENSES

A breakdown of other operating expenses is included in note 5.

Other expenses include £16.3m of non-recurring expenditure for which detail is provided in note 1(a).

### INCOME TAX CHARGE FROM CONTINUING OPERATIONS

A reconciliation between the actual tax charge and the expected tax charge is included in note 7.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to Owners of the Parent								Non-controlling interest £000's	Total £000's
	Note	Share Capital £000's	Share Premium £000's	Capital Redemption Reserve £000's	Merger Reserve £000's	Shares held by Employee Benefit Trust £000's	Retained profit £000's	Total £000's		
At 1 January 2013		36	182	3,297	–	(33)	78,901	82,383	(22)	82,361
PAGH shares exchanged for ordinary shares		28,250	(182)	(3,297)	(24,521)	(250)	–	–	–	–
Loan notes exchanged for ordinary shares		8,462	317,288	–	–	–	–	325,750	–	325,750
Shares issued/bought for cash		3,252	121,993	–	–	(46)	526	125,725	–	125,725
Share issue costs		–	(4,032)	–	–	–	–	(4,032)	–	(4,032)
Share-based payments	19	–	–	–	–	271	9,053	9,324	–	9,324
Profit for the year		–	–	–	–	–	59,465	59,465	(44)	59,421
At 31 December 2013		40,000	435,249	–	(24,521)	(58)	147,945	598,615	(66)	598,549
At 1 January 2014		<b>40,000</b>	<b>435,249</b>	<b>–</b>	<b>(24,521)</b>	<b>(58)</b>	<b>147,945</b>	<b>598,615</b>	<b>(66)</b>	<b>598,549</b>
Share-based payments	19	–	–	–	–	(78)	1,301	1,223	–	1,223
Disposal of subsidiary		–	–	–	–	–	–	–	64	64
Dividends paid		–	–	–	–	–	(14,000)	(14,000)	–	(14,000)
Profit for the year		–	–	–	–	–	18,852	18,852	2	18,854
<b>At 31 December 2014</b>		<b>40,000</b>	<b>435,249</b>	<b>–</b>	<b>(24,521)</b>	<b>(136)</b>	<b>154,098</b>	<b>604,690</b>	<b>–</b>	<b>604,690</b>

The notes on pages 95 to 132 are an integral part of these financial statements.

## FINANCIAL REVIEW OF CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**The consolidated statement of changes in equity shows the movements in equity shareholder funds and non-controlling interest**

Details of significant movements in 2014 are set out below:

### SHARE-BASED PAYMENTS

£1.2m (2013: £9.3m) was credited to retained earnings in respect of equity-settled share-based payment schemes. A corresponding amount was recognised as an expense within administrative and other expenses in the consolidated statement of comprehensive income (notes 5 and 19).

### DISPOSAL OF SUBSIDIARY

On 6 February 2014 the Group reduced its holding in its investment in Eldercare Group Limited from 51% to 33% (note 14). The change in the nature of ownership means that Eldercare Group Limited is no longer consolidated as a subsidiary. As an associate the Group's share of the net assets of Eldercare Group Limited is presented using the equity method within investment in joint ventures and associates. Consequently the non-controlling interests in respect of this entity are no longer recognised.

### DIVIDENDS PAID

In 2013 the Group underwent a capital reorganisation and Global share offer which included a series of transactions that are reflected in the 2013 consolidated statement of changes in equity.

The final £12m 2013 dividend and £2m 2014 interim dividend were paid in 2014. The 2014 final dividend of £4m has not yet been paid and is not included in the consolidated statement of changes in equity.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	2014 £000's	Restated 2013 £000's
<b>Assets</b>			
Property, plant and equipment	9	12,557	15,459
Goodwill	10	126,207	126,207
Other intangible assets	11	15,219	16,401
Financial assets	12	4,910,904	4,010,269
Investment in joint ventures and associates	14	233	206
Reinsurance assets	20	3,246,008	2,840,749
Insurance and other receivables	15	39,167	79,633
Prepayments and accrued income	16	3,615	10,991
Deferred tax asset	17	519	424
Cash and cash equivalents	18	87,251	112,741
<b>Total assets</b>		<b>8,441,680</b>	<b>7,213,080</b>
<b>Equity</b>			
Share capital	31	40,000	40,000
Share premium	31	435,249	435,249
Merger reserve		(24,521)	(24,521)
Shares held by Employee Benefit Trust	31	(136)	(58)
Retained profit		154,098	147,945
<b>Total equity attributable to owners of the Parent</b>		<b>604,690</b>	<b>598,615</b>
Non-controlling interest		–	(66)
<b>Total equity</b>		<b>604,690</b>	<b>598,549</b>
<b>Liabilities</b>			
Insurance liabilities	20	5,231,112	4,347,588
Insurance and other payables	21	29,527	34,004
Financial liabilities	22	2,571,288	2,214,741
Current tax liabilities	23	3,735	18,198
Deferred tax liability	17	1,328	–
<b>Total liabilities</b>		<b>7,836,990</b>	<b>6,614,531</b>
<b>Total equity and liabilities</b>		<b>8,441,680</b>	<b>7,213,080</b>

The notes on pages 95 to 132 are an integral part of these financial statements.



## FINANCIAL REVIEW OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### The consolidated statement of financial position shows all our assets and liabilities

Details of significant movements in the year are set out below:

#### FINANCIAL ASSETS

Financial assets are held at fair value and movements in fair value are recognised in the consolidated statement of comprehensive income. They mainly comprise financial investments (debt securities and fixed income securities) but also include loans secured by residential mortgages, loans secured by commercial mortgages and derivative assets (note 12). The overall movement in the value of financial assets in 2014 reflects, for the most part, the net investments acquired to back new annuity business written in the year. The portfolio is of a high overall credit rating (note 29c).

During the year the Group:

- funded or originated £171.5m (2013: £129.3m) of loans secured by residential mortgages;
- acquired books of loans secured by residential mortgages amounting to £61.0m (2013: £286.7m); and
- made its first loans secured by commercial mortgages investing £37.5m.

These assets are a good match, both in terms of cash flow and duration, for the annuity liabilities and are capital efficient (note 1a).

#### GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill was recognised when the assets of Pension Annuity Friendly Society (PAFS) were acquired in October 2005 (note 10).

Other intangible assets comprise intellectual property in the form of specific mortality tables derived from data collected over an extended period as well as software developments (note 11).

#### SHARE CAPITAL AND SHARE PREMIUM

Movements in these items are explained in the financial review of the consolidated statement of changes in equity.

#### INSURANCE LIABILITIES

Insurance liabilities represent the Group's estimate of amounts that will potentially be payable to policyholders taking known facts and experience into account. The amount of insurance liabilities recognised at 31 December 2014 has increased by £883.5m from 31 December 2013 due primarily to the net growth in the size of the annuity business (note 20 (b)).

#### FINANCIAL LIABILITIES

Financial liabilities mainly comprise payables arising from reinsurance contracts and are carried at fair value. Fair values are based on discounted expected future cash flows derived from the assets backing the liabilities. Changes in fair values are recognised in the statement of comprehensive income and are largely offset by movements in the fair value of the related assets.

#### CAPITAL MANAGEMENT

The Economic Capital and Insurance Group's Directive (IGD) capital positions as at 31 December 2014 are calculated for the Group's ultimate Parent Company, PAG plc. Neither capital

measure includes any deduction for the final dividend recommended but not paid.

	Economic Capital <sup>1</sup>			IGD		
	2014 proforma <sup>2</sup> £'m	2014 £'m	2013 £'m	2014 proforma <sup>2</sup> £'m	2014 £'m	2013 £'m
Total Capital Available	625	525	467	568	468	469
Capital Required	393	393	294	224	224	193
Excess Surplus	232	132	173	344	242	276
Coverage Ratio (%)	159%	134%	159%	254%	209%	243%

Excess Capital surplus on both an Economic Capital and IGD basis decreased in 2014. The key drivers for this reduction in surplus were the changes to economic factors, reduced sales volumes and dividends paid.

Note 30 provides a reconciliation between the Group's equity and the IGD measure of available capital.

As part of Partnership's risk management approach, the Group has entered into hedging arrangements to limit the financial impact of future reductions in risk-free rates on the economic capital position.

#### SCENARIO TESTING

	Impact on surplus £'m	Coverage ratio post stress	
		2014 proforma <sup>2</sup>	2014
Economic capital surplus		232	132
Economic capital coverage		159%	134%
Interest +1%	31	176%	147%
Interest -1%	(46)	141%	119%
Credit spread widening +100bps	(8)	159%	133%
"Lehmans" crisis <sup>3</sup>	(49)	157%	126%
Eurozone crisis <sup>3</sup>	(31)	158%	129%
Property -10% price fall <sup>4</sup>	(44)	147%	122%
Longevity +5% deterioration	(30)	151%	126%

1 Economic capital is Group's own internal risk based assessment of its capital requirement and does not imply capital as required by regulators.

2 Proforma for £100m bond issue excluding costs of issue (expected to be <£1m) assuming bond issue proceeds held in cash.

3 Lehman and Eurozone crisis scenarios modelled by applying credit spreads of 5 December 2008 and 7 October 2011, respectively.

4 Property stress represents 10% decrease in carrying value, equivalent to a 35% fall from current market values.

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2014

	Note	2014 £000's	2013 £000's
<b>Cash generated from/(used in) operations</b>	26	<b>11,664</b>	(56,851)
Corporation tax paid		<b>(19,705)</b>	(17,000)
<b>Net cash used in operating activities</b>		<b>(8,041)</b>	(73,851)
Cash flows from investing activities:			
Purchase of property, plant and equipment	9	<b>(1,308)</b>	(13,657)
Purchase of other intangible assets	11	<b>(2,093)</b>	(7,696)
Investment in associate		<b>(48)</b>	–
Disposal of subsidiary		–	–
<b>Net cash used in investing activities</b>		<b>(3,449)</b>	(21,353)
Cash flows from financing activities:			
Proceeds from issuance of share capital	31	–	121,693
Repayment of loan notes		–	(7,656)
Repayment of bank loan		–	(70,000)
Dividends paid to shareholders		<b>(14,000)</b>	–
Interest payable on external borrowings		–	(2,365)
<b>Net cash (used in)/from financing activities</b>		<b>(14,000)</b>	41,672
<b>Net decrease/increase in cash and cash equivalents</b>		<b>(25,490)</b>	(53,532)
Cash and cash equivalents brought forward		<b>112,741</b>	166,273
<b>Cash and cash equivalents carried forward</b>	18	<b>87,251</b>	112,741

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

The notes on pages 95 to 132 are an integral part of these financial statements.

## FINANCIAL REVIEW OF CONSOLIDATED CASH FLOW STATEMENT

**The consolidated cash flow statement shows the cash flows from operating, investing and financing activities in the year**

Details of significant movements in the year are set out below:

### NET CASH FROM OPERATING ACTIVITIES

There was a £11.6m net cash inflow from operating activities in 2014 (2013: £56.9m net operating outflow) as the balance of new business receipts not yet invested at 31 December 2014 exceeded the equivalent balance at 31 December 2013.

### CORPORATION TAX PAID

Corporation tax paid in 2014 included £13.3m in respect of 2013, while £7.6m was paid in respect of 2012 in 2013.

### NET CASH USED IN INVESTING ACTIVITIES

Cash used in investment activities has decreased year on year. In 2013 we made investments in property, plant and equipment relating, in large part, to the fit out of the Group's head office and capitalised more software development costs.

### NET CASH USED IN FINANCING ACTIVITIES

The 2014 cash flow includes the £12m 2013 year end dividend and the £2m interim 2014 dividend that was paid in the second half of the year.

The 2013 cash flow included several items that resulted from the IPO in June 2013.

## FINANCIAL REVIEW OF SEGMENTAL INFORMATION

The consolidated segment information provides information about the performance of the Group analysed on the basis of segment information provided to the Board

Details of significant movements in the year are set out below:

### IFRS OPERATING PROFIT BEFORE TAX

For the year ended 31 December	2014 £000's	2013 £000's
New business operating profit	38,962	85,678
In-force operating profit	8,477	34,278
Long-term expected return on surplus assets	16,328	11,435
<b>Operating profit</b>	<b>63,767</b>	<b>131,391</b>
Investment variances	(23,491)	8,643
Non-recurring expenditure	(16,348)	(30,769)
Other	139	(1,201)
Interest on borrowings	–	(25,403)
<b>Profit from continuing operations before tax</b>	<b>24,067</b>	<b>82,661</b>

### TOTAL OPERATING PROFIT

Total operating profit in the year to 31 December 2014 of £63.8m is down £67.6m from the £131.4m reported for 2013 as both in-force operating profit and new business profits have reduced as explained below.

### NEW BUSINESS OPERATING PROFIT

New business operating profit has decreased by 54% from £85.7m in 2013 to £39.0m in 2014. This change is primarily as a result of the fall in sales volumes feeding through into a drop in gross margin offset, in part, by lower new business expenses.

### IN-FORCE OPERATING PROFIT

In-force operating profit was £8.5m for the year ended 31 December 2014 compared to £34.3m for 2013. Underlying profits emerging from the in-force book of £11.4m reflect the long-term assumptions set at the beginning of the period.

The underlying profits were offset by non-recurring assumption and other changes totalling £(2.8)m. The 2013 comparative included a £21m benefit from assumption and other changes which did not repeat in 2014.

### LONG-TERM RETURN ON SURPLUS ASSETS

Long-term expected return on surplus assets for the year ended 31 December 2014 was up by £4.9m to £16.3m (2013: £11.4m) as surplus investments in high yielding loans secured by residential mortgages were designated as surplus assets.

### INVESTMENT VARIANCES

The negative investment variance in the period reflects a decrease in risk-free yields and a widening spread between risk-free yields and the yields achieved on the Group's corporate bonds in 2014.

### NON-RECURRING EXPENDITURE

Detail of non-recurring expenditure is included in note 1(a).

### INTEREST ON BORROWINGS

All external borrowings were repaid in 2013.

### IFRS PROFIT BEFORE TAX

IFRS profit before tax amounted to £24.1m compared to £82.7m for 2013. The decrease is due to the effects of the fall in sales volumes and the benefit from assumption and other changes in 2013 which did not repeat in 2014.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 1 SEGMENTAL ANALYSIS

The operating segments reflect the level within the Group at which key strategic and resource allocation decisions are made and the way in which operating performance is reported internally to the chief operating decision makers in the Group, being the Group Board.

Information is provided to the Board which identifies operating profit segmented between: that achieved on new business written in the period; that which derives from in-force policies; and that relating to the long-term expected return on surplus assets. This split forms the reportable operating segments in accordance with IFRS 8 “Operating Segments”.

New business revenue is reported as Single Premium Equivalent (SPE), being the actual single premium plus 10 times the annual regular premium for new contracts written during the year. These revenue measures are monitored by the Board separately for each core target market.

#### a) Segmental analysis of profit

The table below shows operating profit for each year, together with a reconciliation to profit before tax:

For the year ended 31 December	2014 £000's	2013 £000's
New business operating profit	38,962	85,678
In-force operating profit	8,477	34,278
Long-term expected return on surplus assets	16,328	11,435
<b>Operating profit</b>	<b>63,767</b>	<b>131,391</b>
Investment variances	(23,491)	8,643
Non-recurring expenditure	(16,348)	(30,769)
Other	139	(1,201)
Interest on borrowings	–	(25,403)
<b>Profit from continuing operations before tax</b>	<b>24,067</b>	<b>82,661</b>

Investment variances reflect:

- the difference between actual performance on investment assets (e.g. cash, gilts, corporate bonds, loans secured by residential mortgages and loans secured by commercial mortgages) over the reporting period and the investment yield allowed for in the calculation of in-force liabilities at the start of the reporting period;
- the difference between the yield on investment assets allowed for in the calculation of new business profits and the actual investment performance including differences arising from investing at different yields and asset allocations than those expected when pricing new business;
- the difference between actual performance on investment assets and long-term assumed return on surplus assets; and
- the impact of changes in the best-estimate credit default allowance made against the Group's invested assets.

Non-recurring expenditure primarily relates to:

- £2.0m of Solvency II related costs (2013: £4.1m);
- £2.3m of costs incurred in developing scalable and flexible DB architecture (2013: £nil);
- £3.5m of implementation costs in respect of cost management actions, new initiatives, product development and other items (2013: £1.1m).

In addition, non-recurring non cash items were recognised, comprising £6.0m impairment of sales infrastructure in and a further £2.5m of IT development costs, which are being amortised over a 5 year period (2013: £nil).

2013 non-recurring expenditure also included £15.8m expenses in respect of the Group's restructure and IPO and £9.8m in respect of the Group's staff share option which vested as a result of the IPO.

Other gains/(losses) relate to the Group's interest in distribution subsidiaries and holding company expenses.



## 1 SEGMENTAL ANALYSIS CONTINUED

The profit measure used by the Board to monitor performance is operating profit before tax, analysed between new business operating profit, in-force operating profit and the long-term expected return on surplus assets.

