Partnership Holdings Limited

Report and Financial Statements

For the year ended 31 December 2009

partnership

Registered Number: 6610600

Contents

Directors, Officers and Advisers

Directors & Officers

Directors
I B Owen (Chairman)*
P A Catterall*
M D Crewe*
C Berendsen*
S J Groves
A M Dearsley
D T M Young*
R A Phipps*

*Non-executive Director

Company Secretary
PJ Lagerberg, ACIS

Independent Advisers and Consultants

Actuarial Function Holder
A Chamberlain, FIA

Auditors
Deloitte LLP

Bankers
Lloyds Banking Group

Solicitors
Clyde & Co

Chief Medical Officer
Dr GH Robb, FRCP FAMS

Medical Advisers
Dr I Cox, MRCP
Dr A Neal, MD, MRCP, FRCR
Dr S Hudson, MBBS, DCH, MRCGP, DFFP

Consulting Actuary
R Willetts, FFA

Investment Managers
Insight Investment Management (Global) Limited

Registered Office
Sackville House
143 – 149 Fenchurch Street
London
EC3M 6BN

Summary Information

History
Partnership Holdings Limited (the "Company") was incorporated on 4 June 2008. On 5 August 2008 the Company acquired Partnership Group Holdings Limited and its subsidiaries (all collectively, the "Group"). Those subsidiaries include Partnership Life Assurance Company Limited ("Partnership"), which began trading in October 2005, following its acquisition of the assets and liabilities of The Pension Annuity Friendly Society, a pioneer of impaired annuities since its foundation in 1995. The Group is also the majority owner of two Independent Financial Advisors (IFA's), Annuity Direct Limited, which is a distributor of retirement annuity products and Eldercare Group plc, which specialises in financial solutions for the provision of long term care. Another subsidiary, Partnership Home Loans Limited, is an intermediary of Equity Release product sales.

The acquisition of Partnership Holdings Limited was funded by a combination of private equity funds managed by Cinven Limited (the "Cinven funds") and Partnership's existing management team. In addition to the equity funding, Partnership is also backed by a small amount of debt capital provided by Lloyds Banking Group, and benefits from strong reassurance support from a number of major international reinsurers.

Vision
The Group is a specialist provider of financial solutions to customers living with health conditions. The Group's vision is:

> *"To be the acknowledged and trusted provider of enhanced financial benefits for people living with medical conditions."*

Strategy
The Group's strategy is to develop and bring to market insurance and other financial products that provide enhanced financial benefits and protection cover, for customers with medical or lifestyle factors that lead to a reduced life expectancy. The Group's interest in distribution companies is intended to facilitate access to customers who may benefit from the specialist products that the Group writes.

Customers & Distribution
The Group's customers have a wide variety of lifestyle and health conditions, ranging from relatively minor conditions such as hypertension to more serious ones such as heart failure, stroke, diabetes, kidney failure and cancer. The product range currently consists of care annuities, retirement annuities, and protection products.

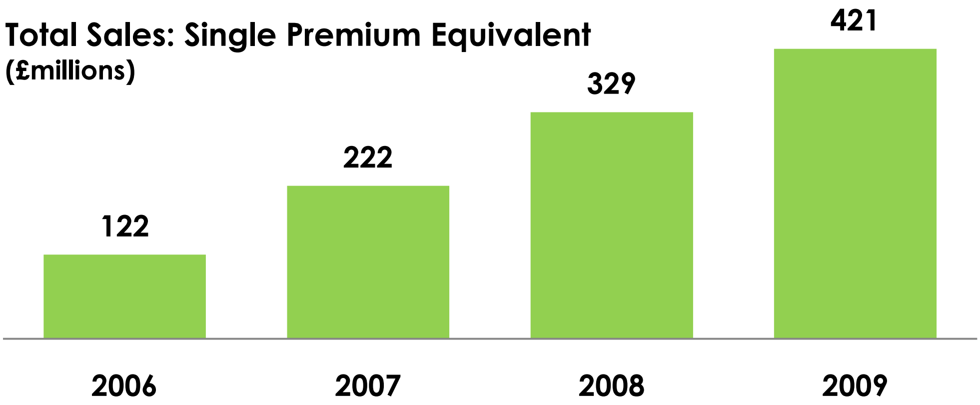
The Group's distribution companies operate independently of Partnership and provide "whole of market" advice to their customers.

The Group distributes its products through a combination of IFAs and corporate partnerships. Partnership has strong relationships with a large number of specialist distributors of care and retirement annuities.

The Group also continues to develop its relationships with the broader IFA community in order to increase its distribution base and drive forward market growth by generating increased awareness of specialist annuities products. Since 2007 a number of corporate business partnerships have been established, enabling our products and expertise to supplement the product range of our corporate partners. These partners include major insurance institutions and banks, and they present us with the opportunity to raise awareness of Partnership and provide our specialist expertise to a much larger customer base.

People
The Group employs over 250 people in London, Redhill, and the Isle of Wight.

Highlights



The Group has increased revenue, as measured by Single Premium Equivalent [1] (SPE), during the year by accessing new distribution channels and successfully developing our products and pricing bases to make them more competitive.

The Group has recorded a pre-tax profit in 2009 of £27.7 million compared to a loss of £4.3m in 2008. Underlying profitability has been strong, driven by the increased volumes achieved whilst achieving our target margins and closely managing our expense base. We have been able to utilise our intellectual property to enable greater retention of margins earned, whilst remaining competitive in the UK life and pensions market. Management has carefully controlled the Group's cost base, balancing the need for investment to drive growth with prudent cost management. 2009 profitability has been aided by strong investment results as markets recovered. We have further strengthened our reserving basis in 2009, and profits shown take account of this strengthening.

Other highlights for 2009 include:

- We continued to invest in people, resulting in an average headcount in the Group of 236 staff in 2009 compared to 176 in 2008. At the end of 2009, the Group employed more than 255 staff. The senior management team has been strengthened in particular, with the life company now having dedicated Managing Directors for each of its main product lines (retirement annuities and care annuities);
- We have continued to develop our product range, with the launch in early 2009 of retirement annuities based on lifestyle conditions rather than health conditions, significantly expanding our product reach. Recently we have launched further enhancements to ensure we can quote on all pension annuities with a "Guaranteed Minimum Pension" element;
- We have secured enhanced distribution arrangements with a number of the larger IFA Networks in the UK;
- The continued development of Partnership has resulted in the Group having more than 26,000 policyholders with in-force contracts at the end of 2009, compared to 19,000 at the end of 2008;
- We have increased the number of registered IFAs using our service, with over 10,500 individual IFAs seeking quotations from us in 2009 for new policies (up 20% from over 8,700 in 2008). We have continued to invest in our Distribution Companies in 2009. We have now acquired a majority shareholding in Eldercare plc and we are working with them to develop increased income streams and stabilise their cost base;
- Annuity Direct Limited has focused on maximising sales whilst reviewing its cost base and strengthening its advisor and customer service teams. We have actively pursued a number of corporate partnerships. The company has enjoyed a promising end to 2009 and is well positioned to generate profits, capital and growth throughout 2010.

[1] Single Premium Equivalent is a standard industry measure that shows premium equivalence between a single premium product (such as a pension annuity) and a regular premium product (such as a protection policy). Single Premium Equivalents are calculated as 1 x Single premium + 10 x Annual Regular Premium. Also included is the reversion or mortgage loan value of equity release sales through Partnership Home Loans, as a measure of the volume of equity release business.

Chairman's Statement

In my statement last year, I described 2008 as being a "momentous year in the development of Partnership". It is true to say that 2009 has been no less momentous with the Group going from strength to strength. 2009 was the first full year of ownership by Cinven Limited and with their support we have seen the business continue to grow strongly. In last year's statement I introduced new faces to the Group, including Andrew Megson (Managing Director, Retirement Division), Chris Horlick (Managing Director, Care Division) and Mark Dearsley (Group Chief Financial Officer) who have all had a tremendous impact in assisting the Group in developing its core markets.

Following the turbulence in the financial markets we experienced over the winter of 2008, I am pleased to report a strong financial performance of the Group in 2009. Despite all that happened in the early part of 2009, the Group successfully negotiated its way through the choppy financial waters, and experienced no defaults on its investments. The improvement in the financial markets during 2009, together with a strong trading performance, has enabled the Group to report a profit before tax of £27.7 million.

Partnership remains the leading provider of insurance solutions to fund long term care needs in the UK, and continues to grow its market share of the enhanced retirement annuity market in the UK[2]. We also continue to offer protection cover to those individuals declined by the main UK insurance offices. Sales for each product line have grown in 2009, with further details shown in the Chief Executive Officers Review.

The strong growth in retirement sales was achieved against a backdrop of a reduction in the overall retirement premiums in the UK[3], as the impact of the fall in financial markets caused those retiring to have, on average, smaller pension funds, and for those with flexibility, to defer the timing of their retirement. In such times, it is all the more important that individuals "shop around" to get the best deal they can for their future pension, and in this regard, it is encouraging to see so many new policyholders join Partnership. We still believe the insurance market can do more to encourage retiring pension fund holders to seek the best deal, and we continue to work with insurers and other providers of pension funds to enable all retirees to benefit from individual advice on the best pension solution for them. Industry projections indicate strong growth potential in the retirement market, with particularly strong growth for those retiring with smaller pension funds. In these circumstances, we believe it is even more important for individuals to ensure they make their pension fund work as hard as possible for them in their retirement and to this end have been working with distributors to develop a proposition that brings the benefits of enhanced annuities to those with smaller pension funds and, in particular, seeks to make the process of obtaining a quote for, and taking out, an enhanced annuity as simple and cost effective as possible.

During 2009, the government issued a Green Paper on the future of Care provision in the UK. This has sparked a long overdue debate over how to solve the problems of funding the increasing costs of care for the elderly. I, along with my colleagues, have been following this debate closely, and have been active in engaging with the government, other political parties and the Association of British Insurers, to ensure that a sensible, workable and cost efficient solution is found. Partnership is the UK's leading provider of insurance solutions to fund long term care and, as such, we have been able to offer crucial information and advice to those formulating future policy on the subject.

After many years service to Partnership and its predecessor, PAFS, Dick Perren has decided to take a well earned rest, and step down as the Policyholder Representative. The Executive team met a number of existing policyholders who had expressed an interest in taking on the role, and I am pleased to welcome Miles Laddie as the new Policyholder Representative. Dick, we thank you sincerely for all your efforts over the years, and wish you well in the future.

Ian Owen
Chairman

[2] Data supplied by the Association of British Insurers shows Partnership wrote 73% of long term care annuities in the UK, and increased its share of the non-standard retirement pension annuity market from 18.7% in 2008 to 19.4% in 2009. The latest ABI quarterly statistics show Partnership's share of the non-standard annuity market in excess of 23% (Q4 2009).
[3] Source; ABI Analysis of new long term business sales, 2009

Chief Executive's Review

In 2009 we have once again achieved strong growth in sales, with total SPE increasing by 28%, and more importantly, delivered good profit growth. Whilst I and the Executive team continue to be vigilant in monitoring the financial markets, we believe the measures we have taken to strengthen the Group's operational capacity, distribution reach and product range whilst protecting ourselves against the volatility we saw this time last year, have left the Group in a strong position to move forward. Last year we strengthened our reserving basis to provide protection against the financial market volatility. Whilst I am pleased to say these additional reserves have not needed to be utilised, we continue to be prudent in our reserving basis overall. It is my belief that this provides the best protection to existing and new policyholders alike.

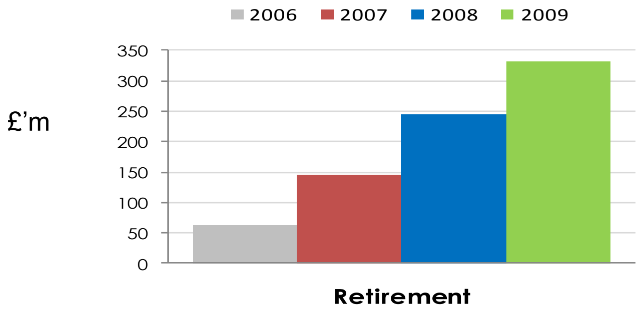
The profits earned have enabled the reported solvency ratio for Partnership to improve strongly from last year to 165%. Capital resources applicable to the Group are disclosed in Note 25.

