



Security in retirement



Partnership Assurance Group plc
Annual report and accounts 2015

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We provide our customers with security in retirement. We guarantee an income for life.

With increasing financial uncertainty, few people in retirement can take a risk with their lifetime savings. Partnership provides peace of mind for our customers.



SECURING THEIR FUTURES

Last year we featured six customers who took out a Partnership annuity. This year we revisit them to see how they are enjoying their guaranteed incomes for life.

► See pages 9 – 25

2015 was a year of significant change and progress for Partnership. We have grown our Defined Benefit de-risking business, launched our Retirement Account, and are ready to launch our US Care Business.

FINANCIAL HIGHLIGHTS

Overall sales were **£631m**, down 20% on 2014.

Retail sales were **35%** down due to the impact of the announcement of the Pension Freedoms, but with signs of recovery in the second half of the year.

Defined benefit de-risking increased by 12% to **£277m**, representing 44% of full year sales.

Focus on expense control has reduced operating expenses to **£69m**, down 12%.

New business margin of **1.7%**. Improvements in margin are expected in the future as sales grow and expenses continue to be tightly managed.

Operating profit of **£40m** down from £64m in 2014, reflecting lower overall sales.

MCEV* increased by 10% to **£633m**, including the impact of profitable new business written in the period and the equity raised in 2015.

Economic capital position remained strong, with a coverage ratio of **224%**.

An overall IFRS loss of **£16m**, reflecting primarily one-off costs, in particular Solvency II.

* Market consistent embedded value

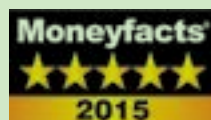
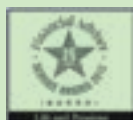
OPERATIONAL HIGHLIGHTS

Successful launch of **Enhanced Retirement Account** in October 2015, providing customers with flexibility over invested and annuity parts of their pension.

Reached agreement with Genworth, a US market leader in long-term care to launch a US Care annuity in Q1 2016.

Completed our Solvency II preparations ready for implementation on 1 January 2016.

Recognised in 2015 for the **excellence of our products** and services with several high profile industry awards.



Total sales

£631m

20% lower than 2014

Defined Benefit de-risking sales

£277m

12% higher than 2014

Operating profit

£40m

38% lower than 2014

IFRS

Loss before tax

£16m

£40m lower than 2014

Economic capital surplus

£444m

91% higher than 2014

MCEV per share

144p

in-line with 2014

Our investment case is compelling. We have a leading position in markets with long-term growth potential and high barriers to entry.



A leading position as a challenger to traditional players in the Defined Benefit and retirement income markets, which are underpinned by structural growth drivers and high barriers to entry



An increasingly diversified business model based on Intellectual Property collected over 21 years and focussed on delivering better customer outcomes



Expert pricing, risk selection and risk management supported by reinsurance arrangements and asset liability matching



Experienced, dynamic management team with a proven track record of product innovation and adaptation to regulatory change



The planned merger with Just Retirement is a momentous step in Partnership's history.

For Partnership, 2015 was the year when our diversification strategy became the reality.

At a time of such economic uncertainty, the importance to customers in all our chosen markets of having financial security throughout retirement is even more apparent. We increased our sales of Defined Benefit de-risking solutions by over 12% against the prior year in a growing market where we have a sustainable competitive advantage. Secondly, our sales of individual annuities grew by almost 20% in the second half of the year, following implementation of the Pension Freedoms in April. And finally, we announced our agreement with Genworth to launch our care annuity in the US.

I am pleased to report that we have secured regulatory approval for Partnership's merger with Just Retirement, and subject to shareholder approval, the transaction is expected to become effective in early April. This is a momentous step in Partnership's history. The merger strengthens our position as a consumer champion and as a challenger to the traditional insurers in the Defined Benefit and retirement income markets. As JRP Group, we have a clear strategy to use our unrivalled intellectual property, underwriting expertise and asset/liability matching capability to deliver better customer outcomes, across our increasingly diversified product suite in the UK, US and South Africa. JRP Group plc has an exciting future ahead of it, and, as Chairman designate, I am delighted to be leading the business into the next chapter.

On behalf of the Board, I would like to take this opportunity to extend my thanks to my colleagues within Partnership for their expertise, dedication and hard work through this period, which has helped position the Company so well for the future. Finally, I would like to thank our suppliers and distributors for their support throughout the year, and look forward to continuing to work with them as part of the combined JRP Group plc.



Chris Gibson-Smith
Chairman
10 March 2016



The planned merger strengthens our position as a consumer champion and as a challenger to the traditional insurers.

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, government and industry groups
- ▶ Distributors
- ▶ Reinsurers
- ▶ Suppliers
- ▶ Our people

▶ Our Resources and Relationships see page 21

...across our value chain.

Product and proposition



Individual annuities and Enhanced Retirement Account

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 or who smoke. Income rates on our individually underwritten annuities typically exceed income rates on standard products.

Our Enhanced Retirement Account (ERA) delivers the flexibility for customers to decide on the proportion of retirement funds used to buy a guaranteed income or remain invested and exposed to investment risk.

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 registered 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.

International care annuities

Our international care annuities provide a guaranteed level of income for customers who are entering residential care or who are receiving domiciliary care. Our initial international care proposition is being offered in the USA.

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 29); distribution risk (see page 31); regulatory, legal and political environment risk (see page 31).

Distribution



Individual annuities and Enhanced Retirement Account

Our individual annuities and Enhanced Retirement Account are sold through intermediaries. These intermediaries do business with us because we offer market leading products; with benefits that they can market effectively to our customers. 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.

International care annuities

The distribution is via Genworth's specialist distribution network. Genworth is a US market leader in Long-Term Care insurance.

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.

Associated principal risks

Distribution risk: (see page 31); regulatory, legal and political environment risk (see page 31).

3

Underwriting and pricing



Individual annuities and Enhanced Retirement Account

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 to those with medical conditions or lifestyle factors 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.

International care annuities

The international care annuities use the same underwriting systems and criteria as for the UK care business, with terms adapted for the US market.

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 29); specific insurance risk (see page 29).

Administration



Individual annuities, Enhanced Retirement Account 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 on-going post-sales administration of these products is outsourced to Capita with whom we have worked with for over six years, consistently delivering positive outcomes for our customers. Our ERA is delivered in conjunction with IFDL, an award-winning wrap-platform.

International care annuities

This business is structured as inwards reinsurance, with all customer administration activities carried out by Genworth in the USA.

Defined benefit

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

Associated principal risks

Operational risk (see page 31).

Investment



Individual annuities, Enhanced Retirement Account, 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.

International care annuities

The same investment principles will be applied to the assets backing our international care product. These assets will be managed in the USA.

Associated principal risks

Interest rate and spread risk (see page 29); market credit risk (see page 30); property risk (see page 30); liquidity risk (see page 30); regulatory, legal and political environment risk (see page 31).

The introduction of the Pension Freedoms in April 2015 saw a low point for sales. Since then, we have seen a return to growth in the retail annuity market.

RETAIL RETIREMENT

The 2014 Budget announcement and subsequent introduction of Pension Freedoms in April 2015 has had a significant adverse impact on the annuity market. We witnessed market activity at around 43% of the pre-announcement levels in the run up to the introduction of the changes. Since April 2015, we have begun to see a return to growth in the retail annuity market, albeit from a significantly lower base.

Total UK enhanced annuity sales in 2014 were approximately £2bn (source: ABI). This included the period before the announcement of the Pensions Freedoms. In 2015, for the first three quarters, total sales were approximately £0.8bn (source: ABI). However, as noted above, the year ended relatively stronger with increasing activity.

There are 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 sales will develop.

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

- An independent study published in January 2015 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;
- The structural drivers of the market which helped to deliver the growth we achieved in the years prior to the Pension Freedoms 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 due to the increased awareness of retirement income options and the introduction of the Guidance Guarantee. 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.

Products have been developed in the year across the market 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 2015, our sales of individually underwritten annuities (IUAs) were £280m – around a quarter of the Pension Freedoms pre-announcement levels, but importantly, we saw rates of IUAs increase by almost 20% in the second half of the year, after the expected lull around the time of the implementation of the Pension Freedoms in April 2015. Partnership's market share was around 24% for the first three months of the year (the latest period for which figures are available).

We continue to sell our IUAs, and have launched our retirement account (the ERA) proposition during 2015. As market and customer preferences develop, we believe that we are well placed to use our unique proprietary intellectual property to further develop or enhance individually underwritten alternatives within the at-retirement market.



We believe that we are well placed to develop individually underwritten propositions in 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.

The Care Act received Royal Assent in May 2014. Amongst other features, this Act 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. The announcement in 2015 by the Government that the 'care cap' will be delayed leaves consumers exposed to uncapped care liabilities. It remains the case that those who are looking to cap their liabilities and secure a guaranteed income for life to fund their care needs, have the option to choose an immediate needs care annuity.

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 more than 15 years, writing £69m of care annuities in 2015.

PROTECTION

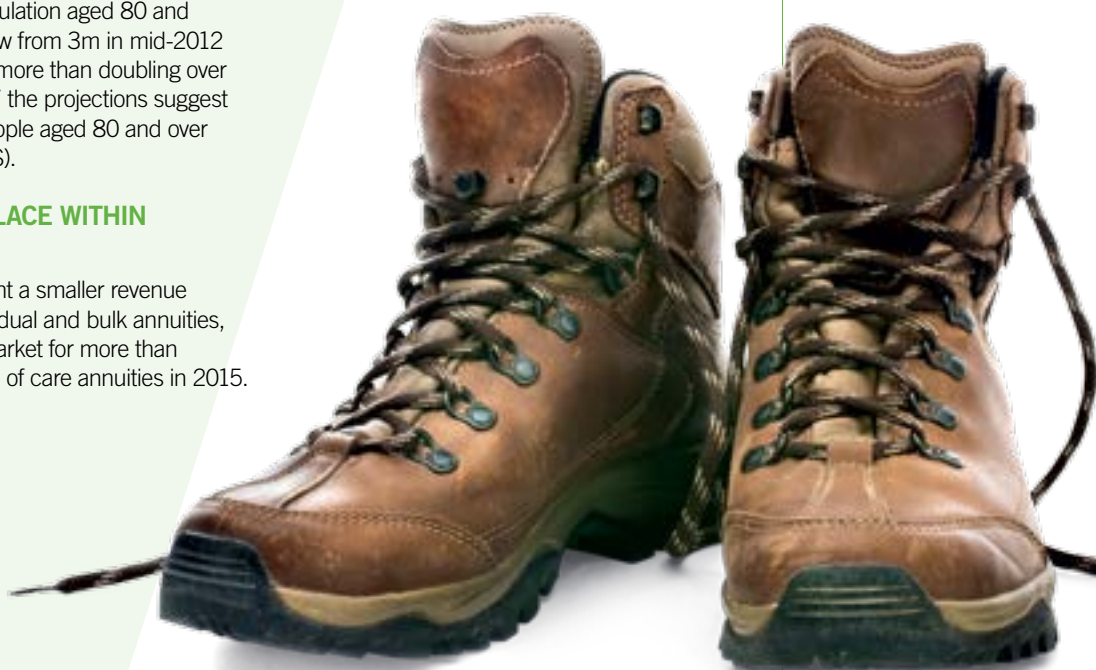
Partnership provides protection policies for customers with medical conditions that other insurers will either decline to insure or for which they are unable to provide a competitive quote.

PARTNERSHIP'S PLACE WITHIN THIS MARKET

Whilst a relatively small part of our business to date, there are opportunities to grow in the future. In the first half of 2016, we plan to relaunch our proposition with an improved customer journey and revised underwriting approach.

John Cameron (aged 66)

Although he has two company pensions, it is the additional income from his Partnership annuity that gives John extra piece of mind and helps him afford a few little luxuries. So when he's on one of his regular walks, John doesn't have to worry about his financial security and can enjoy the surrounding countryside.



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.

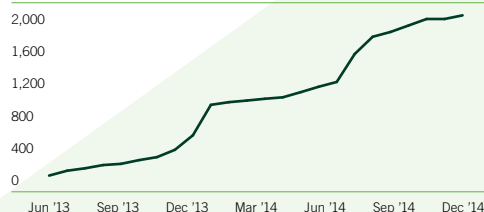
Market commentators predict significant growth in this market. It is projected that the overall defined benefit (DB) market will increase to over £20bn per annum by 2020 (source: KPMG Bulk Annuity Market Insight Report).

Partnership estimates that since the introduction of medically underwritten annuities in 2013, the market will have grown again in 2015. We expect the proportion of schemes transacted at or below £100m in 2015 that were medically underwritten will exceed the 10% achieved in 2014.

DEFINED BENEFIT SALES £m

2015	277
2014	247
2013	84

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



PARTNERSHIP'S PLACE WITHIN THIS MARKET

By bringing our high data approach to the DB 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 DB market. Since our launch in 2013, we have written £84m of new medically underwritten bulk annuities business in that year, £247m in 2014 and now £277m in 2015.

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, by 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.

Sylvia Dexter (aged 68)

Sylvia is busy securing a pitch for her next caravanning holiday. And it won't be an ordinary holiday. Last time it was four weeks in Bordeaux and before that it was a tour of Belgium, France and the Netherlands. This time, it's another trip to France and then Denmark and Sweden via the 16km Øresund Bridge. With more financial freedom than she ever hoped for, Sylvia and her husband are seeing more of Europe.



THE MARKETPLACE CONTEXT CONTINUED INTERNATIONAL CARE

US CARE MARKET

There is a wide spectrum of long-term care (LTC) provision in the US, including: Independent Living Facilities; Assisted Living Facilities; Skilled Nursing Facilities; and Home Health Care.

It is estimated that \$45 billion is spent annually in the US by individuals self-funding their care costs. Fewer than 10% have any form of insurance to meet such costs (source: Willis Towers Watson), despite the fact that the average annual cost of LTC in the US can range from \$45,000 for in-home care to \$91,000 for a private room in a nursing home.

The US market is supported by strong structural growth drivers including:

- The number of people age 80 and over is expected to increase from 11.6 million in 2012 to 19.5 million in 2030 (source: US Census Bureau 2012 and 2012 National Projections);
- At least 70% of those over the age of 65 will require some form of LTC services and support during their lives (Genworth 2015 Cost of Care Survey, April 2015); and
- 67% of adults over 40 have done little to no planning for LTC (Kaiser Family Foundation August 2013).

Many insurers have withdrawn from the LTC 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.

Even before the changes to the LTC insurance market, options were limited for those at the point of need who did not have a pre-funded LTC insurance product.

The medically underwritten immediate annuity provides a guaranteed income for life through a single premium product, which may be purchased at the point of entering a facility or requiring care and can be used to help fund the costs of care or any other living expenses as individuals age. Approximately 1 million (or 30% of) existing facility care residents are estimated both to need and be able to afford to purchase this guaranteed income for life (source: Towers Watson).

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 our UK intellectual property and the results confirm the validity of the dataset for application to the US market.

We have put in place a reinsurance arrangement with Genworth, a US market leader for LTC insurance needs, to provide an attractive risk/reward balance and fast launch. This structure will allow the key strengths of Partnership (product development, leverageable intellectual property and pricing) and a US partner (brand, distribution network, and infrastructure to support regulatory compliance), to be combined.

The proposition was launched in February 2016 and is available in 46 states. The initial focus of sales and marketing efforts will be in a limited number of states, with full roll-out to the rest of the country planned for later in 2016.



The Partnership US Care proposition launched in February 2016 and is available in 46 states.

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



Leverage Partnership's proprietary intellectual property

► See page 13

PLANS FOR THE FUTURE:

Maximise the scale, breadth and usability 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

Enhance our protection proposition

Deliver profitable sales from US Care



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

► See page 14

PLANS FOR THE FUTURE:

Support our distribution relationships as they adapt to the Pension Freedoms

Build on our recently launched Enhanced Retirement Account

Continue to increase access to medically underwritten Defined Benefit annuities

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 15

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 intellectual property (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 21 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.

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 deliver profitable sales from the US Care proposition, following its launch in February 2016.

PROGRESS UPDATE

What we said we would do	What we actually did in 2015
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.	Updated, enhanced and improved the explanatory power of our postcode-based socio-economic rating model. Developed new models for measuring longevity risk covering all product lines, and calibrated them using internal experience data.
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.	Revised our underwriting and mortality bases to reflect the differing experience seen for sub-conditions, co-existing conditions and severity levels – with particular emphasis on re-incorporating our emerging experience for people with diabetes. Refined the underwriting of smokers to ensure greater consistency between different product lines.
Continue to conduct research into, and thematic reviews of, key elements of our underwriting and mortality bases, melding these with emerging thinking on the theoretical and conceptual foundations of our mortality models.	Researched survival rates for individuals with high-severity cancer beyond the initial high-mortality phase and modified our longer-term extra mortality assumptions accordingly. Conducted a thematic review into the longevity of individuals who are being treated for high blood pressure by age and gender to confirm the continued appropriateness of our underwriting and mortality basis in this area.
Use the refinements and enhancements we make to our underwriting and mortality bases to enhance our presence in the impaired market, improving returns to customers wherever possible.	Leveraged our large pool of cancer experience to create further sub-categories for improved accuracy of unique and varying cancer conditions.
Continue to use our IP to work towards launching a US Care product.	Developed underwriting and mortality models and a pricing basis for US Care by leveraging the IP developed for the UK market in preparation for the launch in 2016.
Deliver our enhanced protection proposition.	Working with “Underwrite me” Partnership has developed a real time underwriting tool which has significantly improved the customer journey. Partnership, in conjunction with Gen Re, has reviewed its underwriting criteria to improve competitiveness. Both are due to be launched in the first half of 2016.



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

WHY THIS OBJECTIVE MATTERS

Following the introduction of the Pension Freedoms, 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, either directly or within a retirement account, those who are eligible will achieve a higher income for life from an individually underwritten annuity than they will from a standard annuity.

Improving access to individually underwritten retirement and care annuities is good for customers and provides an increased market size for advisers to service.

The use of medical underwriting in the pricing of bulk annuities can support superior end pricing compared to traditional pricing methods and unlocks new de-risking possibilities for defined benefit pension schemes. This results in improved customer outcomes through strengthening the scheme position and opens up new markets to insurers with medical underwriting expertise.

PLANS FOR THE FUTURE

We will 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.

We will 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.

We will continue to develop our Enhanced Retirement Account.

We will continue to increase access to medically underwritten bulk annuities through market education and proposition and product design as well as deepening the relationships with key market stakeholders, including EBCs.

We will continue to develop our strong relationships with specialist Financial Advisers and Financial Advice networks.

We will continue to maintain and build upon our reputation for first-class service.

PROGRESS UPDATE

What we said we would do	What we actually did in 2015
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.	We have worked closely with Regulators and Government throughout the year engaging through meetings, consultations and reporting programmes where appropriate. We also supported research programmes with leading independent policy units and through trade associations to generate understanding of the value of a guaranteed income for life for consumers in 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.	Marketing Services were purchased from key distributors in line with the agreed Board strategy in 2015. These purchased services allowed Partnership to ensure key customer needs, such as the importance of guaranteed income when considering retirement options, were regularly promoted to a wide population of advisers.
Develop a Retirement Account that satisfies the customer's need for flexibility but with a guaranteed income for life.	The Enhanced Retirement Account was launched in October 2015. The proposition has been well received by advisers and customers.
Continue to grow the medically underwritten defined benefit market and further expand and deepen the relationships with EBCs.	Extensive marketing and sales activities were undertaken across key defined benefit market stakeholders to enhance the understanding of the benefits of medically underwritten bulk annuities and the purchase process. This included EBCs, trustees, pensions lawyers and corporate sponsors. We adapted and developed our proposition and product to streamline further the ease with which it can be accessed by customers. This included distribution channel specific tailoring. We worked with EBCs and third party data specialists within the industry to increase standardisation of medical data collection from pension schemes.
Continue to develop our strong relationships with specialist Financial Advisers and Financial Advice networks.	We have focussed on working with large centres of distribution and specialist advisers to ensure better consumer outcomes. The guaranteed income and flexibility provided by the Enhanced Retirement Account have been accepted by both these key markets.
Continue to maintain and build upon our reputation for first-class service.	We have been recognised with several prestigious awards for our propositions and service in 2015.