- New business operating profit is profit generated from new business completed in the period, calculated using actuarial assumptions applicable at the time the new business was written, and utilising a discount rate based upon investment yields on investment assets (e.g. cash, gilts, corporate bonds, loans secured by residential mortgages and loans secured by commercial mortgages) used to generate the annuity quotation, net of expenses allocated against new business.
- In-force operating profit is generated from the actual experience measured against the assumed experience in the actuarial basis. The actuarial basis includes a number of assumptions, the most material of which are mortality levels, levels of default on investments, expense levels (to maintain the business in-force), levels of inflation, and lapse rates (for regular premium business). In-force operating profit also includes the effect recognised in the IFRS profit arising from changes to the reported value of insurance (and associated financial) liabilities resulting from changes to the actuarial assumptions, valuation methods, or underlying data, made subsequent to the point of sale.
- Return on surplus assets is the long-term, risk-adjusted, expected return on investments that are surplus to those investments that are used to back insurance liabilities. The long-term expected return is derived from applying an average expected yield appropriate to the category of surplus assets held, and is adjusted for the best-estimate expected level of defaults on those investments. The risk-adjusted annual yields applied to surplus assets during the period were:

For the year ended 31 December	2014	2013
Cash	0.5%	0.5%
Gilts	3.0%	3.0%
Corporate bonds	4.5%	4.5%
Commodity Trade Finance loans	10.0%	10.0%
Loans secured by residential mortgages	6.0%	n/a

### b) Segmental analysis of new business revenue by target market

For the year ended 31 December	2014 £000's	2013 £000's
Individual retirement annuities	465,840	1,076,693
Defined benefit buy-in/buy-out annuities	246,573	82,923
Individual care annuities	75,741	65,854
Individual protection policies	3,083	3,389
<b>Total SPE</b>	<b>791,237</b>	<b>1,228,859</b>

### c) Reconciliation of new business revenue by target market to gross premiums written

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

New business revenue by target market reconciles to gross premiums written as follows:

For the year ended 31 December	2014 £000's	2013 £000's
Total single premium equivalent	791,237	1,228,859
Adjustment in respect of regular premium business	135	(5)
Change in premiums receivable – not included in SPE	(30,734)	(69,335)
Reinsurance premiums received	–	43
<b>Gross premiums written</b>	<b>760,638</b>	<b>1,159,562</b>

Premiums are written at the point an insurance contract comes into force. For management purposes SPE is recorded when all funds have been received from the policyholder. Amounts due from policyholders for premiums not yet received is shown in note 15.

#### d) Product revenue information

The following table illustrates revenue by product as required by IFRS 8 “Operating Segments”. All revenues from external customers are predominantly derived from business originated in the UK, and as such no geographical information is disclosed.

The Board considers the Group's external customers to be the individual policyholders. As such, the Group is not reliant on any individual customer.

An analysis of gross premiums written by product is set out below:

For the year ended 31 December	2014 £000's	2013 £000's
Individual retirement annuities	435,106	1,007,359
Defined benefit buy-in/buy-out annuities	246,573	82,923
Individual care annuities	75,864	65,979
Individual protection policies	3,095	3,258
Other	–	43
<b>Total gross premiums written</b>	<b>760,638</b>	<b>1,159,562</b>

## 2 BASIS OF PREPARATION AND NEW AND REVISED STANDARDS

### Basis of preparation

Partnership Assurance Group (PAG) plc (the Company) was incorporated in the United Kingdom and registered in England and Wales on 26 February 2013 as a public company limited by shares. The Company's registered office address is 5th Floor, 110 Bishopsgate, London, EC2N 4AY.

The principal activity of the Company is that of a holding company. The Company and the entities controlled by the Company (its subsidiaries) are collectively “the Group”.

The Strategic Report on pages 1 to 41 outlines the activities, performance and future outlook of the Group. Note 29 to the financial statements sets out the Group's policies and procedures for managing insurance and financial risk, and note 30 sets out how the Group manages its capital resources.

These financial statements comprise the consolidated annual financial statements of the Group and the individual annual financial statements of the Company made up to 31 December 2014.

The results of subsidiaries acquired or disposed of during the period are included from or up to the effective date of acquisition or disposal. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The Group has control over an entity if all of the following conditions are met: (a) the Group has power over an entity; (b) the Group is exposed to, or has rights, to variable returns from its involvement with the entity; (c) the Group has the ability to use its power over the entity to affect its own returns.

The presentation currency of the Group is sterling. Unless otherwise stated, the amounts shown in the consolidated financial statements are in thousands of pounds sterling (£'000).

The consolidated financial statements and those of the Company have been prepared and approved by the Directors in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Group has applied all IFRS standards and interpretations adopted by the EU effective for the year ended 31 December 2014.

## 2 BASIS OF PREPARATION AND NEW AND REVISED STANDARDS CONTINUED

The Directors have undertaken a going concern assessment in accordance with “*Going Concern and Liquidity Risk: Guidance for UK directors of UK Companies 2009*”, published by the Financial Reporting Council in October 2009 as described on page 62 of the Directors’ Report.

Significant accounting policies applied to the preparation of these financial statements are presented in the designated boxes within the notes to the financial statements, aligning disclosure of accounting policies to the item which is most directly relevant to the policy.

### Adoption of new and revised standards

The Group has adopted the following new standards and changes to existing standards which are relevant to the Group’s operations, and became effective for financial years beginning on or after 1 January 2014:

- **IFRS 10 Consolidated financial statements** – This standard sets out the requirements for the preparation and presentation of consolidated financial statements, requiring entities controlled by the Parent Company to be consolidated as subsidiaries. The standard changes the definition of “control” from that previously established in IFRS. As a result of the adoption of this standard the Group has changed its accounting policy for determining when the Group has control over an entity to the following: The Group has control over an entity if all of the following conditions are met: (a) the Group has power over an entity; (b) the Group is exposed to, or has rights, to variable returns from its involvement with the entity; (c) the Group has the ability to use its power over the entity to affect its own returns. Associated amendments to IAS 27 *Separate financial statements* have also been adopted. The application of IFRS 10, and associated amendments, has not resulted in any change in the entities which are determined to be subsidiaries of the Group. There is no impact on the financial statements in the current or comparative periods.
- **IFRS 11 Joint Arrangements** – This standard defines joint arrangements and related accounting principles. The standard established two types of joint arrangement – joint ventures and joint arrangements – based on how rights and obligations are shared by investors in the arrangements. Associated amendments to IAS 28 *Investments in associates and joint ventures* have also been adopted. The application of IFRS 11 has no impact on the financial statements in the current or comparative periods.
- **IFRS 12 Disclosures of interests in other entities** – IFRS 12 requires additional disclosures for investments in subsidiaries, joint arrangements, associates and structured entities. The new disclosures required by this standard are presented in note 13 and note 14.
- **IAS 32 Financial Instruments** – Presentation – An amendment to IAS 32 clarifies the requirements for offsetting financial assets and liabilities. The application of the amendment has no impact on the financial statements in the current or comparative periods.
- **IAS 36 Impairment of assets** – An amendment to IAS 36 which reduces the circumstances in which the recoverable amount of non-financial assets is required to be disclosed. The application of the amendment has no impact on the financial statements in the current or comparative periods.
- **IAS 39 Financial Instruments: Recognition and measurement** – An amendment to IAS 39 which clarifies the circumstances in which hedge accounting can be continued when derivatives are novated to a central counterparty. The application of the amendment has no impact on the financial statements in the current or comparative periods.

### Other changes in accounting policy are:

- **Segmental analysis** – To reflect changes in the information provided to the Board, revenue attributable to Defined Benefit buy-in/ buy out annuities is now presented separately from revenue attributable to Individual retirement annuities in the segmental analysis of revenue. Previously these categories were presented together in a Retirement Annuity segment. Comparative information has been re-analysed accordingly.

#### Restatement of 2013 balance sheet

- **Presentation of accrued income arising from financial investments** – During the year the Group reviewed the presentation of accrued income arising from financial investments classified as fair value through profit and loss in the consolidated statement of financial position. It was concluded that presenting all components of the fair value of financial investments on the same line provides more clarity as to the Group’s exposure to these investments and therefore provides more relevant and no less reliable information. As a result of this change in policy an amount of £65.8m (2013: £59.1m) was reclassified from Prepayments and accrued income to Financial Assets. This change in policy has no effect on profit for the current or prior period or earnings per share.
- **Payables and receivables arising from reinsurance contracts** – During the year the Group reviewed the presentation of balances due to and from the Group under reinsurance contracts. It was concluded that presenting financial liabilities due to reinsurers where assets are legally and physically deposited back to the Group separately from other payables and receivables under reinsurance contracts better reflects the Group’s management of reinsurance balances and therefore provides more relevant and no less reliable information. As a result of this change in policy an amount of £21.5m (2013: £15.2m) was reclassified from financial liabilities to Insurance and other receivables. An amount of £3.2m (2013: £1.9m) was reclassified from financial liabilities to Insurance and other payables. This change in policy has no effect on profit for the current or prior period or earnings per share.

The following new or revised or amended standards, in issue, were not yet effective, or in some cases not yet endorsed by the EU. The Group has not early adopted any of these standards.

Standard/ interpretation	Content/amendment	Applicable for annual financial periods beginning on or after
<b>IFRS 9</b>	<b>Financial Instruments</b> IFRS 9 will replace IAS 39: Financial Instruments – Recognition and Measurement. The impact of the adoption of IFRS 9 on the Group will depend on the finalisation of the standard and the interaction of the requirements of IFRS 9 with the IASB's on-going insurance contracts accounting project. The standard has not yet been endorsed by the EU.	1 January 2018
<b>IFRS 10, IFRS 11, and IAS 28</b>	<b>Consolidated Financial Statements, Joint Arrangements, Investments in Associates and Joint Ventures</b> Amendments regarding the sale of contribution of assets between an investor and its associate or joint venture and application of the consolidation exception. The amendments have not yet been endorsed by the EU.	1 January 2016
<b>IFRS 14</b>	<b>Regulatory Deferral Accounts</b> The standard permits an entity which is a first-time adopter of IFRS to continue to account for “regulatory deferral account balances” in accordance with its previous GAAP. As the Group is not a first-time adopter of IFRS, the standard will have no impact on the Group. The standard has not yet been endorsed by the EU.	1 January 2016
<b>IFRS 15</b>	<b>Revenue from Contracts with Customers</b> IFRS 15 specifies how and when to recognise revenue, and requires additional disclosures. The standard provides a single, principles-based five-step model to be applied to contracts with customers. Insurance contracts and financial instruments are excluded from the scope of the standard. Therefore the amendments are not expected to have a material impact on the Group's profit before tax for the year or equity. The standard has not yet been endorsed by the EU.	1 January 2017
<b>IAS 16</b>	<b>Property, Plant and Equipment</b> Amendments regarding the clarification of acceptable methods of depreciation and amortisation and bringing bearer plants into the scope of IAS 16. The standard has not yet been endorsed by the EU.	1 January 2016
<b>IAS 19</b>	<b>Employee Benefits</b> Amendments clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. The amendments have been endorsed by the EU.	1 July 2014
<b>IAS 27</b>	<b>Separate Financial Statements</b> Amendments reinstating the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The amendments have not yet been endorsed by the EU.	1 January 2016
<b>IAS 38</b>	<b>Intangible Assets</b> Amendments regarding the clarification of acceptable methods of depreciation and amortisation. The amendments have not yet been endorsed by the EU.	1 January 2016
<b>IAS 41</b>	<b>Agriculture</b> Amendments bringing bearer plants into the scope of IAS 16. The amendments have not yet been endorsed by the EU.	1 January 2016
<b>IAS1</b>	<b>Presentation of Financial Statements</b> Amendments that provide additional clarity and explanations on the application of materiality and the presentation of accounting policies and disclosures in financial statements. The amendments have not yet been endorsed by the EU.	1 January 2016
<b>Annual Improvements 2010–2012 Cycle</b>	Amendments to a number of IFRS standards, clarifying guidance, wording or minor corrections. None of the proposed amendments are expected to have a material impact on the Group's profit before tax for the year or equity. The amendments have been endorsed by the EU.	1 July 2014
<b>Annual Improvements 2011–2013 Cycle</b>	Amendments to a number of IFRS standards, clarifying guidance, wording or minor corrections. None of the proposed amendments are expected to have a material impact on the Group's profit before tax for the year or equity. The amendments have been endorsed by the EU.	1 July 2014
<b>Annual Improvements 2012–2014 Cycle</b>	Amendments to a number of IFRS standards, clarifying guidance, wording or minor corrections. None of the proposed amendments are expected to have a material impact on the Group's profit before tax for the year or equity. The amendments have not yet been endorsed by the EU.	1 January 2016

### 3 NET INVESTMENT INCOME

Investment income comprises interest received on financial investments, realised investment gains and losses and movements in unrealised gains and losses. Expenses and charges are included on an accruals basis.

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

For the year ended 31 December	2014 £000's	2013 £000's
Interest receivable from financial assets	152,519	138,533
Interest payable on financial liabilities	(81,065)	(71,596)
Movement in fair value of financial assets	365,915	26,616
Movement in fair value of financial liabilities	(176,573)	17,382
Realised gains on financial assets	95,158	72,604
Realised losses on financial liabilities	(56,723)	(45,777)
<b>Total net investment income</b>	<b>299,232</b>	<b>137,762</b>

All financial assets and liabilities at 31 December 2014 are classified at fair value through profit and loss.

### 4 ACQUISITION COSTS

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

For the year ended 31 December	2014 £000's	2013 £000's
Commission	4,049	11,435
Other acquisition expenses	948	1,601
<b>Total acquisition costs</b>	<b>4,997</b>	<b>13,036</b>

### 5 OTHER OPERATING EXPENSES

Profit from continuing operations before tax is stated after charging the following items:

For the year ended 31 December	Note	2014 £000's	2013 £000's
Staff costs, including Directors' remuneration	6	40,760	41,052
Depreciation of property, plant and equipment	9	3,239	1,843
Amortisation of intangible assets	11	3,275	1,997
Rental of leased premises		3,220	2,860
Other operating leases		308	419
Auditor remuneration		704	3,307
Share-based payment charges	19	1,223	9,324
Consultancy		8,681	11,507
Legal and professional fees		5,288	20,143
Marketing		12,591	11,591
Other (primarily office maintenance and supplies)		16,515	13,180
<b>Total other operating expenses</b>		<b>95,803</b>	<b>117,223</b>

Included in the expenses above are £78.1m (2013: £83.9m) of Operating expenses that are included in the derivation of the Operating profit. A further £16.3m (2013: £30.8m) are reported as non-Recurring expenditure and the balance of £1.4m (2013: £2.5m) are included within other non-operating items.



The analysis of the auditor's remuneration for the year is as follows:

<b>Fees payable for the year ended 31 December were in respect of:</b>	<b>2014 £000's</b>	<b>2013 £000's</b>
The audit of the PAG plc Annual Report and Accounts	<b>94</b>	85
The audit of other Group entities	<b>192</b>	336
Audit related assurance services	<b>172</b>	166
Taxation compliance services	<b>118</b>	44
All other assurance services	<b>128</b>	–
Corporate finance transactions relating to the IPO in June 2013	–	2,676
<b>Auditor remuneration</b>	<b>704</b>	3,307

## 6 STAFF COSTS

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

<b>For the year ended 31 December</b>	<b>2014 £000's</b>	<b>2013 £000's</b>
Wages and salaries	<b>34,202</b>	33,839
Social security costs	<b>4,494</b>	5,528
Other pension costs	<b>2,064</b>	1,685
<b>Total staff costs</b>	<b>40,760</b>	41,052
The average number of persons employed during the year were:		
Administration and finance	<b>444</b>	430
Sales and marketing	<b>73</b>	109
<b>Average number of employees</b>	<b>517</b>	539

An analysis of Directors' remuneration is included in the Remuneration Report.

## 7 INCOME TAX

Income tax comprises current and deferred tax. Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the consolidated statement of comprehensive income.

Provision is made for taxation on taxable profits for the year, using tax rates enacted or substantially enacted at the balance sheet date together with adjustments to tax payable in respect of previous years.

Deferred tax is provided in full on temporary differences arising, which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on tax rates and laws enacted or substantively enacted at the balance sheet date. Temporary differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements except for differences arising from the initial recognition of goodwill and the initial recognition of assets and liabilities in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable profit.

A deferred tax asset is recognised to the extent that it is regarded as more likely than not that it will be recovered. Deferred tax assets and liabilities are not discounted.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset only if: a legally enforceable right exists to set off current tax assets against current tax liabilities; the deferred income taxes relate to the same taxation authority; and that authority permits the Group to make a single net payment.

## 7 INCOME TAX CONTINUED

For the year ended 31 December	2014 £000's	2013 £000's
Current taxation:		
Tax charge for the year	6,015	23,112
Adjustment in respect of prior periods	(2,035)	394
	3,980	23,506
Deferred taxation:		
Tax credit for the year	1,233	(266)
<b>Net taxation charge</b>	<b>5,213</b>	<b>23,240</b>

The actual tax charge of the Group differs from the expected tax charge, computed by applying the average rate of UK corporation tax for the year of 21.5% (2013: 23.25%), as follows:

For the year ended 31 December	2014 £000's	2013 £000's
Profit before tax	24,067	82,661
Current taxation at 21.5% (2013: 23.25%)	5,173	19,216
Disallowable expenses	51	4,140
Adjustments in respect of prior periods	(2,035)	394
Adjustments to deferred tax in respect of prior periods	1,903	(315)
Rate change impact	55	15
Non-qualifying depreciation	106	66
Share-based payment charge on which deferred tax not recognised	(40)	(276)
<b>Net taxation charge</b>	<b>5,213</b>	<b>23,240</b>

Taxation was all from continuing operations in 2014 and 2013.

## 8 EARNINGS PER SHARE

Basic earnings per share is calculated using the earnings attributable to ordinary equity holders of the Parent, divided by the weighted average number of ordinary shares in issue during the period.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares, including share options and awards.

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ordinary shares into ordinary shares.

The calculation of the basic and diluted earnings per share from continuing operations is based on the following data:

For the year ended 31 December	2014 £000's	2013 £000's
Profit for the year	18,854	59,421
Less non-controlling interests	(2)	44
Profit attributable to equity holders of the Parent	18,852	59,465
Effect of dilutive potential ordinary shares:		
Share options	–	–
<b>Diluted profit attributable to equity holders of the Parent</b>	<b>18,852</b>	<b>59,465</b>

Prior to 12 June 2013 the top holding company in the Group was PAG Holdings Limited (PAGH). All of PAGH's A, B and C shares (see note 31) were exchanged for PAG plc shares on 12 June 2013. For the purpose of the earnings per share calculation, the weighted average number of share shown below has been calculated as if the exchange of these PAGH shares had occurred at the beginning of the comparative period.