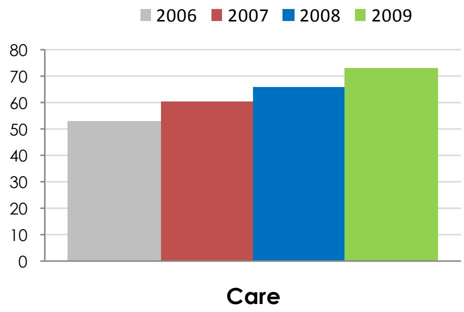
A number of industry milestones were set down in 2009 which will have significant impact on all insurers in the UK. I wanted to share with you my thoughts on two of these, and how they will impact Partnership.

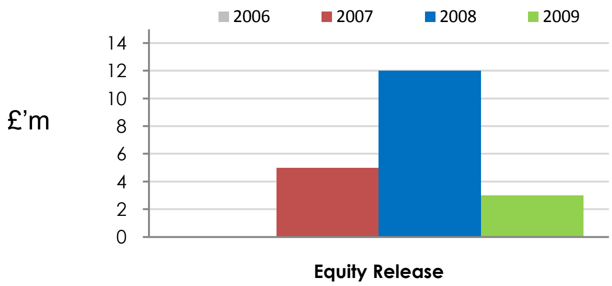
The first is a new capital regime being introduced across the EU, known as "Solvency II". The regime has been in development for many years and seeks to bring an equal playing field across the EU for all insurers in how they manage risk and capital and how they determine the level of capital they need to hold. The regime is focussed primarily on managing risks, and sets out requirements for insurers to manage their risks appropriately, hold sufficient capital to protect their policyholders against the risks taken, and to report clearly on these risks to all stakeholders. A timetable for implementation of the new regime was set out in 2009 and it is now expected to be fully in force by the autumn of 2012. Partnership has been closely following the developments of Solvency II. In 2009 Partnership completed a full "gap analysis" of what changes need to be implemented to ensure full compliance with the new regime. I see the changes being introduced by Solvency II as a great opportunity for Partnership. For us, it is more than a compliance and capital management exercise, but rather is about creating a modern, risk aware, business model for how insurers such as Partnership will operate. As a relatively young insurance company, Partnership is very well placed to respond to the changes being introduced by Solvency II, as we do not have the systems and product legacy issues to deal with in the way that many other UK insurers do. Whilst the capital requirements have yet to be published we have completed a number of exercises to assess the most likely impact on our capital base, and I'm confident that we are well placed to meet all the challenges that this new regime will bring.

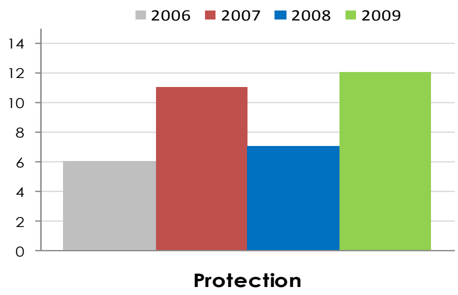
The second major initiative to impact UK insurers is the changes that will be introduced through the FSA's Retail Distribution Review ("RDR"). During 2009, the FSA published a consultation paper setting out its vision for how insurance products, including the kind of annuities that Partnership sells, should be sold to the general public. We have worked closely with our distribution partners, and have looked at our own operating model, to assess the likely impact of the changes being introduced by this initiative. We believe the new regime will offer a fairer deal for the public, and will introduce greater transparency for policyholders. This will ultimately benefit policyholders and, therefore, the industry as a whole. Once again, our modern and flexible business model and IT systems put us in a position of strength to respond to the changes being introduced, both as an insurance provider, and also as a distributor of products through our IFA businesses. The RDR regime is expected to be enforced by 2012, but is likely to impact the operations of distribution companies long before that.

Our major product lines – Sales (SPE)









During 2009 we have reshaped our internal organisation to provide increased focus on our end customers, ensuring we meet their needs to the best of our ability. I have briefly commented below on each of our major product lines, but more detail can be found later in the Business Review.

Despite relatively slow growth in the retirement annuity market in 2009, following the financial turmoil at the end of 2008 and early part of 2009, we have once again seen strong growth in sales of our retirement annuity products, recording a 36% increase on 2008. In particular, we have established new distribution relationships with major IFA Networks that are beginning to deliver strongly, and we have made further investments in our sales team during the year, introducing a number of new staff, and this too has begun to reflect in stronger sales levels for retirement annuities. Sales were also boosted by the launch of our lifestyle product, which delivers enhanced annuities to customers with certain lifestyle conditions. We expect this growth to continue into 2010 and beyond as we introduce new product initiatives and look to develop new corporate partnerships.

The sales of our specialist annuities for care funding have also shown growth in 2009, with an increase in SPE of 11% on 2008. I was very pleased to see the issues around funding long term care become an important topic for government in 2009. Whilst I think there is much to do to build on the Green Paper issued by the government, the fact that this is now a topic of focus and debate amongst all political parties, recognises the need to ensure our elderly and infirm receive suitable care when needed, and that proper funding arrangements to pay for this care is in place. I strongly believe that our insurance products play a vital role in financing care needs in the UK.

Whilst our protection products remain a small part of our portfolio, I continue to believe that there is an important market for those with medical or lifestyle conditions who cannot receive protection cover elsewhere. Our understanding of the individual's medical conditions enables us to provide insurance to cover a loan or mortgage obligation, as part of inheritance tax planning or as a whole of life policy. Sales have grown by 78% on 2008, which demonstrates the continuing demand for our product, even in difficult markets for protection insurance.

Unfortunately, one casualty of the credit crunch for Partnership during 2009 was our equity release products. As we relied on third-party funding to be able to offer these products, developments in the wholesale funding market in 2009 meant we reluctantly had to withdraw the sale of both our mortgage product and our reversion product. Nevertheless, I continue to believe that there remains strong demand for these types of products, and that Partnership can offer valuable solutions to those individuals who seek finance through release of equity they have in a property. We therefore continue to examine ways in which we can provide solutions to the demand for equity release mortgages that can benefit from our unique underwriting expertise.

Investing in our business

As our business grows, we continue to invest in our people, systems and processes. During 2009, we have re-examined a number of our processes to identify the areas where we add the most value to our policyholders and trading partners, and those areas where we can best outsource the process to improve service levels and reduce cost. First and foremost, Partnership's an insurance company with expertise in impaired and enhanced life mortality, and as such, we have invested heavily during the year to ensure our policyholders, shareholders, employees and trading partners gain the best advantage from our expertise. The Group's headcount has increased during the year to 255 at the end of 2009 (an increase of almost 30% on December 2008), and this increase has been focussed on the areas that add most value to our product propositions. We have reviewed the provision of our post policy-issue service, and during 2009, have transferred this service to an alternative outsource provider who has been able to commit to the same, or better, levels of service for our customers, at lower cost. This ultimately improves our financial proposition, and enables us to improve our offer to prospective policyholders.

Ensuring the returns we promise our annuitants are achieved is a key element of the value we provide to policyholders and is a highly skilled and technical area, and one we recognise needs specialist knowledge. That is why we choose to outsource the management of our assets to a specialist investment house. The funds under management now total over £900m (including those assets we manage on behalf of certain of our reinsurers), and so it is vital that we can access world class expertise to assist us in obtaining the best possible investment performance. During 2009 we reviewed the provision of our asset management services and we have opted to transfer the day-to-day management of our investments to a new asset manager.

Providing security to our policyholders

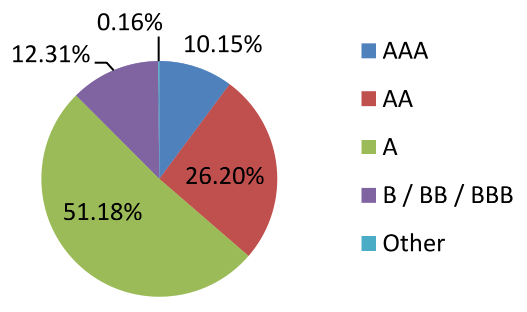
The products that we provide are designed to give peace of mind to those individuals who rely on the income payments we make, or protection cover that we provide.

Our commitment to policyholders is backed up by our investment philosophy and capital management procedures which we believe provide the best balance between achieving a high level of security and the need to provide the best possible income stream we can to our policyholders.

The majority of the income and insurance that we provide is reinsured with a number of reinsurance companies that we believe provide strength and security. All business reinsured in 2009 was ceded to reinsurers that are AA rated and above (by Standard & Poor's or equivalent) and we have negotiated terms with the reinsurers that enable us to provide attractive annuity rates or protection premiums. In the event that one or more of the reinsurers enter financial difficulty, we have put in place further protections through either "deposit back" arrangements (where we manage the assets on behalf of the reinsurer), or "trust" arrangements, which mean we have direct access to the financial investments backing the annuity payments.

In order to fund annuity payments, we make investments in bonds issued by governments and corporate entities, which provide an income to the Group. We have in place a number of internal restrictions as to where the funds can be invested, in order to reduce the level of risk whilst providing attractive returns. We diversify our investments across different credit qualities (to achieve an appropriate balance of security and investment return), across different sectors, and across different companies within each of those sectors. We do not invest in equities.

Fig 1: Exposure to invested assets by credit quality



Partnership's solvency ratio (a standard industry measure of how much excess capital we have over the minimum we are required to hold by the FSA) has increased from 154% to 165% over the course of the year, despite the strong growth in sales which requires us to hold, in absolute terms, additional amounts of capital. Further details on how we manage our risks, including investment risk is set out on page 12, with further details set out in Note 24 of the financial statements.

Treating our customers fairly
The FSA has for a number of years been instigating a regime across the financial services industry as a whole to encourage companies to "treat their customers fairly". We see this as a matter of course, and the best possible business practice.

Our values internally, which are integral to the way we operate and interact with our customers, are:

- Fairness;
- Integrity;
- Respect;
- Service; and
- Trust.

We have formulated our policy on how we comply with the FSA's specific actions around treating customers fairly, and this can be found on our website at **www.partnership.co.uk**

We always aim to have effective and informative communication with our policyholders, and regularly review the most effective ways of achieving this aim. Our policyholder newsletter has been in issue for several years now, and in July 2009, we held our fourth Annual Policyholder Meeting, where policyholders and their representatives have an opportunity to hear firsthand how our business is developing, and ask questions directly of me and my fellow board directors.

Looking to the future
We continue to see substantial opportunities for profitable growth, and with the newly expanded management team now in place, we have developed a number of exciting initiatives for 2010 and beyond. At the heart of all these developments is our desire to utilise our expertise to provide improved financial benefits to as many policyholders as we can.

Our focus for the Care Division is also to expand our distribution footprint substantially, working with many parties involved in the provision of care (both residential and domiciliary) to ensure the benefits of financial advice and secure funding are understood.

Our Retirement Division is working to expand its distribution footprint and is also focussing on developing propositions that bring the benefits of enhanced annuities to those with small pension funds.

In the protection market, we are working with a number of traditional providers to bring them our expertise in offering cover to a much broader spectrum of policyholders than they can themselves, and are working to expand the volume of protection business we write considerably.

This is just a high level flavour of the activities that will keep me and my colleagues busy throughout 2010.

Finally I would like to take this opportunity to thank our staff. 2009 was a difficult year for insurers and I believe that we should be extremely proud of these results. Few financial services companies will look back on 2009 as a year of growth and expansion, and the fact that we can is a testament to the dedication and the hard work of the Partnership team.

Steve Groves
Chief Executive Officer

Business Review

The following review considers the results of the Group for 2009, and where comparative information for 2008 is included, this refers to the full year (including the period prior to the acquisition of Partnership Group Holdings Limited and its subsidiaries by the Company).

The Group's Products

The Group is a specialist provider of financial solutions to customers living with medical and lifestyle conditions, and the Distribution Companies, which are commented on below. Partnership is organised between two divisions, the Retirement Division, which encompasses all our retirement annuity products, and also our protection and equity release products, and the Care Division, which focuses solely on our specialist annuity products to fund long term care needs.

Markets and business environment

The Group operates in the UK life and pensions market. Partnership's expertise and proprietary data collected since 1995 gives a competitive advantage to develop products that offer the best annuity rates to customers whilst delivering value to shareholders.

Demographic environment

The ageing population is a well publicised trend in the UK. As the proportion of the population over retirement age increases, this leads to growth in our most significant markets – those people seeking retirement incomes (through either pension annuities or self-funded annuities), and those seeking funding solutions for people requiring long term care.

The fact that the total population seeking retirement incomes is growing, combined with an increasing awareness and use of the Open Market Option (which enables retirees to "shop around" for the best annuity rate, rather than vest with their existing pension fund provider) means that those people eligible for some form of enhancement to their annuity payments are increasingly benefitting from the products that we can provide. The FSA's Treating Customers Fairly regime encourages pension providers to advertise the Open Market Option to retirees.