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 shareholders.

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.

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.

PROGRESS UPDATE

What we said we would do	What we actually did in 2015
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 shocks and stresses. In March 2015 we raised £100m of additional debt capital and in September 2015 we raised £53m of additional equity capital to further strengthen our capital position ahead of the introduction of the new Solvency II capital regulations and provide flexibility to pursue new growth opportunities.
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 2015 we have continued to invest in commercial real estate mortgages and have continued our investigations into other asset classes where there is the opportunity to earn a good risk-adjusted return which are good cash flow matches for our insurance liabilities.
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.
Maintain a prudent investment strategy focussed on delivering a competitive risk-adjusted yield in a capital efficient manner and by duration matching 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 included significant changes required to satisfy Solvency II cash flow matching requirements.

How we are performing

TOTAL OPERATING PROFIT £m

2015	40
2014	64
2013	131
2012	112

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

The lower operating profit in 2015 is principally due to a lower contribution from new business as new retail business volumes continued to be adversely affected by the Pension Freedoms.

NEW BUSINESS PREMIUMS £m

2015	631
2014	791
2013	1,229
2012	1,265

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 lower retail annuity sales. There was a 12% increase in Defined Benefit sales as we continue to develop the underwritten segment of this market.

IFRS (LOSS)/PROFIT BEFORE TAX £m

2015	(16)
2014	24
2013	83
2012	67

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

The loss before tax in 2015 is a result of lower new business profits, and adverse investment variances, with a significant component arising from asset trading to satisfy Solvency II cash flow matching requirements.

NEW BUSINESS OPERATING PROFIT £m

2015	11
2014	39
2013	86
2012	94

New business operating profit indicates the level of return being generated on the business sold in the year.

The drop in new business operating profit in the year is primarily due to Pension Freedoms affected sales of retail annuities.

ECONOMIC CAPITAL COVERAGE RATIO %

2015	224
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 2015 surplus includes the impact of the equity raised during the year and of revising the margins in the economic balance sheet.

* 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

2015	633
2014	576
2013	520
2012	384†

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

The increase in MCEV in 2015 is due to the £53m equity raised in the year, together with the value of new business written, and after dividends paid.

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

This year saw continued success in growing the Defined Benefit annuity business, and a return to growth in retail annuities in the second half of 2015, after the introduction of the Pension Freedoms.

PERFORMANCE REVIEW

Total new business premiums were £631m for the year ended 31 December 2015, some 20% below the 2014 result. Towards the end of the year, we saw an increase in market activity, and sales beginning to grow again, after the expected lull around the date the Pension Freedoms were introduced.

	2015 £m	2014 £m
Individual retirement annuities	280	466
Defined Benefit annuities	277	247
Care annuities	69	76
Protection	5	3
New business premiums	631	791

INDIVIDUAL RETIREMENT ANNUITIES

The sales result for the year continues to be affected by lower annuity market activity and sales when compared to the pre-2014 Budget (Pension Freedoms announcement) position. The comparative result for 2014 included pre-Budget sales results and the completion of the majority of our pipeline cases at the time of the Budget announcement.

The second half of 2015 achieved sales of £152m, up from £128m in the first half, which represents a second half increase of almost 20%.

The period after the introduction of the Pension Freedoms changes in April 2015 has seen an increase in market activity: we have seen an increase in the level of new quotations and a more marked increase in re-quote activity, which indicates that previously deferred cases may be coming back to the annuity market.

Towards the end of the year there was a further increase in activity as customers and advisers sought to secure annuities ahead of price changes driven by the new Solvency II capital requirements.

Overall in 2016, we do not expect individual annuity sales to be higher than the rate seen in the second half of 2015.

As the Pension Freedoms came into force the media commentary has focussed more on people's retirement income needs and the risks that the new freedoms posed to the security of pension income. It is clear that a guaranteed income for life to cover regular expenditure is a consumer priority and that the purchase of an annuity to satisfy this need continues to be an attractive retirement option. It is also clear that longevity risk cannot be managed on an individual basis.

In the longer term, we continue to see the potential for our addressable share of the market increasing as more retirees are encouraged to shop around through the impartial guidance process.

The Government's review of the financial advice market announced earlier in 2015 is a welcome step in identifying how more consumers could benefit from proper advice when making a decision on their retirement income.



John Halsey (aged 67)

John is still working, in a hectic and sometimes stressful environment. When he's not in work, he likes to relax by freshwater fishing. The extra income from his annuity enables John to pay for the expensive fishing licences so when he's not securing new business, he's securing a catch.

The Partnership Enhanced Retirement Account (ERA) was launched in October 2015 and has been well received by IFAs and customers. The ERA is a simple, low-cost, tax-efficient proposition which allows customers to receive a guaranteed income and retain the flexibility of drawdown within one SIPP wrapper on an award-winning third party platform. The ERA contains a flexible investment element offering a choice of investment funds and a cash account as well as a guaranteed element – an annuity – and demonstrates our ability to innovate in the new retirement market.

Whilst in the second half of 2015 there were signs that the annuity market was returning to growth, there remains uncertainty over the near-term level of annuity sales. There does appear to be a trend emerging for people to defer their retirement or their at-retirement decumulation decisions.

Consumer research indicates that a guaranteed income for life continues to be an attractive retirement option and, as people are making retirement income decisions later in life, the potential attractiveness of an underwritten annuity may increase.

The long-term structural drivers behind the growth of the defined contribution pension market remain intact. The Pension Freedoms 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

We have continued to invest in the development of our defined benefit de-risking proposition in 2015 with ongoing investment into our support infrastructure, pricing capability and our sales capability.

This investment was rewarded with the completion of 15 (2014: 6) transactions resulting in sales of £277m (2014: £247m).

Our focus is on increasing the proportion of deals that are medically underwritten. We expect that the percentage of bulk annuity deals under £100m in 2015 which were medically underwritten will have grown again, in comparison with the 10% achieved in 2014, demonstrating the continuing penetration of medical underwriting for bulk annuities.

In 2015 we have continued to strengthen our relationships with Employee Benefits Consultants (EBC) and are encouraged by the increased acceptance of medically underwritten transactions amongst EBCs, scheme trustees and sponsoring companies.

The future prospects for this growing market are strong. Whilst the timing of deals will remain uncertain, we have a strong, high-quality pipeline moving into 2016.

CARE ANNUITIES

Sales of care annuities decreased by 9% to £69m (2014: £76m).

2015 trading was lower than recent trends in the middle of the year as we made operational improvements. The end to the year was stronger, with second half sales meeting our expectations.

This market offers significant potential future opportunity, but continuing uncertainty surrounding the Government's care policy is acting as an inhibitor to growth.

PROTECTION

Protection sales increased to £5m (2014: £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 2015, there are opportunities to grow in the future, as we increase the pool of potential customers we are able to protect through our new real time underwriting tool due to be launched in the first half of 2016.



We have continued to bear down on operating expenses, achieving £69m against our target for 2015 of £75m.



FINANCIAL HEADLINES

Further detail on the IFRS result and economic capital position is set out in the Financial Review on pages 69, 71, 73, 75 and 76.

Total operating profit in 2015 was £40m (2014: £64m), a decrease of 38%. Within this overall result, we have delivered new business operating profits of £11m (2014: £39m), achieving a new business operating margin of 1.7% (2014: 4.9%).

The fall in new business operating profit is largely due to lower retail annuity sales. 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, where margins, pre expenses, have been managed in line with our expectations, prioritising margin over volume, and by expense reduction actions.

Following the successful delivery of the cost management actions announced in June 2014, we have continued to bear down on our operating expenses. We achieved an underlying level of operating expenses in 2015 of £69m, exceeding the target we set for the year of approximately £75m.

Profits emerging from the in-force book in 2015 were £15m (2014: £9m). Within this result, we have achieved a mortality profit which was partially offset by a small increase in reserves resulting from basis reviews. Within the in-force result, the overall impact of assumption changes and experience variances made during 2015 was £(4)m (2014: £(3)m).

We delivered an expected return on surplus assets of £14m (2014: £16m), reflecting a lower longer-term assumed rate of return in 2015, due to prevailing market conditions when the assumption was set, together with lower overall surplus assets.

The level of excess economic capital at 31 December 2015 was £444m (2014: £232m), giving a capital coverage ratio of 224% (2014 proforma: 159%), which is in excess of our targeted minimum of 125% under normal economic circumstances. The significant increase in the coverage ratio since FY14 was due to the equity capital raised during the year and the refinements to our economic capital basis that removed the peg to the ICAS regime. The changes included the removal of excessive prudence in the previous basis.

The 2014 economic capital comparative is a proforma result taking into account the March 2015 bond issue. The close matching of assets and liabilities, efficient use of reinsurance, and monitoring of risk levels against our Board tolerances means the 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 £5.3bn (2014: £4.9bn), including accrued interest, but excluding £233m (2014: £270m) 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 bond portfolio is of high overall quality with in excess of 59% (2014: 64%) invested in bonds rated A or better and 99% (2014: 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 2015 totalled £180m (2014: £171m).

In December 2015 we completed two bulk acquisitions, acquiring loans with a value of £39m (2014: £61m). The level of equity release mortgage assets as a proportion of total assets under management at 31 December 2015 increased to 27% (2014: 25%). This increased proportion is due in part to a higher proportion of equity release assets allocated to back new Defined Benefit annuity business.

Steven Shaw (aged 66)
Steven's daughter has been dreaming of her wedding since she was seven years old. Thanks to his annuity, Steven has the means to help her realise her dream and secure a memorable day. This summer, surrounded by her family and friends, she will walk down the aisle. There'll be the dress of course, open-top car, church choir, wedding cake and reception into the night – just as she imagined.

In 2015, we have continued to grow our investment in commercial real estate mortgages, which offer an attractive risk-adjusted return and are a good match for our annuity liabilities. At the end of 2015 we had £66m (2014: £38m) invested in high-quality assets and are expecting to further increase this investment over the course of 2016. 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 2015 was £633m (2014: £576m). The increase in the year includes the impact of new business in the period, the £53m net proceeds of the equity raise in September 2015, partially offset by dividend payments and merger-related costs.

SOLVENCY II

In 2015, we obtained PRA approval for use of the Matching Adjustment to value our liabilities and for the use of Transitional Measures.

Our Group Solvency II (SII) capital position, produced on a standard formula basis at 31 December 2015 was:

	£m
Capital Resources (Own Funds)	585
Capital Required (SCR)	407
Capital Surplus	178
Capital Coverage	144%

Breakdown of SII Capital Resources

	£m
Tier 1	479
Tier 2	101
Tier 3	5
Total	585

SII Sensitivities

		£m
SII Capital Surplus	144%	178
Change in SII Capital Surplus		
+100bps rise in interest rates	39%	109
-100bps fall in interest rates ¹	(14)%	(37)
+100bps credit spread widening	14%	32
+5% longevity shock	(10)%	(40)
-20% property value	(1)%	(2)

1 Assumes transitionals are recalculated.

Reconciliation of IFRS net equity to SII capital resources ("Own Funds")

	£m
IFRS net equity	641
Asset valuation differences	(132)
Liability valuation differences	(25)
Sub-debt contribution to capital resources	101
SII capital resources ("Own Funds")	585

Reconciliation of Economic Capital Surplus to Solvency II Surplus

	£m
EC surplus	444
Own funds differences	(218)
Required capital differences	(48)
Solvency II surplus	178

INVESTING IN OUR FUTURE

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

In 2015 we incurred approximately £13.5m (2014: £7.8m) of non-recurring cash items. This investment includes expenditure on Solvency II, development of our Enhanced Retirement Account and US Care initiatives. The US Care business was launched in February 2016.

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



Our capitalisation on an SII basis is resilient, with 144% coverage of the SCR.

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. 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 fewer 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.

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 based on data collected 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 de-risking business. This team works very closely with the underwriting and pricing teams for the individual business to ensure that we utilise our IP to our best advantage.

Investment management

Our objective is to invest in assets that provide a high risk-adjusted yield and which are efficient from a 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.

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 under an investment management agreement which specifies strict portfolio allocation and risk limits, including interest rate, credit and concentration limits.

Our US care related investments will be managed in the USA by Pareto Investment Management Limited, a subsidiary of Insight Investment Management (Global) Limited.



Our proprietary IP allows us to offer better rates to annuity customers because of greater confidence in annuitant longevity.

Our equity release mortgage investments are focussed on those with below average 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 assets that may be mortgaged.

Capital management

We set our product margins with the aim of ensuring that new business written in a particular period earns an attractive return on capital, 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.

This was recognised during the year with several industry awards for our service and our propositions including: European Pensions Awards 2015 – Buyout Firm of the Year; FT Adviser Online Awards 2015 – Outstanding Achievement; Moneyfacts Awards 2015 – Best Annuity Service; and Professional Adviser Awards 2015 – Best Retirement Provider.

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.

We conduct post-call surveys with our retirement customers, which measure aspects of their experience of the telephone call, including clarity, accessibility, effectiveness and satisfaction. In terms of customer satisfaction with the overall service they received, the average customer score in 2015 was 96%. These surveys are key in helping us provide a responsible, fair and helpful service.

We put customers at the heart of our product development process and in ensuring our existing products continue to meet customer needs. For new products we undertake research with potential customers on the proposed product features, documentation, as well as the service and support they might need. This is a vital part of the development process and is invaluable in helping to inform and define the final proposition.

For existing products, we undertake annual suitability research with our customers. The research is both quantitative and qualitative to help determine the continued suitability of our products for customer needs. The results of the research provide valuable insights to enable us to understand the product strengths but, more importantly, where future enhancements might be made.

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.

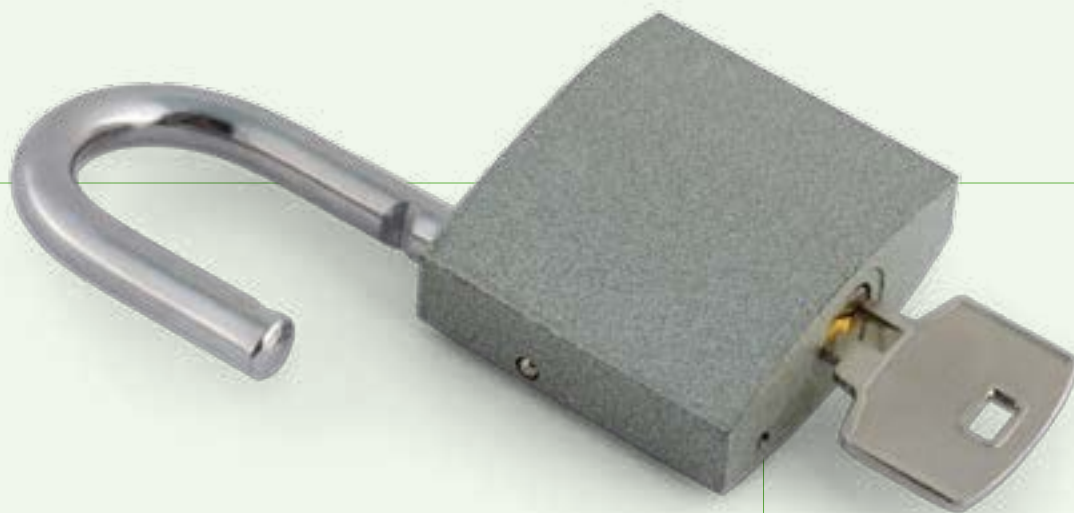
We share a good relationship with the Financial Ombudsman, who has supported us in the majority of our decisions and has also commended us for the quality of our complaint handling and file submissions.

Regulators and industry groups

The introduction of the Pension Freedoms in April 2015 was arguably the largest change that the UK retirement industry had seen for many years – for providers, consumers and regulators. While we have campaigned for consumer choice, we believe that securing a guaranteed income for life which will cover essential expenses in retirement should be a priority for many retirees and that in order to make informed decisions they often need help.



We put customers at the heart of product development with customer research a vital part of the process.



With this in mind, we engaged with the Government, Parliament, regulators, think-tanks, industry bodies and intermediaries to ensure that good consumer outcomes remained at the heart of the new legislation. We have submitted responses to legislative and policy consultations including the Financial Advice Market Review (FAMR), the Independent Review of Retirement Income and Strengthening the Incentive to Save: a Consultation on Pensions Tax Relief. We also met regularly with relevant politicians and officials either in our own right as a company or as part of our work with organisations such as the Association of British Insurers and Institute and Faculty of Actuaries.

While Pension Wise was set up to help people to make informed decisions about their retirement finances, we recognised that for some this might not be enough and they would turn to intermediaries for support. Therefore, much of our marketing, engagement and media activity focussed on educating advisers about the changes and their implications.

This included circa 300 national intermediary presentations which were designed to help Independent Financial Advisers (IFAs) understand the changes and the impact on the various client as well as product types. Partnership was also a keynote speaker at the Institute of Financial Planning's Annual Conference and chose to use this opportunity to look to the future of the industry and how advisers might manage these challenges.

To educate stakeholder groups, it is vital to encourage dialogue and we have successfully used consumer and intermediary research to highlight issues that need to be considered. Whether it was co-sponsoring the Pensions Policy Institute's (PPI) Transitions to Retirement series, the Intergenerational Longevity Centre-UK's work into how to make the retirement reforms fit for purpose or supporting respected commentator – Billy Burrows – when he considered the annuity paradox, Partnership focussed on promoting debate.

We also focussed on helping journalists to see the value of a guaranteed income for life and providing stories which would encourage consumers to consider their options.

Finally, while the Pension Freedoms naturally were the focus of much of our stakeholder activity in 2015, other projects were undertaken, such as launching the 4th Partnership Care Index, working with the Pensions Institute on a medically underwritten defined benefit de-risking report and commissioning a PPI briefing note on international examples of financial education practice.

Our people

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

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

Ron Macrae (aged 65)
Concerns about personal security are never far away. Ron is a volunteer for his community forum and makes sure that a wide range of issues, including crime prevention, get a hearing from the local authorities. With his own financial future secure, he can think about the security of his neighbours.

Listening to our people

We conduct staff surveys periodically to gauge levels of engagement in areas of the business, the latest one being conducted in December 2014. This focussed on engagement, retention, management, communication, organisational change, competitiveness and customer focus. This helped to inform our employee engagement and to consider and implement changes as a result of the feedback, where possible, during 2015.

Following the staff survey, focus groups were held within each business function to identify any particular issues to work on at a local level. Key business-wide themes were identified as areas to work on: internal communications, career development, work-life balance and visibility of senior management.

As a result, an enhanced well-being programme was launched in 2015 offering staff initiatives such as gym membership discounts and “fruit Fridays”, together with access to a range of resources to help enhance work-life balance. In addition, enhancements were made to our benefits package, for example, private medical insurance was offered to everyone regardless of job level.

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

Investing in our people's development is a key pillar for our HR strategy. We are supporting everyone at Partnership to be the best they can be through a range of different programmes and initiatives.

In 2015 our Learning & Development team launched the new Partnership Management and Leadership Academies. These programmes are designed to support our managers and leaders with industry leading skills and behaviours that will make Partnership successful in an evolving market.

Everyone at Partnership has the opportunity to develop workplace and life skills through a range of informal workshops and lunch & learns. These sessions cover a range of topics, from business best-practice to cutting-edge thinking from the world of psychology.

Through our close relationships with industry bodies, we continue to focus on professional development for all of our people, by supporting them with relevant qualifications and accreditations. In 2015 we funded over 130 exams towards qualifications, contributing towards our high-performance culture that values knowledge and gives people the opportunity to thrive.

In addition, 31 people received internal promotions during 2015.