For the year ended 31 December	2014 Number of shares	2013 Number of shares
Basic weighted average number of shares	399,870,568	346,138,910
Effect of dilutive potential ordinary shares:		
Share options	2,780,521	1,276,243
<b>Diluted weighted average number of shares</b>	<b>402,651,089</b>	<b>347,415,153</b>

The options granted by the PAGH trust in respect of the ESOP scheme have a dilutive effect, up to the date of the IPO when these options vested.

As detailed in note 19, the Group implemented a number of new employee share-based plans following admission on the London Stock Exchange. The Share Incentive Plan (SIP) has a dilutive effect.

It is our current intention that the Long Term Incentive Plan (LTIP) and the share element of the Deferred Share Bonus Plan (DBSP) be settled by fresh issues of shares as the awards vest. The weighted average number of shares calculation above has been derived on the assumption that the vesting of shares in respect of the LTIP and DSBP awards will be settled by a fresh issue of shares when the awards vest and hence will be dilutive.

## 9 PROPERTY, PLANT AND EQUIPMENT

Assets are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated to write off the cost of tangible assets over their estimated useful life on a straight-line basis. The principal rates used for this purpose are as follows:

Computer equipment	33%
Fixtures and fittings	10% to 20%
Office re-fit	10% to 50%

Property, plant and equipment	Computer equipment £000's	Fixtures and fittings £000's	Office refit costs £000's	Total £000's
Cost at 1 January 2014	7,830	1,373	11,164	20,367
Additions	873	16	419	1,308
Disposals	(22)	(893)	(358)	(1,273)
<b>At 31 December 2014</b>	<b>8,681</b>	<b>496</b>	<b>11,225</b>	<b>20,402</b>
<b>Accumulated depreciation at 1 January 2014</b>	<b>3,577</b>	<b>423</b>	<b>908</b>	<b>4,908</b>
Charge for the year	2,037	31	1,171	3,239
Disposals	(22)	–	(280)	(302)
<b>At 31 December 2014</b>	<b>5,592</b>	<b>454</b>	<b>1,798</b>	<b>7,845</b>
Net book value at 31 December 2013	4,253	950	10,256	15,459
<b>Net book value at 31 December 2014</b>	<b>3,089</b>	<b>42</b>	<b>9,427</b>	<b>12,557</b>

## 10 GOODWILL

Goodwill represents the excess of cost of acquisition over the fair value of the separable net assets of businesses acquired. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is allocated to each of the cash generating units (CGU) that are expected to benefit from the combination. Goodwill is tested for impairment at least annually, or when circumstances or events indicate there may be uncertainty over this value. Impairment is determined by assessing the recoverable amount of each CGU to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Any impairment is recognised immediately in the consolidated statement of comprehensive income and is not subsequently reversed.

	2014 £000's	2013 £000's
At 1 January	126,207	126,207
<b>At 31 December</b>	<b>126,207</b>	126,207

The goodwill arose on acquisition of the PLACL operations and the value represented the potential of this business to generate value from future sales. Therefore the goodwill is allocated to the new business cash-generating unit, the scope of which is identical to the “new business” operating segment described in note 1.

The carrying value of goodwill has been tested for impairment at the balance sheet date.

The impairment test compares the carrying value of the new business cash generating unit (including goodwill and intangible assets) to its recoverable amount. The recoverable amount of the CGU is the higher of fair value less costs to sell and value in use. The Group uses an estimate of value in use as the primary measure of the recoverable amount. The future cash flows from the CGU are estimated as the expected future profits for the CGU set out in the Group's business plan as determined by management for a period of five years from the balance sheet date. These plans reflect management's best estimate of future profits based on both historical experience and expected growth rates for the CGU. The underlying assumptions of these projections include market size and growth, market share, profit margins, customer numbers and mortality.

Expected future profits for the CGU are discounted using a risk adjusted discount rate. The risk adjusted discount rate is a combination of a risk-free rate and an allowance for risk estimated with reference to observable rates and factors applied to business of similar size and nature. A rate of 13.1% (2013: 10.0%) has been applied to discount cash flows to a present value.

No impairment has been recognised in 2014 or 2013.

## 11 OTHER INTANGIBLE ASSETS

Other intangible assets comprise intellectual property and software development costs.

The intellectual property asset comprising specific mortality tables derived from data collected over an extended period and are deemed to have an indefinite life. Consequently no amortisation is charged against its carrying value.

Development costs that are directly attributable to the design and testing of identifiable software products, controlled by the Group, are recognised as intangible assets when it can be demonstrated that it is technically feasible to complete the product so that it is available for use and will generate probable future economic benefits. Software development costs have a finite useful life and are amortised using the straight-line method over three to five years.

### *Impairment review of other intangible assets*

The carrying amounts of intangible assets with finite expected useful economic lives are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. A review for indicators of impairment is conducted annually. The carrying amounts of intangible assets with indefinite expected useful economic lives are tested for impairment at least annually, or when circumstances or events indicate there may be uncertainty over this value. An impairment loss is recognised in the Consolidated Statement of Comprehensive Income for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

	2014 £000's	2013 £000's
<b>Intellectual property cost and carrying amount:</b>		
At 1 January	3,100	3,100
<b>At 31 December</b>	<b>3,100</b>	<b>3,100</b>
<b>Software development cost:</b>		
At 1 January	17,805	11,750
Additions at cost	2,093	7,696
Assets written off	–	(1,641)
<b>At 31 December</b>	<b>19,898</b>	<b>17,805</b>
<b>Software development accumulated amortisation:</b>		
At 1 January	4,504	2,507
Charge for the year	3,275	1,997
<b>At 31 December</b>	<b>7,779</b>	<b>4,504</b>
Total intangible assets at 1 January	16,401	12,343
<b>Total intangible assets at 31 December</b>	<b>15,219</b>	<b>16,401</b>

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

The intellectual property is continually updated through the collection of further data, updated analyses, and conversion into new and more detailed underwriting manuals and mortality tables. For this reason, the intangible asset is deemed to have an indefinite life, and consequently, no amortisation is provided against the value of the intangible asset. The carrying value of the intangible asset is tested for impairment at each reporting date, and is allocated to the “new business” cash-generating unit, the scope of which is identical to the “new business” operating segment described in note 1. The method and assumptions used in this test are identical to those applied in the goodwill impairment test, as set out in note 10.

No impairment of intellectual property has been recognised in 2013 or 2014.



## 12 FINANCIAL ASSETS

### Financial assets classification

The Group classifies its financial assets as financial investments, loans secured by residential mortgages, loans secured by commercial mortgages and derivative financial assets at fair value through profit and loss. The category of fair value through profit and loss has two sub-categories: those that meet the definition as being held for trading; and those that the Group chooses to designate as fair value. The fair value through profit and loss is selected as the Group's strategy is to manage its financial assets, as a portfolio, on a fair value basis.

### Financial investments

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

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

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

Commodity Trade Finance Investments, whether by way of a direct loan or an investment in a fund of such loans (CTF Investments), are carried at fair value on initial recognition and are recognised when the cash is advanced for the trade. CTF Investments are subsequently carried at fair value with changes in fair value included in the consolidated statement of comprehensive income in the period in which they arise. The fair value of these investments is not based on observable market data.

### Loans secured by residential mortgages

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

Loans secured by residential mortgages are subsequently carried at fair value with changes in fair value included in the consolidated statement of comprehensive income in the period in which they arise.

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

### Loans secured by commercial mortgages

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

Loans secured by commercial mortgages are subsequently carried at fair value with changes in fair value included in the consolidated statement of comprehensive income in the period in which they arise.

The fair value of loans secured by commercial mortgages is initially deemed to be the transaction price and subsequently marked to model. The valuation model produces a series of projected future cash flows for each mortgage, based on a range of simulations of changes in property prices drawn from a distribution based on historic observed changes. Potential changes in property tenancy are also modelled in a range of simulations. The discount rates that are applied to cash flows to produce the fair value are based on long dated swaps adjusted so that they would produce transaction date prices on the date of the transaction.

### Derivative financial instruments

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

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

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

Financial assets Fair value at 31 December	2014 £000's	Restated <sup>i</sup> 2013 £000's
Financial investments	3,584,820	3,133,790
Loans secured by residential mortgages	1,212,324	840,066
Derivative assets	75,892	36,413
Loans secured by commercial mortgages	37,868	–
<b>Total financial assets</b>	<b>4,910,904</b>	<b>4,010,269</b>

i See note 2.

The methodology used to derive the fair values is set out in note 25.

Financial assets Cost at 31 December	2014 £000's	2013 £000's
Financial investments	3,298,543	2,991,196
Loans secured by residential mortgages at cost	950,909	796,788
Derivative assets	–	–
Loans secured by commercial mortgages at cost	37,481	–
<b>Total financial assets</b>	<b>4,286,933</b>	<b>3,787,984</b>

## 13 PRINCIPAL GROUP UNDERTAKINGS

### Foreign currencies

Items included in the financial statement of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of each of the Group's material entities is sterling. The consolidated financial statements are presented in sterling, which is the Group's presentation currency.

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

Set out below are the principal subsidiary and associate undertakings of Partnership Assurance Group plc. All of the companies are incorporated in the United Kingdom and registered in England and Wales unless otherwise indicated. The shares held are voting ordinary equity shares. A full list of subsidiary and joint venture undertakings will be annexed to the Partnership Assurance Group plc annual return filed at Companies House.

Name	Principal activity	Holding
PAG Holdings Limited <sup>i</sup>	Holding company	100%
PAG Finance Limited <sup>i</sup>	Holding company	100%
Partnership Holdings Limited	Holding company	100%
Partnership Group Holdings Limited	Holding company	100%
Partnership Life Assurance Company Limited	Life assurance and pension annuities	100%
Partnership Home Loans Limited	Provision of lifetime mortgage products	100%
Partnership Services Limited	Service company	100%
Payingforcare Limited	Website	100%
PASPV Limited	Investment activity	100%
Partnership Life US Company <sup>ii</sup>	Management services	100%
Eldercare Group Limited <sup>iii</sup>	Independent financial advisers	33%

i Incorporated in Jersey (now dormant).

ii Incorporated in the USA.

iii Associate.

### 13 PRINCIPAL GROUP UNDERTAKINGS CONTINUED

Partnership Assurance Group plc directly or indirectly holds 100% of the ordinary shares and voting rights in the entities listed above (with the exception of Eldercare Group Limited), therefore Partnership Assurance Group plc controls these entities as subsidiaries.

#### Eldercare Group Limited

On 6 February 2014 the Group's subsidiary, Eldercare Group Limited (Eldercare), entered into a transaction to acquire Care Fee Investment Limited, an independent financial adviser in exchange for the issue of ordinary shares. As part of the transaction the Group made a capital contribution to Eldercare of £48,345. As a result of this transaction the Group's holding in Eldercare represented a smaller proportion of the enlarged Eldercare group, decreasing to 33% of its ordinary shares. Eldercare therefore ceased to be a subsidiary and became an associate of the Group. The Group's interest in the associate was initially measured at £206,000, representing its fair value on the date of the transaction. As a result of the transaction a gain of £157,509 arose, representing the difference between the fair value of the Group's interest in the associate and the prior carrying value of the Group's share of the subsidiary, less the capital contribution and attributable costs.

#### Gateway Specialist Advice Services

During 2014 the Group completed a review of the operations of Gateway Specialist Advice Services Limited (Gateway), and wrote down to £nil the value of its joint venture investment in Gateway and wrote down to £nil the value of its loans to Gateway (see note 8). A £334,000 charge for the write down of the value of loans is included in Operating expenses and a £206,000 charge for the write down of the investment is included in Share of result of joint venture and associates accounted for using the equity method in the Statement of Comprehensive Income. On 29 August 2014 the Group disposed of its investment in Gateway to Sesame Limited for consideration of £1, resulting in a profit on disposal of £1 recognised in the Share of results in joint ventures and associates using the equity method in the Statement of Total Comprehensive Income.

#### Partnership Life Assurance Company Limited

The Group's regulated insurance entity, Partnership Life Assurance Company Limited, is subject to UK solvency requirements which may, in the event of a breach of those requirements, affect that entity's ability to transfer funds in the form of cash dividends to other entities in the Group. The net assets of Partnership Life Assurance Company Limited at the balance sheet date are £459.0m (2013: £415.5m). There are no protective rights of non-controlling interests which significantly restrict the Group's ability to access or use the assets and settle the liabilities of the Group.

### 14 INVESTMENT IN JOINT VENTURES AND ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

The Group uses the equity method to consolidate its investments in joint ventures and associates. Under the equity method of accounting the investment is initially recognised at fair value and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the joint venture.

Associates	2014 £000's	2013 £000's
At 1 January	–	–
Fair value on initial recognition	206	–
Share of profit from continuing operations	27	–
<b>At 31 December</b>	<b>233</b>	–

Joint ventures	2014 £000's	2013 £000's
At 1 January	206	368
Impairment of joint venture	(206)	(162)
<b>At 31 December</b>	<b>–</b>	206

In the year the Group entered into a transaction that changed its holding in Eldercare from a subsidiary to an associate and also disposed of its joint venture investment in Gateway. Details of both of these transactions are included in note 13.

There were no profits or losses arising from discontinued operations in joint ventures or associates in 2014 or 2013. There were no items of other comprehensive income in joint ventures or associates in 2014 or 2013.

## 15 INSURANCE AND OTHER RECEIVABLES

Insurance and reinsurance debtors represent amounts receivable after commencement of the contract which has not been settled at the balance sheet date.

At 31 December	2014 £000's	Restated <sup>i</sup> 2013 £000's
Debtors arising out of insurance contracts <sup>ii</sup>	11,135	51,140
Debtors arising out of reinsurance contracts	22,522	24,196
Other debtors	3,266	4,008
Corporation tax receivable	2,091	–
Amounts due from associate	153	–
Amounts due from joint venture	–	289
<b>Total insurance and other receivables</b>	<b>39,167</b>	<b>79,633</b>

i See note 2.

ii Includes £9.7m in respect of premiums written for which funds have not yet been received from the policyholder (2013: £51.1m).

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

## 16 PREPAYMENTS AND ACCRUED INCOME

Interest accrued represents the balance receivable for interest income, calculated daily based on the contractual interest rates of the relevant instruments, recognised since the last interest payment date.

At 31 December	2014 £000's	Restated <sup>i</sup> 2013 £000's
Accrued interest	32	11
Prepayments	3,583	10,980
<b>Total prepayments and accrued income</b>	<b>3,615</b>	<b>10,991</b>

i See note 2.

## 17 DEFERRED TAX ASSET/LIABILITY

	2014 £000's	2013 £000's
At 1 January	424	158
(Debit)/credit to consolidated statement of comprehensive income	(1,233)	266
<b>Deferred tax asset at 31 December</b>	<b>519</b>	<b>424</b>
<b>Deferred tax liability at 31 December</b>	<b>(1,328)</b>	

The deferred tax asset is recognised as a result of the difference between: the accumulated depreciation and the capital allowances claimed on property, plant and equipment and the accumulated share based payment charges and a more current estimation of the likely cost of schemes that have not yet vested based on a revaluation at the balance sheet date. The recoverability of deferred tax assets have been considered with regard to the future taxable profits expected in management plans. The deferred tax liability is recognised as a result of the difference between the accumulated amortisation and research and development claims relating to software development costs. The UK corporation tax rate that is expected to be appropriate when each of these timing differences arise is 20% (2013: 20%).

## 18 CASH AND CASH EQUIVALENTS

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

At 31 December	2014 £000's	2013 £000's
Short-term bank deposits	56,159	94,723
Cash at bank and in hand	31,092	18,018
<b>Total cash and cash equivalents</b>	<b>87,251</b>	<b>112,741</b>

## 19 SHARE-BASED PAYMENTS

Equity-settled share-based payments to employees and others providing services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest.

At each period end, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the consolidated statement of comprehensive income such that the cumulative expense reflects the revised estimate with a corresponding adjustment to equity.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of those instruments, measured immediately before and after the modification, is also charged to the consolidated statement of comprehensive income over the remaining vesting period.

The share-based payment expense recognised for employee services receivable during the year is as follows:

For the year ended 31 December	2014 £000's	2013 £000's
Employee Share Option Plan	–	8,378
Long Term Incentive Plan	863	432
Deferred Share Bonus Plan	273	374
Share Incentive Plan	92	65
Save As You Earn Plan	(5)	75
<b>Total expense</b>	<b>1,223</b>	<b>9,324</b>

### i) Employee Share Option Plan (ESOP)

In 2009, the Group implemented an Employee Share Option Plan (ESOP) to retain and motivate its employees. Following admission on the London Stock Exchange on 12 June 2013, all the awards under the ESOP vested in full and were exercised immediately. There were no outstanding options under the ESOP as at 31 December 2014 or 31 December 2013.

### ii) Long Term Incentive Plan (LTIP)

	2014 Number of Awards	2013 Number of Awards
Outstanding at the beginning of the year	1,280,414	–
Granted during the year	4,745,589	1,294,740
Forfeited during the year	(294,492)	(14,326)
<b>Outstanding at the end of the year</b>	<b>5,731,511</b>	<b>1,280,414</b>



The Group made awards under the LTIP to Executive Directors and other senior executives in May 2014 (2014 LTIP) and June 2013 (2013 LTIP). The LTIP awards will be subject to the satisfaction of the following performance conditions which will determine the proportion (if any) of the LTIP award to vest at the end of the performance period.