A report produced by Watson Wyatt, 'Strategic planning for the at-retirement market' published in June 2009 shows central projection for the market to more than double over the decade from 2008 to 2018.

Competitive environment

During 2009 we have seen a continued move from standard annuity providers to differentiate their annuity offering in the UK, to a point where a "standard annuity" now has limited meaning. However, it remains the case that those companies offering substantial differentiated benefits, based on medical and lifestyle factors (as opposed to "postcode" factors), is still limited to a small number of specialist providers. Of those, we believe Partnership remains the only provider in the UK to have its own proprietary data on which it bases the underwriting criteria, and we see this as a substantial barrier to entry into the specialist markets in which we operate.

Despite the enhanced profile of long term care funding in the UK during 2009, we continue to be one of only two providers of annuity solutions to the issue of funding long term care needs for individuals. We continue to see the potential for substantial growth in this market and would expect, as part of this expansion, to see new insurers entering this market. Once again, our data and expertise in this area leaves us in a strong position to benefit from market growth ahead of other insurance companies.

The availability of non-standard protection cover in the UK remains extremely limited, and we believe that we are unique in the UK in terms of the level and breadth of cover we can now provide.

Regulatory environment

Partnership is regulated by the FSA and must comply with the Principles for Business and Prudential requirements set out in the FSA's Handbook. Current regulatory developments that are particularly relevant to Partnership include:

- The Treating Customers Fairly regime, where Partnership has established its internal policies and procedures for compliance with requirements, but more importantly, how we operate on a day to day basis to comply with the ethos that the regime espouses;
- The Retail Distribution Review (RDR), which will change the way in which customers access financial advice, and how IFAs interact with both customers and product providers such as Partnership. Partnership has worked, and will continue to work closely with existing IFAs as the provision of financial advice in the UK develops and adapts to the changes the RDR will bring; and

- Solvency II, which is a new risk and capital management regime for all insurers in the European Union. The new requirements will come into place in the autumn of 2012. Partnership is working to continue to develop and enhance its risk and capital management procedures and overall business model, in line with the new proposed regime.

Economic environment
2009 began with the same turbulent markets with which 2008 ended, and for the first quarter of 2009, we continued to witness significant movements in the bond markets, impacting the annuity rates we were able to offer.

Whilst the financial markets have, since then, returned to more normal levels, the wider economic impacts of the financial crisis of 2008 remain to be seen. The major global economies have now moved back into growth, though the long term impacts of the events of the financial crisis of 2008 are likely to have repercussions on the annuity and protection markets in the UK. We nevertheless remain confident that such conditions can be beneficial to our growth opportunities, as the security of annuity funding in more uncertain economic conditions is relatively more attractive.

The Retirement Division

Retirement Annuities
Partnership's retirement annuities offer enhanced income to those with health impairments or lifestyle factors that may lead to a reduced life expectancy. Both the pension funded annuity and the purchased life annuity (funded from non pension assets) provide income at better than standard annuity rates to those with health or lifestyle factors. The pricing of these annuities is based on proprietary research and data collected by Partnership since 1995.

During 2008 Partnership launched an annuity targeted specifically at customers who smoke, offering enhanced rates compared to a standard annuity, and this was further enhanced in 2009 with the launch of an annuity targeted specifically at those with lifestyle factors that enable an enhanced income to be provided. More recently we have launched product enhancements to enable Partnership to quote on retirement annuities that include Guaranteed Minimum Pension ("GMP") elements, so those in occupational pension scheme and defined benefit schemes with their employer can also now benefit from the enhanced income levels we offer.

Our retirement annuities are sold through IFAs and through corporate relationships where Partnership is able to provide enhanced terms to other insurance companies' vesting pension customers. We have significantly expanded the number of IFAs who now deal with Partnership, with over 9,100 IFAs quoting with us in 2009, compared to over 7,400 in 2008. We also continue to develop our corporate partner relationships.

We have focussed on improving our service levels for IFAs and corporate partners, with significant investment in technology solutions in 2009 to provide real time quotes through industry portals, for an increasing number of conditions. Early in 2010, we launched, with a number of our distributors, a simplified and "e"-enabled process to assist them in quoting on small fund sizes to ensure the benefits of our enhanced annuities reach the widest possible audience. We are intending to broaden the number of distributors who can utilise this process throughout 2010.

Sales of retirement annuities have increased to £332m SPE for the full year in 2009 (2008: £245m), an increase of 36% on the prior year. This represents an extra 2,300 policyholders benefitting from the enhanced income levels we offer.

This increase in sales levels has also helped Partnership increase its share of the non-standard annuity market to 23% in the last quarter of 2009 compared to 19% in the same quarter in 2008.

Protection
Partnership uses its underwriting expertise to offer protection products to people who are unable to obtain cover elsewhere, normally as a result of health conditions. We endeavour to underwrite every application, whatever the customer's health condition. We offer solutions for customers looking for protection with large sums assured and most of our policies can be written into a trust. We offer a range of products including level and decreasing term cover for mortgage or other loan protection, "Key Man" cover for companies, whole of life cover, family income benefit, and gift-inter-vivos cover (providing protection against possible inheritance tax due on gifts made within the previous seven years).

During 2009, we entered into new reinsurance arrangements which have enabled us to offer cover to individuals with a significantly wider level of medical conditions that would normally prevent them from receiving cover.

Sales of protection cover in 2009 were £12.7m SPE, an increase of 74% on 2008 sales of £7.3m.

Equity Release
The Group offered both a mortgage and a reversion plan for individuals looking to release equity funding from a property, however, we were forced to cease sales of both products in 2009 as a result of significant changes to the wholesale funding markets. Partnership did not fund the products directly, and consequently was reliant on third-party funders to fulfil its sales.

The number of providers of equity release funding has reduced significantly in the UK during 2009. At Partnership, we believe the demand remains in the UK for funds to be released to individuals secured on the equity built up in their property assets. As such, we have continued to investigate ways in which Partnership can provide solutions to those individuals looking for equity release funding, and we expect to be re-launching products into this market during 2010.

The Care Division

Partnership is the market leader in the provision of insurance products to fund long term care, providing the most comprehensive range of products of any provider in the UK. At Partnership, we believe that our insurance solutions provide peace of mind not available from any other funding source to those requiring funding for long term residential or domiciliary care. We have worked closely with a number of organisations during 2009 to bring this message to the fore, and we are therefore pleased to see the political debate on care funding receive the focus and attention that it requires. Whilst there is still some way to go in developing appropriate and practical funding solutions for the majority of individuals requiring care, at least the debate is now happening, and as a result, we believe progress will be made.

Policies are available that cap the cost of care for relatives who are already in care, or for those looking for products to pay the cost of care should they need it in the future.

Immediate Needs Annuities (INA) are products which meet the immediate cost of care fees. Partnership will make tax-free monthly payments to a care home, or other registered carer, for as long as the insured lives. In this way, families can plan for the future in the knowledge that there is a predictable and secure income stream to pay for care. The INA product is available with a range of options that enable the product to be tailored to a policyholder’s specific needs.

Many INA products are purchased using part of the proceeds from the sale of an individual’s property. During 2009, we recognised the difficulties that the UK housing market was having on the ability of individuals to fund their care needs, and consequently launched an important product enhancement to enable individuals to defer the payment of their INA premium until such time that they were able to sell their property. This enabled policyholders to receive the income stream to fund their care at the point that they needed it, whilst having the peace of mind knowing that they would not be forced to sell their home in a depressed market to fund their INA. We continue to investigate new product options for those seeking specific care funding requirements.

Care annuity products are sold through IFAs, who must have specific qualifications to advise on care annuity products. We also have a corporate relationship with Lloyds Banking Group, as their sole provider of care annuity products.

Sales of care annuity products for the full year in 2009 increased by 11% to £73m SPE (2008: £66m). Partnership remains the market leader for care annuity products, with a market share of 73%[4] in 2009.

The Group’s Distribution Companies

Annuity Direct Limited provides independent financial advisory services and is regulated by the FSA. Its primary service is sourcing the best available annuity option for customers wishing to utilise the “Open Market Option” for their pension funds. It also provides advice for other insurance and equity release products as well as providing services to pension administration companies. Annuity Direct will continue to promote annuity options in the market and seek to expand its distribution channels and form new partnerships and, following a review of its cost base and operations, is well placed to generate significant growth in income and profits.

Eldercare Group Plc is a specialist advisor to those looking to fund care fees for family or friends going into residential care. Eldercare Group is able to provide advice on annuity funding and investment solutions, and is also able to provide services to look after the individual’s property once they have moved into residential care.

Partnership Home Loans Limited is a member of the Safe Home Income Plans (SHIP) trade body, and provides intermediary services for IFAs looking to benefit from specialist equity release products that take into account an individual’s state of health to enable higher loan to value mortgage loans, or enhanced reversion products. As noted above, the company suspended the promotion of equity release mortgage and reversion products due to

[4] Based on recent ABI statistics.

the high cost of third-party funding. However, the company will continue to monitor this market with a view to offering specialist equity release mortgages again, when market conditions permit.

Annuity Direct Limited, Eldercare Group Plc and Partnership Home Loans Limited are collectively referred to as the Distribution Companies throughout this report.

The Group's Strategy

The Group's strategy is to focus on:

- Expanding the number of distribution networks which sell Partnership's products and working with distributors to adapt their distribution models to accommodate changes arising from the Retail Distribution Review;
- Promoting and expanding the distribution of care annuity products for the self-funded sector, specifically working with relevant stakeholders that support those with care needs;
- Developing low cost distribution solutions to provide enhanced retirement annuities to the increasing number of individuals with smaller pension funds;
- Expanding the distribution of our protection offering, and expanding the level of cover we are able to provide to those with more severe health conditions; and
- Launching an equity release product that benefits from specialist underwriting,

We measure our success in achieving our strategic objectives through monitoring sales and profit levels of each product and initiative, together with the number of IFAs we deal with.

Key Performance Indicators

a) Trading subsidiaries

	2009	2008	Percentage change
Single Premium Equivalent[5] (SPE) – full year	£421m	£329m	28%
Gross Written Premium – full year	£410m	£314m	31%

These KPI's refer to the consolidated full years trading and prior year performance of the trading subsidiaries of the Group including the period prior to acquisition by the Company in 2008.

b) Group's financial performance

	2009	2008	Percentage change
Profit / (Loss) before tax	£27.7m	£(4.3)m	NA
Total Equity	£178.6m	£159.1m	12%

The Group's consolidated financial performance for 2008 relates to the period 4 June 2008 to 31 December 2008.

Operating performance has been strong, with target margins earned on new business written remaining within our targeted levels. Profitability has been assisted during 2009 by the improvements in the investment markets, as bond values have recovered from the severe position at the end of 2008. We have nevertheless maintained a prudent reserving position, as the wider economic conditions remain uncertain. Operating expenditure is in line with management expectations.

[5] Single Premium Equivalent is a standard industry measure that shows premium equivalence between a single premium product (such as a pension annuity) and a regular premium product (such as a protection policy). Single Premium Equivalents are calculated as 1 x Single premium + 10 x Annual Regular Premium. Also included is the reversion or mortgage loan value of equity release sales, as a measure of the volume of equity release business.

Total equity has increased in 2009 by retained profits. The total available regulatory capital has increased by the increase in total equity, plus an additional £3.8m of Tier 2 capital drawn down on the subordinated loan facility with Lloyds Banking Group. The facility is now fully drawn down.

Management of risk

In the course of its business activities, the Group is exposed to insurance, market, credit, liquidity, and operational risks. Overall responsibility for the management of these risks is vested in the Board of the subsidiary companies, with oversight provided by the Board of the Company. The Group has a risk management framework in place comprising formal committees, risk assessment processes and risk review functions. The framework provides assurance that risks are being appropriately identified and managed at a subsidiary company level and that an independent assessment of risks is being performed.

The Partnership Group Holdings Audit Risk & Compliance Committee (ARCC) is the formal committee charged with monitoring, on behalf of the Board, the effectiveness of the Group's risk management framework and system of internal control. The ARCC has been established as a formal Board Committee.

Within the Group, each operational area maintains a risk register identifying key operational risks to be managed. The 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 risk profile that is reviewed each month by management and reported to the ARCC and relevant subsidiary boards.

There are a number of key strategic risks and uncertainties that could have a material impact on the Group's long-term performance, and could cause actual results to differ from expected or historical results.

Details of the insurance and financial risks the Group is exposed to, together with the procedures adopted to manage those risks, is given in note 24 to the financial statements.