Diversity

We have a gender diverse employee population which is 46.5% female and 53.5% male. At senior management level, 14% 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 have a diverse range of employees at different ages with the largest group being aged between 25-40.

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.



In 2015 we launched new Management and Leadership Academies.

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 private medical insurance 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 2015, 94.9% of permanent and fixed-term staff were enrolled in the Group Personal Pension Plan.

A Share Save Scheme was offered once again to staff in 2015, the third scheme to be offered since its introduction in 2013. 17% of staff participated in the scheme. In total, 39% of our people are participating in the three schemes.

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 2015, 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 which Partnership has supported since 2013. Once again in 2015 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. The main prizes were selected by a panel of judges, with other smaller prizes being voted for by readers of the newspaper.

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 tracks the development of the local projects and charity activities and gives feedback to its readership, including Partnership staff.

Dudley Ginn (aged 79)

Having secured his own financial future, Dudley is busy securing the future of bowls for the next generation. As the president of his village club, he spends his time organising and hosting open days for local youth organisations to discover a game that has given him so much pleasure.



Through our schools' engagement programme in Redhill and Tower Hamlets, our staff can share their knowledge and experience.

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. In 2015, we continued the schools' engagement programme we established in 2014, through which staff members could participate in various activities in primary and secondary schools based in Redhill and Tower Hamlets, areas close to our offices.

In Tower Hamlets, staff spent time at a primary school helping students with their reading during lunchtimes and feedback from the school has been extremely positive, having seen a demonstrable uplift in the students' grades over the year.

In Redhill, a number of business awareness events took place, where staff helped the students in problem solving and teamwork activities. In addition to the primary programme, a mentoring programme for secondary students continued through 2015, providing further opportunities for people to engage with schools in the local community.

Charitable donations

Having committed to support Dogs for the Disabled as our corporate charity for three years, in 2015 the Executive Board viewed this as an opportunity to review Partnership's approach to charitable donations going forward for 2015-2018. After careful consideration, and to help ensure a wider range of charities may benefit, they agreed a new three-tiered approach.

Corporate Charity – donations made to a charity selected by the Executive Board, the chosen charity being Meningitis Now, a new charity which brought together the former Meningitis Trust and Meningitis UK.

Company Charity – donations made to a charity nominated and voted for by staff, the chosen charity being Dementia UK.

Charity Fund – a continuation of our charitable donations fund. In addition to making donations to our corporate and company charities, we also encourage staff to become involved in fundraising activities for their own preferred charities. For example, in 2015 we made donations to a range of different causes in support of a wide range of activities undertaken by staff, as well as donating to the MacMillan Coffee Morning, an annual fundraising event held by all staff in our Redhill office, and the Royal British Legion's London Poppy Day.



In 2015 we put in place a new three tiered-approach to Company charitable giving.

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 and mitigate, 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.

OUR 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 49). 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 the Group 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 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 a consolidated key risk profile.



The Group's Risk Management function works closely with the business to identify new and emerging risks.

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 suite of formal policies and operational and financial processes, 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 Own Risk & Solvency Assessment (ORSA) process and report to the Board, performed at least annually, which provides a comprehensive analysis of the Group's solvency position over the life of the business planning cycle;
- An Actuarial Assurance function, reporting to the Chief Actuary, 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 RISKS 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 opposite and on subsequent pages.

During 2015, we have primarily focussed our activities on evaluating and implementing the risk management and control requirements of our new business initiatives and completing our preparations for the new Solvency II capital regime which came into force on 1 January 2016.

The Board considers that the controls effective during 2015 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.

OUR PRINCIPAL RISKS AND UNCERTAINTIES

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

UNDERWRITING, PRICING AND RESERVING RISK



Business model
See pages 6,7



Strategic objectives
See page 13

Strategic objective	How we manage the risk	Change in 2015	Description of risk change
Leveraging Partnership's proprietary IP <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 own extensive experience data, gathered from our customer base over 20 years.</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. These principles continue to be the basis for IFRS reporting, though the new Solvency II regime works on a different basis for setting margins.</p>		<p>We continued to refine our assessment of life expectancy during 2015 based on our mortality experience and view on future mortality improvements. This led to new underwriting tables being introduced for the Group's retirement annuity business and Defined Benefit business during 2015.</p>

SPECIFIC INSURANCE RISK



Business model
See page 7



Strategic objectives
See page 15

Strategic objective	How we manage the risk	Change in 2015	Description of risk change
Maximising risk adjusted returns <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>There has been variation in the financial consequence of this risk as long-term risk-free rates have varied. As these rates rise the consequence of longevity risk (should that risk materialise) decreases.</p>

INTEREST RATE AND SPREAD RISK



Business model
See page 7



Strategic objectives
See page 15

Strategic objective	How we manage the risk	Change in 2015	Description of risk change
Maximising risk adjusted returns <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>This risk will become more complex under the Solvency II regime, where the sensitivity of the Risk Margin for annuity business cannot be hedged by traditional ALM.</p>

OUR PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

MARKET CREDIT RISK



Business model
See page 7



Strategic objectives
See page 15

Strategic objective	How we manage the risk	Change in 2015	Description of risk change
Maximising risk adjusted returns 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.		No change in 2015.

PROPERTY RISK



Business model
See page 7



Strategic objectives
See page 15

Strategic objective	How we manage the risk	Change in 2015	Description of risk change
Maximising risk adjusted returns 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.		Equity release assets as a proportion of total assets under management at the end of 2015 were 27%, an increase from 25% at the end of 2014.

LIQUIDITY RISK



Business model
See page 7



Strategic objectives
See page 15

Strategic objective	How we manage the risk	Change in 2015	Description of risk change
Maximising risk adjusted returns 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 2015.

COUNTERPARTY CREDIT RISK (EXCLUDING INVESTMENT ASSETS)






Business model
See page 7



Strategic objectives
See page 15


Strategic objective	How we manage the risk	Change in 2015	Description of risk change
Maximising risk adjusted returns 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 2015.

Risk change in 2015

 Increased risk
  No change
  Decreased risk

DISTRIBUTION RISK

 **Business model**
See page 7
  **Strategic objectives**
See page 15



Strategic objective	How we manage the risk	Change in 2015	Description of risk change
Improving access for customers 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 derives competitive advantage from its proprietary underwriting intellectual property which it considers to be unique in the non-standard 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.		Whilst we have begun to see a return to growth in the retail annuity market, this is from a significantly lower base following the introduction of the Pension Freedoms in April 2015. The Group successfully launched its new Enhanced Retirement Account hybrid product, providing customers with access to a guaranteed income and at the same time offering the flexibility of drawdown and opportunity for investment growth, and entered into a reinsurance agreement with Genworth Life to launch an immediate needs care annuity in the US. The continued acceleration of the Group's Defined Benefit proposition and successful growth of the US Care opportunity remain critical to the Group's ability to diversify its product portfolio.

OPERATIONAL RISK

 **Business model**
See page 7
  **Strategic objectives**
See page 15

Strategic objective	How we manage the risk	Change in 2015	Description of risk change
Maximising risk adjusted returns Operational risk arises from inadequate or failed internal processes, people and systems or from external events.	The Group maintains a suite of risk management tools to help manage its operational risks including facilitated risk and control self-assessments, risk event management and loss reporting. Underlying and informing the operation of these tools is a framework of formal policies and controls which govern the management and oversight of the risks faced by the Group. These include business continuity and disaster recovery arrangements. Operational risk is overseen by the Executive Operational Risk Committee.		The implementation of the Group's diversification strategy has introduced a number of new external relationships and dependencies. The Group's risk management framework has been extended to ensure that any risks arising from these new arrangements are overseen and managed to the Group's existing standards.

REGULATORY, LEGAL AND POLITICAL ENVIRONMENT RISK

 **Business model**
See pages 6, 7
  **Strategic objectives**
See page 15

Strategic objective	How we manage the risk	Change in 2015	Description of risk change
Maximising risk adjusted returns Regulatory, legal and political environment risk arises where changes in regulation or legislation may result in a detrimental effect on the Group's strategy and profitability.	The Group's strategic planning process sets a medium term strategy based on 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. Our planning and response capability is supported by continued monitoring of the regulatory, legal and political landscape.		The Group has worked with the Prudential Regulation Authority throughout 2015 in preparation for the incoming Solvency II regime which became binding on insurers on 1 January 2016. In advance of the new regime taking effect, the Group successfully obtained approval to apply a matching adjustment to calculate the best estimate of its insurance liabilities. The Group continues to engage with policymakers, its regulators and trade bodies to positively shape the UK's at-retirement landscape.

Our focus on energy efficiency has seen us reduce our CO₂ emissions by 38% since 2013

We have reported on all the emission sources required under the Companies Act 2006 (Strategic Report and Directors' reports) Regulations 2013. We do not have responsibility for any emission sources that are not included in our consolidated statements.

We have used the Green House Gas (GHG) Protocol Corporate Accounting and Reporting Standard (revised edition) and emission factors from UK Government's GHG Conversion Factors for Company Reporting 2015.

Additionally for 2015 we have used the ESOS (Energy Saving Opportunity Scheme) Regulations 2014 as guidance for reporting our GHG Emissions data.



Reduction in CO₂ emissions of **19%** since 2013

Train travel makes up **24%** of travel emissions



Car travel makes up **55%** of travel emissions



20% reduction in tonnes of CO₂e per total £m sales revenue

16% reduction in tonnes of CO₂e per FTE



Partnership is **ISO 14001** Accredited and compliant under the ESOS Regulations 2014

GHG EMISSIONS DATA

	2015
Current reporting year – 1 January 2015 – 31 December 2015	Tonnes of CO ₂ e
Combustion of fuel and operation of facilities	–
Electricity, heat, steam and cooling for own use	502
Business travel and office equipment	101
Total Emissions	603
Intensity measurement “Tonnes of CO ₂ e per FTE (435 full-time employees ¹)”	1.39
Intensity measurement “Tonnes of CO ₂ e per total £m sales revenue”	0.76
	2014
Last reporting year – 1 January 2014 – 31 December 2014	Tonnes of CO ₂ e
Combustion of fuel and operation of facilities	84
Electricity, heat, steam and cooling for own use	515
Business travel and office equipment	148
Total Emissions	747
Intensity measurement “Tonnes of CO ₂ e per FTE (427 full-time employees ¹)”	1.72
Intensity measurement “Tonnes of CO ₂ e per total £m sales revenue”	0.95

Reporting period and approach

Our reporting period is 1 January 2015 to 31 December 2015, which we set using a fixed-base year approach.

We have followed the Government's guidance on how to measure and report GHG 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 UK.

Operational scopes

We have measured our scope 1, 2 and significant scope 3 emissions².

Base year

Our base year was 2013, and our carbon footprint in that year was 969 t/CO₂e.

Results

We have reduced our CO₂ emissions by 38% since 2013, attained ISO 14001 accreditation in the past 12 months, and carried out an Energy Savings Opportunity Scheme compliant energy audit.

This audit has identified a number of areas which will allow us improve our operational energy efficiency and further reduce our carbon footprint.

Targets

We have set annual targets in accordance with the recommendations that are included in our ESOS Energy Pack, and have been submitted to the Environment Agency.

Intensity measurement

We use both a financial emissions intensity metric (tonnes CO₂e per £m revenue) and a headcount intensity metric (tonnes CO₂e 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 Limited conducted an annual review of our environmental data, collection and calculation processes, and provided verification of our GHG emissions statement.

Carbon offsets

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

Notes to GHG emissions data:

- 1 Number of full-time employees as of 31 December 2015 and 2014.
- 2 Business travel emissions include the following travel modes: car, taxi, train, London underground, bus, flights and tram.

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 was a Chairman of London Stock Exchange Group plc from 2003 until July 2015. 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 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. Until January 2016, Steve was a Director of Guardian Financial Services.

Committee membership None.

External appointments None.



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 joined 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 Investment Committees.

External appointments None.



Peter Catterall
Non-Executive Director

Appointment Peter joined 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. Until January 2016, Peter was a Director of Guardian Financial Services.

Committee membership None.

External appointments Director of Gondola Group Holdings and 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. In 2002 he founded and, until 2008, ran Cormack Tansey Partners which provides strategic consulting to financial institutions. He was previously a non-Executive Director of Pearl Group from 2005 to 2009, Aspen Insurance Holdings from 2002 to 2012, Qatar Financial Centre Authority from 2006 to 2012, Bloomsbury Publishing from 2011 to 2015 and previously Chairman of the CHAPS hi-value payment system. Ian is a former Chairman of the LSE Taurus Review Committee, and a former member of the board of Cedel, the executive committee of the European Securities Committee, the settlement board of the London Stock Exchange, the Council of the British Bankers' Association and a former Member of APACS.

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

External appointments Non-Executive Chairman of Maven Income & Growth VCT 4 plc, Senior Independent Director of Xchanging and of Phoenix Group, non-Executive Director of Hastings plc, Chairman of Phoenix Life Holdings Limited and of the Phoenix Group Remuneration Committee. Director of National Angels Limited.



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 He was Chairman of the Investment Management Association from 2010 to 2014. 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 LLP member of Orwell Films LLP.



Dr Ian Owen FIA
Non-Executive Director

Appointment Ian chaired Partnership for nine years from its formation in 2005 to April 2013. He remains a non-Executive Director, but ceased to act as chairman in April 2013.

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

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 Canopus Managing Agents. Until January 2016, Ian was Chairman of Guardian Financial Services.



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 one million 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, Seven Energy, British Management Data Foundation. Independent Director of Payments Council, and Chairman of Gas Strategies Limited and FlowGroup 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 Insurance Ltd and Brit Syndicates Limited, Executive Chairman of Cunningham Lindsay, Senior Independent Director, Direct Line Insurance Group plc, and a Member of the PRA Practitioner Panel, Bank of England.



Simon Waugh
Independent non-Executive Director

Appointment Simon joined 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 Chairman of CMC Markets PLC, The Consulting Consortium and Age UK Enterprises, and Trustee of Age UK.

Directors who served the Company during 2015 and up to the date of this report:

	Date of appointment
Chris Gibson-Smith	12 May 2013
Steve Groves	12 May 2013
David Richardson	12 May 2013
Paul Bishop	1 May 2014
Peter Catterall	26 February 2013
Ian Cormack	12 May 2013
Douglas Ferrans	12 May 2013
Ian Owen	12 May 2013
Clare Spottiswoode	23 October 2014
Richard Ward	12 May 2013
Simon Waugh	7 March 2014

SENIOR MANAGEMENT



Andrew Chamberlain FIA
Chief Actuary and Interim Chief Risk Officer

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 was also appointed as Interim Chief Risk Officer in June 2015 following Kathryn Purves's resignation. Andrew had joined Towers Watson's 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 Government Actuarial Department in 1994 to advise the life assurance regulators, and was 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.

AN INTRODUCTION FROM OUR CHAIRMAN

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 2015 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 (September 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, following the appointment of Clare Spottiswoode, we continue to seek 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 34 and 35 of this report. Details of the Company's senior management team are set out on page 36. 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.

BOARD FOCUS

The Board has continued to manage the consequences of the Budget announcement in March 2014, the immediate effect of which was to cause a sharp fall in individual annuity sales, and the subsequent introduction of the Pension Freedoms in April 2015. The focus has been on the delivery of our three-pronged strategy to diversify and grow the business based on recovery in the core retail market, growth in Defined Benefits and US Care, and opportunities to leverage our intellectual property in product innovation.

On 11 August 2015, the Company announced that agreement had been reached with Just Retirement Group plc on the terms of a recommended all-share merger to create JRP Group plc.

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 49. Further detail on the key topics discussed by the Board through the year is set out on page 43 of this report.

DIVERSITY

The Board continues to focus on improving diversity in all its forms recognising the benefit of having input from people with a wide range of backgrounds and nationalities throughout the Group.

Chris Gibson-Smith
Chairman

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 2015 have complied fully with the 2014 UK Corporate Governance Code (the Code) which can be found at 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 seven scheduled meetings in 2015 and a strategy day. Board members also attended eight meetings related to the recommended all-share merger to create the JRP Group plc. 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 the business 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 2015:

	PAG plc						PLACL
	Board (7)	Audit (6)	Remuneration (11)	Nomination (2)	Risk (4)	Investment (1)	Investment (7)
Chris Gibson-Smith	7/7	n/a	11/11	2/2	n/a	n/a	n/a
Steve Groves	7/7	n/a	n/a	n/a	n/a	n/a	n/a
David Richardson	7/7	n/a	n/a	n/a	n/a	1/1	7/7
Clare Spottiswoode ¹	5/7	n/a	n/a	n/a	2/4	n/a	n/a
Paul Bishop ²	7/7	6/6	7/11	2/2	n/a	1/1	5/7
Peter Catterall ³	6/7	n/a	n/a	n/a	n/a	n/a	n/a
Ian Cormack	7/7	1/1	n/a	2/2	4/4	n/a	n/a
Douglas Ferrans ⁴	7/7	5/6	n/a	n/a	4/4	1/1	6/7
Ian Owen ⁵	7/7	n/a	n/a	2/2	4/4	0/1	6/7
Richard Ward	7/7	n/a	11/11	2/2	n/a	n/a	n/a
Simon Waugh ⁶	7/7	5/6	9/11	n/a	n/a	n/a	n/a

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

1 Clare Spottiswoode was unable to attend the board meeting on 2 March and 10 August, due to prior personal commitments.

2 Paul Bishop was not a member of the PLACL Investment Committee on 23 February. He was appointed to the Committee on 18 May 2015. However, he was unable to attend the PLACL Investment Committee meeting on 16 November and the Remuneration Committee on 4 August due to prior commitments which could not be moved.

3 Peter Catterall was unable to attend the Board meeting on 10 August due to a prior personal commitment.

4 Douglas Ferrans was unable to attend the Audit Committee meeting on 26 February due to a long-standing prior engagement. He was also unable to attend the PLACL Investment Committee on 14 September due to a prior commitment that could not be moved.

5 Ian Owen was unable to attend the PAG plc and PLACL Investment Committee meetings on 15 October due to prior long-standing commitments.

6 Simon Waugh was unable to attend the Audit Committee meeting on 16 November and the Remuneration Committee on 12 February and 4 November due to prior personal commitments.

There were further Board meetings called at short notice leading up to and following the announcement of the commenced all-share merger to create the JRP Group plc.

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:

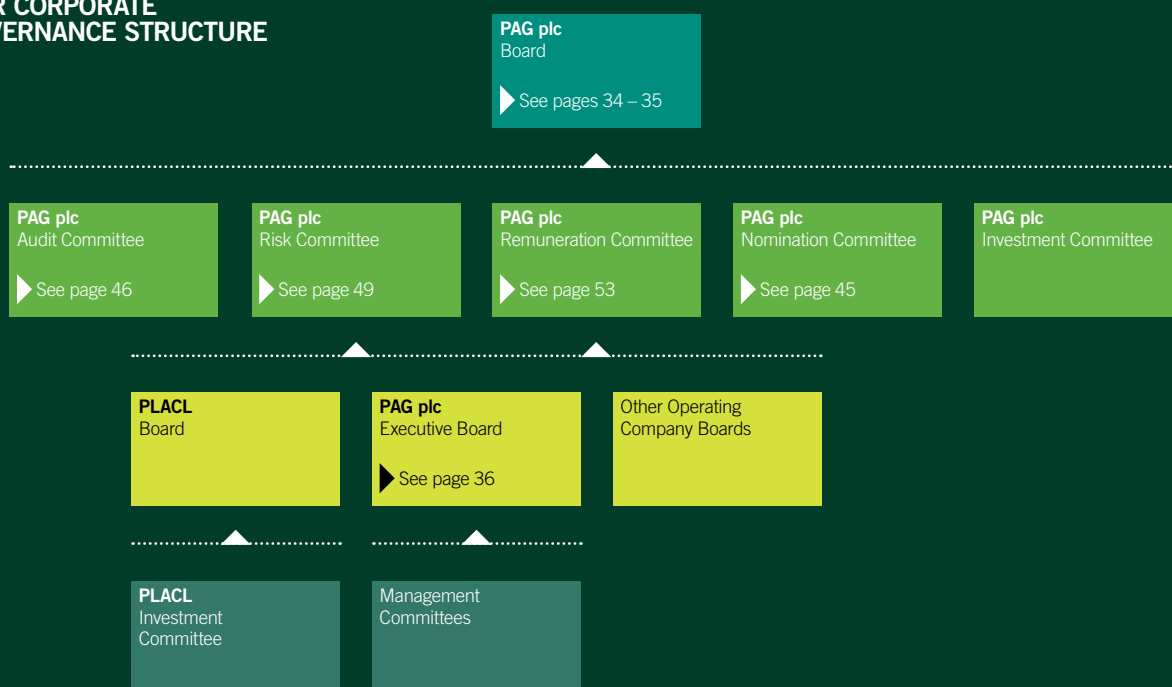
- Formulates the strategic direction of the Company agreed with the Board;
- Recommends to the Board an annual budget and five-year financial plan and ensures their achievement following Board approval;
- Ensures an appropriate risk management framework is in operation;
- Ensures the Company's strategy 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.