50% of the 2013 LTIP awards are subject to a performance condition relating to the growth in the Group's operating profit over a performance period of three financial years. If operating profit for the financial year ending 31 December 2015 exceeds operating profit for the financial year ending 31 December 2012 by 33.1%, 10% of the 2013 LTIP award will vest. The maximum 50% will vest if operating profit for the financial year ending 31 December 2015 exceeds operating profit for the financial year ending 31 December 2012 by at least 64.3%. Payment will be on a sliding scale in between these points.

The remaining 50% of the 2013 LTIP awards and all of the 2014 LTIP will be subject to a condition measuring the Company's total shareholder return (TSR) performance relative to the constituent companies of the FTSE 250 index (excluding investment trusts, mining companies and oil and gas producers), over the period from admission to 31 December 2015, in respect of the 2013 LTIP, and over the period from 22 May 2014 to 22 May 2017 in respect of the 2014 LTIP. Vesting of 10% of the 2013 LTIP award and 20% of the 2014 LTIP award will occur for median performance and the maximum vesting (50% for the 2013 LTIP and 100% for the 2014 LTIP) at upper quartile performance or above, with the proportion vesting between these points calculated on a straight-line basis.

The awards are accounted for as equity-settled schemes. The fair value of these schemes is calculated at each award date based upon the number of shares expected to vest and the expense charge is recognised over the course of the vesting period.

A charge of £862,718 (2013: £431,848) has been recognised in the consolidated statement of comprehensive income with a corresponding increase in equity in the consolidated statement of financial position. The weighted average fair value of awards made in the year was £0.74.

The fair value of the award was measured with reference to the quoted share price of PAG plc at the measurement date. The performance condition relating to total shareholder return was incorporated into the measure of fair value through stochastic models incorporating the historical TSR volatility of the Group and other comparable listed entities. The performance condition relating to operating profit performance and other non-market vesting conditions are incorporated into the estimate of the total number of awards expected to vest. This expectation is reviewed and if necessary, revised at each reporting date.

During the period the Group reviewed the stochastic model used to incorporate the performance condition into the fair value of the LTIP awards. Resulting corrections to the working of the model resulted in an increase in the value of the 2013 LTIP award recognised. This correction has resulted in an increase in the charge recognised during the period of £194,000.

The weighted average exercise price of all awards under the LTIP is £nil.

### iii) Deferred Share Bonus Plan (DSBP)

Effective from June 2013, one-third of the bonuses earned by Executive Directors and certain other senior executives in respect of the Company's annual bonus arrangements are deferred into shares in PAG plc. The remaining two-thirds of the awards will continue to be paid in cash. The share element of the bonus awards will vest on the third anniversary of the date of the determination of the bonus in respect of which they were granted.

The share element of these bonus awards are accounted for as equity-settled schemes. The fair value of these awards are calculated at each award date based on one-third of the estimated annual bonus payout and the expense charge is recognised over the course of the service period to which the bonus relates and the vesting period.

A charge of £272,545 (2013: £374,072) has been recognised in the consolidated statement of comprehensive income in respect of these schemes for the year to 31 December 2014 with a corresponding increase in equity in the consolidated statement of financial position. 946,134 awards were made in the period. 46,606 awards were forfeit during the period and 899,528 awards were outstanding at the end of the period. The weighted average exercise price of the awards is £nil.

The weighted average fair value of awards made during the year was £1.25. The fair value of the award was measured with reference to the quoted share price of PAG plc at the measurement date. Non-market vesting conditions are incorporated into the estimate of the total number of awards expected to vest. This expectation is reviewed and, if necessary, revised at each reporting date.

## 19 SHARE-BASED PAYMENTS CONTINUED

### iv) Share Incentive Plan (SIP)

	2014 Number of Awards	2013 Number of Awards
Outstanding at the beginning of the year	119,340	—
Granted during the year	2,911	131,300
Forfeited during the year	(34,408)	(11,960)
<b>Outstanding at the end of the year</b>	<b>87,843</b>	<b>119,340</b>

In 2013 the Company made a one-off award of £1,000 of free shares immediately after admission to all eligible employees under a new all-employee share plan, known as the Share Incentive Plan (SIP). These shares will be forfeited if the employees cease employment (except in “good leaver” circumstances) within the first three years from the date of the award. Awards made under this plan entitle these employees to:

- a conditional right to acquire shares in PAG plc at no cost;
- an option to acquire shares in PAG plc at no cost; or
- a right to receive a cash amount which relates to the value of certain number of notional ordinary shares.

These awards are accounted for as equity-settled schemes. The fair value of these schemes is calculated at each award date based upon the number of shares awarded multiplied by the share price at grant date and expensed over the vesting period. The weighted average exercise price of the awards is £nil.

A charge of £92,430 (2013: £65,277) has been recognised in the consolidated statement of comprehensive income in respect of this scheme for the year to 31 December 2014 with a corresponding increase in equity in the consolidated statement of financial position.

Further awards have been made in the year to 31 December 2014, reflecting additional shares to scheme participants on payment on dividends by the Group, subject to the same conditions as the original award. The weighted average fair value of awards made in the year was £1.31. The fair value of the award was measured with reference to the quoted share price of PAG plc at the measurement date. Non-market vesting conditions are incorporated into the estimate of the total number of awards expected to vest. The expectation is reviewed and, if necessary, revised at each reporting date.

### v) Save As You Earn (SAYE) share option plan

	2014 Number of Awards	2013 Number of Awards	2014 Weighted average of exercise price £	2013 Weighted average of exercise price £
Outstanding at the beginning of the year	465,761	—	3.57	0.00
Granted during the year	1,536,051	508,261	0.94	3.57
Forfeited during the year	(441,250)	(42,500)	3.21	3.57
<b>Outstanding at the end of the year</b>	<b>1,560,562</b>	<b>465,761</b>	<b>1.08</b>	<b>3.57</b>

In July 2013, the Group introduced a SAYE scheme. Under this plan, employees may elect to save up to £500 per month over a three- or five-year period. The amount of ordinary shares of PAG plc over which the option is granted will be determined at the grant date to reflect the amount that each employee has agreed to save under the Share Save contract. Awards were granted under the scheme to member employees in July 2013 and November 2014.

A credit of £4,954 (2013 charge of £74,734) has been recognised in the Consolidated Statement of Comprehensive Income in respect of this scheme for the year to 31 December 2014 with a corresponding decrease in equity in the consolidated statement of financial position, reflecting an increase in the lapse assumption applied to the 2013 award as a result of lapse experience during the period exceeding previous expectations.

The fair value of the awards made in the year has been determined using a Black-Scholes valuation model. Key assumptions within this valuation model were: expected share price volatility (41.8%), expected dividend yield (1%), risk-free interest rate (1.7%), expected option life (three years and five years), exercise price (£0.94) and share price at the measurement date (£1.17).

## 20 INSURANCE LIABILITIES AND REINSURANCE ASSETS

### Insurance liabilities

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

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

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

The insurance liabilities, which are also referred to as the long-term business provision and policyholder reserves elsewhere in this report, are determined by the Partnership Board on the advice of the Group's Actuarial Function Holder on the modified statutory basis using recognised actuarial methods with due regard to the actuarial principles set out in the PRA's (formerly the FSA's) Insurance Prudential Sourcebook. In particular, a prospective gross premium valuation method has been adopted for major classes of business.

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

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

At the balance sheet date, provision is made for all notified claims plus an estimate for those claims that have been incurred but not reported. The principal assumptions underlying the calculation of insurance liabilities are set out in note 20.

### Reinsurance assets

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

Amounts recoverable from reinsurers are estimated in a consistent manner with insurance liabilities, and are classified as "Reinsurance assets".

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

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

### Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the insurance liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from assets backing such liabilities, are used. Any deficiency is immediately charged to the consolidated statement of comprehensive income.

### Claims

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

## 20 INSURANCE LIABILITIES AND REINSURANCE ASSETS CONTINUED

At 31 December	2014 £000's	2013 £000's
Long-term business provision	5,231,112	4,347,588
Reinsurers' share of long-term business provision	(3,246,008)	(2,840,749)
<b>Net provision</b>	<b>1,985,104</b>	<b>1,506,839</b>

### a) Principal assumptions

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

	Mortality tables	Valuation discount rates
Medically underwritten annuity products	2014 Modified E&W Population Mortality with CMI 2013m (1.25%) and CMI 2013f (1.00%)	3.53%
	2013 Modified E&W Population Mortality with CMI 2012m (1.75%) and CMI 2012f (1.50%)	4.31%
Other annuity products	2014 Modified PCMA/PCFA00u bespoke	1.35%
	2013 Modified PCMA/PCFA00u bespoke	1.70%
Term and whole of life products	2014 86.25% TM/TF00Select	1.00%
	2013 86.25% TM/TF00Select	1.44%

Valuation discount rate assumptions are set with regards to yields on supporting assets. An allowance for risk is included by making an explicit deduction from the yields on debt and other fixed income securities based on historical default experience and expected experience of each asset class. The allowance for credit risk has been set at 42% (31 December 2013: 47%) of the spread on the yield of the corporate bonds over the yield on gilts.

The changes in the valuation discount rates at each period end reflect changes in yields on the supporting assets and changes made to the allowance for risk.

The mortality tables used have been adjusted to reflect additional mortality based on the proprietary data held by the Group developed from actual experience incurred. The valuation basis used to calculate the long-term business provisions includes an allowance for future expenses.

### b) Movements

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

For the year ended 31 December 2014	Gross £000's	Reinsurance £000's	Net £000's
At 1 January 2014	4,347,588	(2,840,749)	1,506,839
Increase in liability from new business	692,005	(266,845)	425,160
Release of in-force liability	(130,286)	87,709	(42,577)
Release of liability due to recorded deaths	(67,743)	31,799	(35,944)
Economic changes	332,956	(211,434)	121,522
Non-economic changes	912	–	912
Other	55,680	(46,488)	9,192
<b>At 31 December 2014</b>	<b>5,231,112</b>	<b>(3,246,008)</b>	<b>1,985,104</b>

For the year ended 31 December 2013	Gross £000's	Reinsurance £000's	Net £000's
At 1 January 2013	3,723,298	(2,412,551)	1,310,747
Increase in liability from new business	1,038,011	(678,827)	359,184
Release of in-force liability	(111,110)	75,012	(36,098)
Release of liability due to recorded deaths	(69,967)	31,040	(38,927)
Economic changes	(209,299)	144,164	(65,135)
Non-economic changes	(25,847)	1,609	(24,238)
Other	2,502	(1,196)	1,306
At 31 December 2013	4,347,588	(2,840,749)	1,506,839

### c) Analysis of expected maturity

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

At 31 December 2014	Expected cash flows (undiscounted)				Carrying value (discounted) £000's
	less than one year £000's	one to five years £000's	five to ten years £000's	more than ten years £000's	
Long-term business provision	411,885	1,510,716	1,624,201	4,367,492	5,231,112
Reinsurers' share of long-term business provision	(258,539)	(966,479)	(1,053,161)	(2,699,933)	(3,246,008)
<b>Net</b>	<b>153,346</b>	<b>544,237</b>	<b>571,040</b>	<b>1,667,559</b>	<b>1,985,104</b>

At 31 December 2013	Expected cash flows (undiscounted)				Carrying value (discounted) £000's
	less than one year £000's	one to five years £000's	five to ten years £000's	more than ten years £000's	
Long-term business provision	373,419	1,360,968	1,450,164	3,829,024	4,347,588
Reinsurers' share of long-term business provision	(241,692)	(903,711)	(985,311)	(2,544,018)	(2,840,749)
<b>Net</b>	<b>131,727</b>	<b>457,257</b>	<b>464,853</b>	<b>1,285,006</b>	<b>1,506,839</b>

### d) Sensitivity analysis

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

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



## 20 INSURANCE LIABILITIES AND REINSURANCE ASSETS CONTINUED

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

Change in assumption:	Increase/(decrease) in profit before tax	
	2014 £000's	2013 £000's
Interest rates +1%	2,866	2,954
Interest rates -1%	(5,993)	(3,308)
Credit spreads +0.5%	(11,621)	(10,917)
Expenses +10%	(10,906)	(9,962)
Mortality -5%	(32,027)	(22,140)
Property prices -10%	(38,583)	(25,313)
Voluntary redemptions +10%	(6,412)	(2,402)

## 21 INSURANCE AND OTHER PAYABLES

At 31 December	2014 £000's	Restated <sup>i</sup> 2013 £000's
Payables arising from insurance contracts	4,774	9,639
Payables arising from reinsurance contracts	3,159	1,916
Other creditors and accruals	21,594	22,449
<b>Total insurance and other payables</b>	<b>29,527</b>	<b>34,004</b>

i See note 2.

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

## 22 FINANCIAL LIABILITIES

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

A financial liability (including subordinated debt and external borrowings) is generally derecognised when the contract that gives rise to it, is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange of modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the consolidated statement of comprehensive income.

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

At 31 December	2014 £000's	Restated <sup>i</sup> 2013 £000's
Deposits from reinsurers	2,491,795	2,182,350
Derivative liabilities	79,493	32,391
<b>Total financial liabilities</b>	<b>2,571,288</b>	<b>2,214,741</b>

i See note 2.

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

## 23 CURRENT TAX LIABILITIES

At 31 December	2014 £000's	2013 £000's
Corporation tax payable	–	13,633
Other taxes and social security costs	3,735	4,565
<b>Total current tax liabilities</b>	<b>3,735</b>	<b>18,198</b>

## 24 DERIVATIVE FINANCIAL INSTRUMENTS

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

At 31 December 2014	Asset fair value £000's	Liability fair value £000's	Notional amount £000's
Forward currency positions	7,335	1,615	553,106
Interest rate swaps	66,651	62,030	1,119,400
Inflation swaps	309	15,848	414,646
Credit default swaps	1,597	–	38,104
<b>Total derivative financial instruments</b>	<b>75,892</b>	<b>79,493</b>	<b>2,125,256</b>

At 31 December 2013	Asset fair value £000's	Liability fair value £000's	Notional amount £000's
Forward currency positions	8,488	278	548,392
Interest rate swaps	24,847	31,271	1,242,924
Inflation swaps	3,078	842	162,135
<b>Total derivative financial instruments</b>	<b>36,413</b>	<b>32,391</b>	<b>1,953,451</b>

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

At 31 December 2014, the Group had pledged £29.8m (2013: £10.1m) and held collateral of £19.0m (2013: £0.9m) in respect of outstanding over-the-counter derivative positions.

## 25 FINANCIAL INSTRUMENTS – FAIR VALUE METHODOLOGY

All financial instruments, with the exception of external borrowings, are classified at fair value through profit and loss. In accordance with IFRS 13 Fair Value Measurement, financial instruments at fair value have been classified into three categories:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); or

Level 3: Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs).

## 25 FINANCIAL INSTRUMENTS – FAIR VALUE METHODOLOGY CONTINUED

An analysis of financial assets and liabilities held at fair value in accordance with the fair value hierarchy is set out below. All these financial assets and liabilities relate to recurring fair value measurements. There are no non-recurring fair value measurements as at 31 December 2014 and 31 December 2013.

At 31 December 2014	Level 1 £000's	Level 2 £000's	Level 3 £000's	Total £000's
Financial investments (a)	3,583,183	–	1,637	3,584,820
Loans secured by residential mortgages (b)	–	–	1,212,324	1,212,324
Derivative assets (c)	–	75,892	–	75,892
Loans secured by commercial mortgages (d)	–	–	37,868	37,868
<b>Total financial assets held at fair value</b>	<b>3,583,183</b>	<b>75,892</b>	<b>1,251,829</b>	<b>4,910,904</b>
Deposits from reinsurers (e)	–	–	2,491,795	2,491,795
Derivative liabilities (c)	–	79,493	–	79,493
<b>Total financial liabilities held at fair value</b>	<b>–</b>	<b>79,493</b>	<b>2,491,795</b>	<b>2,571,288</b>

Restated <sup>i</sup> At 31 December 2013	Level 1 £000's	Level 2 £000's	Level 3 £000's	Total £000's
Financial investments (a)	3,122,222	–	11,568	3,133,790
Loans secured by residential mortgages (b)	–	–	840,066	840,066
Derivative assets (c)	–	36,413	–	36,413
Total financial assets held at fair value	3,122,222	36,413	851,634	4,010,269
Deposits from reinsurers (e)	–	–	2,182,350	2,182,350
Derivative liabilities (c)	–	32,391	–	32,391
Total financial liabilities held at fair value	–	32,391	2,182,350	2,214,741

<sup>i</sup> See note 2.

The Group's policy is to recognise transfers into and transfers out of Levels 1, 2 and 3 as of the date at which the consolidated statement of financial position is prepared.

There have been no transfers between Levels 1, 2 and 3 in 2014.

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

For the year ended 31 December 2014	Deposits from reinsurers £000's	Loans secured by commercial mortgages £000's	CTF Investments £000's	Loans secured by residential mortgages £000's
At 1 January 2014	(2,182,350)	–	11,568	840,066
Loans (received)/advanced	(307,959)	37,481	6,321	232,519
Total (losses)/gains in consolidated statement of comprehensive income	(139,376)	263	(884)	185,634
Redemptions made/(received)	229,082	–	(16,386)	(51,273)
(Interest payable accrued)/interest receivable accrued	(91,192)	125	1,018	5,378
<b>At 31 December 2014</b>	<b>(2,491,795)</b>	<b>37,869</b>	<b>1,637</b>	<b>1,212,324</b>

Restated <sup>i</sup> For the year ended 31 December 2013	Deposits from reinsurers £000's	Loans secured by commercial mortgages £000's	CTF Investments £000's	Loans secured by residential mortgages £000's
At 1 January 2013	(1,728,998)	–	–	478,097
Loans (received)/advanced	(733,849)	–	23,990	416,473
Total (losses)/gains in consolidated statement of comprehensive income	(155,522)	–	(3,135)	(25,695)
Redemptions made/(received)	514,878	–	(11,306)	(34,187)
(Interest payable accrued)/interest receivable accrued	(78,859)	–	2,019	5,378
At 31 December 2013	(2,182,350)	–	11,568	840,066

i See note 2.