Corporate and Social Responsibility

The Corporate and Social Responsibility policy is rooted firmly in our principal value of fairness which underpins our business and the way in which we conduct ourselves with our customers, business partners, staff, stakeholders and the environment.

Our customers
Partnership was the first company in the UK to offer higher retirement incomes for individuals with complex health issues. We have led the way in providing products designed specifically for individuals whose health or lifestyle is likely to result in reduced life expectancy.

By looking at each of our customers individually and assessing their individual needs we are able to offer a product where the costs and benefits are based on the customer's own unique set of circumstances.

Our years of accumulated data and knowledge give us a unique understanding of the impact of health and lifestyle choices on longevity. This, in turn, enables us to offer the most accurate assessment of an individual's life expectancy and therefore offer the best products to them.

But we take our commitment to our customers much further than providing the best product.

Our customers are the best advocates – and critics - of our business and we engage with them on a regular basis to seek their thoughts and ideas as to how we can improve. During early 2009 we launched an ongoing policyholder survey whereby all new policyholders are asked for their views on our service provision performance. As at the end of 2009, 87% of our policy holders said that they would recommend Partnership to others with a further 12% saying that they might.

Additionally, we believe that we are unique in having a Policyholder Liaison Representative (PLR) who meets with the Directors and senior managers of Partnership on a regular basis and is able to discuss any matter with them that may be of concern to our policyholders. Our customers are encouraged to contact their PLR by email or letter with any queries or concerns that they may have.

Our Business Partners
Our products are sold through IFAs, small and large, and an increasing number of corporate partners. Irrespective of size, we aim to offer all partners excellent service and to act in the spirit of true partnership.

It was with this spirit that, during late-October 2009, we held the Partnership Later Life Symposium at three venues across the UK to proactively support IFAs in their understanding of later life financial planning. The Symposium was attended by over 400 IFAs and examined the impact of changing demographics on the financial needs of individuals, and considered how advisors could best adapt their businesses to ensure their future clients' needs are met.

We continue to make significant investment in our customer service and intermediary servicing divisions to provide faster and more efficient processes and significantly enhanced levels of customer service. We have also made a number of our products available on industry comparison websites to enable our business partners to obtain the information they require when they need it, rather than having to phone or write. This improvement in efficiency has resulted in reduced costs for both us and our partners which ultimately benefits our customers.

Our staff
We recognise that to provide the high levels of technical expertise and service excellence that we look for we need to recruit and retain the highest possible calibre of staff.

We do this in a number of ways:

- An extensive and thorough recruitment process;
- The adoption of a core set of values in FIRST – Fairness, Integrity, Respect, Service and Trust;
- A remuneration and reward structure designed to encourage decision making for the long term good of the business. In addition to industry benchmarked salaries, the majority of our permanent staff have an equity participation in the business which we believe is the best way to reward ongoing commitment, discourage short term-ism and build long term success;
- Investing extensively in our staff and actively encourage them to enhance their knowledge, skills and qualifications by supporting them through programmes of personal and professional development, in line with a robust Training and Competency scheme;
- Building a positive working environment in which everyone is encouraged to contribute.

We conducted our first externally facilitated Employee Opinion Survey during September 2009 and 69% of employees gave us their feedback on what working for Partnership means to them. This has provided the Executive team with a clear set of employee priorities and we have already made a number of changes in response to the feedback received.

Our stakeholders

Using input from our customers, business partners and staff we actively engage with Government bodies, local authorities, charities and other organisations to raise awareness of the issues around enhancing retirement incomes and care funding.

We are particularly active in the long term care arena where we feel the current funding system is unfair and we are campaigning to improve the quality of information and advice that individuals receive at the point of care. To this end we support “First Stop Shop” – an organisation designed to provide information on all aspects of care including state benefit entitlements, care home availability and advice on funding care.

In addition we are one of the major backers of SOLLA – The Society of Later Life Advisers. This new Society seeks to raise awareness amongst consumers, families and advisers about financial issues in later life and promotes the Later Life Advisers Scheme which has been developed by the Financial Services Skills Council. SOLLA aims to bring together those needing advice with accredited advisers who have had to demonstrate not only technical knowledge and competence which is externally and independently validated, but also demonstrate excellent softer skills relating to the understanding of the needs, capacities and issues of older customers.

At an industry level we are active members of the Association of British Insurers (ABI) and, as a regulated business, maintain a positive relationship with the FSA.

The Environment

We recognise that we all have a role to play in looking after the environment for future generations, and have adopted a number of environmental policies across our sites including:

- Recycling - we aim to recycle the majority of our paper and other items including ink cartridges and old IT equipment where appropriate;
- Energy saving: we save electricity by having movement sensor operated lighting systems. We also use filtered tap water rather than plastic bottles and discourage the use of plastic cups; and,
- Reducing our carbon footprint: we do not use company cars and we encourage all our staff to travel by public transport whenever possible.

In summary, our ambition is to grow our business in a way that benefits all our stakeholders whilst being aware of, and sensitive to, our wider responsibilities.

Governance

The Company is a subsidiary of PAG Holdings Limited, which is majority owned by the Cinven Funds. These funds are managed by Cinven Limited. Senior personnel at Cinven Limited who have oversight and management of the Company, and who are directors of the Company are Mr P. Catterall, Mr C. Berendsen and Mr M. Crewe.

The Board

The Board comprises six non-executive directors and two executive directors. The Board is responsible for strategy, the monitoring of performance, approval of business plans and the framework of internal controls. The Board contains a balance of management, financial, investment, administrative and market expertise appropriate for the Group's business.

Ian Owen FIA, Chairman

Ian is a fellow of the Institute of Actuaries. He was formerly Managing Director of Zurich Personal Lines, Managing Director of Eagle Star Life and Chief Executive of Eagle Star International Life. He has served as a director or Chair of many other Zurich and Eagle Star Group Companies, both in the UK and overseas. In addition, he has previously served as a non-executive director of AA Insurance, as a non-executive director and Chair of Endsleigh Insurance and Group Director at Liverpool Victoria. He is currently a non-executive Chairman of A-Plan, and a non-executive director of Canopius (a Lloyd's underwriter). He has been a member of the Association of British Insurers' Life Insurance Council and Chair of the Medical Committee.

Ian was appointed as Chairman of Partnership on its formation in 2005, and was appointed as the non-executive Chairman of the Company on 29 May 2009.

David Young ACA, Non-Executive Director

David is an associate of the Institute of Chartered Accountants and sits on the Committee of the Institute's Non-executive Director Special Interest Group. He is also a member of the Chartered Institute of Taxation. He previously held the positions of Finance Director, Chief Operating Officer and Chief Executive of a Stock Exchange-listed insurance broking and financial advisory group. He is currently an independent director of British Gas Insurance and British Gas Services and Chairman of Annuity Direct Limited, an independent financial adviser within the Partnership Group. He has previously served as a non-executive director of a number of insurance brokers.

David Young was appointed as a non-executive director of Partnership on its formation in 2005, and was appointed as a non-executive director of the Company on 29 May 2009.

Robin Phipps, Non-Executive Director

Robin was formerly Group Executive Director at Legal & General responsible for the UK business, and previously held a wide range of senior positions, including Group Director - Sales and Marketing, Group Director - Retail, Managing Director - Customer Services and Director of Information Technology. He is currently a Non-Executive Director of Friends Provident Plc part of the Resolution Group.

Robin was appointed as a non-executive director of Partnership on 28 February 2008, and was appointed as a non-executive director of the Company on 29 May 2009.

Peter Catterall, Non-Executive Director

Peter joined Cinven in 1997 and is a member of the Consumer and Financial Services sector teams at Cinven. Peter previously spent seven years at PricewaterhouseCoopers where he worked in the Transaction Services Group, providing due diligence and transaction advice to private equity companies.

Peter was appointed to the Board on incorporation, resigned on 29 August 2008 and reappointed on 29 May 2009

Caspar Berendsen, Non-Executive Director

Caspar joined Cinven in 2003 and is a member of the Financial Services sector team for Cinven. Prior to joining Cinven, Caspar worked at JP Morgan in London advising Dutch and Belgian clients in a variety of sectors.

Caspar was appointed to the Board on incorporation, resigned on 29 August 2008 and reappointed on 29 May 2009

Maxim Crewe, Non-Executive Director

Maxim joined Cinven in 2006 and is a member of the Financial Services sector team for Cinven. Previously he worked at Citigroup where he was involved in corporate finance within the European Retail and Consumer Group.

Maxim was appointed to the Board on incorporation.

Stephen Groves FIA, Chief Executive Officer

Steve joined Partnership in March 2005 as the Chief Financial Officer and on 21 December 2006 was appointed as Managing Director. On 26 June 2008 he became the Chief Executive Officer. On 5 August 2008 he became the Chief Executive Officer of the Company.

His previous role was as the Admin Re Senior Actuary for Swiss Re Life and Health where he successfully oversaw the acquisition of a number of life companies into a closed fund operation, including Windsor Life and Zurich Life. Prior to joining Swiss Re, Steve was the Head of Actuarial Services and then Executive Head of Business Development for Britannic Retirement Solutions. Steve's other roles included working as Product Manager. Steve was a Director of the equity release trade body, SHIP, and was also a founder member of the Institute of Actuaries' equity release working party.

Stephen was appointed to the Board on 29 May 2009.

Mark Dearsley, Chief Financial Officer

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 PricewaterhouseCoopers), Mark joined Charterhouse Bank (now part of HSBC) where he spent 10 years, latterly as a Board Director.

Mark was appointed to the Board on 29 May 2009.

Board Committees

The Group has established 4 standing Committees:

- PAG Holdings Audit Committee;
- Partnership and PAG Remuneration and Nomination Committee;
- Partnership Group Holdings Audit, Risk & Compliance Committee;
- Partnership Life Assurance Company Limited Investment Committee.

These committees have specified terms of reference to assist the Board, or a subsidiary Board where relevant, to exercise their responsibilities.

Partnership and PAG Remuneration and Nomination Committee

The Remuneration and Nomination Committee comprises the Chairman and four of the non-executive directors and the Chief Executive Officer meets on an ad-hoc basis, but at least annually. Its primary purpose is to review and recommend the appointment or removal of, and salary and employment benefits applicable to, senior management of the Group (including directors of Group companies). The Committee also oversees the procedures for appointment of new directors within the Group, and makes recommendations for the structure, size and composition of the Board, including orderly succession planning.

Partnership Group Holdings Audit Risk & Compliance Committee (ARCC)

The Audit Risk & Compliance Committee comprises the Chairman and the Partnership Life Assurance Company Limited non-executive directors. The committee meets at least quarterly with the Chief Executive Officer, Chief Financial Officer, Chief Actuary and senior management in Internal Audit, Risk Management and Compliance as required. The Actuarial Function Holder has the right to attend and comment at meetings of the committee.

The Terms of Reference of the committee include the matters indicated by the Combined Code and have four key areas of operation: Oversight of Financial Reporting; Oversight of External Audit; Oversight of Risk Management and Internal Control; Oversight of Internal Audit and Compliance.

The key responsibilities of the committee are:

- To monitor the integrity of the financial statements of the Group, reviewing the significant financial judgements contained in them;
- To review and approve the Internal Audit plan and monitor the effectiveness of the Internal Audit Function;
- To recommend the appointment and reappointment of External Auditors and to approve the remuneration and terms of engagement of the External Auditor;
- To review and assess the effectiveness of the Group's risk management systems and internal control.

Partnership Life Assurance Company Limited Investment Committee

The Investment Committee comprises the Chairman, the Chief Executive Officer, the Chief Financial Officer, the Chief Actuary and one of the non-executive directors. The Actuarial Function Holder also has the right to attend and comment at meetings of the committee. In addition, representatives of the Company's reinsurers may attend meetings. The Investment Committee meets quarterly.

The Terms of Reference of the committee are designed to manage the performance of the investment portfolio and utilisation of capital. The committee, on behalf of the Board, monitors investment performance and risk, establishes investment management policies, oversees the performance of our investment manager, ensures compliance with the FSA Rules and Regulations and reports to the Board on the utilisation of capital and recommends action to be taken regarding its utilisation.