OUR CORPORATE GOVERNANCE STRUCTURE



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 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 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.

AUDIT COMMITTEE

Chairman	Other members	Number of meetings required annually	Number of meetings held in 2015	Role of the Committee
Paul Bishop	Douglas Ferrans Simon Waugh	4	6	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.

RISK COMMITTEE

Chairman	Other members	Number of meetings required annually	Number of meetings held in 2015	Role of the Committee
Ian Cormack	Douglas Ferrans Ian Owen Clare Spottiswoode	4	4	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.

REMUNERATION COMMITTEE

Chairman	Other members	Number of meetings required annually	Number of meetings held in 2015	Role of the Committee
Richard Ward	Paul Bishop Chris Gibson-Smith Simon Waugh	2	11	The Remuneration Committee is responsible for overseeing, designing and implementation of all remuneration policies and practices. 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.

▶ **Audit Committee** see page 46 – 48

▶ **Risk Committee** see page 49

▶ **Remuneration Committee** see page 54 – 60

NOMINATION COMMITTEE

Chairman	Other members	Number of meetings required annually	Number of meetings held in 2015	Role of the Committee
Chris Gibson-Smith	Paul Bishop Ian Cormack Ian Owen Richard Ward	2	2	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.

INVESTMENT COMMITTEE

Chairman	Other members	Number of meetings required annually	Number of meetings held in 2015	Role of the Committee
Ian Owen	Paul Bishop Douglas Ferrans David Richardson	1	1	To monitor PAG plc's investment in cash.

INVESTMENT COMMITTEE OF THE PARTNERSHIP LIFE ASSURANCE COMPANY LIMITED (PLACL) BOARD

Chairman	Other members	Number of meetings required annually	Number of meetings held in 2015	Role of the Committee
Ian Owen	Paul Bishop Douglas Ferrans David Richardson (Chief Financial Officer) Andrew Chamberlain (Chief Actuary and Interim Chief Risk Officer)	4	7	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.

There is also a Disclosure Committee which meets to ensure compliance with the Company's market disclosure obligations pursuant to the UKLA Listing Rules and Disclosure and Transparency Rules.

The members of the Disclosure Committee are Chris Gibson-Smith (Chairman), Steve Groves (Chief Executive Officer), David Richardson (Chief Financial Officer), and the Group Company Secretary. This Committee met six times during 2015.

COMMITTEE MEMBERSHIP

	PAG plc					PLACL
	Audit	Remuneration	Nomination	Risk	Investment	Investment
Chris Gibson-Smith	By invitation	Member	Chair	–	–	–
Steve Groves	By invitation	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	Member
Peter Catterall	–	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 34 and 35. 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 2015. 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 2015 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 to 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.

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 direct reports of the Chairman and CEO comprise one (14%) female and six (86%) males.

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 27 to 28.

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).

Cinven continues to be the largest single 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 2015 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 includes regular briefings and updates with the analyst community. The Company is covered by four active analysts who publish regular independent research on the Group.

SIGNIFICANT SHAREHOLDER

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 2015 and as at the date of this report, the Cinven Funds exercise or control an aggregate of 49.71% of the votes to be cast on all or substantially all matters at general meetings of the Company.

The Company confirms that, throughout the financial year, 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 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.

The date, time and venue of the 2016 AGM will be confirmed in due course.

NOMINATION COMMITTEE REPORT

ROLES 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. 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 2015.

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 twice in 2015.

ACTIVITY DURING THE YEAR

The key focus of the Committee has been succession planning and Board composition.

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.



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 THE 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.
- Regular updates on preparations for compliance with the Solvency II regulatory regime from 1 January 2016, including quantitative reporting templates.

External audit matters

- Regular reports from the external auditor including meetings with the audit engagement partner without the presence of management.
- The 2015 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 the end of year report.
- The Committee Chairman also takes responsibility for the performance and reward of the Director of Internal Audit.

2015 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 Chief Actuary, 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 2015 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 2015, the Group has refined its mortality basis to 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 and 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 Chief Actuary 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 2015 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, equity release asset valuation, loan loss provisioning, revenue recognition, management override of controls, and the prospective merger with Just Retirement. 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 sought feedback from management on the effectiveness of the audit process. For the 2015 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 2015, Deloitte LLP was paid £766,000 for tax compliance, tax advisory and other assurance services. The other assurance activities include assurance reviewing Solvency II methodologies and the balance sheet, as well as assurance connected to the proposed merger with Just Retirement.

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.

Financial Reporting Council (FRC) Audit Quality Review

The FRC's Audit Quality Review team selected to review the audit of the 2014 Partnership Assurance Group plc financial statements as part of their 2015 annual inspection of audit firms. The focus of the review and their reporting is on identifying areas where improvements are required rather than highlighting areas performed to or above the expected level. The Chairman of the Audit Committee received a full copy of the findings of the Audit Quality Review team and has discussed these with Deloitte. The Audit Committee confirms that there were no significant areas for improvement identified within the report. The Audit Committee is also satisfied that there is nothing within the report which might have a bearing on the audit appointment.

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 current audit partner has served two years on the engagement.

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 will consider the recommendation on appointment of the Company's statutory auditor in due course, following the expected completion of the merger with Just Retirement.

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 engagement partner, which we would expect to be in 2017. 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 2017 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 an external quality assessment of the Internal Audit function, which is scheduled to be reported to the Committee in 2016.



Paul Bishop
Chairman, Audit Committee

RISK COMMITTEE REPORT

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 27 to 28.

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 Chief Actuary 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 2015 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 2015 to align with the requirements of the incoming Solvency II capital regime;
- Reviewing 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;
- 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; and
- Review of the financial, distribution and operational risk profiles maintained by the Group's Executive sub-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 2015.

EMPLOYEE SHARE SCHEMES

Details of the Group's Employee share schemes are set out on pages 92 to 94.

RESULTS

The results for the year are set out in the Consolidated Statement of Comprehensive Income on page 68.

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 32 to the Financial Statements on pages 108 and 109. The Company has one class of share capital: 440,132,122 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.

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 Conduct 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 (AGM) held in May 2015 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 AGM 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 2015, or date of appointment if later, and at 31 December 2015 is set out in the Directors' Remuneration Report on page 57.

No Director had any dealings in the shares of the Company between 31 December 2015 and 10 March 2016.

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 2015. 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 10 March 2016, 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 Limited/ Cinven Funds	218,800,152	49.7
Lancaster	22,429,352	5.1
MFS Investment Management	18,510,825	4.2
GIC	15,523,489	3.5
Schroders	13,491,600	3.0

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 30 to the financial statements.

DIRECTORS

The Directors who served the Company during 2015 and up to the date of this report are listed on page 35.

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

The Company 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 pages 23 to 26.

GREENHOUSE GAS EMISSIONS

Information about the Company's Greenhouse Gas emissions can be found on pages 32 and 33.

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 appoint the auditor will be put to shareholders at the forthcoming AGM.

ANNUAL GENERAL MEETING

The date, time and venue of the 2016 AGM will be confirmed in due course.

CORPORATE GOVERNANCE STATEMENT

Throughout the year ended 31 December 2015, 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 34 to 51 and is, together with the information on share rights set out in note 32 on pages 108 and 109, incorporated into this corporate governance statement by reference.

GOING CONCERN STATEMENT

The Directors have undertaken a going concern assessment in accordance with 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting', published by the Financial Reporting Council in September 2014. After making appropriate enquiries, the Directors consider the adoption of the going concern basis of accounting appropriate.

LONGER TERM VIABILITY

In accordance with provision C.2.2 of the 2014 revision of the Corporate Governance Code the Directors have assessed the prospect of the Company over a longer period than the 12 months required by the "Going Concern" provision. The Directors conducted this review over a period of 5 years, reflecting the time period of the Group's Business and Capital plans. These plans consider the Group's income, profit and solvency requirements over the plan period. The plans considered alternative scenarios for the future development of the business. In addition, the Directors were informed by the Group 2015 Own Risk and Solvency Assessment (ORSA), which confirms the ability of the business to withstand a wide range of moderate to extreme adverse events over the business plan period.

The principal risks considered by the Directors are documented on pages 29 – 31 of this report.

The Directors confirm that their assessment of the principal risks facing the Company was robust.

Based on the assessment of risks and Group business and capital plans the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the a period of 5 years from the reporting date.



Simon O'Hara
Group Company Secretary
10 March 2016
5th Floor
110 Bishopsgate
London EC2N 4AY

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 company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the 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:

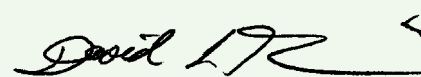
- The financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The Directors' report includes a fair review 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 financial statements, 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 and financial statements 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
10 March 2016

AN INTRODUCTION FROM OUR COMMITTEE CHAIRMAN BEING FAIRLY REWARDED FOR WHAT WE DO



DEAR SHAREHOLDER

I am pleased to present shareholders with our remuneration report in a shorter format than that of last year. The Directors' Remuneration Policy relates to a forward-looking policy that was approved at the Company's Annual General Meeting on 19 May 2015. There have not been any changes to that policy and as a result it is omitted from this Directors' Remuneration Report. The policy can be found in our Annual Report and Accounts 2014 at pages 73 – 78 which can be viewed on our website <http://asp-gb.secure-zone.net/v2/index.jsp?id=1134/3352/9857&lng=en>

Our Directors' Remuneration Report for 2015 consists of this annual statement and the Annual Report on Remuneration in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The Annual Report on Remuneration sets out payments made to Directors during the last year. The report and my statement are subject to an advisory vote at the Annual General Meeting.

Following the AGM on 19 May 2015, the Board announced that 86.03% of the issued shares had voted for the Directors' remuneration report and 80.91% had voted for the remuneration policy. As noted at the time, the year to which the report and policy related was a period of unprecedented change for Partnership and, in response, the Remuneration Committee had proposed a number of changes to the LTIP rules and remuneration policy, which the Board believed more closely aligned executive remuneration with the interests of all shareholders. The Board continues to engage with the shareholders to understand any issues that arise.

The Group's auditor, Deloitte LLP, has audited the information in the single total figure of remuneration section on page 54.

THE CONTEXT OF REMUNERATION IN 2015

Details of the amounts paid during 2015 are given in the Annual Report on Remuneration. The main context of 2015 for remuneration purposes related to the continuation of uncertainty and volatility following the fundamental changes to the annuity regime in the UK announced in 2014 and the announcement of our proposed all-share merger with Just Retirement Group plc (the Proposed Merger) which was announced on 11 August 2015. Although much of the legislation giving freedom and choice to pensions savers has been enacted, the final structure of the legislation dealing with annuities previously sold will only emerge after April 2017.

The Remuneration Committee set targets for performance in 2015 prior to the announcement of the Proposed Merger. We have reviewed the performance delivered in 2015 as a standalone company but have also monitored the progress towards the approval of the Proposed Merger by the regulators.

The Proposed Merger impacted on 2015 remuneration decisions in various respects, although the Committee has made all such decisions in accordance with the Directors' Remuneration Policy. Firstly, the Committee made various decisions as to the treatment of share schemes in the event of completion of the proposed merger, including in relation to replacement awards for LTIP participants and how such awards would be treated on future cessation of employment. Secondly, the Committee needed to consider termination arrangements for senior employees, including the Chief Executive Officer. Thirdly, certain retention agreements were agreed for certain (non-Director) key employees in connection with the Proposed Merger. No special bonuses were paid to Directors in relation to the Proposed Merger. The retention arrangements applicable on completion of the transaction are set out in the scheme document (and letters sent to participants).

PERFORMANCE IN 2015

The financial and operating performance for 2015 is set out on pages 16 to 20 in the Strategic Report. The Company continued to operate in a difficult year with a significant reduction in the market for annuities following the 2014 budget announcement.

The actions taken by the Company in new product development, geographical expansion into the US and cost control have been taken into account in setting the out turn for the 2015 annual bonus.

The Committee has considered the performance delivered in 2015 in determining the level of bonus to be awarded. The Committee had regard to the following performance measures:

- Individual Annuity Sales levels have beaten analyst consensus.
- Defined Benefit sales have exceeded the £200m target by £77m or 39%, demonstrating both strong sales success and the increasing promotion of underwritten bulk deals.
- Margin % – strong pricing discipline throughout 2015 has led to all retirement business delivering the required margin % broadly in line with expectations.
- Total new business expenses – we exceeded our reduction target for the year.
- New Business Operating Profit was down against prior year primarily due to lower volumes. Market expectations have been exceeded with a £3m outperformance over analyst consensus.
- The announcement was made in connection with the expansion of our Care product into the US.

CONCLUSION

Taking the factors above in the round, the Remuneration Committee concluded that payment of bonuses to the Executive Directors for 2015 should be at 75 – 76% of the maximum available award.

I hope you will find this statement and our Annual Report on Remuneration helpful in understanding the Company's remuneration practices and that you will support the resolution relating to remuneration at the forthcoming Annual General Meeting.

Richard Ward
Chairman, Remuneration Committee

SINGLE TOTAL FIGURE OF REMUNERATION

This report contains composite information on the remuneration of the Directors for 2015 and 2014 (that is the year under review and the previous year) in respect of the Directors of the Company.

2015										
Note	Base salary/fees £000's	Voluntary reduction fees (note 2) £000's	Car allowance £000's	Taxable benefits £000's	Annual bonus cash £000's	Annual bonus share element £000's	LTIP £000's	Pension £000's	Other £000's	Total £000's
Executive Directors										
Steve Groves	625		10	2	467	233	n/a	82	4	1,423
David Richardson	438		10	2	333	167	n/a	58	3	1,011
Non-Executive Directors										
Chris Gibson-Smith Chairman	250		—	—	—	—	—	—	—	250
Paul Bishop	2 75	(5)	—	—	—	—	—	—	—	70
Peter Catterall	1 —	—	—	—	—	—	—	—	—	0
Ian Cormack	85	—	—	—	—	—	—	—	—	85
Douglas Ferrans	60	—	—	—	—	—	—	—	—	60
Ian Owen	75	—	—	—	—	—	—	—	—	75
Clare Spottiswoode	60	—	—	—	—	—	—	—	—	60
Richard Ward	2 75	(5)	—	—	—	—	—	—	—	70
Simon Waugh	60	—	—	—	—	—	—	—	—	60

1 Peter Catterall is appointed to the Board by the Cinven Funds pursuant to the terms of a Relationship Agreement between the Cinven Funds and the Company. His fees are paid by Cinven.

2 Voluntary reductions in salary/fees were made by Directors in 2014 and 2015 to fund part of the Company's restructuring costs.

3 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.

4 Pension details are shown in the table below.

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

- 1 Peter Catterall is appointed to the Board by the Cinven Funds pursuant to the terms of a Relationship Agreement between the Cinven Funds and the Company. His fees are paid by Cinven.
- 2 Voluntary reductions in salary/fees were made by Directors in 2014 and 2015 to fund part of the Company's restructuring costs.
- 3 Marisa Cassoni ceased to be a member of the Remuneration Committee on 7 March 2014. Robin Phipps resigned from the Remuneration Committee on 7 March 2014. David Young resigned from the Remuneration Committee on 22 May 2014.
- 4 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.
- 5 Pension details are shown in the table below.

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:

	2015			2014		
	Payments to scheme £	Payments in lieu of pension contributions £	Total £	Payments to scheme £	Payments in lieu of pension contributions £	Total £
Steve Groves	—	82,381	82,381	—	85,223	85,223
David Richardson	—	57,667	57,667	16,406	43,250	59,656
Total	—	140,048	140,048	16,406	128,473	144,879

Benefits

The benefits provided to the Executive Directors in 2015 and 2014 included, taxable: car allowance and private medical insurance, non-taxable: permanent health insurance, life assurance, season ticket loans and health screening.

Annual bonus

2015

For 2015, the performance measures for the Chief Executive Officer and the Chief Financial Officer were 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 0% of their individual base salary to a maximum of 150% of base salary. As set out in the statement of the Chairman of the Committee a number of factors were taken into account and the decision taken has resulted in the Chief Executive Officer receiving a bonus equal to 75% of the maximum for the year (150% of salary) comprising £467,000 cash and deferred shares of £233,000. The Chief Financial Officer received a bonus of 76% of the maximum for the year (150% of salary) comprising £333,000 cash and £167,000 in deferred shares.

SHARE SCHEME AWARDS GRANTED DURING THE YEAR

LONG TERM INCENTIVE PLAN (LTIP) 2015

Awards under the LTIP were made over shares on 11 August 2015, as set out in the table below. The date of the awards was delayed given the commencement of merger talks resulting in a lengthy prohibited period.

Awards were made in the form of nil-cost options, which normally 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	809,061	1,250	20%	11 August 2018
David Richardson	424,757	656	20%	11 August 2018

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 6, 7 and 10 August 2015.

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 condition applicable to the LTIP awards made in 2015 is 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, the LTIP award lapses.

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 normally 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 2014. The calculation of number of shares and face value was based on the average closing price of the shares for 6, 7 and 10 August 2015.

Name	Number of shares	Face value £000's	Percentage receivable if minimum performance achieved	Lapse date
Steve Groves	121,359	188	100%	25 April 2025
David Richardson	80,906	125	100%	25 April 2025

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 2015 are as follows:

	Total SIP shares held 31 December 2014	Shares acquired as a result of reinvested dividends	Total SIP shares held 31 December 2015
Steve Groves	267	3	270
David Richardson	267	3	270

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 18-20 August 2014. 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 17-19 August 2015 was made to eligible employees. No Director took up the 2015 invitation to apply for options. The table below sets out details under the SAYE schemes during 2015 for Executive Directors and the options outstanding as at 31 December 2015.

	Scheme date	Total options held at 31 December 2014	Granted	Exercised	Lapsed	Total options held 31 December 2015	Exercise price	Market price on exercise date	Exercise date for outstanding options
David Richardson	2014	9,533	–	–	–	9,533	94.4p	n/a	1 May 2018

DECISIONS RELATING TO THE PROPOSED MERGER

The Committee has made all decisions regarding the Proposed Merger in accordance with the Directors' Remuneration Policy. However, decisions were required in relation to the following key incentive matters applicable to the Executive Directors (and certain other employees) which will apply on completion of the Proposed Merger:

- Participants holding awards granted in 2014 and 2015 under the LTIP (including Executive Directors) will be required to exchange their awards for an equivalent award over Just Retirement Group plc shares on the terms and conditions outlined in the Scheme Document dated 5 November 2015.
- Although vesting will occur on the date that the court sanctions the Proposed Merger in accordance with the DSBP rules, administrative amendments have been made to the DSBP to provide that participants (including Executive Directors) would be able to exercise their awards should the Proposed Merger be sanctioned by the court at a time when dealing restrictions apply.
- Participants in the SAYE (including Executive Directors) will be able to elect to exchange their SAYE options into equivalent options over Just Retirement Group plc shares.
- Steve Groves will step down as Chief Executive Officer and leave the employment of Partnership Services Limited on the day following the effective date of the Proposed Merger and will receive a payment in lieu of notice in accordance with his service agreement. The Committee has exercised its discretion to permit the payment in lieu of notice to be made in a single payment rather than in instalments and to treat him as a good leaver under the terms of the LTIP replacement awards which will be granted by Just Retirement Group plc.