The gains and losses are included within net investment income in the consolidated statement of comprehensive income.

The unrealised gains/(losses) in respect of payables arising out of reinsurance contracts, commodity trade finance investments, loans secured by residential mortgages and loans secured by commercial mortgages for the period to 31 December 2014 are £139.4m (2013: £155.5m), £0.9m (2013: £(1.1)m), £191.0m (2013: £(20.3)m) and £0.2m (2013: £nil) respectively. These unrealised gains and losses are included within net investment income in the Consolidated Statement of Comprehensive Income.

### Level 3 sensitivity analysis

		Impact of alternative assumption		
		Current fair value £000's	Increase in fair value £000's	Decrease in fair value £000's
<b>At 31 December 2014</b>	<b>Significant assumption</b>			
<b>Assets</b>				
CTF Investments	Expected defaults	1,637	289	(353)
Loans secured by commercial mortgages	Discount rate	37,868	2,744	(2,501)
Loans secured by residential mortgages	Discount rate	1,212,324	156,367	(132,186)
<b>Liabilities</b>				
Deposits from reinsurers	Discount rate	(2,491,795)	(220,538)	192,268

Restated <sup>i</sup> At 31 December 2013	Significant assumption	Current fair value £000's	Increase in fair value £000's	Decrease in fair value £000's
<b>Assets</b>				
CTF Investments	Expected defaults	11,568	406	(584)
Loans secured by residential mortgages	Value of NNEG	840,066	100,863	(86,046)
<b>Liabilities</b>				
Deposits from reinsurers	Discount rate	(2,182,350)	(182,645)	161,733

i See note 2.

The impact of reasonably possible alternative assumptions are estimated by modelling alternative scenarios for the key assumptions for each valuation model.

#### a) Financial investments

All financial investments are designated at fair value through profit and loss. All financial investments excluding commodity trade finance are listed.

In assessing the fair value of the debt securities and other fixed income securities, the Directors have relied upon values provided by an independent third party which specialises in providing such values to companies. The third party provides prices based upon quoted market prices, or where not available, modelled prices using observable market inputs. At 31 December 2014 and 31 December 2013, 100% of the values provided were based on quoted market prices that are observable for the asset or liability.

Due to the short-term nature of the commodity trade finance (CTF) loans, the fair value of these instruments is estimated as the principal amount borrowed plus accrued interest from the date of acquisition, adjusted for incurred and expected defaults. These CTF loans are considered to be Level 3 within the valuation category prescribed by IFRS 13 as the inputs to the fair value calculation are not based on observable market data, and includes the Group's own assumptions.

## 25 FINANCIAL INSTRUMENTS – FAIR VALUE METHODOLOGY CONTINUED

The change in the fair value of Level 3 financial instruments from period to period is analysed into loans advanced, loans repaid/redemptions, and interest accrued, with the remaining balance representing fair value measurement gains and losses recognised in the statement of comprehensive income.

**Interest rate:** The interest rate used in estimating the fair value of the CTF Funds as at 31 December 2014 was nil% p.a. (31 December 2013: 12%).

### b) Loans secured by residential mortgages

The fair value recognised in the financial statements for loans secured by residential mortgages is determined using a marked to model valuation technique where a significant proportion of inputs are not based on observable market data and so these assets are considered to be Level 3 within the valuation category prescribed by IFRS 13.

The valuation model discounts the expected future cash flows using an interest rate swap curve with an additional spread or yield factor minus the cost of the no-negative equity guarantee. The no-negative equity guarantee represents an embedded guarantee that the repayment of the loan cannot exceed the value of the property at the time of repayment.

Although such valuations are sensitive to various estimates, it is considered that only the discount rate and no-negative equity guarantee assumptions would have significant impact on the fair value.

**Discount rate:** Loans secured by mortgages are valued using the swap rate appropriate to the term of each contract with adjustment to reflect the credit and liquidity risk associated with such long dated contracts. The risk adjusted swap rate for the portfolio weighted by average value at 31 December 2014 was 5.05% (31 December 2013: 6.42%).

**No-negative equity guarantee:** The fair value of loans secured by residential mortgages takes into account an explicit provision in respect of the no-negative equity guarantee which is calculated using a variant of the Black-Scholes option pricing model. The key assumptions used to derive the value of the no-negative equity guarantee include property growth, volatility and over-valuation. The property growth and volatility assumed at 31 December 2014 were 5.5% (31 December 2013: 5.5%) and 13% (31 December 2013: 13%) respectively. The over-valuation assumption used as at 31 December 2014 was 27.4% (31 December 2013: 22%). The value of the no-negative equity guarantee as at 31 December 2014 was £112.5m (31 December 2013: £67.3m).

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

### c) Derivative assets and liabilities

The estimated fair value of derivative instruments reflects the estimated amount the Group would receive or pay in an arm's length transaction. All the derivatives held at 31 December 2014 and 31 December 2013 were purchased over-the-counter.

The Group's derivative assets and liabilities largely relate to forward currency positions, interest rate swaps and inflation swaps.

**Forward currency positions:** Forward currency exchange contracts are priced by independent third parties.

**Interest rate swaps:** The fair value of the interest rate swaps is derived using an interest rate swap pricing model, using a time series of historical LIBOR rates, an applicable zero coupon interest rate swap curve to derive future cash flows (forward curve) and an applicable zero coupon interest rate swap curve to discount future cash flows (discount curve) as inputs. The forward curve is used by the pricing model to determine the future LIBOR rates to be applied in the calculation of the floating leg cash flow(s). The discount curve is used to calculate the present value of the future cash flow(s) of both the fixed and floating legs of the swap and its composition is driven by the terms of the Credit Support Annex under which the swap is traded.

**Inflation swaps:** The fair value of the inflation swaps is derived using the inflation swap pricing model, using a time series of historical inflation index levels, a zero coupon swap inflation expectation curve, an inflation seasonality model and a zero coupon interest rate swap curve as inputs. The inflation swap pricing model generates a future cash flow for both the fixed and inflation legs of a swap for which a present value is determined using zero coupon interest rate swap curve.

The derivative assets and liabilities are presented on a gross basis in the consolidated statement of financial position. All over-the-counter derivative transactions are conducted under standardised ISDA (International Swaps and Derivatives Association Inc) master agreements and the Group has collateral agreements between the individual Group entities and relevant counterparties in place under each of these master agreements.

### d) Loans secured by commercial mortgages

The fair value recognised in the financial statements for loans secured by commercial mortgages is determined using a marked to model valuation technique where a significant proportion of inputs are not based on observable market data and so these assets are considered to be Level 3 within the valuation category prescribed by IFRS 13.

The valuation model produces a series of projected future cash flows for each mortgage, based on a range of simulations of changes in property prices drawn from a distribution based on historic observed changes. Potential changes in property tenancy (e.g. tenant default,



exercise of break clause or non-renewal of lease) are also modelled in a range of simulations. Risk adjusted cash flows are calculated as the average across the range of simulations.

The risk adjusted cash flows are discounted using a swap curve with an additional spread. The additional spread is the increase in swap discount rates required so that the initial discounted risk adjusted cash flows equal the initial purchase price. This uplift is reviewed if there is evidence that market has moved materially.

The discount rate and changes in property prices and tenancy are the most significant assumptions applied in calculating the fair value of the loans.

**Discount rate:** Loans secured by commercial mortgages are valued using the swap rate appropriate to the term of each contract with adjustment to reflect the credit and liquidity risk associated with such long dated contracts. The risk adjusted swap rate for the portfolio weighted by average value at 31 December 2014 was 3.02%.

#### e) Deposits from reinsurers

The fair value recognised in the financial statements is determined using a marked to model valuation technique where not all inputs are based on observable market data and so these liabilities are considered to be Level 3 within the valuation category prescribed by IFRS 13.

The valuation model discounts the expected future cash flows using a discount rate derived from the assets hypothecated to back these liabilities at a product level.

As payables arising from reinsurance contracts do not have a single fixed maturity date it is not possible to determine an amount that would be contractually required to pay at maturity.

**Discount rate:** The key inputs to the derivation of the discount rate include market observable gross redemption yields, contractual investment expenses and an allowance for credit risk on a best estimate basis. The discount rates used as at 31 December 2014 for Individual retirement and Individual care annuities were 4.16% and 1.67% respectively (31 December 2013: 4.95% and 1.97% respectively).

## 26 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December	2014 £000's	Restated <sup>i</sup> 2013 £000's
<b>Profit before income tax including discontinued operations</b>	<b>24,067</b>	82,661
Fair value gains and interest accrued on financial assets	(365,937)	(32,028)
Fair value losses and interest accrued on financial liabilities	257,638	54,214
Depreciation of property, plant and equipment	3,238	1,843
Amortisation of intangible assets	3,275	1,997
Assets written off	971	1,684
Investment in associate – Eldercare	(27)	–
Profit on reclassification of subsidiary to associate	(94)	–
Share of loss of joint venture	206	162
Profit of subsidiary before disposal	2	–
Share-based payment charge	1,223	9,324
Amortisation of capitalised loan note debt issuance costs	–	2,519
Amortisation of capitalised bank loan debt issuance costs	–	1,765
Interest accrued on Loan notes	–	19,125
Interest on bank loan	–	1,995
Net investment in financial assets	(534,698)	(764,815)
Net receipt of financial liabilities	98,909	340,612
Increase in reinsurance assets	(405,259)	(428,198)
Decrease in insurance and other receivables excluding Corporation Tax	42,557	61,916
Decrease/(increase) in prepayments and accrued income	7,376	(2,293)
Increase in insurance liabilities	883,524	624,290
Decrease in insurance and other payables	(4,477)	(34,462)
(Decrease)/increase in other taxes and social security payables	(830)	838
<b>Cash generated from/(used in) operations</b>	<b>11,664</b>	(56,851)

<sup>i</sup> See note 2.

## 27 EMPLOYEE BENEFITS

### Pension scheme

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

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

## 28 DEPOSITS RECEIVED FROM REINSURERS

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

In addition, the Group has trust agreements with two reinsurers (2013: two) whereby the assets are held in trust in order to fully fund the reinsurers’ obligations under the reinsurance treaty. As the Group has no control over these funds and does not accrue any future benefit these funds are not recognised as assets of the Group.

At 31 December	2014 £000's	2013 £000's
Deposits managed by the Group	269,630	272,493
Deposits held in trust	279,619	241,699
<b>Total deposits received from reinsurers</b>	<b>549,249</b>	<b>514,192</b>

## 29 MANAGEMENT OF INSURANCE AND FINANCIAL RISK

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

### a) Insurance risk

#### a1) Underwriting, pricing and reserving risk

Underwriting and pricing risk is the risk that insurance contracts will be written that are not within the Board’s risk appetite, or that the premium charged for that business is not adequate to cover the risks borne by the Group.

The accurate pricing of non-standard annuities is dependent on the Group’s assessment of the impact on prospective customers’ longevity of various medical and lifestyle factors and an estimate of future investment yields and credit default.

The actual timing of deaths and investment income experience may be inconsistent with the assumptions and pricing models used in underwriting and setting prices for its products.

Reserving risk is the risk that the reserves have been calculated incorrectly, or the assumptions used in the calculations are inappropriate.

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

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

The assumptions used in the reserving for future policyholder payments are set based on available market and experience data, on the advice of Partnership’s Actuarial Function Holder. The assumptions are approved by the Board. The reserves are calculated using recognised actuarial methods with due regard to the actuarial principles set out in the PRA’s sourcebooks, including appropriate levels of prudential margin against future adverse experience.

## a2) Specific insurance risk

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

Expense risk is managed through regular assessment and quarterly reforecasting of expenses incurred against budgets.

## b) Interest Rate Risk

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

The difference between asset and liability movements can arise from both a change in the absolute level of interest rates, and from a change in the "spread" (that is the level of interest rates applying to an asset in excess of the risk-free interest rate).

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

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

At 31 December 2014, the mean duration of the assets including surplus assets was 8.3 years (2013: 7.5 years) measured with reference to a gross redemption yield and the mean duration of the liabilities (including both retirement and care liabilities) was at 9.6 years (2013: 8.9 years) measured with reference to the valuation interest rate.

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

## c) Credit risk

Market credit risk is the risk that the Group invests in assets that may default.

If an asset fails to repay either interest or capital, or that payment is significantly delayed, the Group may make losses and be unable to meet liabilities as they fall due.

The Group's Investment Management Guidelines set out maximum exposure to bonds issued by a single, or related group of, counterparty(ies) and to credit ratings. The allowance made for issuer default in the Group's valuation is regularly monitored and kept up to date.

At 31 December 2014, £19.0m of collateral (2013: £0.9m) had been pledged to the Group to mitigate the credit risk exposure associated with the derivative assets held at that time.

Counterparty credit risk arises if another party fails to honour its obligations to the Group including failure to honour these obligations in a timely manner.

The Group's primary counterparty credit risk exposure arises from the inability of the reinsurers to meet their claim payment obligations.

The Group has arrangements with its reinsurers whereby most reinsurance premiums are either deposited back to the Group or held by a third party in a trust arrangement.

In addition, the Group's reinsurance policy is to seek to choose companies with a minimum "A" credit rating.

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

## 29 MANAGEMENT OF INSURANCE AND FINANCIAL RISK CONTINUED

At 31 December 2014	Credit rating					Total £000's
	AAA £000's	AA £000's	A £000's	BBB £000's	Unrated £000's	
Financial investments	815,605	234,771	1,251,104	1,280,870	2,470	3,584,820
Derivative assets	–	–	–	–	75,892	75,892
Loans secured by residential mortgages	–	–	–	–	1,212,324	1,212,324
Loans secured by commercial mortgages	–	–	–	–	37,868	37,868
Reinsurance assets	–	1,290,232	1,955,776	–	–	3,246,008
Insurance and other receivables	–	17,761	4,761	–	16,645	39,167
<b>Total</b>	<b>815,605</b>	<b>1,542,764</b>	<b>3,211,641</b>	<b>1,280,870</b>	<b>1,345,199</b>	<b>8,196,079</b>

Restated At 31 December 2013	Credit rating					Total £000's
	AAA £000's	AA £000's	A £000's	BBB £000's	Unrated £000's	
Financial investments	611,062	260,620	1,193,352	1,057,189	11,568	3,133,790
Derivative assets	–	–	–	–	36,413	36,413
Loans secured by residential mortgages	–	–	–	–	840,066	840,066
Reinsurance assets	–	1,240,280	1,600,469	–	–	2,840,749
Insurance and other receivables	–	13,132	11,064	–	55,437	79,633
<b>Total</b>	<b>611,062</b>	<b>1,514,032</b>	<b>2,804,885</b>	<b>1,057,189</b>	<b>943,484</b>	<b>6,930,651</b>

The following table presents an aging analysis of financial assets by payment due status:

No financial assets were past due at 31 December 2014.

Restated At 31 December 2013	Past due but not impaired						Total £000's
	Not past due £000's	Less than 1 month £000's	1–3 months £000's	3–6 months £000's	More than 6 months £000's	Impaired £000's	
CTF investments	7,094	–	742	3,732	–	–	11,568
Loans secured by mortgages	840,066	–	–	–	–	–	840,066
Other financial assets	6,079,017	–	–	–	–	–	6,079,017

### d) Liquidity risk

Liquidity risk arises where cash flows from investments and from new premiums prove insufficient to meet our obligations to policyholders and other third parties as they fall due.

The Group's ALM framework ensures that cash flows are sufficient to meet both long- and short-term liabilities.

The Group maintains a minimum level of cash and highly liquid assets such that, in the extreme scenario of new business cash flows being insufficient to meet current obligations, those obligations can continue to be met.

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

In the following table expected cash outflows for:

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

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

At 31 December 2014	Expected cash flows (undiscounted)				Carrying value (discounted) £000's
	less than one year £000's	one to five years £000's	five to ten years £000's	more than ten years £000's	
Net insurance liabilities	153,346	544,237	571,040	1,667,559	1,985,104
Deposits received from reinsurers	213,142	793,042	843,324	2,005,880	2,491,795
Derivative liabilities	13,523	37,602	10,603	34,097	79,493
<b>Total</b>	<b>380,011</b>	<b>1,374,881</b>	<b>1,424,967</b>	<b>3,707,536</b>	<b>4,556,392</b>

Restated At 31 December 2013	Expected cash flows (undiscounted)				Carrying value (discounted) £000's
	less than one year £000's	one to five years £000's	five to ten years £000's	more than ten years £000's	
Net insurance liabilities	131,727	457,257	464,853	1,285,066	1,506,839
Deposits received from reinsurers	1,831,083	735,336	792,792	1,934,163	2,182,350
Derivative liabilities	584	10,252	14,381	15,596	32,391
<b>Total</b>	<b>1,963,394</b>	<b>1,202,845</b>	<b>1,272,026</b>	<b>3,234,825</b>	<b>3,721,580</b>

The maximum exposure to credit risk is equal to the balance sheet value of debt instruments/derivatives.

#### e) Property risk

Property risk arises from the provision of a protected equity guarantee on the mortgages underlying the equity release assets purchased. The Group is exposed to the risk that property values do not rise sufficiently, or that the property is not maintained properly, to recover the full value of the loan made plus accrued interest.

The Group manages its purchase of loan assets to a level appropriate to its liability profile and ensures that the purchase prices of loan assets reflect a prudent assessment of future property price growth. Appropriate limits are applied to the "loan-to-value" ratio in order to limit the risk exposure to the Group. The Group seeks to avoid excess concentration of property holdings in any geographical area.