Internal Controls

The Board of the Group is ultimately responsible for maintaining the Group's system of internal control and monitoring its effectiveness. The Group's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

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

- A detailed Board Governance manual, setting out a clear organisational structure, roles and responsibilities, authorities and matters reserved for each Board sub-committee;
- A strategic plan process which sets a medium term strategy based on a clear understanding of the risk inherent in the markets in which it operates;
- A planning and budget process that delivers detailed annual forecasts and targets for Board approval;
- Management information systems enabling the Board to receive comprehensive reporting of financial and operational performance;
- A Risk Management function which maintains the Group's risk management framework and facilitates management's regular identification, assessment and reporting of the Group's key risks. The risk management function was strengthened during late 2009 with the appointment of a new Director of Risk;
- A set of formal policies, including clearly defined risk appetites, which govern the management, control and oversight of the key risks faced by the Group's subsidiary companies;
- A detailed annual capital assessment on a realistic basis, resulting in a greater understanding of the financial consequences of the risks faced by the business, and enabling effective capital management;
- An Internal Audit function which reports to the Board on the effectiveness of internal controls in relation to the key risks identified. Internal audits are undertaken in accordance with an annual risk based plan approved by the Partnership Group Holdings Audit, Risk & Compliance Committee;
- A Compliance function which identifies and monitors the control of our compliance risks and ensure compliance with regulatory requirements.

The Board considers that the controls effective during 2009 are 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, the FSA and leading practice. Certain Group subsidiaries are regulated entities, and as such are subject to the supervision of the FSA over their activities, including their systems of business control. These subsidiaries are required on a regular basis to submit prudential and statistical returns covering all areas of their business. The Group has regularly met its supervisors, conducting the relationship in an open and constructive manner.

Directors' Report

For the year ended 31 December 2009

The directors present their report and the audited financial statements of the Group for the year ended 31 December 2009.

Principal activities and review of the business

Partnership Holdings Limited (the "Company") was incorporated on 4 June 2008. The Company changed its name from PAG Acquisitions Limited on 29 May 2009. The principal activity of the Company is that of a holding company.

The Chairman's Statement on page 4, Chief Executive's Review on pages 5 to 8 and Business Review on pages 9 to 14 outline the Group's activities, performance and future outlook. Particulars of the principal subsidiary undertakings affecting the profits or net assets of the Group are listed in note 26. The principal risks and uncertainties of the business are set out in Note 24 to the financial statements.

Results and dividends

The results for the year are set out in the consolidated income statement on page 25. The directors do not recommend the payment of a dividend (2008: Nil).

Directors

The directors who served the Company during 2009 and up to the date of this report were:

C Berendsen	
P A Catterall	
M D Crewe	
A M Dearsley	(Appointed 3 March 2009)
S J Groves	
I B Owen	
R A Phipps	
C Rhodes	(Resigned 29 May 2009)
DTM Young	

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 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 Group.

Directors' and officers' liability insurance cover is in place in respect of all of the Group's directors.

Charitable and political donations

During the period the Group did not make any donations for charitable or political purposes (2008: Nil).

Directors' Report (continued)

For the year ended 31 December 2009

Auditors

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 Group's auditors are 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 Group's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP has indicated their willingness to continue in office as auditors.

Approved by the Board and signed on its behalf by:

PJ Lagerberg
Company Secretary
Sackville House
143 – 149 Fenchurch Street
London
EC3M 6BN

12 May 2010

Statement of Directors' Responsibilities

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 financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to be properly prepared in accordance with IFRSs as adopted by the European Union and the Companies Act 2006.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

- 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 in IFRSs 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 proper accounting records that 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 England and Wales governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

Independent Auditor's Report

To the Members of Partnership Holdings Limited

We have audited the financial statements of Partnership Holdings Limited for the year ended 31 December 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Changes in Equity, the Consolidated and Company Balance Sheet, the Consolidated Cash Flow Statement and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

Respective responsibilities of Directors and auditors

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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

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 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.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2009 and of the group's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in 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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Alexander Arterton
Senior Statutory Auditor
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom

12 May 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Note	2009 £000's	4 June 2008 to 31 December 2008 £000's
Gross premiums written		409,745	152,643
Outward re-insurance premiums		(255,655)	(99,285)
Net premiums earned		154,090	53,358
Investment gains / (losses)	2	61,296	(865)
Share of loss of associate undertaking	10	(3)	(21)
Impairment of non controlling undertaking	10	(209)	-
Other income		799	272
Total income		**215,973**	**52,744**
Gross claims paid		(116,426)	(42,247)
Reinsurers' share		90,426	34,445
		(26,000)	(7,802)
Change in insurance liabilities:			
Gross amount		(323,463)	(139,392)
Reinsurers' share		200,568	104,319
		(122,895)	(35,073)
Acquisition costs		(12,021)	(4,351)
Investment expenses and charges		(1,340)	(218)
Interest on subordinated debt		(560)	(400)
Other operating expenses		(25,479)	(9,231)
		(39,400)	(14,200)
Total claims and expenses		**(188,295)**	**(57,075)**
Profit/(Loss) before tax	3	**27,678**	**(4,331)**
Income tax	5	(8,373)	1,299
Profit/(Loss) for the year/period		**19,305**	**(3,032)**
Profit/(Loss) attributable to:			
- Equity		19,357	(3,032)
- Minority Interests		(52)	-
		19,305	**(3,032)**

The Company was incorporated on 4 June 2008 and began trading on 5 August 2008. The Group's turnover and expenses all relate to continuing operations.

There are no items of other comprehensive income in the current or previous period.

Consolidated Statement of Changes in Equity

As at 31 December 2009

		Attributable to Equity					
	Note	Share Capital	Retained (loss)/profit	Other reserves	Total	Minority interest	Total
		£000's	£000's	£000's	£000's	£000's	£000's
At 4 June 2008		-	-		**-**	-	**-**
Shares issued for cash	**15**	159,796	-		**159,796**	-	**159,796**
Loss for the period			(3,032)		**(3,032)**		**(3,032)**
Capital contribution from Parent undertaking		-	-	2,313	**2,313**	-	**2,313**
At 31 December 2008		**159,796**	**(3,032)**	**2,313**	**159,077**	**-**	**159,077**
At 1 January 2009		159,796	(3,032)	2,313	**159,077**	-	**159,077**
Shares issued for cash	**15**	138	-		**138**	-	**138**
Profit /(loss) for the year			19,357		**19,357**	(52)	**19,305**
Capital contribution from Parent undertaking		-	-	47	**47**	-	**47**
At 31 December 2009		**159,934**	**16,325**	**2,360**	**178,619**	**(52)**	**178,567**

The Company was incorporated on 4 June 2008 and began trading on 5 August 2008. The Group's turnover and expenses all relate to continuing operations.

The Company's profit for the period was £32,000 (2008: £84,000).

Consolidated Balance Sheet

As at 31 December 2009

	Note	2009 £000's	2008 £000's
Assets			
Property, plant and equipment	**6**	1,834	1,170
Goodwill	**7**	126,207	126,160
Other intangible assets	**8**	3,693	3,100
Financial investments	**9**	611,570	265,456
Investment In associate	**10**	-	239
Reinsurance assets	**16**	803,400	602,831
Insurance and other receivables	**11**	12,605	11,891
Prepayments and accrued Income	**12**	18,331	7,425
Deferred tax assets	**13**	93	613
Cash and cash equivalents	**14**	17,631	17,724
Total assets		**1,595,364**	**1,036,609**
Equity			
Share capital	**15**	159,934	159,796
Retained profit/(loss)		16,325	(3,032)
Other Reserves		2,360	2,313
Total equity attributable to Shareholders		**178,619**	**159,077**
Minority Interest		(52)	-
Total equity		**178,567**	**159,077**
Liabilities			
Insurance liabilities	**16**	1,057,116	733,651
Insurance and other payables	**17**	339,804	130,704
Other provisions	**18**	10	10
Subordinated debt	**19**	15,906	12,096
Current tax liabilities	**20**	3,961	1,071
Total liabilities		**1,416,797**	**877,532**
Total equity and liabilities		**1,595,364**	**1,036,609**

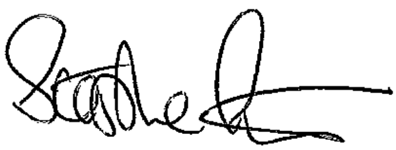
Balance Sheet of the Company

As at 31 December 2009

	Note	2009	2008
		£000's	£000's
Assets			
Investment In subsidiaries	**26**	152,256	152,256
Receivables	**11**	7,893	5,527
Prepayments	**12**	13	3,536
Total assets		**160,162**	**161,319**
Equity			
Share capital	**15**	159,934	159,796
Retained earnings		116	84
Total equity		**160,050**	**159,880**
Liabilities			
Payables	**17**	112	1,439
Total liabilities		**112**	**1,439**
Total equity and liabilities		**160,162**	**161,319**

The financial statements of the Company were approved by the board of directors and authorized for issue on 12 May 2010.

They were signed on its behalf by:



S J Groves
Chief Executive Officer

Company Registered Number: 6610600

Consolidated Cash Flow Statement

For the year ended 31 December 2009

	Note	2009 £000's	4 June 2008 to 31 December 2008 £000's
Net cash used in operating activities	**21**	**(1,574)**	**(20,695)**
Cash flows from investing activities:			
Purchase of subsidiary undertaking for cash		(65)	(140,000)
Direct cost in relation to acquisition of subsidiary undertaking		-	(2,456)
Purchase of property, plant and equipment		(1,247)	(818)
Purchase of other Intangible assets		(597)	-
Net cash from investing activities		**(1,909)**	**(143,274)**
Cash flows from financing activities:			
Proceeds from issuance of share capital		138	159,796
Proceeds from issuance of subordinated debt		3,800	2,500
Interest on subordinated debt		(560)	(400)
Net cash from financing activities		**3,378**	**161,896**
Net decrease in cash and cash equivalents		**(105)**	**(2,073)**
Cash and cash equivalents at beginning of year/period		17,724	-
Cash and cash equivalents acquired	**26**	12	19,797
Cash and cash equivalents at end of year/period	**14**	**17,631**	**17,724**

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.

1 Significant accounting policies

Adoption of International Financial Reporting Standards

The financial statements have been prepared in accordance with IFRS, as adopted by the European Union, and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared in accordance with the provisions of Sections 1165 (5) and 1165 (6) of the Companies Act 2006 and the special provisions relating to insurance companies of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008, Schedule 3 and with the Statement of Recommended Practice or Accounting for Insurance Business issued by the Association of British Insurers ('ABI SORP') in December 2005 and revised in December 2006.

Basis of preparation

The financial information has been prepared in accordance with applicable accounting standards and under the historical cost convention, modified to include the valuation of investments.

The Chairman's Statement, Chief Executive's Review and Business Review on pages 3 to 14 outline the Companies activities, performance and future outlook. Note 24 to the financial statements sets out the Group's policies and procedures for managing insurance and financial risk, and note 25 sets out the Group's available capital resources. Having regard to the Group's financial position, its expected performance in the future, and having made appropriate enquiries the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed during the year are included from/up to the effective date of acquisition or disposal. Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein.

As permitted by section 230 of the Companies Act 2006, no income statement for the Company is presented.

Critical accounting judgements and key sources of estimation uncertainty

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

Insurance contracts

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event would cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

The Group's long-term insurance contracts include annuities to fund retirement income, annuities to fund care fees (immediate needs and deferred), long-term care insurance, whole-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.

Premiums

Premiums are recognised in the accounting period in which policies are issued, gross of any commission paid. Premiums which have been received and for which no policy has been issued are classified as creditors arising out of direct insurance operations. 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.

Claims

Maturity claims and annuities are charged against revenue when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the long-term business provision. 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.

Long term business provision

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 long-term business provision is determined by the Board on the advice of the Group's Actuarial Function Holder on the modified statutory basis using recognised actuarial methods with due regard to the actuarial principles set out in the FSA's Insurance Prudential Sourcebook. In particular, a prospective gross premium valuation method has been adopted for major classes of business.

Although the process for the establishment of insurance liabilities follows specified rules and guidelines, the provisions that result from the process remain uncertain. As a consequence of this uncertainty, the eventual value of claims could vary from the amounts provided to cover future claims. The Group seeks to provide appropriate levels of contract liabilities taking known facts and experiences into account but nevertheless such provisions remain uncertain.

The estimation process used in determining the long-term business provision 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 the long-term business provision are set out in note 16.

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 inception through profit margins.

Long term reinsurance contracts

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 the long-term business provision, and are classified as "reinsurance assets".

Some contracts, which provide for the transfer of significant risk, are also structured to provide financing. When, under such contracts, financing components are to be repaid in future accounting periods, the amount outstanding under the contract at the balance sheet date are classified as "payables arising from reinsurance contracts".

If the reinsurance asset were impaired, the Group reduces the carrying amount accordingly and recognises that impairment loss in the income statement. 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.