More detail of these matters is set out in the Scheme Document dated 5 November 2015.

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 2015:

	Required value of share interest	Shares held as at 31 December 2015	Share ownership guideline met
Executive Directors			
Steve Groves	150% of salary	9,601,538	Yes
David Richardson	100% of salary	429,464	Yes
Non-Executive Directors			
Chris Gibson-Smith	n/a	698,787	n/a
Ian Cormack	n/a	12,987	n/a
Douglas Ferrans	n/a	12,987	n/a
Ian Owen	n/a	6,091,776	n/a
Richard Ward	n/a	12,987	n/a

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

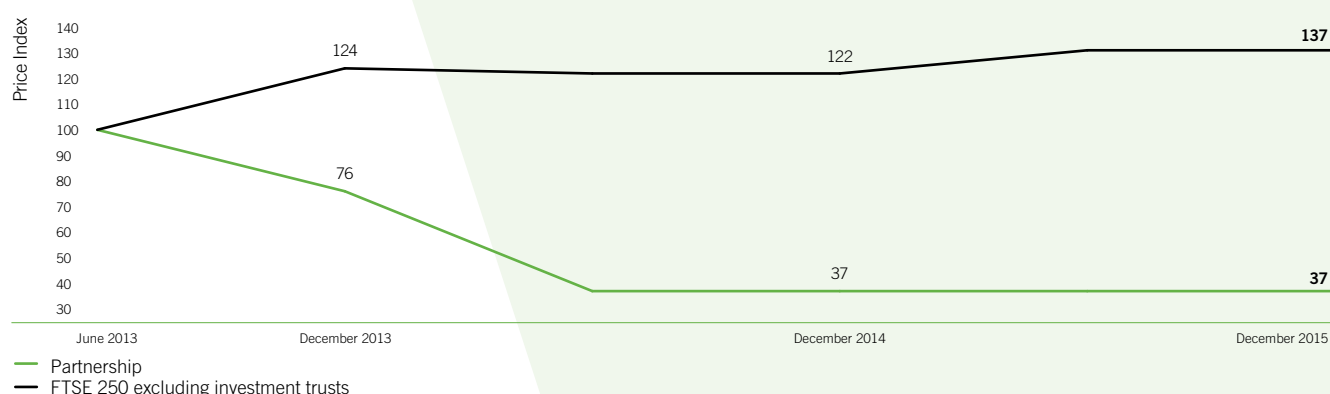
Pursuant to an Underwriting Agreement entered into in connection with Listing, Steve Groves and David Richardson agreed that, subject to certain exemptions, during the period of 24 months from the date of Admission of the Company's shares to Listing (which took place on 12 June 2013), they would not 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 2015.

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 and previous years.

	Chief Executive	2015	2014	2013
Chief Executive single figure remuneration (in £000)	Steve Groves	1,423	1,264	1,483
Annual bonus pay out (as % maximum opportunity)	Steve Groves	75%	60%	80%
Share plan vesting (as % of maximum opportunity)	Steve Groves	n/a	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)		
	2015 £000's	2014 £000's	% change	2015 £000's	2014 £000's	% change
Salary	625	625	0%	57	51	12%
Taxable benefits	11	11	0%	0.81	0.77	5%
Bonus	700	562	25%	10	8	25%

- 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 2015 and on the average number of employees in the year.

RELATIVE IMPORTANCE OF SPEND ON PAY

	2015 £000's	2014 £000's
Total pay for all employees	31,526	33,830
Dividend paid in 2015	6,000	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 2015 and 2016 are set out below:

	2015 £	2016 £	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 THE REMUNERATION POLICY DURING 2016

There has not been any change in the Director's Remuneration Policy during 2015, the implementation of which remains as disclosed in the 2014 Annual Report and Accounts.

CONSIDERATION BY THE DIRECTORS OF MATTERS RELATING TO DIRECTORS' REMUNERATION

Committee membership

In 2015 the Committee comprised:

Chris Gibson-Smith
Richard Ward (Chair)
Simon Waugh
Paul Bishop

Richard Ward is the Chair of the Committee, and Paul Bishop, Simon Waugh and Chris Gibson-Smith are the members. There were no changes to the composition of the Remuneration Committee during the year.

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 twice each year. It met on eleven occasions in 2015, which reflects discussions leading up to and following the announcement of the Proposed Merger.

	Number of meetings attended	Number of meetings held
Chris Gibson-Smith	11	11
Richard Ward	11	11
Simon Waugh	9	11
Paul Bishop	7	11

The Company's remuneration advisor is Strategic Remuneration, which is a member of the Remuneration Consultants Group and complies with its Code of Conduct. The fees paid to Strategic Remuneration for the year 2015 were £60,400 excluding VAT (2014: £54,000 excluding VAT). Fees are charged on a time spent basis.

In 2015, 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 (resigned in June 2015)	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 Annual General Meeting (AGM) was held on 19 May 2015. 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 2015 were:

Resolutions at 2015 AGM	Votes for	% for	Votes against	% against	Votes withheld
Receive and approve the Remuneration Report	271,749,030	85.76	45,111,015	14.24	3,438,268
Receive and approve the report on Remuneration Policy	257,974,327	80.54	62,323,986	19.46	0

FUTURE REMUNERATION POLICY

There are no changes to our future Remuneration Policy and the information on the policy approved on 19 May 2015 can be found on our website. It is the Company's policy to honour pre-existing remuneration obligations and commitments entered into prior to approval and implementation of the Directors' Remuneration Policy detailed on our website, 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 11 December 2014 and are formally reviewed by the Committee annually. The last formal review and update was on 15 December 2015.

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 OCTOBER 2025			
	2025	2024	
Group preliminary income	1	684,497	501,000
Group preliminary expenses		(237,850)	(251,000)
Group preliminary income		446,647	250,000
Group preliminary income	2	446,647	250,000
Group preliminary income	3	446,647	250,000
Group preliminary income	4	446,647	250,000
Group preliminary income	5	446,647	250,000
Group preliminary income	6	446,647	250,000
Group preliminary income	7	446,647	250,000
Group preliminary income	8	446,647	250,000
Group preliminary income	9	446,647	250,000
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Group preliminary income	95	446,647	250,000
Group preliminary income	96	446,647	250,000
Group preliminary income	97	446,647	250,000
Group preliminary income	98	446,647	250,000
Group preliminary income	99	446,647	250,000
Group preliminary income	100	446,647	250,000

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.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial information in conformity with International Financial Reporting Standards (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 26.

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 note 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 2015 and of the Group's loss 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 and Parent Company Statements of Changes in Equity, the related notes 1 to 45 and the Critical Accounting Estimates and Judgements on page 62. 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 AND THE DIRECTORS' ASSESSMENT OF THE PRINCIPAL RISKS THAT WOULD THREATEN THE SOLVENCY OR LIQUIDITY OF THE GROUP

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 2 to the Financial Statements and the Directors' statement on the longer-term viability of the Group contained within the Directors' report on page 51.

We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on page 51 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 27-31 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in note 2 to the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the Financial Statements;
- the Directors' explanation on page 51 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. 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.

INDEPENDENCE

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

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>Insurance liabilities (£5,425m; 2014: £5,231m)</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"> 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 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. <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 62 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, focusing 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 for retirement annuities had been input to the model accurately. In addition, we test the Group's controls over the completeness of the data.</p> <p>Management has 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>Merger with Just Retirement</p> <p>On 11 August 2015, Partnership announced it is to merge with Just Retirement plc to form JRP Group plc. The formation of JRP Group plc resulted in a pervasive risk for our audit due to the numerous challenges it creates for PAG plc's management due to the complexities of the merger process and the additional financial reporting requirements such as reporting into the newly formed group.</p> <p>Periods of change and integration such as this also increase the risk of breakdowns in the control environment due to resource being diverted from business as usual tasks.</p> <p>The transaction also has a potential impact on senior management's share options and hence the incentive for bias to be introduced into the financial statements may be heightened.</p>	<p>We held regular meetings with management to understand the impact of the transaction on the financial reporting process and assessed any potential and actual impact when performing our controls testing.</p> <p>We read the Scheme Document, Long Term Incentive Plan (LTIP) announcements and other supporting information published in relation to the merger to determine whether the transaction gave rise to any incentives for management to manipulate the 2015 financial results.</p>
<p>Equity release assets (£1,435m; 2014: £1,212m)</p> <p>The Group's investments include loans secured by residential mortgages ("equity release assets"). In 2015 the Group completed bulk purchases with a face value of £39m, bringing the total value of the equity release book to £1.4bn.</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. Property assumptions are derived from macroeconomic data received from a third party. Note 26b to the Financial Statements provides further detail as to the methodology for calculating the fair value of these assets.</p> <p>The subjectivity of the key assumptions, coupled with the significance of the bulk transactions, means that we view this as an area of significant risk.</p>	<p>We tested the new bulk transactions through reviewing the due diligence work performed by the Group. We then tested the whole portfolio using internal experts to challenge the valuation basis put forward by management based on independent macroeconomic advice received. We assessed the competence of the third party adviser and 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 via 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 challenged management's methodology and assumptions used to value the equity release assets via comparison to industry benchmarks, consultation with Deloitte real estate specialists on property growth and overvaluation assumptions, 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>Valuation of goodwill and intangible assets (£129m; 2014: £129m)</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 Pension Freedoms introduced in April 2015, which continue to make forecasting future sales difficult for the life assurance industry.</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 11 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 62 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"> • 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; • challenging whether all relevant assets and liabilities had been allocated to the new business cash-generating unit; and • 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.
<p>Defined benefit transactions (£277m; 2014: £247m)</p> <p>Individually underwritten bulk annuities are a key source of revenue for the Group, representing 43% of the Group's gross written premium for 2015 including a single premium of £59m.</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 all of the contracts written by tracing the premiums to signed quotations and observing the cash receipts into the Group's bank account.</p>

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on pages 46 to 48. The risks identified are consistent with the previous year, with the additional of the risk surrounding the planned merger with Just Retirement plc.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these 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 £4.3m (2014: £4.5m), 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 (2014: £90,000), 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 (2014: 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 £0.02m to £4.09m (2014: £0.03m to £4.28m).

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 part of the Corporate Governance Statement relating to the Company's compliance with certain 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.

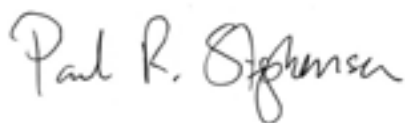
RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

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). 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 FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
10 March 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 £000's	2014 £000's
Gross premiums written	1	651,447	760,638
Outward reinsurance premiums		(217,586)	(307,959)
Net premiums earned		433,861	452,679
Net investment income	3	51,271	299,232
Share of results of joint ventures and associates accounted for using the equity method	14	21	(179)
Profit on loss of control of subsidiary	14	–	158
Other income		194	207
Total income		485,347	752,097
Gross claims paid		(413,144)	(390,570)
Reinsurers' share of claims paid		263,480	255,957
Change in insurance liabilities:		(149,664)	(134,613)
Gross amount		(193,731)	(883,524)
Reinsurers' share		(41,953)	405,259
		(235,684)	(478,265)
Acquisition costs	4	(3,089)	(4,997)
Investment expenses and charges		(14,764)	(14,352)
Interest on external borrowings		(7,347)	–
Other operating expenses	5	(91,247)	(95,803)
		(116,447)	(115,152)
Total claims and expenses		(501,795)	(728,030)
(Loss)/profit from continuing operations before tax		(16,448)	24,067
Income tax credit/(expense) from continuing operations	7	2,348	(5,213)
(Loss)/profit for the period		(14,100)	18,854
(Loss)/profit attributable to:			
– Owners of the Parent		(14,100)	18,852
– Non-controlling interest		–	2
(Loss)/profit for the period		(14,100)	18,854
Basic earnings per ordinary share	8	£(0.03)	£0.05
Diluted earnings per ordinary share	8	£(0.03)	£0.05

The notes on pages 77 to 114 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:

GROSS WRITTEN PREMIUMS

Gross premiums written in 2015 are 14% lower than those written in 2014. The £186m decrease in premiums from individual retirement annuities was partially offset by a £28m increase in premiums from defined benefit buy-in/buy-out annuities.

OUTWARD REINSURANCE PREMIUMS

Outwards reinsurance premiums in 2015 were 29% lower than in 2014, reflecting lower volumes 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)).

NET INVESTMENT INCOME

Net investment income comprises £64m of net interest receivable, £135m of unrealised losses and £123m of realised gains. Net interest receivable has decreased by 11% (2014 increase: 6%). Unrealised gains have decreased by £325m (2014 increase: £145m) driven by an increase in yields on fixed income investments and realised gains have increased by £84m (2014: £11m). The decreased profit from realised and unrealised gains is balanced by an reduction 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 2015 is £15m more than 2014.

The gross cost of claims paid, offset by the benefit from the recovery of reinsurers' share of those claims, is balanced by a benefit from a reduction in net insurance liabilities (note 20(b)). Details of all of the changes in 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 38% lower in 2015 than 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.

INVESTMENT EXPENSES AND CHARGES

Investment expenses and charges have remained stable over 2015 and 2014.

INTEREST ON EXTERNAL BORROWINGS

The Group issued a £100m Solvency II Tier 2 qualifying debt instrument at par in March 2015, with a maturity date of March 2025 and a coupon of 9.5%. Prior to this date, the Company was debt free.

OTHER OPERATING EXPENSES

A breakdown of other operating expenses is included in note 5. Other expenses include £23.4m of non-recurring items 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 2015

Attributable to owners of the Parent									
Note	Share capital £000's	Share premium £000's	Merger relief reserve £000's	Merger reserve £000's	Shares held by Employee Benefit Trust £000's	Retained profit £000's	Total £000's	Non-controlling interest £000's	Total £000's
At 1 January 2014	40,000	435,249	–	(24,521)	(58)	147,945	598,615	(66)	598,549
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
At 31 December 2014	40,000	435,249	–	(24,521)	(136)	154,098	604,690	–	604,690
At 1 January 2015	40,000	435,249	–	(24,521)	(136)	154,098	604,690	–	604,690
Shares issued/bought for cash	32	4,013	–	49,085	–	–	53,098	–	53,098
Share based payments	19	–	–	–	(56)	3,186	3,130	–	3,130
Dividends paid		–	–	–	–	(6,000)	(6,000)	–	(6,000)
Loss for the year		–	–	–	–	(14,100)	(14,100)	–	(14,100)
At 31 December 2015	44,013	435,249	49,085	(24,521)	(192)	137,184	640,818	–	640,818

The notes on pages 77 to 114 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 2015 are set out below:

SHARES ISSUED FOR CASH

On September 2016, an additional 39,995,997 shares were issued raising capital (net of expenses) of £53,284,942 and creating a Merger Relief Reserve (note 32).

SHARE-BASED PAYMENTS

£3.1m (2014: £1.2m) 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).

DIVIDENDS

A final dividend for 2014 of 2 pence per ordinary share amounting to £4m was paid on 29 May 2015. An interim dividend of 0.5 pence per ordinary share amounting to £2m was paid on 30 October 2015.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

	Note	2015 £000's	2014 £000's
Assets			
Property, plant and equipment	9	9,297	12,557
Goodwill	10	126,207	126,207
Other intangible assets	11	12,220	15,219
Financial assets	12	4,886,583	4,910,904
Investment in joint ventures and associates	14	254	233
Reinsurance assets	20	3,204,055	3,246,008
Insurance and other receivables	15	90,382	39,167
Prepayments and accrued income	16	3,480	3,615
Deferred tax asset	17	938	519
Cash and cash equivalents	18	453,033	87,251
Total assets		8,786,449	8,441,680
Equity			
Share capital	32	44,013	40,000
Share premium	32	435,249	435,249
Merger relief reserves	32	49,085	–
Merger reserve	32	(24,521)	(24,521)
Shares held by Employee Benefit Trust	32	(192)	(136)
Retained profit		137,184	154,098
Total equity		640,818	604,690
Liabilities			
Insurance liabilities	20	5,424,843	5,231,112
Insurance and other payables	21	47,372	29,527
Financial liabilities	22	2,561,290	2,571,288
Current tax liabilities	23	3,957	3,735
External borrowings	24	107,257	–
Deferred tax liability	17	912	1,328
Total liabilities		8,145,631	7,836,990
Total equity and liabilities		8,786,449	8,441,680

The notes on pages 77 to 114 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 decrease of £24m in the value of financial assets in 2015 reflects the growth in the business in 2015 and overall increase in assets, but with a larger proportion of assets held in cash or cash equivalents at the end of the year. The portfolio is of a high overall credit rating (note 30c).

During the year the Group:

- funded or originated £180m (2014: £172m) of loans secured by residential mortgages;
- acquired books of loans secured by residential mortgages amounting to £39m (2014: £61m); and
- funded loans secured by commercial mortgages, investing £34m (2014: £37m).

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 capitalised 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 2015 has increased by £194m from 31 December 2014 due primarily to the net growth in the size of the annuity business (note 20b).

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 Consolidated Statement of Comprehensive Income and are largely offset by movements in the fair value of the related assets.

CAPITAL MANAGEMENT

The economic capital (EC) and Insurance Group's Directive (IGD) capital positions as at 31 December 2015 are calculated for the Group's ultimate Parent Company, PAG plc.

	Economic capital ¹		IGD	
	2015 £m	2014 proforma ² £m	2015 £m	2014 proforma ² £m
Total capital available	803	625	604	568
Capital required	359	393	233	224
Excess surplus	444	232	371	344
Coverage ratio (%)	224%	159%	260%	254%

Excess capital surplus on both an EC and IGD basis increased in 2015. The key driver of the increase was the capital raise (note 32) which took place during the year, together with a revision to the EC basis releasing excess prudence from the previous basis which was pegged to the ICAS regime. Note 31 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	
		2015	Proforma 2014
Economic capital surplus		£444m	£232m
Economic capital coverage		224%	159%
Interest +1%	16	248%	176%
Interest -1%	15	212%	141%
Credit spread widening +100bps	(15)	231%	159%
Property -10% price fall ³	(45)	209%	147%
Longevity +5% deterioration	(32)	215%	151%

- 1 Economic capital is the Group's own internal risk-based assessment of its capital requirement and does not imply capital as required by regulators.
- 2 2014 proforma before final dividend and including £100m bond agreed on 2 March 2015.
- 3 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 2015

	Note	2015 £000's	2014 £000's
Cash generated from operations	27	224,569	11,664
Corporation tax paid		(5,315)	(19,705)
Net cash from/(used in) operating activities		219,254	(8,041)
Cash flows from investing activities:			
Purchase of property, plant and equipment	9	(285)	(1,308)
Purchase of other intangible assets	11	(195)	(2,093)
Investment in associate		–	(48)
Net cash used in investing activities		(480)	(3,449)
Cash flows from financing activities:			
Proceeds from issuance of share capital	32	53,098	–
Dividends paid to shareholders		(6,000)	(14,000)
Proceeds from external borrowings	24	99,910	–
Net cash from/(used in) financing activities		147,008	(14,000)
Net increase/(decrease) in cash and cash equivalents		365,782	(25,490)
Cash and cash equivalents brought forward		87,251	112,741
Cash and cash equivalents carried forward	18	453,033	87,251

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 77 to 114 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/(USED IN) OPERATING ACTIVITIES

There was a £219m net cash inflow from operating activities in 2015 (2014: £8m net operating outflow) as the balance of new business receipts not yet invested at 31 December 2015 exceeded the equivalent balance at 31 December 2014.