Property risk on commercial mortgages is the risk that property values decline or property tenancy changes such that the full value of the commercial mortgage loan is not recovered. The initial loan value is restricted to a maximum "loan-to-value" ratio that limits its exposure for the Group.

### 30 AVAILABLE CAPITAL RESOURCES

Economic capital is the principal risk-based capital measure used by the Board. Economic capital is based on the Board's view of the available capital and required capital calibrated to a 1 in 200 stress.

The Group's capital consists of equity attributable to equity holders of the Parent Company. For the purposes of regulatory capital requirements, certain assets are restricted, or are inadmissible.

The Group manages its capital to ensure that all of entities within the Group will be able to continue to operate as going concerns, remaining compliant with all regulatory capital requirements to which each is subject.

Partnership Life Assurance Company Limited (PLACL), the principal operating and only insurance company in the Group, is required to comply with minimum capital requirements calculated at the level of its EEA parent and ultimate Parent Company level as required by the PRA as set out in the Insurance Groups Directive, as well as its own single entity level as required by the PRA. PAG plc is both the EEA parent and ultimate Parent Company of PLACL.



### 30 AVAILABLE CAPITAL RESOURCES CONTINUED

The table below provides a reconciliation between the available capital resources of the PAG plc Group, measured under IFRS, and the surplus over regulatory capital requirement as is required to be measured under the Insurance Groups Directive. Any changes or release of capital from long-term funds is subject to there being an established surplus shown by an actuarial investigation.

At 31 December	2014 £000's	2013 £000's
<b>Total equity of PAG plc Group</b>	<b>604,690</b>	598,549
Minority Interest in equity for regulated business	–	(66)
Adjustments in respect of regulatory capital basis:		
Inadmissible intangible assets	(15,219)	(16,401)
Inadmissible goodwill	(126,207)	(126,207)
Inadmissible deferred tax asset	(519)	(424)
Equity and reserves related to non-regulated entities (excluded from regulatory capital calculation), adjusted for inadmissible assets already adjusted above	3,042	13,031
<b>Total available capital resources (IGD basis)</b>	<b>465,787</b>	468,482
Group minimum capital requirement (IGD basis)	(224,127)	(191,630)
<b>Surplus over regulatory capital requirement</b>	<b>241,660</b>	276,852

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

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

### 31 SHARE CAPITAL

The Group has issued ordinary shares which are classified as equity. Incremental external costs that are directly attributable to the issue of the ordinary shares are recognised in equity, net of tax.

At 31 December 2014	Number of shares	Share capital £000's	Share premium £000's
<b>The allotted and issued share capital of PAG plc:</b>			
Shares subdivided into 500,000 ordinary shares of £0.10 each	399,999,971	40,000	435,249
<b>As at 31 December 2014, ordinary shares of £0.10 each</b>	<b>399,999,971</b>	<b>40,000</b>	<b>435,249</b>

At 31 December 2013	Number of shares	Share capital £'000s	Share premium £'000s
<b>The allotted and issued share capital of PAG plc:</b>			
On incorporation, ordinary shares of £1.00 each	50,000	50	–
On 12 June 2013:	–	–	–
Shares subdivided into 500,000 ordinary shares of £0.10 each	450,000	–	–
Exchange of the A and B loan notes	69,212,294	6,921	259,547
Exchange of C loan notes	15,397,726	1,540	57,742
Share for share exchange of A, B and C ordinary shares in PAGH for ordinary shares in PAG plc	282,358,446	28,236	–
New issue of shares as part of Global Offer	32,467,532	3,247	121,752
New ordinary shares issued to senior management	51,948	5	195
New ordinary shares issued to EBT	12,025	1	45
Share issue costs	–	–	(4,032)
<b>As at 31 December 2013, ordinary shares of £0.10 each</b>	<b>399,999,971</b>	<b>40,000</b>	<b>435,249</b>

The ordinary share entitles the holder to dividends declared by the Board which are not cumulative. The ordinary share entitles the holder to one vote for every share held.

### Shares held by the employee trust

Where an employee trust acquires shares in the Company or obtains rights to purchase its shares, the consideration paid (including attributable transaction costs, net of tax) is shown as a deduction from the owners' equity. Gains and losses on sales of shares held by the employee trust are charged or credited to the own shares account in equity.

At 31 December	2014 £000's	2013 £000's
Employee benefit trust	(136)	(58)

## 32 OPERATING LEASE COMMITMENTS

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

At 31 December	2014 £000's	2013 £000's
Leases expiring not later than one year	2,816	3,645
Leases expiring between one and five years	9,036	11,671
Leases expiring in more than five years	7,835	9,453
<b>Total lease commitments</b>	<b>19,687</b>	<b>24,769</b>

## 33 RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

During the period, the Group entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into and balances outstanding at the end of each reporting date are detailed below.

### a) Remuneration of key management personnel

Key management personnel consist of the Directors of the Company. The key management personnel changed during the year 2014 reflecting the Group reorganisation. The remuneration of the Directors, who are the key management personnel of the Group, is set out below:

At 31 December	2014 £000's	2013 £000's
Short-term employee benefits	2,850	2,060
Post-employment benefits	16	55
<b>Total</b>	<b>2,866</b>	<b>2,115</b>

### b) Directors' loans

A number of Directors who are defined as key management personnel of the Company held loans during the period. The loans owed to/by the Directors are detailed as follows:

At 31 December	2014 £000's	2013 £000's
Amounts owed to Directors:		
Loan advances	302	289
<b>Loans owed by Directors</b>	<b>302</b>	<b>289</b>

The terms of the B and Vendor loan notes are detailed in note 31 and, as set out in that note, were exchanged for ordinary shares in the Company as part of the IPO.

The loan advances to Directors accrue interest fixed at 4% per annum and are repayable in whole or in part at any time.

### 33 RELATED PARTY TRANSACTIONS CONTINUED

The amounts accruing (to)/from the Directors in respect of these loan notes are detailed below:

At 31 December	2014 £000's	2013 £000's
Interest accrued on B and Vendor loan notes	–	(663)
Interest accrued on Directors' loan advances	12	6
<b>Interest accrued due from/(to) Directors</b>	<b>12</b>	<b>(657)</b>

#### c) Other related party transactions

During the year the Group entered into transactions with other entities controlled by Cinven Limited, associates and joint ventures as set out below. All transactions were on a commercial basis.

	2014 £000's	2013 £000's
Costs paid to entities related to the ultimate parent controlling party	122	558
Group's share of losses of joint venture investment	6	–
Loans advanced to associate and fees on loans	187	–
<b>Value of other related party transactions</b>	<b>315</b>	<b>558</b>

Costs paid to entities related to the ultimate parent controlling party include management fees paid to Cinven Partnerships LLP for director services. The comparative cost in 2013 included expenses associated with the 2013 IPO. At 31 December 2014 there was no amount due or receivable from any entities related to the ultimate parent controlling party (2013: £nil).

The Group's share of losses of joint venture investment arose in Gateway prior to sale on 29 August 2014. Note 13 includes detail of loans from Gateway that were written off in 2014. At 31 December 2014 there was no amount due or receivable from Gateway (2013: £289,000).

Loans were advanced to the Group's associate, Eldercare, during the 2014. At 31 December 2014, Eldercare owed the Group £153,000. At 31 December 2013 Eldercare was not an associate of the Group.

#### d) Ultimate controlling party

As at 31 December 2014 a majority of the Company's ordinary shares are held by the partnerships comprising the Fourth Cinven Funds (the Cinven Funds), being funds managed and advised by Cinven Limited, a company incorporated in the United Kingdom. Accordingly, the Directors consider the Company's ultimate controlling party to be Cinven Limited, the manager and adviser to the Cinven Funds.

### 34 EVENTS AFTER THE BALANCE SHEET DATE

#### Dividend

Subsequent to 31 December 2014, the Directors proposed a final dividend for 2014 of 1.0 pence per ordinary share (2013: 3.0 pence), amounting to £4.0m (2013: £12m) in total. Subject to approval by shareholders at the AGM, the dividend will be paid on 29 May 2015 and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2015.

#### Bond issue

On 2 March 2015 the Group entered into an agreement to issue a £100m bond to funds managed by Cinven Capital Management ('Cinven'), its majority shareholder. The bond is repayable after a 10 year term with possible redemption, at option of the Group, at the fifth anniversary or on any interest payment date thereafter, in each case subject to PRA consent. The bond has an annual interest rate of 9.5% payable annually in arrears from the issue date. The bond is a Tier 2 qualifying regulatory capital instrument under existing solvency regulations and Solvency II compliant following implementation of the Solvency II regime on 1 January 2016. The bond is issued by Partnership Assurance Group plc with a guarantee provided by Partnership Life Assurance Company Limited.

## STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

At 31 December 2014

	Note	Share capital £000's	Share premium £000's	Retained profit £000's	Total £000's
<b>At 1 January 2014</b>		<b>40,000</b>	<b>435,249</b>	<b>701,961</b>	<b>1,177,210</b>
Shares issued for cash	42	–	–	–	–
Share-based payments		–	–	1,223	1,223
Dividends payable		–	–	(14,000)	(14,000)
Profit for the year		–	–	168	168
<b>At 31 December 2014</b>		<b>40,000</b>	<b>435,249</b>	<b>689,352</b>	<b>1,164,601</b>
At 1 January 2013		–	–	–	–
PAGH shares exchanged for ordinary shares		28,286	–	–	28,286
Loan notes exchanged for ordinary shares		8,462	317,288	–	325,750
Shares issued for cash		3,252	121,993	–	125,245
Share issue costs		–	(4,032)	–	(4,032)
Share-based payments		–	–	946	946
Profit for the year		–	–	701,015	701,015
<b>At 31 December 2013</b>		<b>40,000</b>	<b>435,249</b>	<b>701,961</b>	<b>1,177,210</b>

## STATEMENT OF FINANCIAL POSITION OF THE COMPANY

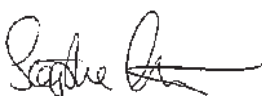
At 31 December 2014

	Note	2014 £000's	2013 £000's
<b>Assets</b>			
Investment in subsidiaries	36	1,201,989	1,177,766
Insurance and other receivables	37	9,961	25,514
Prepayments and accrued income	38	4	10
Cash and cash equivalents	39	10,912	32,560
<b>Total assets</b>		<b>1,222,866</b>	<b>1,235,850</b>
<b>Equity</b>			
Share capital	42	40,000	40,000
Share premium	42	435,249	435,249
Retained profit		689,352	701,961
<b>Total equity</b>		<b>1,164,601</b>	<b>1,177,210</b>
<b>Liabilities</b>			
Insurance and other payables	40	58,219	58,219
Current tax liabilities	41	46	421
<b>Total liabilities</b>		<b>58,265</b>	<b>58,640</b>
<b>Total equity and liabilities</b>		<b>1,222,866</b>	<b>1,235,850</b>

The notes on pages 95 to 132 are an integral part of these financial statements.

The financial statements of the Group were approved by the Board of Directors and authorised for issue on 2 March 2015.

They were signed on its behalf by:



Steve Groves, FIA  
Chief Executive Officer  
Company Registered Number: 8419490

## CASH FLOW STATEMENT OF THE COMPANY

For the year ending 31 December 2014

	Note	2014 £000's	2013 £000's
<b>Profit before tax</b>		<b>214</b>	701,436
Adjustment for:			
Increase in receivables	37	<b>15,553</b>	(25,514)
Increase in intercompany receivables, offset in Group reorganisation		–	(675,900)
Increase in prepayments and accrued income	38	<b>6</b>	(10)
Corporation tax paid		<b>(421)</b>	
<b>Net cash generated from operating activities</b>		<b>15,352</b>	12
Cash flows from investing activities:			
Increase in loan to subsidiary, offset in Group reorganisation	36	–	(88,666)
<b>Net cash used in financing activities</b>		–	(88,666)
<b>Cash flows from financing activities:</b>			
<b>Proceeds from the issuance of share capital</b>		–	121,214
Dividends paid to shareholders		<b>(14,000)</b>	–
Investment in subsidiary	38	<b>(23,000)</b>	–
<b>Net cash generated from financing activities</b>		<b>(37,000)</b>	121,214
<b>Net increase in cash and cash equivalents</b>		<b>(21,648)</b>	32,560
Cash and cash equivalents at beginning of year		<b>32,560</b>	–
<b>Cash and cash equivalents at end of year</b>	39	<b>10,912</b>	32,560



## NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 35 BASIS OF PREPARATION

The separate financial statements of Partnership Assurance Group plc (the Company) have been prepared on a going concern basis in accordance with the Companies Act 2006 applicable to companies reporting under IFRS, and accounting policies have been applied consistently. As permitted by that act, the separate financial statements have been prepared in accordance with IFRS which comprise standards and interpretations approved by either the International Accounting Standards Board or the IFRS Interpretations Committee or their predecessors, as adopted by the European Union (EU) as at 31 December 2013. The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its own Income Statement and Statement of Comprehensive Income.

The financial statements have been prepared on the historical cost basis, except for the measurement of long-term employee benefits at present value of the obligation less fair value of any assets held to settle the obligation. The principal accounting policies adopted are the same as those set out in the Group's financial statement note disclosures. In addition, note 36 sets out the accounting policy in respect of investments in subsidiary undertakings.

### 36 INVESTMENT IN SUBSIDIARIES

Investments in subsidiaries are stated at cost less impairment in the Statement of Financial Position of the Company, as determined by the Company's Directors.

At 31 December	2014 £000's	2013 £000's
Investment in PAGH	28,286	28,286
Investment in Partnership Holdings Limited (PHL)	1,171,534	1,148,534
Investment in Partnership Services Limited (PSL)	2,169	946
<b>Investment in subsidiaries</b>	<b>1,201,989</b>	<b>1,177,766</b>

During the year the Company made a capital contribution of £23m in the form of a gift to the Company's subsidiary, PHL. The capital contribution is recognised as an increase in cost of investment in the subsidiary.

### 37 INSURANCE AND OTHER RECEIVABLES

At 31 December	2014 £000's	2013 £000's
Other debtors	29	–
Amounts due from other Group undertakings	9,932	25,514
<b>Total insurance and other receivables</b>	<b>9,961</b>	<b>25,514</b>

### 38 PREPAYMENTS AND ACCRUED INCOME

At 31 December	2014 £000's	2013 £000's
Accrued income	4	10
<b>Total insurance and other receivables</b>	<b>4</b>	<b>10</b>

### 39 CASH AND CASH EQUIVALENTS

At 31 December	2014 £000's	2013 £000's
Short-term bank deposits	10,846	30,012
Cash at bank and in hand	66	2,548
<b>Total cash and cash equivalents</b>	<b>10,912</b>	<b>32,560</b>

#### 40 INSURANCE AND OTHER PAYABLES

At 31 December	2014 £000's	2013 £000's
Amounts due to other Group undertakings	58,219	58,219
<b>Total insurance and other payables</b>	<b>58,219</b>	<b>58,219</b>

#### 41 CURRENT TAX LIABILITIES

At 31 December	2014 £000's	2013 £000's
Income taxes	46	421
<b>Total current tax liabilities</b>	<b>46</b>	<b>421</b>

#### 42 SHARE CAPITAL

Details of the Company's share capital and share premium are set out in note 33.

#### 43 RELATED PARTY TRANSACTIONS

During the year the Company made a capital contribution of £23m to PHL in the form of a gift (note 36).

On 14 July 2014, the Company advanced a loan to its subsidiary, PSL. At 31 December 2014 the balance on that loan was £9.4m and is included in Amounts due from other Group undertakings (note 37). Interest is charged on that loan at 150 basis points over 6 months LIBOR. £155,800 of interest accrued to the Company on the loan in 2014.

The Company received no other interest or income, neither did it suffer costs incurred from any other Group entity during 2014. The Amounts due from other Group undertakings receivable, included in insurance and other payables, are not interest bearing.

The Amounts due to another Group undertaking (note 40) is a balance due to the Company's wholly owned dormant subsidiary, PAG Finance Limited, and is equal to the equity of that subsidiary.

Details of the remuneration of key management personnel is set out in note 32.

#### 44 ULTIMATE PARENT UNDERTAKING

The Company's ultimate Parent undertakings are the partnerships comprising the Fourth Cinven Funds (the Cinven Funds), being funds managed and advised by Cinven Limited, a company incorporated in the United Kingdom. Accordingly, the Directors consider the Company's ultimate controlling party to be Cinven Limited, the manager and adviser to the Cinven Funds.

#### 45 EVENTS AFTER THE BALANCE SHEET DATE

The events after the balance sheet date applicable to the Company are set out in note 34.

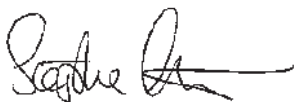
## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE MARKET CONSISTENT EMBEDDED VALUE (MCEV) BASIS

The MCEV methodology adopted by the Group is in accordance with the CFO Forum MCEV principles (© Stitching CFO Forum foundation 2008) published in October 2009. When compliance with the MCEV principles is stated, those principles require the Directors to prepare supplementary information in accordance with the methodology contained in the MCEV Principles and to disclose and explain any non-compliance in the guidance included in the MCEV principles.

In preparing the MCEV supplementary information, the Directors have:

- determined assumptions on a realistic basis, having regard to past, current and expected future experience and to relevant external data, and then applied them consistently;
- made estimates that are reasonable and consistent;
- provided additional disclosure when compliance with the specific requirements of the MCEV principles is insufficient to enable users to understand the impact of particular transactions, other events and conditions and the Group's financial position and financial performance; and
- described the basis on which business that is non-covered has been included in the supplementary information, including any material departures from the accounting framework applicable to the Group's consolidated IFRS financial statements.