Investment income & expenses

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.

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 that is recognised as an asset is reviewed for impairment at least annually, or when circumstances or events indicate there may be uncertainty over this value and any impairment is recognised immediately in the income statement and is not subsequently reversed.

Other intangible assets

Other intangible assets comprise intellectual property in the form of specific mortality tables derived from data collected over an extended period. The intangible asset is deemed to have an indefinite life and consequently no amortisation is charged against its carrying value.

Development Costs

Development costs that are directly attributable to the design and testing of identifiable and software products, controlled by the Company, 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. Computer software development costs with a definite useful life are amortised using the straight line method over 3 years.

Impairment of tangible and intangible assets excluding goodwill

The carrying amounts of tangible and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable and at least at each balance sheet date. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its net selling price (fair value less selling costs) and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit, or Company of units, to which the asset belongs.

Financial investments

The Group classifies its financial investments as at fair value through profit and loss. The fair value through profit and loss has two sub-categories – those that meet the definition as being held for trading and those the Group chooses to designate as at fair value through profit and loss. The fair value through profit and loss category is used, as the Group's strategy is to manage its financial investments on a fair value basis. All financial investments are designated at fair value through profit and loss.

Purchases and sales of investments 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. 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.

Financial investments are subsequently carried at fair value with changes in fair value included in the income statement in the period in which they arise. The fair values of investments are based on quoted bid prices, or based on modelled prices (using observable market inputs) where quoted bid-prices are not available.

Financial Liabilities

Financial liabilities are classified as either financial liabilities "at fair value through profit and loss" or "other financial liabilities". Financial liabilities are classified as fair value through profit and loss where the financial liability is designated as fair value through profit and loss. Financial liabilities at fair value through profit and loss are stated at fair value, with any resultant gain or loss recognised in the income statement. The net gain or loss recognised in the income statement 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.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Taxation

Provision is made for taxation on taxable profits for the year, using tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax is provided in full on timing differences 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 current tax rates and law. Timing 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. 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.

Pension costs

All staff is employed by Partnership Services Limited, a subsidiary undertaking. Partnership Services Limited operates money purchase Company personal pension plans.

Foreign currencies

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 the income statement.

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.

Subordinated debt

Subordinated debt is recognised initially at fair value, net of transaction costs incurred. Subordinated debt is subsequently stated at amortised cost; any difference between the proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Investments in Subsidiaries

Investments in subsidiaries are stated at cost less impairment, as determined by the Company's directors.

Adoption of new and revised standards

a) The following new and revised or amended standards have been adopted and affect amounts reported, or the disclosure and presentation of information, in these financial statements:

Standard / interpretation	Content / amendment	Applicable for financial periods beginning on or after:
IAS 1 (revised)	Presentation of financial statements	1 January 2009
IFRS 7 (amendment)	Improving disclosures about financial instruments	1 January 2009

IAS 1 – Presentation of financial statements: The revised standard introduced a number of changes in the format and content of financial statements. In particular an entity has a choice of presenting either a single statement of comprehensive income or two statements, being an income statement displaying components of profit or loss and a statement of comprehensive income that begins with profit or loss (bottom line of the income statement) and displays components of other comprehensive income. We have chosen the latter but have no components of other comprehensive income for the periods reported. The impact on these financial statements is minimal.

IFRS 7 – Improving disclosures about financial instruments: The amendments to this standard requires an entity to provide enhanced disclosures about fair value measurement and liquidity risk and requires disclosure of fair value measurement by the following levels of fair value measurement hierarchy:
Level 1: Unadjusted quoted prices 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 (as prices) or indirectly (derived from prices);
Level 3: Inputs not based on observable market information.
The Group has elected not to provide comparative information in accordance with the transitional relief offered in the amended standard.

b) The following new and revised or amended standards have been adopted but have not affected the amounts reported, or the disclosure and presentation of information in these financial statements, but may impact the accounting for future transactions and arrangements:

Standard / interpretation	Content / amendment	Applicable for financial periods beginning on or after:
IAS 23 (amendment)	Borrowing costs	1 January 2009
IAS 39 (amendment)	Amendments to IAS 39 and IFRS 7 (Reclassification of financial assets)	1 July 2008
IAS 16 (amendment)	Property, plant and equipment (and consequential amendment to IAS 7)	1 January 2009
IAS 38 (amendment)	Intangible assets	1 January 2009

IAS 23 - Borrowing costs: The main change in the revised standard is to require an entity to capitalise borrowing costs directly attributable to qualifying assets. This change does not impact these financial statements as there were no qualifying assets in the periods reported.

IAS 39 - Amendments to IAS 39 and IFRS 7: In certain circumstances an entity can now reclassify non- derivative financial assets out of the "fair value through profit or loss" category and "available for sale" category. This change does not impact these financial statements as no assets have been reclassified.
IAS 16 – Property, plant and equipment: Amended for improvements relating to the routine sale of assets held for rental
IAS 38 – Intangible Assets: The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination.

c) The following new and revised or amended standards have not been adopted in these financial statements:

Standard / interpretation	Content / amendment	Applicable for financial periods beginning on or after:
IFRS 8 (new)	Operating segments	1 January 2009

IFRS 8 – Operating segments: This new standard replaces IAS 14 and requires an entity's external reporting segments to be based upon the internal reporting used by the Executive Board or primary decision makers of the Group. We have not adopted IFRS 8 on the basis that the reporting requirements only apply to listed companies with traded debt or equity. The ultimate parent undertaking and one of its subsidiaries has debt that is listed on the Guernsey stock exchange, which is not traded.

d) The following new and revised or amended standards are not relevant to the Group's operations:

Standard / interpretation	Content / amendment	Applicable for financial periods beginning on or after:
IAS 20 (amendment)	Accounting for Government grants and disclosure of Government assistance	1 January 2009
IAS 29 (revised)	Financial reporting in hyperinflationary economies	1 January 2009
IAS 31 (revised)	Interests in joint ventures (and consequential amendments to IAS 32 and IFRS 7)	1 January 2009
IAS 32 and IAS 1(amendment)	Puttable financial instruments and obligations arising on liquidation	1 January 2009
IAS 40 (amendment)	Investment property	1 January 2009
IAS 41(revised)	Agriculture	1 January 2009
IFRS 2 (amendment)	Share based payments	1 January 2009
IFRIC 13	Customer loyalty programmes	1 July 2008
IFRIC 15	Agreements for the construction of real estate	1 January 2009
IFRIC 16	Hedges of a net investment in a foreign operation	1 October 2008

e) At the date these financial statements were authorised the following new or revised or amended standards, in issue, were not yet effective, or in some cases not yet adopted by the EU. The Group has not early adopted.

Standard / Interpretation	Content / amendment	Applicable for financial periods beginning on or after:
IAS 1 (amendment)	Presentation of financial statements	1 July 2009
IAS 24 (amendment)	Related party disclosures	1 January 2011
IAS 27 (revised)	Consolidated and separate financial statements	1 July 2009
IAS 28 (revised)	Investments in associates	1 July 2009
IAS 32 (amendment)	Classification of rights issues	1 February 2010
IAS 39 (amendment)	Financial instruments – recognition and measurement – eligible hedged items	1 July 2009
IFRS 3 (revised)	Business combinations	1 July 2009
IFRS 5 (amendment)	Measurement of non-current assets (or disposal groups) classified as held for sale	1 July 2009
IFRS 9	Financial instruments	1 January 2013
IFRIC 17	Distribution of non cash assets to owners	1 July 2009
IFRIC 18	Transfers of assets from customers	1 July 2009

2 Investment gains / (losses)

	2009	4 June 2008 to 31 December 2008
	£000's	£000's
Interest receivable from financial investments	25,867	5,753
Unrealised gains /(losses) on financial investments	33,434	(6,885)
Realised gains on financial investments	1,995	267
	61,296	**(865)**

3 Profit / (Loss) before tax

The Profit / (loss) before tax is stated after charging the following items to operating expenses:

	2009	4 June 2008 to 31 December 2008
	£000's	£000's
Staff costs, including directors' remuneration (note 4)	13,907	3,774
Depreciation of property, plant and equipment (note 6)	586	43
Amortisation of intangible assets (note 8)	4	-
Auditors' remuneration (see below)	259	198
Rental of leased premises (note 27)	728	161
Impaired goodwill (note 7)	80	-
Other operating leases (note 27)	16	18
The analysis of auditors' remuneration for the period is as follows:		
a) Fees payable to the Group's auditors for the audit of the Group's accounts	181	180
b) Fees payable to the Group's auditors for other services:		
- Taxation services	78	18
	259	198

4 Staff costs

The aggregate staff costs, including directors' remuneration in the year/period were:

	2009	4 June 2008 to 31 December 2008
	£000's	£000's
Wages & salaries	11,993	3,212
Social security costs	1,414	399
Other pension costs	500	163
	13,907	**3,774**

The average number of persons employed during the year/period were:

Administration and finance	194	139
Sales and marketing	42	37
	236	**176**

An analysis of Directors' remuneration is included in note 29.

5 Income tax

	2009 £000's	4 June 2008 to 31 December 2008 £000's
Current taxation:		
Tax charge / (credit) for the year/period	7,857	(743)
Adjustment in respect of prior periods	(4)	-
	7,853	(743)
Deferred taxation:		
Tax charge/(credit) for the year/period	520	(556)
Net taxation charge /(credit)	**8,373**	**(1,299)**

The actual tax charge differs from the expected tax charge, computed by applying the average rate of UK corporation tax for the period of 28%, as follows:

Profit / (Loss) before tax	27,678	(4,331)
Current taxation at 28% (2008: 28%)	7,750	(1,213)
Prior period losses (surrendered) /utilised in year/period	(81)	55
Variance in tax rate applicable to pension losses carried forward	-	200
Disallowable expenses	186	22
Difference between depreciation and capital allowances for tax purposes	28	(31)
Unutilised losses carried forward	-	(391)
Adjustment in respect of prior periods	(3)	-
Other timing differences	493	59
Net taxation charge / (credit)	**8,373**	**(1,299)**
Unutilised tax losses	14,213	14,139
Unrecognised deferred tax assets	2,849	2,828

Unutilised tax losses relate to management expenses that are only available to offset certain profits in the life insurance subsidiary, and taxable losses arising in other group entities. No deferred tax asset is recognised in respect of these losses as emergence of the required profits to utilise these losses is uncertain.

6 Property, plant and equipment

Group

	Computer equipment	Fixtures & Fittings	Office refit costs	Total
Cost:				
As at 1 January 2009	1,132	350	840	2,322
Acquired at fair value	3	-	-	3
Additions at cost	575	16	656	1,247
At 31 December 2009	**1,710**	**366**	**1,496**	**3,572**
Accumulated depreciation:				
As at 1 January 2009	783	79	290	1,152
Charge for the year	288	68	230	586
At 31 December 2009	**1,071**	**147**	**520**	**1,738**
Net book value:				
At 31 December 2008	349	271	550	1,170
At 31 December 2009	**639**	**219**	**976**	**1,834**

7 Goodwill

	Group	
	2009	**2008**
	£000's	**£000's**
At 1 January/4 June	126,160	-
Additional direct costs arising on previous acquisition (note 26)	47	126,160
Goodwill arising on acquisition of controlling interest in associate (note 26)	80	-
Impairment adjustment	(80)	-
At 31 December	**126,207**	**126,160**

8 Other intangible assets

	Group	
	2009	2008
	£000's	£000's
Intellectual property:		
At 1 January/4 June	3,100	-
Acquired at fair value	-	3,100
At 31 December	**3,100**	**3,100**
Software development costs:		
At 1 January/4 June	-	-
Additions at cost	597	-
At 31 December	**597**	-
Amortisation:		
At 1 January/4 June	-	-
Charge for year	4	-
At 31 December	**4**	**-**
Total at 31 December	**3,693**	**3,100**

The Intellectual Property comprises specific mortality tables derived from data collected over an extended period. Its value 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 assessed for impairment at each reporting date, by considering the future cash flows generated through its use.

The Amortisation period for software development costs is 3 years. A substantial proportion of the additions in the year relate to ongoing development and therefore the amortisation period has not yet begun.

9 Financial investments

	Group	
	2009	2008
	£000's	£000's
Debt securities and other fixed income securities at fair value	611,570	265,456
Debt securities and other fixed income securities at cost	593,532	299,643

All investments are listed and are designated at fair value through profit and loss.

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 2009, all values provided were based on fair values measured using inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), being deemed “Level 2”, in accordance with IFRS 7. Alternative sources have also been reviewed by the Directors to verify the reasonableness of the values used.