CORPORATION TAX PAID

Corporation tax paid in 2015 included £7m of instalment payments for the year, partially offset by a rebate of £1.5m in respect of research and development claims for prior years.

NET CASH USED IN INVESTING ACTIVITIES

Cash used in investment activities has decreased year on year. In 2015 we made fewer investments in property, plant and equipment and capitalised reduced software development costs, compared with 2014.

NET CASH FROM/(USED IN) FINANCING ACTIVITIES

The 2015 cash flow includes the £4m 2014 final dividend and the £2m interim 2015 dividend that was paid in the second half of 2015.

FINANCIAL REVIEW OF SEGMENTAL INFORMATION

The Consolidated Segmental 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	2015 £000's	2014 £000's
New business operating profit	10,755	38,962
In-force operating profit	14,601	8,477
Long-term expected return on surplus assets	14,451	16,328
Operating profit	39,807	63,767
Investment variances	(25,642)	(23,491)
Non-recurring items	(23,420)	(16,348)
Other	154	139
Interest on borrowings	(7,347)	–
(Loss)/profit from continuing operations before tax	(16,448)	24,067

TOTAL OPERATING PROFIT

Total operating profit in the year to 31 December 2015 of £39.8m is down £24.0m from the £63.8m reported for 2014 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 72% from £39.0m in 2014 to £10.8m in 2015. 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 £14.6m for the year ended 31 December 2015 compared with £8.5m for 2014.

In-force operating profit includes planned margin for longevity investment returns and expenses, together with experience variances and assumption changes in the period. In 2015, we made an overall longevity profit after allowing for basis changes.

The underlying profits were offset by non-recurring assumption and other variances totalling £(4.3)m (2014: £(2.8)m).

LONG-TERM RETURN ON SURPLUS ASSETS

Long-term expected return on surplus assets for the year ended 31 December 2015 was down by £1.8m to £14.5m (2014: £16.3m) due in part to a lower proportion of ER assets in surplus.

INVESTMENT VARIANCES

The negative investment variance in the period includes the net impact of differences between the assumed rates of investment return at the start of the period and those actually achieved. This includes, as the largest component, variances realised on re-balancing the portfolio ahead of the introduction of Solvency II to meet cash flow matching requirements.

NON-RECURRING ITEMS

Detail of non-recurring items is included in note 1(a).

INTEREST ON BORROWINGS

The Group issued a £100m Solvency II tier 2 qualifying debt instrument at par in March 2015 with a maturity date of March 2025 and a coupon of 9.5%. Prior to this point the Company was debt free.

IFRS LOSS BEFORE TAX

IFRS loss before tax amounted to £16.4m compared with £24.1m profit for 2014. The decrease is due to the effects of the fall in sales volumes and higher non-recurring items.

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 the 2015 loss and 2014 profit before tax:

For the year ended 31 December	2015 £000's	2014 £000's
New business operating profit	10,755	38,962
In-force operating profit	14,601	8,477
Long-term expected return on surplus assets	14,451	16,328
Operating profit	39,807	63,767
Investment variances	(25,642)	(23,491)
Non-recurring items	(23,420)	(16,348)
Other gains	154	139
Interest on borrowings	(7,347)	–
(Loss)/profit from continuing operations before tax	(16,448)	24,067

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 items primarily relates to:

- £5.8m of deal costs relating to the proposed merger with Just Retirement plc and costs relating to the capital raise in March 2015 (2014: £nil);
- £3.5m of Solvency II related charges (2014: £2.0m), plus a £3.5m of negative profit impact (2014: £nil) relating to an addendum to a closed reinsurance treaty in relation to Solvency II;
- £4.8m of implementation costs in respect of product development and new initiatives (2014: £0.8m and a further £2.7m on other projects that did not repeat in 2015); and
- £1.7m of costs incurred in developing scalable and flexible DB architecture (2014: £2.3m).

In addition, non-recurring amortisation and impairment totalled £3.8m in 2015 (2014: £8.5m).

Other gains relate to the Group's interest in distribution subsidiaries and holding company expenses.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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	2015	2014
Cash	0.5%	0.5%
Gilts	3.0%	3.0%
Corporate bonds	4.0%	4.5%
Commodity trade finance loans	N/A	10.0%
Loans secured by residential mortgages	6.0%	6.0%

No significant amount of commodity trade finance loans were held at any point during 2015 and so no yield on these investments was used in the derivation of long-term expected return.

b) Segmental analysis of new business revenue by target market

For the year ended 31 December	2015 £000's	2014 £000's
Individual retirement annuities	280,235	465,840
Defined benefit buy-in/buy-out annuities	277,185	246,573
Individual care annuities	68,408	75,741
Individual protection policies	4,952	3,083
Total SPE	630,780	791,237

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	2015 £000's	2014 £000's
Total SPE	630,780	791,237
Adjustment in respect of regular premium business	(4,393)	135
Change in premiums receivable – not included in SPE	25,060	(30,734)
Gross premiums written	651,447	760,638

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	2015 £000's	2014 £000's
Individual retirement annuities	305,525	435,106
Defined benefit buy-in/buy-out annuities	274,155	246,573
Individual care annuities	68,522	75,864
Individual protection policies	3,245	3,095
Total gross premiums written	651,447	760,638

2 BASIS OF PREPARATION AND NEW AND REVISED STANDARDS

Basis of preparation

Partnership Assurance Group (PAG) plc (the “Company”) was incorporated in the UK 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 33 outlines the activities, performance and future outlook of the Group. Note 30 to the Financial Statements sets out the Group's policies and procedures for managing insurance and financial risk, and note 31 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 2015.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

2 BASIS OF PREPARATION AND NEW AND REVISED STANDARDS CONTINUED

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's).

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 2015.

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 51 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 or revised standards that became effective (as adopted by the EU) as of 1 January 2015:

- an amendment to IAS 19 "Employee Benefits" clarifying the requirements on attributing to periods of service contributions from employees or third parties that are linked to service. The amendment has no impact on the financial statements in the current or prior periods; and
- minor amendments to various standards arising from the Annual Improvements 2010–12 and 2011–13 cycles have no impact on the financial statements in the current or prior periods.

Other changes in accounting policy are as follows

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
IFRS 9	Financial Instruments 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
IFRS 10, IFRS 11 and IAS 28	Consolidated Financial Statements, Joint Arrangements, Investments in Associates and Joint Ventures Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture. The amendments have not yet been endorsed by the EU.	1 January 2016
IFRS 14	Regulatory Deferral Accounts 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 will not be endorsed by the EU.	1 January 2016
IFRS 15	Revenue from Contracts with Customers 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 standard is 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 2018

Standard/ interpretation	Content/amendment	Applicable for annual financial periods beginning on or after
IFRS 16	Leases IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard will require the recognition of assets and liabilities arising from contracts currently classified as operating lease but is not expected to have a material impact on Group profit before tax. The standard has not yet been endorsed by the EU.	1 January 2016
IAS 16	Property, Plant and Equipment 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
IAS 27	Separate Financial Statements 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 standard has not yet been endorsed by the EU.	1 January 2016
IAS 38	Intangible Assets Amendments regarding the clarification of acceptable methods of depreciation and amortisation. The standard has not yet been endorsed by the EU.	1 January 2016
IAS 41	Agriculture Amendments bringing bearer plants into the scope of IAS 16. The standard has not yet been endorsed by the EU.	1 January 2016
Annual Improvements 2010–12 cycle	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 standard has not yet been endorsed by the EU.	1 January 2016
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations Amendments clarify that all the measurement and disclosure requirements of IFRS 3 apply to the acquisition of interests in joint operations. 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 will be applied prospectively.	1 January 2016
IAS 1	Disclosure Initiative Amendments that provide clarification on permissible aggregation and disaggregation of financial statement items, and additional examples of possible ways of ordering notes to the financial statements. None of the proposed amendments are expected to have a material impact on the Group's profit before tax for the year or equity.	1 January 2016
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses Amendments that clarify the recognition of deferred tax assets for unrealised losses on debt instruments, guidance on estimates for future taxable profits and the assessment of multiple deferred tax assets in combination. 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 2017

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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	2015 £000's	2014 £000's
Net interest income on financial assets and financial liabilities	63,837	71,454
(Losses)/gains on financial assets and financial liabilities	(7,782)	231,327
Losses on derivative instruments (designated as held for trading)	(4,784)	(3,549)
Total net investment income	51,271	299,232

All financial assets and liabilities with the exception of external borrowings (note 24) 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	2015 £000's	2014 £000's
Commission	2,469	4,049
Other acquisition expenses	620	948
Total acquisition costs	3,089	4,997

5 OTHER OPERATING EXPENSES

Profit from continuing operations before tax is stated after charging the following items:

For the year ended 31 December	Note	2015 £000's	2014 £000's
Staff costs, including Directors' remuneration	6	38,505	40,760
Depreciation of property, plant and equipment	9	3,274	3,238
Amortisation of intangible assets	11	3,194	3,275
Rental of leased premises		2,835	3,220
Other operating leases		757	308
Auditor remuneration		1,217	704
Share-based payment charges	19	3,144	1,223
Consultancy		9,104	8,681
Legal and professional fees		8,523	5,288
Marketing		5,985	12,591
Other (primarily office maintenance and supplies)		14,709	16,515
Total other operating expenses		91,247	95,803

Included in the expenses above are £69.1m (2014: £78.1) of operating expenses that are included in the derivation of operating profit. A further £19.9m (2014: £16.3m) are included in non-recurring expenditure (note 1a), and the balance of £2.2m (2014: £1.4m) is included within other non-operating items.

The analysis of the auditor's remuneration for the year is as follows:

	2015 £000's	2014 £000's
Fees payable for the year ended 31 December were in respect of:		
The audit of the PAG plc Annual Report and Accounts	66	94
The audit of other Group entities	183	192
Audit-related assurance services	202	172
Taxation compliance services	8	118
All other assurance services	735	–
Taxation advisory services	23	–
Corporate finance transactions relating to the IPO in June 2013	–	128
Auditor remuneration	1,217	704

All other assurance services include assurance requested by the PRA in reviewing Solvency II methodologies and the balance sheet, as well as assurance connected to the proposed merger with Just Retirement.

6 STAFF COSTS

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

	2015 £000's	2014 £000's
For the year ended 31 December		
Wages and salaries	32,147	34,202
Social security costs	4,373	4,494
Other pension costs	1,985	2,064
Total staff costs	38,505	40,760
The average number of persons employed during the year were:		
Administration and finance	368	444
Sales and marketing	73	73
Average number of employees	441	517

An analysis of Directors' remuneration is included in the Remuneration Report on pages 54 to 60.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7 INCOME TAX CONTINUED

For the year ended 31 December	2015 £000's	2014 £000's
Current taxation:		
Tax (credit)/charge for the year	(1,204)	6,015
Adjustment in respect of prior periods	(309)	(2,035)
	(1,513)	3,980
Deferred taxation:		
Tax (credit)/charge for the year	(835)	1,233
Net taxation charge	(2,348)	5,213

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 20.25% (2014: 21.5%), as follows:

For the year ended 31 December	2015 £000's	2014 £000's
(Loss)/profit from continuing operations before tax	(16,448)	24,067
Total tax at the statutory 2015 rate of 20.25% (2014: 21.5%)	(3,330)	5,173
Impact of translation to reporting currency	36	–
Disallowable expenses	1,226	51
Adjustments in respect of prior periods	(309)	(2,035)
Adjustments to deferred tax in respect of prior periods	(35)	1,903
Tax rate change impact	(83)	55
Non-qualifying depreciation	97	106
Share-based payment charge/(credit) on which deferred tax not recognised	50	(40)
Net taxation (credit)/charge	(2,348)	5,213

Taxation was all from continuing operations in 2015 and 2014.

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 or loss 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	2015 £000's	2014 £000's
(Loss)/profit for the year	(14,100)	18,854
Less non-controlling interests	–	(2)
(Loss)/profit attributable to equity holders of the parent	(14,100)	18,852
Effect of dilutive potential ordinary shares:		
Share options	–	–
Diluted profit attributable to equity holders of the parent	(14,100)	18,852

For the year ended 31 December	2015 Number of shares	2014 Number of shares
Basic weighted average number of shares	410,194,086	399,870,568
Share options	16,777,936	2,780,521
Diluted weighted average number of shares	426,972,022	402,651,089

The Group has a number of other employee share-based plans (note 19). Each of these plans 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 DBSP awards will be settled by a fresh issue of shares when the awards vest and hence will be dilutive.

On 29 September 2015, an additional 39,995,997 shares were issued raising capital of £53,284,942 and a further 136,154 shares were issued during December 2015 to settle LTIP and DBSP awards (see note 32).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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:

	2015	2014
Computer equipment	33%	33%
Fixtures and fittings	10% to 20%	10% to 20%
Office refit	10% to 50%	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 2015	8,680	496	11,225	20,401
Additions	275	–	10	285
Disposals	–	–	(577)	(577)
At 31 December 2015	8,955	496	10,658	20,109
Accumulated depreciation at 1 January 2015	5,592	454	1,798	7,844
Charge for the year	1,945	19	1,310	3,274
Disposals	–	–	(306)	(306)
At 31 December 2015	7,537	473	2,802	10,812
Net book value at 31 December 2014	3,088	42	9,427	12,557
Net book value at 31 December 2015	1,418	23	7,856	9,297

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 (CGUs) 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.

	2015 £000's	2014 £000's
At 1 January	126,207	126,207
At 31 December	126,207	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 CGU, 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. Value in use has been determined as the present value of expected future cash flows associated with new business. The cash flows used in this calculation are consistent with those monitored by management.

Expected future new business cash flows are based on financial plans approved by management, covering a period of five years from the balance sheet date. A rate of 15.1% (2014: 13.1%) has been applied to discount cash flows to a present value.

No impairment has been recognised in 2015 or 2014.

11 OTHER INTANGIBLE ASSETS

Other intangible assets comprise intellectual property and software development costs.

The intellectual property asset comprises specific mortality tables derived from data collected over an extended period and is 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 CGU, or company of units, to which the asset belongs.

	2015 £000's	2014 £000's
Intellectual property cost and carrying amount:		
At 1 January	3,100	3,100
At 31 December	3,100	3,100
Software development cost:		
At 1 January	19,898	17,805
Additions at cost	195	2,093
At 31 December	20,093	19,898
Software development accumulated amortisation:		
At 1 January	7,779	4,504
Charge for the year	3,194	3,275
At 31 December	10,973	7,779
Total intangible assets at 1 January	15,219	16,401
Total intangible assets at 31 December	12,220	15,219

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" CGU, 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 2014 or 2015.

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 that is embedded in the product. The discount rates that are applied to cash flows to produce the fair values 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 historical 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 values 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 currency contracts, interest rate swaps, credit default swaps, inflation swaps, fixed coupon cross currency swaps, interest rate futures and swaptions.

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	2015 £000's	2014 £000's
Financial investments	3,371,950	3,584,820
Loans secured by residential mortgages	1,434,788	1,212,324
Derivative assets	14,228	75,892
Loans secured by commercial mortgages	65,617	37,868
Total financial assets	4,886,583	4,910,904

The methodology used to derive the fair values is set out in note 26.

Financial assets Cost at 31 December	2015 £000's	2014 £000's
Financial investments	3,314,066	3,298,543
Loans secured by residential mortgages	1,139,627	950,909
Derivative assets	4,246	–
Loans secured by commercial mortgages	65,399	37,481
Total financial assets	4,523,338	4,286,933

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 UK 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 ⁱ	Holding company	100%
PAG Finance Limited ⁱ	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 ⁱⁱ	Management services	100%
PAERSPV Limited ⁱⁱⁱ	Investment activity	100%
Eldercare Group Limited ^{iv}	Independent financial advisers	33%

ⁱ Incorporated in Jersey (now dormant)

ⁱⁱ Incorporated in the US

ⁱⁱⁱ Yet to start trading

^{iv} Associate

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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.

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 £450.3m (2014: £459.0m). 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 joints venture.

	2015 £000's	2014 £000's
Associates		
At 1 January	233	–
Fair value on initial recognition	–	206
Share of profit from continuing operations	21	27
At 31 December	254	233
Joint ventures		
At 1 January	–	206
Impairment of joint venture	–	(206)
At 31 December	–	–

During 2014, the Group entered into a transaction that changed its holding in Eldercare from a subsidiary to an associate and also impaired and then disposed of its joint venture investment in Gateway.

There were no profits or losses arising from discontinued operations in joint ventures or associates in 2015 or 2014. There were no items of other comprehensive income in joint ventures or associates in 2015 or 2014.

15 INSURANCE AND OTHER RECEIVABLES

Insurance and reinsurance debtors represent amounts receivable after commencement of the contract which have not been settled at the balance sheet date.

At 31 December	2015 £000's	2014 £000's
Debtors arising out of insurance contracts ⁱ	68,187	11,135
Debtors arising out of reinsurance contracts	9,880	22,522
Other debtors	3,235	3,266
Corporation tax receivable	8,920	2,091
Amounts due from associate	160	153
Total insurance and other receivables	90,382	39,167

i Includes £34.6m in respect of premiums written for which funds had not yet been received from the policyholder (2014: £9.7m), and £33.6m in respect of Defined Benefit de-risking premiums written for which funds had not yet been received from two schemes (2014: £2.3m, one scheme)

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	2015 £000's	2014 £000's
Accrued interest	188	32
Prepayments	3,292	3,583
Total prepayments and accrued income	3,480	3,615

17 DEFERRED TAX ASSET/LIABILITY

	2015 £000's	2014 £000's
Deferred tax asset at 1 January	519	424
Deferred tax liability at 1 January	(1,328)	–
Credit/(debit) to Consolidated Statement of Comprehensive Income	835	(1,233)
Deferred tax asset at 31 December	938	519
Deferred tax liability at 31 December	(912)	(1,328)

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 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 unwind is 18.75% (2014: 20%).

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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	2015 £000's	2014 £000's
Short-term bank deposits	406,770	56,159
Cash at bank and in hand	46,263	31,092
Total cash and cash equivalents	453,033	87,251

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	2015 £000's	2014 £000's
Long Term Incentive Plan	1,877	863
Deferred Share Bonus Plan	989	273
Share Incentive Plan	102	92
Save As You Earn Plan	176	(5)
Total expense	3,144	1,223

i) Long Term Incentive Plan (LTIP)

	2015 Number of awards	2014 Number of awards
Outstanding at the beginning of the year	5,731,511	1,280,414
Granted during the year	3,249,243	4,745,589
Forfeited during the year	(304,854)	(294,492)
Settled during the year	(202,922)	–
Outstanding at the end of the year	8,472,978	5,731,511

The Group made awards under the LTIP to Executive Directors and other senior executives in August 2015 (2015 LTIP), 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 and 2015 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 the London stock exchange in June 2013 to 31 December 2015, in respect of the 2013 LTIP, the period from 22 May 2014 to 22 May 2017 in respect of the 2014 LTIP, and 11 August 2015 to 11 August 2018 in respect of the 2015 LTIP. Vesting of 10% of the 2013 LTIP award and 20% of the 2014 and 2015 LTIP awards will occur for median performance and the maximum vesting (50% for the 2013 LTIP and 100% for the 2014 and 2015 LTIPs) 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 £1,876,730 (2014: £862,718) 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 £0.88.

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.

The weighted average exercise price of all awards under the LTIP is £nil.

ii) Deferred Share Bonus Plan (DSBP)

	2015 Number of awards	2014 Number of awards
Outstanding at the beginning of the year	899,528	–
Granted during the year	887,699	946,134
Forfeited during the year	(3,322)	(46,606)
Settled during the year	(134,989)	–
Outstanding at the end of the year	1,648,916	899,528

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 are 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. 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 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 £988,642 (2014: £272,545) 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.