By order of the Board



.....  
**Steve Groves**  
Chief Executive Officer  
London  
2 March 2015



.....  
**David Richardson**  
Chief Financial Officer  
London  
2 March 2015

### Note:

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

## INDEPENDENT AUDITOR'S REVIEW REPORT TO THE DIRECTORS OF PARTNERSHIP ASSURANCE GROUP PLC ON THE CONSOLIDATED PARTNERSHIP GROUP MARKET CONSISTENT EMBEDDED VALUE (MCEV) SUPPLEMENTARY INFORMATION

We have audited the consolidated Group market consistent embedded value supplementary information (the "MCEV supplementary information") of Partnership Assurance Group plc for the year ended 31 December 2014 which comprises the Group MCEV Analysis of Earnings, Covered Business Analysis of Movement in Embedded Value, reconciliation of Group IFRS net assets to MCEV and the related notes 1 to 5. The financial reporting framework that has been applied in their preparation is the market consistent embedded value principles issued in June 2008 by the European CFO Forum and supplemented by an amendment to the MCEV principles issued by the same body in October 2009 (the "MCEV principles").

We have reported separately on the statutory Group financial statements of Partnership Assurance Group plc for the year ended 31 December 2014. The information contained in the MCEV supplementary information should be read in conjunction with the Group financial statements prepared on an IFRS basis.

This report is made solely to the Company's directors in accordance with our engagement letter and solely for the purpose of expressing an opinion as to whether the MCEV supplementary information for the year ended 31 December 2014 has been properly prepared in accordance with the MCEV principles. Our audit work has been undertaken so that we might state to the Company's Directors those matters we are required to state to them in an independent auditor's report and for no other purpose. To the fullest extent permitted by law, we will not accept or assume responsibility to anyone other than the Company, for our audit work, for this report, or for the opinions we have formed.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS' AND AUDITOR

As explained more fully in the Directors' Responsibility Statement in respect of the MCEV supplementary information, the Directors are responsible for the preparation of the MCEV supplementary information. Our responsibility is to audit and express an opinion on the MCEV supplementary information in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

### SCOPE OF THE AUDIT OF THE MCEV SUPPLEMENTARY INFORMATION

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

### OPINION

In our opinion, the MCEV supplementary information for the year ended 31 December 2014 has been properly prepared in accordance with the MCEV principles using the methodology and assumptions set out in notes 1 and 2.



Paul Stephenson BA ACA (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom  
2 March 2015

## GROUP MCEV ANALYSIS OF EARNINGS (NET OF TAX)

For the year ended 31 December 2014

	Note	Year ended 31 December 2014			Year ended 31 December 2013
		Covered business MCEV £000's	Non-covered business IFRS £000's	Total Group MCEV £000's	Total Group MCEV £000's
<b>Opening Group MCEV</b>		<b>463,494</b>	<b>56,139</b>	<b>519,633</b>	9,890
Operating MCEV earnings	3	<b>86,502</b>	–	<b>86,502</b>	107,236
Non-operating MCEV earnings	3	<b>(15,464)</b>	<b>(1,607)</b>	<b>(17,071)</b>	(54,225)
<b>Total MCEV earnings</b>		<b>71,038</b>	<b>(1,607)</b>	<b>69,431</b>	53,011
Other movements in IFRS net equity	4	–	<b>1,222</b>	<b>1,222</b>	456,732
Capital and dividend flows	3	<b>23,000</b>	<b>(37,000)</b>	<b>(14,000)</b>	–
<b>Closing Group MCEV</b>		<b>557,532</b>	<b>18,754</b>	<b>576,286</b>	519,633



## COVERED BUSINESS ANALYSIS OF MOVEMENT IN EMBEDDED VALUE (NET OF TAX)

For the year ended 31 December 2014

	Note	Year ended 31 December 2014				Year ended 31 December 2013
		Free surplus £000's	Required capital £000's	VIF £000's	MCEV £000's	MCEV £000's
<b>Opening MCEV</b>		<b>58,840</b>	<b>354,330</b>	<b>50,324</b>	<b>463,494</b>	383,600
New business value	3	(41,879)	72,299	25,652	56,072	81,094
Expected existing business contribution (reference rate & in excess of reference rate)	3	–	–	4,106	4,106	2,800
Transfers from VIF and required capital to free surplus	3	27,044	(17,263)	(6,313)	3,469	5,226
Experience variances	3	(770)	–	(317)	(1,087)	(301)
Assumption changes		4,171	(6,529)	1,877	(481)	9,799
Other operating variances	3	15,081	(8,196)	17,537	24,423	8,618
<b>Operating MCEV earnings</b>		<b>3,647</b>	<b>40,311</b>	<b>42,542</b>	<b>86,502</b>	107,236
Economic variances	3	(41,297)	22,856	14,447	(3,994)	1,734
Other non-operating variances	3	(13,357)	739	1,147	(11,471)	(4,076)
<b>Total MCEV earnings</b>		<b>(51,007)</b>	<b>63,906</b>	<b>58,136</b>	<b>71,037</b>	104,894
Capital and dividend flows	3	23,000	–	–	23,000	(25,000)
<b>Closing MCEV</b>		<b>30,833</b>	<b>418,236</b>	<b>108,460</b>	<b>557,531</b>	463,494

## RECONCILIATION OF GROUP IFRS NET ASSETS TO MCEV

As at 31 December 2014

	Year ended 31 December 2014			Year ended 31 December 2013		
	Covered business adjusted net worth £000's	Non-covered business adjusted net worth £000's	Group £000's	Covered business adjusted net worth £000's	Non-covered business adjusted net worth £000's	Group £000's
<b>Group Net Assets as reported under IFRS</b>	<b>458,959</b>	<b>145,729</b>	<b>604,688</b>	415,501	183,114	598,615
Goodwill	(1,332)	(124,875)	(126,207)	(1,332)	(124,875)	(126,207)
Intangibles	(1,000)	(2,100)	(3,100)	(1,000)	(2,100)	(3,100)
Adjustments to IFRS	(7,555)	–	(7,555)	–	–	–
<b>MCEV Net Worth</b>	<b>449,071</b>	<b>18,754</b>	<b>475,381</b>	413,169	56,139	469,308
VIF	108,460	–	108,460	50,325	–	50,325
<b>MCEV (net of taxation)</b>	<b>557,357</b>	<b>18,754</b>	<b>576,286</b>	463,494	56,139	519,633

## NOTES TO THE MCEV FINANCIAL STATEMENTS

for the period ended 31 December 2014

### 1 BASIS OF PREPARATION

The supplementary information which comprises the Group MCEV analysis of earnings (net of tax), covered business analysis of movement in embedded value (net of tax), reconciliation of Group IFRS net assets to MCEV and the related notes 1 to 5 has been prepared on a Market Consistent Embedded Value (MCEV) basis and results for non-covered business on the International Financial Reporting Standards (IFRS) basis.

The MCEV methodology adopted is in accordance with the MCEV Principles published by the CFO Forum in October 2009.

#### Covered business

The MCEV calculations cover all lines of insurance business within PLACL. No other Group companies contain any covered business and the value of these companies has been included in the Group MCEV at IFRS net asset value, less the value of goodwill and intangibles, to the extent that their recovery is supported by future profits.

#### Group financing

The Group MCEV includes the value of external debt, at the outstanding face value, within the net worth of Group companies outside of PLACL. The Group has been debt free during 2014 and does not make use of any financial reinsurance.

#### MCEV methodology

##### Overview

Under the MCEV methodology, profit is recognised as it is earned over the life of products defined within covered business. The total profit recognised over the lifetime of a policy is the same under MCEV and IFRS, but the timing of recognition is different.

##### Embedded value

The embedded value is the sum of the adjusted net worth of the Group companies plus the value of in-force on the covered business, this being the present value of profits that will emerge over time.

The embedded value is calculated net of the impacts of reinsurance and allows for taxation based on current legislation and known future changes.

##### i) Net worth

The net worth is the market value of the shareholders' funds and the shareholders' interest in the surplus held in the long-term business fund. This is the net assets on a regulatory basis for the life company and the IFRS net asset value for other Group companies, less the value of goodwill and intangibles, to the extent that their recovery is supported by future profits.

The net worth is equal to the sum of the required capital and free surplus in the Group.

##### ii) Required capital

Required capital is the market value of assets attributed to the covered business in excess of assets required to back liabilities for covered business, and for which distribution to shareholders is restricted. The level of required capital is set equal to the higher of:

- The level of capital at which the regulator is empowered to take action;
- The capital requirement under the Group's Economic Capital framework; and
- The target capital level.

This methodology reflects the level of capital considered by the Directors to be appropriate to manage the business, and includes any additional shareholder funds not available for distribution. The same definition of required capital is used for both existing and new business.

The level of required capital is disclosed as the percentage of the EU minimum capital requirement (Capital Resources Requirement).

The free surplus is the market value of any assets allocated to, but not required to support, the in-force covered business at the valuation date.

##### iii) Value of in-force covered business (VIF)

The value of in-force covered business consists of the following components:

- Present value of future profits;
- Time value of financial options and guarantees;
- Frictional costs of required capital; and
- Cost of residual non-hedgeable risk.

### **a) Present value of future profits (PVFP)**

The PVFP is the present value of the distributable profits to shareholders arising from the in-force covered business projected on a best estimate basis. Distributable profits generally arise when they are released following actuarial valuations. These valuations are carried out in accordance with PRA statutory requirements designed to ensure and demonstrate solvency in long-term business funds. Future distributable profits will depend on experience in a number of areas such as investment return, mortality, lapse rates and administration costs. Releases to shareholders arising in future years from the in-force covered business and associated required capital can be projected using assumptions of future experience.

Future profits are projected using best estimate non-economic assumptions and market consistent economic assumptions. In principle, each cash flow is discounted at a rate that appropriately reflects the riskiness of that cash flow, so higher risk cash flows are discounted at higher rates. In practice, the PVFP is calculated using the “certainty equivalent” approach, under which the reference rate is used for both the investment return and the discount rate. This approach ensures that asset cash flows are valued consistently with the market prices of assets without options and guarantees. Further information on the risk-free rates is in the following pages.

### **b) Time value of financial options and guarantees (TVOG)**

The PVFP calculation is based on a single (base) economic scenario; however, a single scenario cannot appropriately allow for the effect of certain asset features. If an option or guarantee affects shareholder cash flows in the base scenario, the impact is included in the PVFP and is referred to as the intrinsic value of the option guarantee; however, future investment returns are uncertain and the actual impact on shareholder profits may be higher or lower. The covered business does not contain any significant policyholder options or guarantees and therefore the TVOG is zero.

The assets backing the covered business include mortgages secured against individual domestic property (loans secured by residential mortgages). The mortgages contain guarantees where if the value of the property is lower than the mortgage balance at the time of death or entry into a care home, then the lower of the property value and mortgage balance is repaid. The time value of this option and guarantee is allowed for in the asset valuation using closed form calculations.

### **c) Frictional costs of required capital (FCoRC)**

The additional costs to a shareholder of holding the assets backing required capital within an insurance company rather than directly in the market are called frictional costs. They are explicitly deducted from the PVFP. The additional costs allowed for are the taxation costs and any additional investment expenses on the assets backing the required capital. The level of required capital has been set out in the net worth section.

Frictional costs are calculated by projecting forwards the future levels of required capital. The projection of the required capital has been based on an approximate method assuming that the required capital is a constant proportion of the Long Term Insurance Capital Requirement. Tax on investment return and investment expenses are payable on the assets backing required capital, up until the point that they are released to shareholders.

### **d) Cost of residual non-hedgeable risks (CoRNHR)**

The cost of residual non-hedgeable risks (CoRNHR) covers risks not already allowed for in the time value of options and guarantees or the PVFP. The allowance includes the impact of both non-hedgeable financial and non-financial risks. The most significant risks not included in the PVFP are operational risks and equity release property risks.

Asymmetric risks allowed for in the PVFP are described earlier in the basis of preparation. No allowance has been made within the cost of non-hedgeable risk for symmetrical risks as these are diversifiable by investors. The CoRNHR includes an allowance for non-modelled non-hedgeable risks. For ease of comparison the CoRNHR is expressed as percentage cost of non-hedgeable capital.

### **New business**

All annuity business is written on a single premium basis. Premium increments received following policy issue are excluded from the value of new business. Single and regular premium protection business is included in new business.

Point of sale economic and non-economic assumptions are used to value the new business. Any variances or changes in assumptions after the point of sale are recorded within the analysis of the MCEV earnings as operating experience variances or operating assumption changes.

### **Participating business**

The Group does not contain any policies where the policyholders participate in the profits of the business.

## 2 ASSUMPTIONS

### Reference rates

Reference rates are calculated by adding the liquidity premium of corporate bonds, loans secured by residential mortgages and loans secured by commercial mortgages liquidity premiums to the swap curve. The liquidity premium on corporate bond assets is calculated by deducting an allowance for credit default, individually assessed for each bond based on credit rating, and comparing the resulting risk adjusted internal rate of return on the portfolio to the swap curve.

Loans secured by residential mortgages are valued using a mark to model approach that allows for the cost of the NNEG, where relevant, with the liquidity premium calculated on a consistent basis.

Loans secured by commercial mortgages are valued using a mark to model approach that allows for the risk from change in tenant behaviour and property value, where relevant, with the liquidity premium calculated on a consistent basis.

For protection business, cash flows are assumed to be liquid and as such are discounted with no allowance for a liquidity premium.

The liquidity premiums used for the annuity in-force business are as follows:

	Liquidity premium
<b>Wednesday, December 31, 2014</b>	<b>211 bps</b>
Tuesday, December 31, 2013	180 bps

The liquidity premium on new business is determined using an approach consistent with that for the in-force business. For new business, the liquidity premium in excess of swaps is derived on a daily basis using the prevailing market conditions.

The weighted average liquidity premiums used for the new business MCEV calculations are as follows:

	Liquidity premium
<b>Wednesday, December 31, 2014</b>	<b>273 bps</b>
Tuesday, December 31, 2013	216 bps

### Swap Rates

The swap curve is constructed from cash rates, future strips, and semi-annual swap rates sourced from a variety of counterparties and brokers with flat interpolation beyond 50 years.

The table below sets out the swap rates used for the MCEV valuations as at period end. These rates have been supplied by PLACL's investment manager.

	6 months	1 year	2 years	5 years	10 years	15 years	20 years
<b>Wednesday, December 31, 2014</b>	<b>0.74%</b>	<b>0.74%</b>	<b>0.93%</b>	<b>1.46%</b>	<b>1.87%</b>	<b>2.11%</b>	<b>2.24%</b>
Tuesday, December 31, 2013	0.71%	0.71%	1.03%	2.17%	3.10%	3.47%	3.57%

### Operating earnings

For operating earnings, PLACL uses the risk adjusted yield on the asset portfolio backing liabilities in order to determine the total existing business contribution. This represents management's long-term expectations of total return on the portfolio.

The expected return has been calculated by reference to the internal rate of return on the backing assets less an appropriate risk margin.

### Mortality rates

Assumed future mortality, morbidity and lapse rates have been derived from PLACL's historical experience data. The assumption is set as a best estimate of future experience. Improvements in annuitant longevity have been included in this best estimate.

### Expenses

Maintenance expenses are based on the costs allocated or recharged to the PLACL in-force business. No credit for future productivity gains or economies of scale has been included in the MCEV.

Non-recurring expenses, associated with the covered business, are charged to the non-operating earnings in the year incurred and are excluded from the per policy maintenance expense assumptions. These amounted to £16.4m for the year to 31 December 2014 (31 December 2013: £5.2m).

Best estimate expense inflation applied as at 31 December 2014 was 4.5% p.a. (31 December 2013: 4.8%).



## Taxation

The current and future tax rates are corporation tax rates as published by HM Treasury and take into account both taxes enacted by legislation and those disclosed in budget announcements. The effective tax rate in PLACL is lower than the corporation tax rate in 2014 due to a £1.9m research and development tax reclaim on prior years. All significant external debt, which had previously produced interest costs that were used to reduce the effective tax rate in PLACL, was repaid in 2013. The effective tax rate for 2014 was 13.4% (31 December 2013: 17.1%).

For the purposes of modelling tax on future profits, a calendar assumption is set using a pro rata method based on months at each effective rate. This is implemented as prescribed by HMRC.

The blended corporation tax rates used were as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
2014	<b>21.50%</b>	21.50%
2015	<b>20.25%</b>	20.25%
2016+	<b>20.00%</b>	20.00%

## Volatilities and correlations

Residential property and commercial property volatilities are the only direct volatility inputs to the MCEV calculations. Residential property volatility is used in the evaluation of the NNEG on loans secured by residential mortgages. As at 31 December 2014 the assumption was set to 12% (31 December 2013: 12%). Commercial property volatility is used to model property prices of properties backing commercial mortgage loans. As at 31 December 2014 the assumption was set to 11%.

Correlations between the risks inherent in the business are used for the calculation of the CoRNHR total non-hedgeable risk capital. The correlations are consistent with the Group's Economic Capital assumptions which are based on historic correlations with adjustment for prudence as required.

## Non-hedgeable risk

For the balance sheet and operating profit, a charge of 0.9% (31 December 2013: 1.2%) has been applied to the non-hedgeable capital required for a 1-in-200 year basis over the remaining lifetime of in-force business. The charge includes an allowance for all material non-hedgeable risks identified which are not already included in the PVFP calculation.

The capital levels used are consistent with those used in the Economic Capital calculation for those risks covered. Diversification benefits are included between non-hedgeable risks of the covered business. No diversification credit has been taken with hedgeable risks in the covered or non-covered business. The capital has been projected as running off over the remaining lifetime of the covered business in line with the capital resources requirement.