10 Investment in associate

	Group	
	2009	2008
	£000's	£000's
At 1 January/4 June	239	-
Share of net assets acquired at fair value (note 26)	-	260
Share of results of associate in the year/period	(3)	(21)
Carrying value at date controlling interest acquired	236	239
Fair value of non controlling interest at date controlling interest acquired	(27)	-
Impairment of non controlling interest	(209)	-
At 31 December	**-**	**239**

A controlling interest in the associate undertaking was acquired during the year note 26.

11 Insurance and other receivables

Amounts falling due within 12 months:

	Group		Company	
	2009	2008	2009	2008
	£000's	£000's	£000's	£000's
Debtors arising out of reinsurance contracts	3,048	3,562	-	-
Amounts due from parent undertakings	5,069	5,527	5,069	5,527
Amounts due from subsidiary undertakings	-	-	2,824	-
Corporation tax receivable	-	466	-	-
Other debtors	4,488	2,336	-	-
	12,605	**11,891**	**7,893**	**5,527**

The directors consider that the carrying values in the balance sheets are a reasonable approximation of fair value.

12 Prepayments and accrued income

Amounts falling due within 12 months:

	Group		Company	
	2009	2008	2009	2008
	£000's	£000's	£000's	£000's
Accrued interest	17,411	7,425	-	-
Prepayments	920	-	13	3,536
	18,331	**7,425**	**13**	**3,536**

The directors consider that the carrying values in the balance sheets are a reasonable approximation of the fair value.

13 Deferred tax assets

	Group	
	2009	2008
	£000's	£000's
At 1 January/4 June	613	-
Balance acquired	-	57
(Charge) / credit to income statement (note 5)	(520)	556
At 31 December	**93**	**613**

14 Cash and cash equivalents

	Group	
	2009	2008
	£000's	£000's
Short term bank deposits	5,428	6,507
Cash at bank and in hand	12,203	11,217
	17,631	**17,724**

15 Share capital

	Group & Company	
	2009	2008
	£000's	£000's
The authorised share capital of the Company is:		
200 million ordinary shares of £1 each	200,000	200,000
	200,000	**200,000**
The allotted and issued share capital of the Company is:		
Allotted, issued and fully paid – ordinary shares of £1 each:		
At 1 January/4 June	159,796	-
Issued during the year/period	138	159,796
At 31 December	**159,934**	**159,796**

The Company was incorporated on 4 June 2008 with issued capital of 8 subscriber shares. On 5 August 2008 a further 159,796,323 shares were issued at par for cash to the parent undertaking. On 30 April 2009 68,267 shares were issued at par for cash to the parent undertaking. On 31 July 2009 65,900 shares were issued at par for cash to the parent undertaking. On 2 December 2009 3,333 shares were issued at par for cash to the parent undertaking

16 Insurance liabilities and reinsurance assets

	Group	
	2009	2008
	£000's	£000's
Long term business provision	1,057,116	733,651
Re-insurers' share of long term business provision	(803,400)	(602,831)
Net provision	**253,716**	**130,820**

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	2009	PML/PFL92u2009ave MC&LC floor 1.5%	5.28%
	2008	PML/PFL92u2008 ave MC&LC floor 1.5%	5.98%
Other annuity products	2009	PCMA/PCFA00u2009 p-spline	3.68%
	2008	PCMA/PCFA00u2008 p-spline	3.36%
Term and whole of life products	2009	TM/TF00Select	3.07%
	2008	TM/TF00Select	2.20%

Valuation discount rate assumptions are set with regards to yields on supporting assets. An allowance for risk is included by making an explicit deduction from the yields on debt and other fixed income securities based on historical default experience and expected experience of each asset class. The deduction for default risk has been set to be 45% of the spread of the yield of the corporate bonds over the yield on sterling denominated sovereign bonds.

Changes in the valuation discount rates 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:

	Gross £000's	Re-insurance £000's	Net £000's
Year ended 31 December 2009			
Carrying amount at start of year	733,651	(602,831)	130,820
Increase in liability from new business	348,145	(220,710)	127,436
Release of in-force liability	(36,028)	27,077	(8,951)
Release of liability due to recorded deaths	(27,368)	22,488	(4,882)
Economic changes	28,838	(21,917)	6,922
Non-economic changes	9,878	(7,507)	2,371
Carrying amount at end of year	**1,057,116**	**(803,400)**	**253,716**
Period ended 31 December 2008			
Carrying amount acquired	594,259	(498,512)	95,748
Increase in liability from new business	142,301	(105,251)	37,050
Release of in-force liability	(6,829)	5,508	(1,321)
Release of liability due to recorded deaths	(12,515)	11,100	(1,415)
Economic changes	(419)	372	(47)
Non-economic changes	15,584	(15,187)	397
Other	1,271	(862)	409
Carrying amount at end of period	**733,651**	**(602,831)**	**130,820**

c) Analysis of expected maturity

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

	Amounts maturing in				
	less than one year	one to five years	five to fifteen years	more than fifteen years	Total
At 31 December 2009	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Gross	122,225	361,202	407,592	166,097	**1,057,116**
Reinsurance	(91,413)	(273,238)	(317,085)	(121,664)	**(803,400)**
Net	30,812	87,964	90,507	44,433	**253,716**
At 31 December 2008					
Gross	89,518	261,944	275,489	106,700	**733,651**
Reinsurance	(72,881)	(213,939)	(228,751)	(87,260)	**(602,831)**
Net	16,636	48,005	46,738	19,440	**130,820**

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.
Expenses	The impact of an increase in maintenance expenses by 10%
Mortality rates	The impact of an increase in mortality rates by 5%

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 non-correlated, 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.

	Increase / (decrease) in profit before tax	
	2009	**2008**
Change in assumption:	**£000's**	**£000's**
Interest rates +1%	(3,269)	34
Interest rates -1%	3,922	(188)
Expenses +10%	(1,846)	(903)
Mortality -5%	(5,361)	(2,944)

17 Insurance and other payables

Amounts payable within one year:

	Group		Company	
	2009	2008	2009	2008
	£000's	£000's	£000's	£000's
Payables arising from insurance contracts	16,468	11,602	-	-
Payables arising from reinsurance contracts	315,723	116,230	-	-
Amounts due to subsidiary undertakings	-	-	-	1,379
Other creditors and accruals	7,613	2,872	112	60
	339,804	**130,704**	**112**	**1,439**

The directors consider that the carrying values in the balance sheets are a reasonable approximation of fair value.

18 Other provisions

Amounts payable within one year:	Group	
	2009	2008
	£000's	£000's
Demutualisation provisions:		
Provision for policyholder payments	10	10
	10	**10**
Movement in provision for policyholder payments:		
At 1 January/4 June	10	-
Provisions acquired at fair value (note 26)	-	12
Utilisation of provision in the period	-	(2)
At 31 December	**10**	**10**

19 Subordinated debt

	Group	
	2009	2008
	£000's	£000's
Amounts payable between one and five years	3,200	-
Amounts payable in more than five years	12,800	12,200
	16,000	12,200
Less capitalised debt issuance costs	(94)	(104)
	15,906	**12,096**

An unsecured subordinated loan facility of £16 million was arranged with the Bank of Scotland on 2 September 2005. The interest rate is at 3% over LIBOR. The loan will be repaid in equal instalments on a semi-annual or quarterly basis, as selected by the Group commencing on 1 January 2014 to ensure that the loan is repaid in full by 1 January 2019. At 31 December 2009, the facility was fully drawn down. All covenant requirements relating to this facility were met during the period.

20 Current tax liabilities

Amounts payable within one year:

	Group	
	2009	2008
	£000's	£000's
Income taxes	2,846	57
Other taxes and social security costs	1,115	1,014
	3,961	**1,071**

21 Notes to the Cash Flow Statement

	2009	4 June 2008 to 31 December 2008
	£000's	£000's
Profit / (loss) before tax	**27,678**	**(4,331)**
Adjustment for:		
Interest receivable from financial investments	(25,867)	(5,753)
Depreciation of property, plant and equipment	586	145
Amortisation of intangible assets	4	-
Investment expenses and charges	1,340	218
Interest on subordinated debt	560	400
Share of loss of associate undertaking	3	21
Loss on non controlling interest in associate undertaking	209	-
Impairment of goodwill	80	-
Amortisation of capitalised subordinated debt issuance costs	10	4
Operating cash flows before changes in operating assets and liabilities	**4,603**	**(9,296)**
Increase in financial investments	(346,114)	(102,817)
Increase in reinsurance assets	(200,569)	(104,319)
Increase in insurance and other receivables	(669)	(10,570)
Increase in prepayments and accrued income	(10,906)	(2,910)
Increase in insurance liabilities	323,465	139,392
Increase in insurance and other payables	209,056	63,882
Increase in other taxes and social security payables	95	410
Decrease in other provisions	-	(2)
Cash used in operations	**(21,039)**	**(26,230)**
Interest received from financial investments	25,867	5,753
Investment expenses and charges paid	(1,340)	(218)
Tax losses purchased from parent undertakings	(2,939)	-
Corporation tax paid	(2,123)	-
Net cash used in operating activities	**(1,574)**	**(20,695)**

22 Employee Benefits

Pension Scheme

All pension costs are borne by Partnership Services Limited, a subsidiary company, and recharged to the operating companies in the Group. The assets of the plan are held separately from those of the Group.

Details of the amounts payable for the period are included in 'other pension costs, in note 4. No amounts are outstanding in respect of these contributions at the end of the period.

23 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 Partnership. Although the funds are managed by Partnership (as the Group controls the investment of the asset), no future benefits accrue to Partnership as any returns on the deposits are paid to reinsurers. Consequently the deposits are not recognised as assets of Partnership.

In addition the Group has trust agreements with two reassurers (2008: two) whereby the assets are held in trust in order to fully fund the reassurers 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.

The value of these funds are:

	2009	2008
	£000's	£000's
Deposits managed by the Group	301,234	294,912
Deposits held in trust	182,828	178,241
	484,062	**473,153**

24 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 and credit 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 inappropriate business will be written, or an inappropriate premium will be charged for that business. Reserving risk is the risk that the reserves have been calculated incorrectly, or the assumptions used in the calculations are incorrect.

As the Group's insurance business is specifically targeted at people with medical 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 tailored underwriting manuals designed to specifically cover a large array of medical conditions.

The Group 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 the Group and its predecessor companies.

The assumptions used in the reserving for future policyholder payments are set based on available market and experience data, on the advice of the 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 FSA's Prudential sourcebooks.

a2) Specific insurance risk

Insurance risk on the 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 protection policies arises through higher than expected mortality levels. 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 also reduced significantly through the use of re-insurance. Expense risk is managed through regular assessment of expenses incurred against budgets, and overall impact on profitability of the insurance contracts.

a3) Concentration of insurance risk

The Group writes annuity contracts for the provision of retirement income or care fees, and protection insurance contracts, primarily for individuals in the UK with one or more medical conditions that is likely to reduce their overall life expectancy. The Group's insurance risk is therefore concentrated on longevity and mortality risk. These risks are significantly reduced through the Group's use of external re-insurance arrangements.

b) Interest rate and other market 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 insurance liabilities.

The Group manages its interest rate risk within an asset liability management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. The principal technique of the Group’s ALM framework is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to policyholders. For each distinct category of liabilities, a separate portfolio of assets is maintained.

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 liabilities to insurance 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. Periodically the cash flow matching is reviewed and rebalanced.

At 31 December 2009, the mean duration of the assets was 8.01 years (2008: 6.7 years) and the mean duration of the liabilities was 8.13 years (2008: 6.3 years).