The weighted average fair value of awards made during the year was £1.56. 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

iii) Share Incentive Plan (SIP)

	2015 Number of awards	2014 Number of awards
Outstanding at the beginning of the year	87,843	119,340
Granted during the year	864	2,911
Forfeited during the year	(16,347)	(34,408)
Outstanding at the end of the year	72,360	87,843

In 2013, the Company made a one-off award of £1,000 of free shares immediately after listing 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 £102,497 (2014: £92,430) has been recognised in the Consolidated Statement of Comprehensive Income in respect of this scheme for the year to 31 December 2015 with a corresponding increase in equity in the Consolidated Statement of Financial Position.

Further awards have been made in the year to 31 December 2015, reflecting additional shares to scheme participants on payment of 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 £1.35. 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.

iv) Save As You Earn (SAYE) share option plan

	2015 Number of awards	2014 Number of awards	2015 Weighted average of exercise price £	2014 Weighted average of exercise price £
Outstanding at the beginning of the year	1,560,562	465,761	1.08	3.57
Granted during the year	396,843	1,536,051	1.23	0.94
Forfeited during the year	(231,436)	(441,250)	1.45	3.21
Outstanding at the end of the year	1,725,969	1,560,562	1.07	1.08

Under the SAYE 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, November 2014, and September 2015.

A charge of £175,829 (2014: credit of £4,954) has been recognised in the Consolidated Statement of Comprehensive Income in respect of this scheme for the year to 31 December 2015 with a corresponding increase in equity in the Consolidated Statement of Financial Position.

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 (£1.23) and share price at the measurement date 16 September 2015 (£1.50).

20 INSURANCE LIABILITIES AND REINSURANCE ASSETS

Insurance liabilities

Insurance contracts are defined as those containing significant insurance risk if, and only if, and insured event would cause and 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 Chief Actuary on the modified statutory basis using recognised actuarial methods with due regard to the actuarial principles set out in the PRA'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 amounts 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20 INSURANCE LIABILITIES AND REINSURANCE ASSETS CONTINUED

At 31 December	2015 £000's	2014 £000's
Long-term business provision	5,424,843	5,231,112
Reinsurers' share of long-term business provision	(3,204,055)	(3,246,008)
Net provision	2,220,788	1,985,104

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	2015	Modified E&W Population Mortality with improvements based on CMI_2014_M (1.75%) and CMI_2014_F (1.50%)	3.88%
	2014	Modified E&W Population Mortality with improvements based on CMI_2013_M (1.75%) and CMI_2013_F (1.50%)	3.53%
Other annuity products	2015	Modified PCMA/PCFA00 bespoke improvements	1.68%
	2014	Modified PCMA/PCFA00 bespoke improvements	1.35%
Term and whole of life products	2015	86.25% TM/TF00Select	1.15%
	2014	86.25% TM/TF00Select	1.00%

Valuation discount rate assumptions are set with regards to yields on supporting assets. An allowance for risk is included by making and 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 43% (31 December 2014: 42%) 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 2015	Gross £000's	Reinsurance £000's	Net £000's
At 1 January 2015	5,231,112	(3,246,008)	1,985,104
Increase in liability from new business	613,687	(149,631)	464,056
Release of in-force liability	(166,449)	107,560	(58,889)
Release of liability due to recorded deaths	(80,311)	39,467	(40,844)
Economic changes	(195,491)	113,394	(82,097)
Non-economic changes	521	–	521
Other	21,774	(68,837)	(47,063)
At 31 December 2015	5,424,843	(3,204,055)	2,220,788

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
At 31 December 2014	5,231,112	(3,246,008)	1,985,104

c) Analysis of expected maturity

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

At 31 December 2015	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	432,711	1,592,748	1,715,036	4,603,886	5,424,843
Reinsurers' share of long-term business provision	(266,774)	(993,084)	(1,071,279)	(2,612,022)	(3,204,055)
Net	165,937	599,664	643,757	1,991,864	2,220,788

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)
Net	153,346	544,237	571,040	1,667,559	1,985,104

d) Sensitivity analysis

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

Sensitivity factor	Description of sensitivity factor applied
Interest rate & investment return	The impact of a change in the market interest rates by +/- 1% (e.g. if a current interest rate is 5%, the impact of an immediate change to 4% and 6% respectively). The test allows consistently for similar changes to investment returns and movements in the market backing fixed interest securities.
Credit spreads	The impact of credit spreads widening by 50bps with a corresponding 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.

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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	
	2015 £000's	2014 £000's
Interest rates +1%	(6,805)	2,866
Interest rates -1%	35,537	(5,993)
Credit spreads +0.5%	(22,267)	(11,621)
Expenses +10%	(10,126)	(10,906)
Mortality -5%	(34,314)	(32,027)
Property prices -10%	(42,252)	(38,583)
Voluntary redemptions +10%	(5,861)	(6,412)

21 INSURANCE AND OTHER PAYABLES

At 31 December	2015 £000's	2014 £000's
Payables arising from insurance contracts	3,872	4,774
Payables arising from reinsurance contracts	610	3,159
Other creditors and accruals	42,890	21,594
Total insurance and other payables	47,372	29,527

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	2015 £000's	2014 £000's
Deposits from reinsurers	2,506,378	2,491,795
Derivative liabilities	54,912	79,493
Total financial liabilities	2,561,290	2,571,288

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	2015 £000's	2014 £000's
Other taxes and social security costs	3,957	3,735
Total current tax liabilities	3,957	3,735

24 EXTERNAL BORROWINGS

During the period the Group issued a £100m bond and applied the following policy to the resulting liability: External borrowings are recorded at the proceeds received, net of direct issue costs. Issue costs are capitalised and charged to the Consolidated Statement of Comprehensive Income over the life of the loan using the effective interest method. Interest payable is accounted for on an accruals basis in the Consolidated Statement of Comprehensive Income. Gains and losses on the repurchase, settlement or otherwise cancellation of external borrowings are recognised respectively in the income and interest expenses and charges.

At 31 December	2015 £000's	2014 £000's
External borrowings	107,257	–
Total external borrowings	107,257	–

The Group issued a £100m Solvency II Tier 2 qualifying debt instrument at par in March 2015 with a maturity date of March 2025 and a coupon of 9.5%. Net of issuance fees the amount received was £99,910,000.

25 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, cross-currency interest rate swaps, and swaptions.

At 31 December 2015	Asset fair value £000's	Liability fair value £000's	Notional amount £000's
Forward currency positions	359	6,278	192,794
Interest rate swaps	9,827	14,734	1,373,765
Inflation swaps	790	19,626	515,490
Credit default swaps	3,166	–	37,146
Cross-currency interest rate swaps	–	11,138	371,577
Interest rate futures	–	3,136	6
Swaptions	86	–	592,325
Total derivative financial instruments	14,228	54,912	3,083,103

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
Total derivative financial instruments	75,892	79,493	2,125,256

All over-the-counter (OTC) 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 2015, the Group had pledged £34.6m (2014: £29.8m) and held collateral of £6.7m (2014: £19.0m) in respect of outstanding OTC derivative positions.

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26 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).

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 2015 and 31 December 2014.

At 31 December 2015	Level 1 £000's	Level 2 £000's	Level 3 £000's	Total £000's
Financial investments (a)	3,371,858	–	92	3,371,950
Loans secured by residential mortgages (b)	–	–	1,434,788	1,434,788
Derivative assets (c)	–	14,228	–	14,228
Loans secured by commercial mortgages (d)	–	–	65,617	65,617
Total financial assets held at fair value	3,371,858	14,228	1,500,497	4,886,583
Deposits from reinsurers (e)	–	–	2,506,378	2,506,378
Derivative liabilities (c)	–	54,912	–	54,912
Total financial liabilities held at fair value	–	54,912	2,506,378	2,561,290

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
Total financial assets held at fair value	3,583,183	75,892	1,251,829	4,910,904
Deposits from reinsurers (e)	–	–	2,491,795	2,491,795
Derivative liabilities (c)	–	79,493	–	79,493
Total financial liabilities held at fair value	–	79,493	2,491,795	2,571,288

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 2015.

For the year ended 31 December 2015	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 2015	(2,491,795)	37,868	1,637	1,212,324
Loans (received)/advanced	(217,586)	31,415	–	219,160
Total (losses)/gains in consolidated statement of comprehensive income	(70,189)	(1,356)	79	(215)
Redemptions made/(received)	366,377	(3,905)	(1,624)	(57,567)
(Interest payable accrued)/interest receivable accrued	(93,185)	1,595	–	61,086
At 31 December 2015	(2,506,378)	65,617	92	1,434,788

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)	37,480	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
At 31 December 2014	(2,491,795)	37,868	1,637	1,212,324

The gains and losses are included within net investment income in the Consolidated Statement of Comprehensive Income.

The unrealised gains/(losses) in respect of deposits from reinsurers, loans secured by commercial mortgages, commodity trade finance investments and loans secured by residential mortgages for the period to 31 December 2015 are £(70.2)m (2014: £(139.4)m), £(1.4)m (2014: £0.3m), £0.1m (2014: £(0.9)m) and £(0.2)m (2014: £185.6m) 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		
At 31 December 2015	Significant assumption	Current fair value £000's	Increase in fair value £000's	Decrease in fair value £000's
Assets				
Loans secured by commercial mortgages	Discount rate	65,617	3,881	(3,582)
Loans secured by residential mortgages	Discount rate	1,434,788	182,255	(153,479)
Liabilities				
Deposits from reinsurers	Discount rate	(2,506,378)	(223,056)	190,339

		Impact of alternative assumption		
At 31 December 2014	Significant assumption	Current fair value £000's	Increase in fair value £000's	Decrease in fair value £000's
Assets				
CTF Investments	Expected defaults	1,637	289	(353)
Loans secured by commercial mortgages	Discount rate	37,869	2,744	(2,501)
Loans secured by residential mortgages	Discount rate	1,212,324	156,367	(132,186)
Liabilities				
Deposits from reinsurers	Discount rate	(2,491,795)	(220,538)	192,268

The impacts 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 (CTF) 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 2015 and 31 December 2014, 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 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.

26 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 2015 was nil% p.a. (31 December 2014: nil%).

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 residential 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 2015 was 5.10% (31 December 2014: 5.05%).

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 2015 were 5.5% (31 December 2014: 5.5%) and 13% (31 December 2014: 13%) respectively. The over-valuation assumption used as at 31 December 2015 was 28% (31 December 2014: 27.4%). The value of the no-negative equity guarantee as at 31 December 2015 was £128.7m (31 December 2014: £112.5m).

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 2015 and 31 December 2014 were purchased over-the-counter.

The Group's derivative assets and liabilities include forward currency positions, interest rate swaps, inflation swaps, credit default swaps, fixed coupon cross currency swaps, interest rate futures and swaptions.

Forward currency positions: Forward currency exchange contracts are priced from independent third parties.

Interest rate swaps: The fair value of the interest rate swaps is derived from an interest rate swap pricing model. Inputs to the model are the characteristics of the swap and market rates such as SONIA, LIBOR, FRA rates and interest rate swap rates. The choice of which rates to use and how to combine them is dependent on the characteristics of the swap, and on the Credit Support Annex under which the swap is transacted. This data is used to calculate zero coupon interest rate swap curves. From this, forward curves are created to generate the future floating leg cash flows of the swap. The curves are also used to discount all fixed and derived future cash flows to create the fair value of the fixed and floating legs of the swaps.

Inflation swaps: The fair value of the inflation swaps is derived from an inflation swap pricing model. This uses a time series of historic inflation index levels, to create an inflation seasonality model, market zero coupon inflation swap rates, to create an inflation expectation curve, and a zero coupon interest rate swap curve (see for Interest rate swap). The inflation swap pricing model generates the future cash flows for the inflation legs of the swap and then discounts both fixed and floating legs to create the fair value of the fixed and floating legs of the swap.

Credit default swaps (CDS): The fair value of credit default swaps is derived using a CDS pricing model. Inputs to the model are the characteristics of the CDS and market rates such as EONIA, LIBOR, FRA rates, interest rate swap rates and CDS spreads. The choice of which rates to use and how to combine them is dependent on the characteristics of the CDS, and on the Credit Support Annex under which the CDS is transacted. This data is used to calculate the probability of default and zero coupon interest rate swap curves. From these, expected future cash flows are calculated and then discounted to create the fair value of the CDS.

Fixed coupon cross currency swaps: The fair value of fixed coupon cross currency swaps is derived using a cross currency swap pricing model. Inputs to the model are the characteristics of the swap and market rates such as SONIA, Fed Funds, LIBOR, FRA's, interest rate swap rates, basis swap rates and FX rates. The choice of which rates to use and how to combine them is dependent on the characteristics of the swap, and on the Credit Support Annex under which the swap is transacted. The model calculates zero coupon interest rate and cross currency swap curves for each currency. These curves and FX rates are then used to discount all cash flows to create the fair value of the swap.

Interest rate futures: The fair value of the futures is taken from the closing price from the relevant exchange.

Swaptions: The fair value of the swaptions is derived from a swaption pricing model. Inputs to the model are the characteristics of the swaption and market rates such as SONIA, LIBOR, FRA rates, interest rate swap rates and volatility and volatility skews. The choice of which rates to use and how to combine them is dependent on the type of swaption, and on the Credit Support Annex under which the swaption is transacted. The model calculates the fair value of the swaption using a sophisticated option pricing algorithm.

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 the 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.

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 2015 for Individual retirement and Individual care annuities were 4.43% and 1.67% respectively (31 December 2014: 4.16% and 1.67% respectively).

27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December	2015 £000's	2014 £000's
(Loss)/profit from continuing operations before tax	(16,448)	24,067
Depreciation of property, plant and equipment	3,274	3,238
Amortisation of intangible assets	3,194	3,275
Assets written off	270	971
Investment in associate – Eldercare	(21)	(27)
Reclassification of subsidiary to associate	–	(94)
Share of loss of joint venture	–	206
Profit of subsidiary before disposal	–	2
Share-based payment charge	3,144	1,223
Interest on external borrowings	7,347	–
Decrease/(increase) in financial assets	24,321	(900,635)
(Decrease)/increase in financial liabilities	(9,998)	356,547
Decrease/(increase) in reinsurance assets	41,953	(405,259)
(Increase)/decrease in insurance and other receivables excluding corporation tax	(44,386)	42,557
Increase in prepayments and accrued income	135	7,376
Increase in insurance liabilities	193,731	883,524
Increase/(decrease) in insurance and other payables	17,845	(4,477)
Increase/(decrease) in other taxes and social security payables	222	(830)
Cash generated from operations	224,569	11,664

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28 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.

29 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 (2014: 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	2015 £000's	2014 £000's
Deposits managed by the Group	232,720	269,630
Deposits held in trust	279,640	279,619
Total deposits received from reinsurers	512,360	549,249

30 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 Chief Actuary. 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 higher 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 2015, the mean duration of the assets including surplus assets was 8.7 years (2014: 8.3 years) measured with reference to a gross redemption yield and the mean duration of the liabilities (including both retirement and care liabilities) was at 9.8 years (2014: 9.6 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 2015, £6.7m of collateral (2014: £19.0m) 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 & Poor's, or an equivalent rating from another recognised rating agency. These principles continue to be the basis for IFRS reporting, though the new Solvency II regime works on a different basis for setting margins.

30 MANAGEMENT OF INSURANCE AND FINANCIAL RISK CONTINUED

At 31 December 2015	Credit rating					Total £000's
	AAA £000's	AA £000's	A £000's	BBB £000's	Unrated £000's	
Financial investments	684,384	344,871	955,680	1,353,382	33,633	3,371,950
Derivative assets	–	–	–	–	14,228	14,228
Loans secured by residential mortgages	–	–	–	–	1,434,788	1,434,788
Loans secured by commercial mortgages	–	–	–	–	65,617	65,617
Reinsurance assets	–	1,242,972	1,961,083	–	–	3,204,055
Insurance and other receivables	–	6,072	3,808	–	80,502	90,382
Total	684,384	1,593,915	2,920,571	1,353,382	1,628,768	8,181,020

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
Total	815,605	1,542,764	3,211,641	1,280,870	1,345,199	8,196,079

No financial assets were past due at 31 December 2015 and 31 December 2014.

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 Asset Liability Matching '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.

The following table shows expected cash outflows for:

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

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

At 31 December 2015	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	165,937	599,664	643,757	1,991,864	2,220,788
Deposits from reinsurers	223,309	825,619	863,813	1,983,497	2,506,378
Derivative liabilities	4,220	30,957	26,813	64,432	54,912
External borrowings	9,500	38,000	147,500	–	107,257
Total	402,966	1,494,240	1,681,883	4,039,793	4,889,335

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 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
Total	380,011	1,374,881	1,424,967	3,707,536	4,556,392

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” that limits its exposure for the Group.

31 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 the equity attributable to the 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 the 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.

Up until 31 December 2015 “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. From 1 January 2016 the minimum capital requirement that applies at the “PLACL” and “PAG plc” level have become those set out in the Solvency II regulation.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 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 the 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	2015 £000's	2014 £000's
Total equity of PAG plc Group	640,818	604,690
Adjustments in respect of regulatory capital basis:		
Tier 2 debt	107,257	-
Inadmissible intangible assets	(12,220)	(15,219)
Inadmissible goodwill	(126,207)	(126,207)
Inadmissible deferred tax asset	(938)	(519)
Equity and reserves related to non-regulated entities (excluded from regulatory capital calculation), adjusted for inadmissible assets already adjusted above	(4,985)	3,042
Total available capital resources (IGD basis)	603,725	465,787
Group minimum capital requirement (IGD basis)	(232,578)	(224,127)
Surplus over regulatory capital requirement	371,147	241,660

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 or FCA regulations and the EU directives.

32 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 2015	Number of shares	Share capital £000's	Share premium £000's
The allotted and issued share capital of PAG plc:			
Shares issued at 1 January 2015	399,999,971	40,000	435,249
Shares issued for cash	40,132,151	4,013	-
As at 31 December 2015, ordinary shares of £0.10 each	440,132,122	44,013	435,249

At 31 December 2014	Number of shares	Share capital £000's	Share premium £000's
The allotted and issued share capital of PAG plc:			
Shares issued at 1 January 2014	399,999,971	40,000	435,249
As at 31 December 2014, ordinary shares of £0.10 each	399,999,971	40,000	435,249

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.

On 29 September 2015, an additional 39,995,997 shares were issued raising capital of £53,284,942 and a further 136,154 shares were issued during December 2015 to settle LTIP and DBSP awards.

Merger Reserve

The Merger Reserve arose on 12 June 2013 as a result of the transfer of ordinary shares in PAG Holdings Limited to the Company in exchange for the allotment and issue of ordinary shares in the Company. This resulted in the creation of the Merger Reserve as a result of the Group electing to account for the acquisition of its 100% shareholding in PAGH as a Group reconstruction.

Merger Relief Reserve

The Merger Relief Reserve arose on 29 September 2015, as a result of the shares issued on that date. The shares were used to acquire all the outstanding ordinary shares of a limited company thereby qualifying for Merger Relief under section 612 of the Companies Act 2006. That limited company was wound up immediately after the transaction.

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	2015 £000's	2014 £000's
Employee benefit trust	(192)	(136)

33 OPERATING LEASE COMMITMENTS

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

At 31 December	2015 £000's	2014 £000's
Leases expiring not later than one year	3,257	2,816
Leases expiring between one and five years	9,489	9,036
Leases expiring in more than five years	5,552	7,835
Total lease commitments	18,298	19,687

34 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 remuneration of the Directors, who are the key management personnel of the Group, is set out below:

At 31 December	2015 £000's	2014 £000's
Short-term employee benefits	3,193	2,850
Post-employment benefits	-	16
Total	3,193	2,866

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	2015 £000's	2014 £000's
Amounts owed to Directors:		
Loan advances	313	302
Loans owed by Directors	313	302

The loan advances to Directors accrue interest fixed at 4% p.a and are repayable in whole or in part at any time.