## Frictional cost of required capital

The required capital has been set to be 190% of the capital resources requirement (31 December 2013: 185%). The required capital has been projected as running off over the remaining lifetime of the covered business in line with the capital resources requirement.

The total frictional cost allowance for investment expenses and tax on investment income earned on the required capital is 0.5% as at 31 December 2014 (31 December 2013: 1.1%).

### 3 COMMENTARY ON THE ANALYSIS OF MOVEMENT IN EMBEDDED VALUE (NET OF TAX)

#### Covered business

The key driver of the reduction in MCEV earnings in respect of new business written over the year was the lower business volumes in 2014 compared to 2013.

The total expected existing business contribution has increased in the period as a result of continued growth in the portfolio.

Experience variances in the period are negligible in aggregate.

Assumption changes includes the net impact of basis changes in 2014 including a complete review of our longevity basis. The overall impact of the basis review was small.

During the period the methodology for the calculation of frictional cost of capital has been reassessed to more accurately reflect the assets backing required capital, resulting in a one-off increase in MCEV of £10.1m that has been included in other operating variances.

Other operating variances include expected long-term return on excess assets of £12.8m (£9.5m at 31 December 2013).

An adjustment to the provision for tax in the calculation of required capital has contributed to the movement in the allocation of required capital and free surplus in other non-operating variances but does not result in an overall change to MCEV.

Economic variances on MCEV predominantly relate to a reduction in risk-free rates over the period. The reduction in net worth was partially offset by the increase in VIF due to economic variances.

Non-operating variance is predominantly related to exceptional expenses incurred over 2014.

£23.0m of capital was injected from non-covered business into covered business in 2014.

#### Non-covered business

The £37.0m dividend and capital flows are due to the payment of the 2013 final dividend (£12.0m) and the 2014 interim dividend (£2.0m) and the £23.0m capital injection into covered business.

Most of the £1.6m non-operating MCEV losses in the period have arisen due to an increased effective tax rate on non-covered business. The research and development claim on prior years, that prompted a credit to the covered business, produced a smaller deferred tax charge on non-covered business.

### 4 COMMENTARY ON THE MOVEMENTS IN IFRS NET EQUITY (NET OF TAX)

The other movements in IFRS net equity have arisen as the share-based payment reserve has been increased to reflect the charge arising from the Group's non-cash employee benefits.

## 5 SENSITIVITIES

No future management actions are modelled following the change to the assumptions. The results are shown net of tax. The Required Capital has not been recalculated in each scenario and is modelled as a level percentage of the Capital Resources Requirement (CRR) (although the CRR will have increased or decreased as a result of any change in IFRS reserves and will impact on the FCoRC).

The sensitivity of the embedded value and the value of new business to changes in economic and non-economic assumptions is as follows:

31 December 2014 Sensitivity	In-force		New Business	
	Impact on MCEV £000's	Change in MCEV %	Impact on MCEV £000's	Change in MCEV %
<b>Embedded Value (Base)</b>	<b>557,532</b>		<b>56,072</b>	
Interest rate environment +100 bps	(5,714)	(1%)	n/a	n/a
Interest rate environment -100 bps	828	0%	n/a	n/a
Swaption implied volatilities +25%	–	0%	n/a	n/a
Property volatilities +25%	(23,055)	(4%)	(1,166)	(2%)
Property Values -10%	(29,763)	(5%)	n/a	n/a
Lapses -10% (including equity release)	4,771	1%	n/a	n/a
Mortality -5% (annuities)	(21,603)	(4%)	(1,825)	(3%)
Expenses -10%	6,663	1%	180	0%
Mortality improvements +0.25% (best estimate only)	(11,254)	(2%)	(1,747)	(3%)
Decrease in liquidity premium 25 bps	(79,212)	(14%)	(12,595)	(22%)
Required capital set to be 100% of CRR	10,995	2%	2,927	5%

31 December 2013 Sensitivity	In-force		New Business	
	Impact on MCEV £000's	Change in MCEV %	Impact on MCEV £000's	Change in MCEV %
<b>Embedded Value (Base)</b>	<b>463,494</b>		<b>81,094</b>	
Interest rate environment +100 bps	760	0%	n/a	n/a
Interest rate environment -100 bps	(4,802)	(1%)	n/a	n/a
Swaption implied volatilities +25%	n/a	n/a	n/a	n/a
Property volatilities +25%	(23,601)	(5%)	(4,100)	(5%)
Property Values -10%	(17,364)	(4%)	n/a	n/a
Lapses -10% (including equity release)	1,861	0%	n/a	n/a
Mortality -5% (annuities)	(16,892)	(4%)	(3,179)	(4%)
Expenses -10%	5,842	1%	1,322	2%
Mortality improvements +0.25% (best estimate only)	(7,149)	(2%)	(1,986)	(2%)
Decrease in liquidity premium 25 bps	(60,529)	(13%)	(17,363)	(22%)
Required capital set to be 100% of CRR	16,813	4%	6,466	8%

**Notes to the sensitivities:**

- Interest rate environment +/-100 bps – this sensitivity is modelled as a 100bp change to the yield on each asset. The sensitivity allows for the resulting change in asset value and the change in liability value that follows from the change in risk adjusted internal rate of return on the portfolio. In the -100bp sensitivity the reference rate has a floor of 0%.
- No sensitivity to swaption implied volatilities has been shown as swaption volatilities are not used in any part of the MCEV calculation for PLACL.
- 25% increase in property volatility – this sensitivity allows for the change in the value of loans secured by residential mortgages as a result of the change in the cost of the NNEG, and for the change in the value of loans secured by commercial mortgages. The sensitivity also allows for the corresponding change in liabilities as a result of the yield change.
- 10% fall in property values – this sensitivity allows for the change in asset value arising from an immediate fall of 10% in property prices. The property sensitivity represents a 10% decrease in carrying value, equivalent to a 35% fall from current market value. For loans secured by residential mortgages this increases the cost of the NNEG. For loans secured by commercial mortgages this increases the probability of default on the loan. The sensitivity also allows for the corresponding change in liabilities as a result of the yield change.
- 10% proportionate change in lapses (e.g. base lapse rate of 5% becomes 90% \* 5%) – equity release repayment rates are also adjusted, the IFRS reserves are changed in this scenario as a result of changing yields on loans secured by residential mortgages.
- 5% decrease in base mortality – this sensitivity is modelled for the annuity business only. Remaining products are not material. This is modelled as a change in the best estimate mortality level and the prudent margins remain unchanged.
- 10% decrease in maintenance expenses – modelled as a 10% change in the expense reserve. There is no change to expense inflation and no change to valuation interest rates.
- Mortality improvements +0.25% – this sensitivity is modelled as an additional 0.25% improvement in each future year within the best estimate basis. Prudent margins are unchanged.
- 25bps decrease in liquidity premiums – this sensitivity is modelled as a 25bp parallel shift in the reference rates used for annuity business.
- The required capital sensitivity is modelled by reducing capital from 190% to 100% of the capital resource requirement. This has no impact on net worth and increases the VIF as a result of lower frictional costs of capital.
- Interest rate and property value sensitivities are not modelled for new business as the Group actively reviews its pricing, and in the event of a sudden movement in asset values the pricing of new business would be changed.

## SHAREHOLDER INFORMATION

### ANALYSIS OF SHARE REGISTER

As at 2 March 2015, there were 399,999,971 ordinary shares in issue. In accordance with the Disclosure and Transparency Rules DTR5, the Company as at 2 March 2015, has been notified of the following interests amounting to more than 3% of its issued ordinary shares:

	Percentage of current issued share capital
Cinven Limited/Cinven Funds	51.9%
GIC Government of Singapore Investment Corp	4.1%
MFS Investment Management	4.0%

Note:

All interests disclosed to the Company in accordance with DTR5 that have occurred can be found at our corporate website: [partnership-group.com/investors](http://partnership-group.com/investors).

### MANAGING YOUR SHARES

The Company's register of shareholders is maintained by our Registrar, Equiniti. Shareholders with queries relating to their shareholding should contact Equiniti directly. Their contact details can be found on the inside back cover. Alternatively, shareholders may find the "Investors" section of our corporate website useful for general queries.

### DIVIDENDS

Paid in May 2015. We encourage shareholders to have dividends paid directly into their bank account to ensure efficient payment and cleared funds on the payment date. Those selecting this payment method will receive a tax voucher on 27 May 2015, in respect of the dividend payments in the year. To change how you receive your dividends either log on to [shareview.co.uk](http://shareview.co.uk) or contact Equiniti.

### IF YOU MOVE HOUSE

It is extremely important that you contact Equiniti to inform them of your new address as soon as possible. If you hold 1,500 shares or fewer, and reside in the UK, this can be done quickly over the telephone. For holdings greater than 1,500, your instruction will need to be in writing, quoting your full name, shareholder reference number (if known), previous address and new address.

### ELECTRONIC COMMUNICATION

Shareholders may opt to receive their communications from us electronically using email and web-based communications. The use of electronic communications, rather than printed paper documents, means information about the Company can be received as soon as it is available and has the added benefit of reducing costs and our impact on the environment. Each time we issue a shareholder communication, shareholders registered for electronic communications will be sent an email alert containing a link to the relevant documents. We encourage all our shareholders to sign up for this service by providing us with an email address. You can register your email address via [shareview.co.uk](http://shareview.co.uk) or contact Equiniti.

### AGM 2015

This year's AGM will be held at 28 Portland Place, London W1B 1LY on Tuesday 19 May 2015. The meeting will start at 11.30am and registration will be available from 11am.

### KEY DATES

7 May 2015	Ex-dividend date – final dividend
8 May 2015	Record date to be eligible for the final dividend
13 May 2015	Results – Quarter 1 Interim Management Statement
19 May 2015	Annual General Meeting (11.30am)
29 May 2014	Final dividend payment date for the year to 31 December 2014
11 August 2015	Results – Half Year
5 November 2015	Results – Quarter 3 Interim Management Statement

### WARNING TO SHAREHOLDERS

Over the last year many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters which imply a connection to the Company concerned. These are typically from overseas based "brokers" who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive and a 2006 survey by the Financial Conduct Authority (FCA) has reported that the average amount lost by investors is around £20,000. It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares or offers of free reports into the Company. If you receive any unsolicited investment advice:

- make sure you get the correct name of the person and organisation and make a record of any other information they give you, e.g. telephone number, address etc;
- check that they are properly authorised by the FCA before getting involved. You can check at [www.fca.gov.uk/register/](http://www.fca.gov.uk/register/)
- the FCA also maintains on its website a list of unauthorised overseas firms who are targeting, or have targeted, UK investors and any approach from such organisations should be reported to the FCA so that this list can be kept up to date and any other appropriate action can be considered. If you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme. The FCA can, preferably, be contacted at [www.fca.org.uk](http://www.fca.org.uk) or, if you do not have access to the internet, by calling 0800 111 6768.

Details of any sharedealing facilities that the Company endorses will be included in Company mailings. More detailed information on this or similar activity can be found on the Consumer Information section at [www.fca.org.uk/consumers](http://www.fca.org.uk/consumers)



<p><b>Act</b> The Companies Act 2006, as amended</p> <p><b>Admission</b> The admission of the ordinary shares to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities</p> <p><b>Board</b> The Board of Directors of the Company</p> <p><b>Company</b> Partnership Assurance Group plc</p> <p><b>CRR</b> Capital resources requirement</p> <p><b>DB</b> Defined benefit pension scheme</p> <p><b>DC</b> Defined contribution pension scheme</p> <p><b>Directors</b> The Executive Directors and the non-Executive Directors of PAG plc</p> <p><b>Economic capital coverage ratio</b> The ratio of economic capital surplus over economic capital requirements</p> <p><b>Economic capital surplus</b> Surplus capital of the Group in excess of an assessment of the level of capital that would be required for the Group to withstand the impact of an event that is commensurate with a level of severity of a 1-in-200 year event</p> <p><b>EEA</b> The European Economic Area</p> <p><b>EU</b> The European Union</p> <p><b>EU IFRS</b> International Financial Reporting Standards, as adopted by the European Union</p> <p><b>FCA</b> The Financial Conduct Authority</p> <p><b>Global offer</b> The issue of new ordinary shares by the Company and the sale of existing ordinary shares by the selling shareholders to institutional investors in the UK and elsewhere</p>	<p><b>Group</b> Partnership Assurance Group plc and its subsidiaries and subsidiary undertakings from time to time</p> <p><b>GWP</b> Gross written premium or gross premiums written, the line item on the Group's consolidated income statement which reflects the revenue recognised in respect of premiums paid for its policies</p> <p><b>IGD surplus capital resources</b> The IGD surplus capital resources is defined by the FCA in the Insurance Groups Directive. It is calculated as the surplus of the available capital resources over the capital resources requirement. It excludes the surplus capital held within the long-term funds</p> <p><b>INA</b> Immediate needs annuity, otherwise known as a care annuity, which is designed to provide income for life to fund care costs in return for a one-off premium and is designed for adults requiring immediate financial support with their long-term care costs</p> <p><b>In-force operating profit</b> Profit generated from the actual experience measured against the assumed experience in the actuarial basis for the book of business in force. The actuarial basis includes a number of assumptions, the most material of which are mortality levels, levels of defaults on investments, expense levels (to maintain the business in-force), levels of inflation and lapse rates (for regular premium business). In-force operating profit also includes the effect recognised in the IFRS profit arising from changes in the reported value of insurance (and associated financial) liabilities resulting from changes to the actuarial assumptions, valuation methods or underlying data, made subsequent to the point-of-sale</p>	<p><b>IPO</b> Initial public offering</p> <p><b>IUA</b> Individually underwritten annuities which offer individuals with lifestyle or medical factors which are expected to result in shorter life expectancy with superior annuity rates</p> <p><b>Listing rules</b> The listing rules of the FCA made under section 74(4) of the Financial Services and Markets Act (2000)</p> <p><b>Longevity risk</b> The risk that on average, annuitants will live longer than expected</p> <p><b>Long-term expected return on surplus assets</b> The long-term, risk adjusted, expected return on investments surplus to those investments that are used to back insurance liabilities. The long-term expected return is derived from applying an average expected yield appropriate to the category of surplus assets held and is adjusted for the best-estimate expected level of defaults on those investments</p> <p><b>Mortality risk</b> The risk that on average, protection policyholders will not live as long as expected</p> <p><b>New business operating margin</b> The ratio of new business operating profit to new business premiums</p> <p><b>New business operating profit</b> Profit generated from new business completed in the period, calculated using actuarial assumptions applicable at the time the new business was written, utilising a discount rate based upon expected investment yields on investment assets (e.g. cash, gilts, corporate bonds and loans secured by mortgages) used to generate the annuity quotation, net of expenses allocated against new business</p>	<p><b>New business premiums</b> New business premiums represent the value, measured as single premium equivalent (SPE), of new insurance contracts completed during the reporting period</p> <p><b>Official list</b> The official list of the FCA</p> <p><b>PAGF</b> PAG Finance Limited</p> <p><b>PAGH</b> PAG Holdings Limited</p> <p><b>PAG plc</b> Partnership Assurance Group plc</p> <p><b>PLACL</b> Partnership Life Assurance Company Limited</p> <p><b>PRa</b> The Prudential Regulation Authority</p> <p><b>RDR</b> Retail Distribution Review</p> <p><b>Surplus assets</b> Investments held by the Group that are not required to back insurance liabilities</p> <p><b>Single premium equivalent (SPE)</b> SPE is calculated as total single premiums plus 10 times annual regular premiums; an industry accepted measure of revenue</p> <p><b>Total operating profit</b> Total operating profit is the sum of new business operating profit and in-force operating profit, together with the long-term expected return from investments held by the Group that are not required to back insurance liabilities (termed "surplus assets")</p> <p><b>Value of in-force (VIF)</b> VIF represents the current value of future profits expected to emerge from the in-force insurance liabilities</p>
---	--	---	---



Discover more  
online at:  
[www.partnership.co.uk](http://www.partnership.co.uk)

### How to get in touch:

#### Registered Office and Head Office

5th Floor  
110 Bishopsgate  
London EC2N 4AY  
Registered in England no: 8419490  
[www.partnership-group.com](http://www.partnership-group.com)

#### Registrars

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA  
United Kingdom  
Telephone: 0871 384 2030  
International: +44 121 415 7047  
Online: [help.shareview.co.uk](http://help.shareview.co.uk)

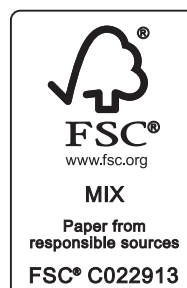
#### Investor relations

Email: [investor.relations@partnership.co.uk](mailto:investor.relations@partnership.co.uk)  
Telephone: +44 (0)20 7398 5989

Private shareholders are welcome to contact the Company Secretary if they have any questions or concerns they wish to be raised with the Board.

#### Media relations

Email: [pressoffice@partnership.co.uk](mailto:pressoffice@partnership.co.uk)  
Telephone: +44 (0)20 7618 2744



#### Design and production

Radley Yeldar | [www.ry.com](http://www.ry.com)

#### Photography

Henry Thomas and George Brooks

#### Print

Pureprint Group

Pureprint Group is an EMAS certified CarbonNeutral® Company and its Environmental Management System is certified to ISO14001.

100% of the inks used are vegetable oil based, 95% of press chemicals are recycled for further use and, on average 99% of any waste associated with this production will be recycled.

This document is printed on Cocoon Offset, a fully certified FSC® paper containing 100% de-inked post consumer waste. The pulp used to produce this product is bleached using a Totally Chlorine Free (TCF) process.



**Partnership Assurance Group plc**

5th Floor

110 Bishopsgate

London EC2N 4AY

Tel +44 20 7398 5933

**[www.partnership-group.com](http://www.partnership-group.com)**