The following table indicates financial assets that are exposed to interest rate risk:

	Amounts maturing in				
	less than one year	one to five years	five to ten years	more than ten years	Total
At 31 December 2009	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Exposed to fair value interest rate risk:					
- Debt securities and other fixed income securities	15,763	98,376	199,070	298,361	611,570
Exposed to cash flow interest rate risk:					
- Short term deposits	5,428	-	-	-	5,428
	21,191	**98,376**	**199,070**	**298,361**	**616,998**
At 31 December 2008					
Exposed to fair value interest rate risk:					
- Debt securities and other fixed income securities	5,581	68,483	33,790	157,602	265,456
Exposed to cash flow interest rate risk:					
- Short term deposits	6,507	-	-	-	6,507
	12,088	**68,483**	**33,790**	**157,602**	**271,963**

The following table indicates financial liabilities that are exposed to interest rate risk:

	Amounts maturing in				
	less than one year	one to five years	five to ten years	more than ten years	Total
At 31 December 2009	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Exposed to fair value interest rate risk:					
- Insurance and other payables	35,147	95,443	129,732	55,401	315,723
Exposed to cash flow interest rate risk:					
- Insurance and other payables	24,081	-	-	-	24,081
Other provisions	10	-	-	-	10
Subordinated debt		3,181	12,725		15,906
Current tax liabilities	3,961	-	-	-	3,961
	63,199	**98,624**	**142,457**	**55,401**	**359,629**

At 31 December 2008	less than one year £000's	one to five years £000's	five to ten years £000's	more than ten years £000's	Total £000's
	Amounts maturing in				
Exposed to fair value interest rate risk:					
- Insurance and other payables	10,898	36,631	30,963	36,528	115,020
Exposed to cash flow interest rate risk:					
- Insurance and other payables	15,684	-	-	-	15,684
Other provisions	10	-	-	-	10
Subordinated debt	-	-	12,096	-	12,096
Current tax liabilities	1,071	-	-	-	1,071
	27,663	**36,631**	**43,059**	**36,528**	**143,881**

The Group has a reinsurance arrangement in place which provides 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

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Group is exposed to credit risk are:

- exposure to corporate bonds;
- reinsurers' share of insurance liabilities; and
- amounts due from reinsurers in respect of claims already paid.

The Group places limits on its exposures to a single counterparty, or groups of connected counterparties.

With respect to its investment in corporate bonds, the Group places limits on the exposure to bond issuers with different credit ratings, as published by Standard & Poor, or an alternative recognised rating agency. Current restrictions do not allow investment in any corporate bond with a rating below BBB (or equivalent). Where investments already held are subsequently downgraded, the Directors will review each holding to determine whether to retain that exposure.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer, and consequently, if a reinsurer fails to pay a claim, the Group remains liable for the payment to the policyholder. As a result, the Group is exposed to credit risk in relation to the reinsurer's ability to fulfil its obligations to the Group. The creditworthiness of reinsurers is considered by reviewing their financial strength prior to finalisation of any contract and then subsequently at least on an annual basis.

The reinsurers' share of insurance liabilities is backed by investments deposited back with the Group, or held in trust for the beneficial ownership of the Group. In this way, the Group's exposure to the credit risk relating to the reinsurer is significantly reduced. The investment risk on investments deposited back with the Group, or held in trust for the beneficial ownership of the Group, is borne by the reinsurers.

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, or an equivalent rating from another recognised rating agency.

	AAA £000's	AA £000's	A £000's	BBB £000's	Below BBB, unrated £000's	Total £000's
At 31 December 2009						
Debt securities and other fixed income securities	62,098	160,212	312,971	75,294	995	611,570
Reinsurance assets	-	674,022	-	-	129,378	803,400
Debtors arising out of reinsurance contracts	-	862	-	-	2,186	3,048
	62,098	**835,096**	**312,971**	**75,294**	**132,559**	**1,418,018**
At 31 December 2008						
Debt securities and other fixed income securities	57,919	70,731	117,513	19,219	74	265,456
Reinsurance assets	-	381,969	185,165	35,697	-	602,831
Debtors arising out of reinsurance contracts	-	-	1,337	-	2,225	3,562
	57,919	**452,700**	**304,015**	**54,916**	**2,299**	**871,649**

d) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Board sets limits on the minimum proportion of highly liquid assets to be available to meet such obligations.

Short term cash requirements are monitored on a daily basis to ensure sufficient funds are available to meet immediate payments. The nature of the Group's business means that, in general, cash flows into the Group (through up-front premium payments) before annuity payments become due. Annuity payments are substantially fixed in nature, and consequently the cash requirements are not subject to excessive uncertainty.

The following table indicates financial liabilities that are exposed to liquidity risk:

	Amounts maturing in				
	less than one year	one to five years	five to ten years	more than ten years	Total
At 31 December 2009	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Insurance and other payables	59,228	95,443	129,732	55,401	339,804
Other provisions	10	-	-	-	10
Subordinated debt	-	3,181	12,725	-	15,906
Current tax liabilities	3,961	-	-	-	3,961
	63,199	**98,624**	**142,457**	**55,401**	**359,629**

	Amounts maturing in				
	less than one year	one to five years	five to ten years	more than ten years	Total
At 31 December 2008	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Insurance and other payables	26,582	36,631	30,963	36,528	130,704
Other provisions	10	-	-	-	10
Subordinated debt	-	-	12,096	-	12,096
Current tax liabilities	1,071	-	-	-	1,071
	27,663	**36,631**	**43,059**	**36,528**	**143,881**

25 Available capital resources

Movements in Equity Shareholders funds are shown in the Consolidated Statement of changes in equity. The inadmissible assets of the Group constitute goodwill, intangible assets and deferred tax amounts only, and movements in these balances are shown in notes 7, 8 and 13.

Throughout the period the Group has maintained capital resources in excess of the minimum required by the FSA regulations and the EU directives.

The Group manages its capital to ensure that entities within the Group will be able to continue to operate as going concerns, and to ensure that where a subsidiary is subject to regulatory capital requirements, that entity maintains an adequate capital surplus to ensure compliance with those requirements. The Group's capital consists of equity attributable to equity holders of the parent company, and for regulatory purposes, also includes subordinated debt, though the level of debt that can contribute to regulatory capital requirements is subject to certain limits. For the purposes of regulatory capital requirements, certain assets are restricted, or are inadmissible.

One subsidiary, Partnership Life Assurance Company Limited, is required to comply with minimum capital requirements calculated at the level of its EEA parent company level, as well as its own single entity level. It must also calculate its available capital at the ultimate parent company level (which is set out below), but failure to cover the minimum capital requirement at this level has no consequence for the entity, or the Group. These capital requirements are determined in accordance with the FSA regulations and the EU directives, for insurance and other FSA regulated business. Any changes or release of capital from long-term funds is subject to there being an established surplus shown by an actuarial investigation. Throughout the period, each regulated subsidiary has maintained capital resources in excess of the minimum required by the FSA regulations and the EU directives.

The available capital resources, calculated in accordance with FSA regulations, are set out below.

	2009	2008
	£000's	**£000's**
Total Equity	**178,567**	**159,077**
Minority Interest in equity for regulated business	(5)	-
Adjustments in respect of regulatory capital basis:		
Inadmissible intangible assets (see note 8)	(3,693)	(3,100)
Inadmissible goodwill (see note 7)	(126,207)	(126,160)
Inadmissible deferred tax asset(see note 13)	(93)	(613)
Equity and reserves related to non-regulated entities (excluded from regulatory capital calculation)	464	(244)
	49,033	28,960
Subordinated debt admissible in regulatory capital calculation	15,520	12,200
Total available capital resources (regulatory basis)	**64,553**	**41,160**
Group Minimum capital requirement (regulatory basis)	38,299	25,603
Surplus against regulatory capital requirement	**26,254**	**15,557**

26 Subsidiary undertakings

Partnership Holdings Limited owns 100% of the share capital of Partnership Group Holdings Limited, a holding company registered in England and Wales. Set out below are the principal operating subsidiary undertakings of Partnership Group Holdings Limited. All of the companies are incorporated in England and Wales. The shares held are voting ordinary equity shares.

Name:	Principal activity:	Holding:
Partnership Life Assurance Company Limited	Life assurance and pension annuities	100.0%
Partnership Home Loans Limited	Mediation of equity release reversion	100.0%
Partnership Services Limited	Service company	100.0%
Annuity Direct Limited	Independent financial advisors	83.7%
Eldercare Group plc	Independent financial advisors	62.5%

The Company acquired the whole of the issued share capital of Partnership Group Holdings Limited on 5 August 2008 for a total consideration, including acquisition costs, of £144,769,000. The Group has used the acquisition accounting method to account for the acquisition. The following table summarises the assets and liabilities of Partnership Group Holdings Limited and its subsidiaries at the date of acquisition in 2008.

	Book value	Fair value adjustment	Fair value
	£000's	£000's	£000's
Net assets acquired:			
Intangible assets	1,000	2,100	3,100
Financial investments	162,639	-	162,639
Property, plant and equipment	497	-	497
Investment In associate	260	-	260
Reinsurance assets	498,512	-	498,511
Insurance and other receivables	1,322	-	1,322
Prepayments and accrued income	4,515	-	4,515
Deferred tax assets	57	-	57
Cash and cash equivalents	19,797	-	19,797
Insurance liabilities	(594,259)	-	(594,259)
Insurance and other payables	(66,822)	-	(66,822)
Other provisions	(12)	-	(12)
Subordinated debt	(9,592)	-	(9,592)
Current tax liabilities	(1,404)	-	(1,404)
Goodwill			126,160
Total consideration			**144,769**
Satisfied by:			
Cash			140,000
Directly attributable costs			4,769
			144,769

	Fair value £000's
Net cash flow arising on acquisition:	
Cash consideration	(140,000)
Cash & cash equivalents acquired	19,797
	(120,203)

An additional £47,000 of directly attributable costs was expensed in 2009 increasing the goodwill arising on the acquisition of Partnership Group Holdings Limited to £126,207,000.

At the date of acquisition and at 31 December 2008 Partnership Group Holdings Limited held a 25% interest in the equity shares and voting rights of Eldercare Group plc, a company incorporated in England and Wales whose principal activity is financial intermediation. The results of Eldercare Group plc were accounted for as an associate undertaking using the equity method of accounting until 3 February 2009 when the Group acquired a controlling interest. On that date the Group paid £40,000 to a director of Eldercare Group plc for his 37.5% holding in that undertaking, increasing the proportionate share of the equity and voting rights held to 62.5%. On the same day the

Group paid £25,000 for its proportionate share of new equity shares issued. The results of Eldercare Group plc are now consolidated in these financial statements as a Subsidiary undertaking.
The following table summarises the assets and liabilities of Eldercare plc at the date a controlling interest was acquired.

	Book value £000's	Fair value £000's
Net assets acquired:		
Property, plant and equipment	3	3
Insurance and other receivables	45	45
Cash and cash equivalents	12	12
Insurance and other payables	(44)	(44)
Other creditors	(50)	(50)
Current tax liabilities	(6)	(6)
Total net assets at date of acquisition		(40)
Share of net assets acquired		(15)
Goodwill		80
Total consideration		**65**
Satisfied by:		
Cash		**(65)**
Net cash flow arising on acquisition:		
Cash consideration		(65)
Cash & cash equivalents acquired		12
		(53)

The goodwill arising on the acquisition of Eldercare was fully impaired at the end of the year.

27 Operating lease commitments

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

	2009 £000's	2008 £000's
Leases expiring not later than one year	39	37
Leases expiring between one and five years	268	269
Leases expiring in more than five years	437	362
	744	**668**

Operating leases are in respect of:	2009 £000's	4 June 2008 to 31 December 2008 £000's
Rental of premises	728	161
Rental of equipment	16	18
	744	**179**

28 Ultimate holding company

The Company's immediate parent company is PAG Finance Limited (registered in Jersey). The parent undertaking of the smallest and largest group of undertakings for which Group consolidated accounts are drawn up is PAG Holdings Limited (registered in Jersey).

The Company's ultimate parent undertakings are the partnerships comprising the Fourth Cinven Fund (the "Cinven Funds"), being funds managed and advised by Cinven Limited, a company incorporated under the laws of England and Wales. Accordingly, the directors consider the Company's ultimate controlling party to be Cinven Limited, the manager and advisor to the Cinven Funds.

29 Related parties

a) Trading transactions

Amounts payable by the Company to its subsidiary undertakings at 31 December are shown in note 17.

b) Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Group, for the year/period is set out below:

	2009 £000's	4 June 2008 to 31 December 2008 £000's
Aggregate emoluments including benefits	2,312	653
Compensation for loss of office	-	13
Contribution to money purchase pension scheme	116	52
	2,428	**718**
The aggregate remuneration of the highest paid director was:		
Aggregate emoluments including benefits:	356	115
Contribution to money purchase pension scheme	22	17
	378	**132**

During the year 1 executive director contributed to the money purchase pension scheme (2008:4).

30 Post balance sheet event

On 12 March 2010, a dormant subsidiary of the Company was used to acquire the operations of a specialist IFA. The Company subscribed for £1,000,000 of additional share capital in the subsidiary, which then used the proceeds to acquire the IFA business for £900,000 and 50% of the equity capital in the subsidiary. As a result of this transaction the Company now has a 50% interest in the shares of the entity, which provides specialist financial advice. The results of the entity will be accounted for as a joint venture in accordance with IAS 31 using the equity method. The Company's share of the results is not expected to have a material impact on the Group's consolidated results for 2010.