The amounts accruing from the Directors in respect of these loan notes are detailed below:

At 31 December	2015 £000's	2014 £000's
Interest accrued on Directors' loan advances	12	12
Interest accrued due from Directors	12	12

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.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

34 RELATED PARTY TRANSACTIONS CONTINUED

	2015 £000's	2014 £000's
Costs paid to entities related to Cinven Limited	65	122
Group's share of losses of joint venture investment	–	6
Loans advanced to associate and fees on loans	3	187
Value of other related party transactions	68	315

At 31 December 2015 there was no amount due or receivable from any entities related to Cinven Limited (2014: £nil).

Loans are regularly advanced to the Group's associate, Eldercare to provide short-term prefunding for policy holder annuity purchases.

At 31 December 2015, Eldercare owed the Group £184,000 (2014: £185,000).

d) Ultimate controlling party

Prior to 29 September 2015 the majority of the Company's ordinary shares were 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 UK. After this point the Company did not have an ultimate controlling party.

STATEMENT OF CHANGES IN EQUITY OF THE COMPANY AT 31 DECEMBER 2015

Note	Share capital £000's	Share premium £000's	Other reserves £000's	Retained profit £000's	Total £000's
At 1 January 2014	40,000	435,249	–	701,961	1,177,210
Share-based payments	–	–	–	1,223	1,223
Dividends payable	–	–	–	(14,000)	(14,000)
Profit for the year	–	–	–	168	168
At 31 December 2014	40,000	435,249	–	689,352	1,164,601
At 1 January 2015	40,000	435,249	–	689,352	1,164,601
Shares issued for cash 43	4,013	–	49,085	–	53,098
Share-based payments	–	–	–	3,144	3,144
Dividends payable	–	–	–	(6,000)	(6,000)
Loss for the year	–	–	–	(219,360)	(219,360)
At 31 December 2015	44,013	435,249	49,085	467,136	995,483

The Loss reported by the Company in 2015 includes a £214,000,000 write down in the value of its holding in its subsidiary Partnership Holdings Limited (note 37) as well as £5,631,524 of operating costs.

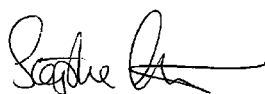
STATEMENT OF FINANCIAL POSITION OF THE COMPANY AT 31 DECEMBER 2015

Note	2015 £000's	2014 £000's
Assets		
Investment in subsidiaries 37	991,133	1,201,989
Other receivables 38	108,482	9,961
Prepayments and accrued income 39	24	4
Cash and cash equivalents 40	61,619	10,912
Total assets	1,161,258	1,222,866
Equity		
Share capital 43	44,013	40,000
Share premium 43	435,249	435,249
Other reserves 43	49,085	–
Retained profit	467,136	689,352
Total equity	995,483	1,164,601
Liabilities		
Other payables 41	58,419	58,219
Subordinated debt 24	107,257	–
Current tax liabilities 42	99	46
Total liabilities	165,775	58,265
Total equity and liabilities	1,161,258	1,222,866

The notes on pages 77 to 114 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 10 March 2016.

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 2015

	Note	2015 £000's	2014 £000's
(Loss)/Profit before tax		(219,304)	214
Adjustment for:			
(Decrease)/increase in other receivables	38	(98,521)	15,553
(Decrease)/increase in prepayments and accrued income	39	(20)	6
Increase in other payables	41	200	–
Corporation tax paid		(3)	(421)
Write down of investment in subsidiary	37	214,000	–
Net cash (used)/generated from operating activities		(103,648)	15,352
Cash flows from investing activities:			
Proceeds from the issuance of share capital		53,098	–
Dividends paid to shareholders		(6,000)	(14,000)
Investment in subsidiary	37	–	(23,000)
Proceeds from external borrowings	24	99,910	–
Interest paid on external borrowings	24	7,347	–
Net cash generated from/(used in) financing activities		154,355	(37,000)
Net increase/(decrease) in cash and cash equivalents		50,707	(21,648)
Cash and cash equivalents at beginning of year		10,912	32,560
Cash and cash equivalents at end of year	40	61,619	10,912

NOTES TO THE COMPANY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36 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 2015. 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 37 sets out the accounting policy in respect of investments in subsidiary undertakings.

37 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	2015 £000's	2014 £000's
Investment in Partnership Assurance Group Holdings Limited (PAGH)	28,286	28,286
Investment in Partnership Holdings Limited (PHL)	957,534	1,171,534
Investment in Partnership Services Limited (PSL)	5,313	2,169
Investment in subsidiaries	991,133	1,201,989

An impairment of £214,000,000 in the value of investment in subsidiaries, relating to the Group's investment in PHL, was recognised in the year. The impairment reflects adverse trading conditions following the implementation of the Pension Freedoms in April 2015.

The recoverable amount of PHL has been estimated as the value in use of £957,533,798. The discount rate applied to estimate the value in use was 15.1%.

38 OTHER RECEIVABLES

At 31 December	2015 £000's	2014 £000's
Other debtors	216	29
Amounts due from other Group undertakings	108,266	9,932
Total insurance and other receivables	108,482	9,961

39 PREPAYMENTS AND ACCRUED INCOME

At 31 December	2015 £000's	2014 £000's
Accrued income	24	4
Total insurance and other receivables	24	4

40 CASH AND CASH EQUIVALENTS

At 31 December	2015 £000's	2014 £000's
Short-term bank deposits	57,950	10,846
Cash at bank and in hand	3,669	66
Total cash and cash equivalents	61,619	10,912

NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

CONTINUED

41 OTHER PAYABLES

At 31 December	2015 £000's	2014 £000's
Amounts due to other Group undertakings	58,419	58,219
Total insurance and other payables	58,419	58,219

42 CURRENT TAX LIABILITIES

At 31 December	2015 £000's	2014 £000's
Income taxes	99	46
Total current tax liabilities	99	46

43 SHARE CAPITAL, SHARE PREMIUM AND OTHER RESERVES

Details of the Company's share capital and share premium are set out in note 32.

44 RELATED PARTY TRANSACTIONS

On 14 July 2014, the Company advanced a loan to its subsidiary, PSL. At 31 December 2015 the balance on that loan was £6.1m (2014: £9.4m) and is included within amounts due from other Group undertakings (note 38). Interest is charged on that loan at 150 basis points over six month LIBOR. A total of £180,868 (2014: £155,800) interest accrued to the Company on the loan in 2015.

The Company received no other interest or income neither did it suffer costs incurred from any other Group entity during 2015. The amounts due to other Group undertakings included within other payables are not interest bearing.

The amount due to another Group undertaking (note 41) is a balance due to the Company's wholly owned dormant subsidiary, PAG Finance Limited, and is equal the equity of that subsidiary.

Details of the remuneration of key management personnel are set out in note 34.

45 ULTIMATE PARENT UNDERTAKING

Prior to 29 September 2015, the Company's ordinary shares were 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 UK. After this date the Company did not have a controlling party.

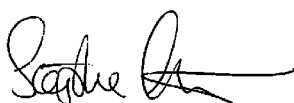
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE MARKET CONSISTENT EMBEDDED VALUE (MCEV) BASIS

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 condensed consolidated IFRS Financial Statements.

By order of the Board



Steve Groves
Chief Executive Officer
London
10 March 2016



David Richardson
Chief Financial Officer
London
10 March 2016

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 Market Consistent Embedded Value supplementary information (the "MCEV supplementary information") of Partnership Assurance Group plc for the year ended 31 December 2015 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").

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 2015 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 do 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 applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice Board's Ethical Standards for Auditors.

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 MCEV supplementary information 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.

OPINION ON THE MCEV SUPPLEMENTARY INFORMATION

In our opinion, the MCEV supplementary information for the year ended 31 December 2015 has been properly prepared in accordance with the MCEV principles using the methodology and assumptions set out in notes 1 and 2.

OTHER MATTER

We have reported separately on the statutory financial statements of Partnership Assurance Group plc for the year ended 31 December 2015. The information contained in the MCEV supplementary information should be read in conjunction with the group financial statements prepared in accordance with International Financial Reporting Standards as adopted in the European Union.



Paul Stephenson
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
10 March 2016

GROUP MCEV ANALYSIS OF EARNINGS (NET OF TAX) FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Year ended 31 December 2015			Year ended 31 December 2014
		Covered business MCEV £000's	Non-covered business IFRS £000's	Total Group MCEV £000's	Total Group MCEV £000's
Opening Group MCEV		557,532	18,754	576,286	519,633
Operating MCEV earnings	3	46,067	–	46,067	86,502
Non-operating MCEV earnings	3	(33,812)	(5,461)	(39,273)	(17,071)
Total MCEV earnings		12,255	(5,461)	6,794	69,431
Other movements in IFRS net equity	4	–	56,229	56,229	1,222
Closing adjustments	3	–	(6,000)	(6,000)	(14,000)
Closing Group MCEV		569,787	63,522	633,309	576,286

**COVERED BUSINESS ANALYSIS OF MOVEMENT IN EMBEDDED VALUE (NET OF TAX)
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Note	Year ended 31 December 2015				Year ended 31 December 2014
		Free surplus £000's	Required capital £000's	VIF £000's	MCEV £000's	MCEV £000's
Opening MCEV		30,834	418,238	108,460	557,532	463,494
New business value	3	(44,558)	52,485	21,691	29,888	56,072
Expected existing business contribution (reference rate and in excess of reference rate)	3	–	–	4,909	4,909	4,106
Transfers from VIF and required capital to free surplus	3	23,525	(10,667)	(10,003)	2,854	3,469
Experience variances	3	1,753	467	(609)	1,611	(1,087)
Assumption changes		40,460	(46,961)	2,754	(3,747)	(481)
Other operating variances	3	5,997	8,472	(3,917)	10,552	24,423
Operating MCEV earnings		27,177	3,795	15,094	46,067	86,502
Economic variances	3	(15,427)	(937)	(11,402)	(27,766)	(3,994)
Other non-operating variances	3	(26,581)	6,885	13,650	(6,046)	(11,470)
Total MCEV earnings		(14,831)	9,744	17,342	12,255	71,038
Closing adjustments	3	–	–	–	–	23,000
Closing MCEV		16,003	427,982	125,803	569,787	557,532

RECONCILIATION OF GROUP IFRS NET ASSETS TO MCEV AS AT 31 DECEMBER 2015

	Year ended 31 December 2015			Year ended 31 December 2014		
	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
Group Net Assets as reported under IFRS	450,321	190,497	640,818	458,961	145,729	604,690
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	(4,005)	–	(4,005)	(7,557)	–	(7,557)
MCEV Net Worth	443,984	63,522	507,506	449,072	18,754	467,826
VIF	125,803	–	125,803	108,460	–	108,460
MCEV (net of taxation)	569,787	63,522	633,309	557,532	18,754	576,286

NOTES TO THE MCEV FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2015

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 subordinated debt, at the fair value, within covered business.

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 (VIF) 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 (Equity release 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 is 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.

NOTES TO THE MCEV FINANCIAL STATEMENTS

CONTINUED

2 ASSUMPTIONS

Reference rates

Reference rates are calculated using corporate bond, equity release and commercial mortgage liquidity premiums added 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.

The equity release assets are valued using a mark to model approach that allows for the cost of the no-negative equity guarantee, where relevant, with the liquidity premium calculated on a consistent basis.

The commercial mortgage assets are valued using a mark to model approach that allows for the risk of changes 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
31 December 2015	230bps
31 December 2014	211bps

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
31 December 2015	262bps
31 December 2014	273bps

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
31 December 2015	0.84%	0.84%	1.10%	1.60%	2.04%	2.22%	2.25%
31 December 2014	0.74%	0.74%	0.93%	1.46%	1.87%	2.11%	2.24%

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 £23.4m for the year to 31 December 2015 (31 December 2014: £16.3m).

Best-estimate expense inflation applied as at 31 December 2015 was 4.5% p.a. (2014: 4.5%).

Taxation

The current and future tax rates used are the 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 marginally greater than the corporation tax rate in 2015 because a tax reclaim of £0.3m in respect of research and development credits on prior years has increased the tax credit available on the loss. The effective tax rate for 2015 was 24.2% (2014: 13.4%).

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 2015	Year ended 31 December 2014
2014	21.50%	21.50%
2015	20.25%	20.25%
2016	20.00%	20.00%
2017	19.25%	20.00%
2018	19.00%	20.00%
2019	19.00%	20.00%
2020	18.25%	20.00%
2021	18.00%	20.00%

Volatilities and correlations

Residential property and commercial property volatility are the only direct volatility inputs to the MCEV calculations. Residential property volatility is used in the evaluation of the “no-negative equity guarantee “NNEG” on Equity release assets. As at 31 December 2015 the assumption was set to 12% (2014: 12%). Commercial property volatility is used to model property prices of properties backing commercial mortgage loans. As at 31 December 2015 the assumption was set to 11% (2014: 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% (2014: 0.9%) 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 184% of the capital resources requirement (2014: 190%). 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 2015 (31 December 2014: 0.5%).

3 COMMENTARY ON THE ANALYSIS OF MOVEMENT IN EMBEDDED VALUE (NET OF TAX)

Covered business

The lower new business volumes in 2015 compared to 2014 resulted in a reduction in MCEV earnings from the value of new business written. The total expected existing business contribution, transfers from VIF and required capital to free surplus have increased marginally in the period as a result of the growth in the portfolio.

Experience variances in the period are positive in aggregate as a result of heavier than expected mortality experience. The assumption changes adopted in the year reduced MCEV by £3.7m. The increase in free surplus and reduction in required capital from assumption changes reflect the release of some prudence within the Economic Capital balance sheet.

Other operating variances also include expected long-term return on excess assets (after tax) of £11.6m (2014: £12.8m).

The £(27.8)m economic variance on MCEV includes the impact of a provision against the current and potential maximum future cost of our interest rate hedging strategy and the impact of trading activity in Q4 2015 to get the portfolio aligned for Solvency II which was partially offset by the lower valuation of the subordinated debt. Subordinated debt is valued at fair value for MCEV but carried at amortised cost for IFRS.

Non-operating variance free surplus predominantly consists of non-recurring expenses further detail of which is provided in note 1 to the Consolidated Financial Statements presented with this supplementary information. The increase in VIF from non-operating variances arises since future interest payments due on the subordinated debt reduce future profits. Therefore, future profit with value equivalent to the value of the future interest payments will be tax exempt.

Non-covered business

The principal changes in the value of non-covered business are a capital raise in September 2015 of £53m, offset by dividends paid of £6.0m which includes the 2014 final dividend and the 2015 interim dividend.

4 COMMENTARY ON THE MOVEMENTS IN IFRS NET EQUITY (NET OF TAX)

The other movements in IFRS new equity have arisen as a result of the equity capital raise in September 2015 and a net increase to the share based payment reserve which increased as the Group's non-cash employee benefits were charged and reduced when awards crystallised in the year.

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 2015 Sensitivity	In-force		New business	
	Impact on MCEV £000's	Change in MCEV %	Impact on MCEV £000's	Change in MCEV %
Embedded Value (Base)	569,787		29,888	
Interest rate environment +100bps	(29,375)	(5%)	n/a	n/a
Interest rate environment -100bps	59,998	11%	n/a	n/a
Swaption implied volatilities +25%	–	0%	n/a	n/a
Property volatilities +25%	(42,212)	(7%)	(3,993)	(13%)
Property Values -10%	(31,707)	(6%)	n/a	n/a
Lapses -10% (including equity release)	4,956	1%	n/a	n/a
Mortality -5% (annuities)	(23,010)	(4%)	(3,812)	(13%)
Expenses -10%	6,367	1%	141	0%
Mortality improvements +0.25% (best-estimate only)	(13,709)	(2%)	(2,507)	(8%)
Decrease in liquidity premium 25bps	(80,951)	(14%)	(9,387)	(31%)
Required capital set to be 100% of CRR	10,428	2%	1,269	4%

31 December 2014 Sensitivity	In-force		New business	
	Impact on MCEV £000's	Change in MCEV %	Impact on MCEV £000's	Change in MCEV %
Embedded Value (Base)	557,532		56,072	
Interest rate environment +100 bps	(25,447)	(5%)	n/a	n/a
Interest rate environment -100 bps	26,177	5%	n/a	n/a
Swaption implied volatilities +25%	–	0%	n/a	n/a
Property volatilities +25%	(39,445)	(7%)	(5,339)	(10%)
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%

Notes to the sensitivities:

- Interest rate environment +/-100bps – 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 equity release asset value as a result of the change in the cost of the “no-negative equity guarantee” (NNEG), and for the change in commercial mortgage asset value. 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 equity release assets this increases the cost of the “NNEG”. For 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 equity release 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 184% 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 10 March 2016, there were 440,132,122 ordinary shares in issue. In accordance with the Disclosure and Transparency Rules DTR5, the Company as at 10 March 2016, 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	49.7%
Lancaster	5.1%
MFS Investment Management	4.2%
GIC Government of Singapore Investment Corp	3.5%
Schroders	3.0%

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.

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

We encourage shareholders to have dividends paid directly into their bank account to ensure efficient payment and cleared funds on the payment date. To change how you receive your dividends either log on to shareview.co.uk or contact Equiniti.

Assuming completion of the Proposed Merger with Just Retirement before the record date of 6 May, Partnership's shareholders will receive the JRP Group dividend, subject to the agreed merger ratio of 0.834 Just Retirement shares being issued for every one Partnership share.

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 or contact Equiniti.

AGM 2016

The date, time and venue of the 2016 AGM will be confirmed in due course.

WARNING TO SHAREHOLDERS

Over the last few years, 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.org.uk/register; and
- 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 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

<p>Act The Companies Act 2006, as amended</p> <p>Admission 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>Board The Board of Directors of the Company</p> <p>Company Partnership Assurance Group plc</p> <p>CRR Capital resources requirement</p> <p>DB Defined benefit pension scheme</p> <p>DC Defined contribution pension scheme</p> <p>Directors The Executive Directors and the non-Executive Directors of PAG plc</p> <p>Economic capital coverage ratio The ratio of economic capital surplus over economic capital requirements</p> <p>Economic capital surplus 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>EEA The European Economic Area</p> <p>EU The European Union</p> <p>EU IFRS International Financial Reporting Standards, as adopted by the European Union</p> <p>FCA The Financial Conduct Authority</p> <p>Group Partnership Assurance Group plc and its subsidiaries and subsidiary undertakings from time to time</p>	<p>GWP 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>IGD surplus capital resources The IGD surplus capital resources is defined by the PRA 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>INA 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>In-force operating profit 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>IPO Initial public offering</p>	<p>IUA 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>Listing rules The listing rules of the FCA made under section 74(4) of the Financial Services and Markets Act (2000)</p> <p>Longevity risk The risk that on average, annuitants will live longer than expected</p> <p>Long-term expected return on surplus assets 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 by 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>Matching adjustment An adjustment to the risk-free interest rate term structure used to calculate the best-estimate liability of insurance obligations for the purposes of Solvency II</p> <p>Mortality risk The risk that, on average, protection policyholders will not live as long as expected</p> <p>New business operating margin The ratio of new business operating profit to new business premiums</p> <p>New business operating profit 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>New business premiums New business premiums represent the value, measured as single premium equivalent (SPE), of new insurance contracts completed during the reporting period</p> <p>Official list The official list of the FCA</p> <p>PAGF PAG Finance Limited</p> <p>PAGH PAG Holdings Limited</p> <p>PAG plc Partnership Assurance Group plc</p> <p>PLACL Partnership Life Assurance Company Limited</p> <p>PRA The Prudential Regulation Authority</p> <p>Solvency II Harmonised EU wide insurance regime effective from 1 January 2016 covering capital requirements, risk management and regulatory supervision</p> <p>Surplus assets Investments held by the Group that are not required to back insurance liabilities</p> <p>Single premium equivalent (SPE) SPE is calculated as total single premiums plus 10 times annual regular premiums; an industry accepted measure of revenue</p> <p>Total operating profit 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>Value of in-force (VIF) VIF represents the current value of future profits expected to emerge from the in-force insurance liabilities</p>
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