THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the Proposed Merger, the contents of this Circular, or as to the action you should take, you are recommended to seek your own independent financial advice immediately from your stockbroker, bank, solicitor, accountant, fund manager or other appropriate independent financial adviser authorised under the Financial Services and Markets Act 2000 (as amended) if you are resident in the United Kingdom or, if not, from another appropriately authorised independent professional adviser in the relevant jurisdiction.

If you sell, have sold or otherwise transferred all of your Just Retirement Shares you should send this Circular, together with any accompanying documents (but not the personalised Form of Proxy), as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or the transferee. However, the distribution of this Circular and/or the accompanying documents into certain jurisdictions other than the United Kingdom may be restricted by law. Therefore, persons into whose possession this Circular and any accompanying documents come should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. If you have sold or otherwise transferred only part of your holding of Just Retirement Shares, please consult the bank, stockbroker or other agent through which such sale or transfer was effected.

This Circular should be read in conjunction with the Prospectus relating to Just Retirement, the Proposed Merger and the New Just Retirement Shares dated 28 September 2015, as supplemented by the Supplementary Prospectus dated 14 March 2016 published by Just Retirement, both of which are available on Just Retirement's website (www.justretirementgroup.com). This Circular does not constitute or form part of any offer or invitation to purchase, otherwise acquire, subscribe for, sell, otherwise dispose of or issue, or any solicitation of any offer to sell, otherwise dispose of, issue, purchase, otherwise acquire or subscribe for, any security.

The existing Just Retirement Shares are currently listed on the premium listing segment of the Official List and traded on the London Stock Exchange's main market for listed securities. Applications will be made to the FCA for the New Just Retirement Shares to be issued in connection with the Proposed Merger, to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for the New Just Retirement Shares to be admitted to trading on its main market for listed securities. It is expected that Admission will become effective and that dealings in the New Just Retirement Shares will commence at 8.00 a.m. on the Effective Date which, subject to the satisfaction or waiver (if capable of waiver) of certain Conditions (other than those Conditions which relate to Admission), is currently expected to occur on 4 April 2016. The New Just Retirement Shares will, when issued, rank *pari passu* in all respects with the existing Just Retirement Shares. No application will be made for the New Just Retirement Shares to be admitted to listing or dealt with on any other exchange.

JUST RETIREMENT GROUP PLC

(Incorporated under the Companies Act and registered in England and Wales with registered number 08568957)

RECOMMENDED ALL-SHARE MERGER OF JUST RETIREMENT AND PARTNERSHIP ASSURANCE

Circular to Just Retirement Shareholders and Notice of Just Retirement General Meeting

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Your attention is drawn to the letter from the Chairman of Just Retirement Group plc which is set out on pages 6 to 24 of this Circular and which contains the unanimous recommendation of the Just Retirement Directors that you vote in favour of each of the resolutions to be proposed at the Just Retirement General Meeting referred to below. Please read the whole of this Circular and, in particular, the risk factors set out in Part II (*Risk Factors*) of this Circular.

Notice of the Just Retirement General Meeting to be held at 10.00 a.m. at Reigate Town Hall, Castlefield Road, Reigate, Surrey RH2 0SH on 30 March 2016 is set out at the end of this Circular. A Form of Proxy for use in connection with the Just Retirement General Meeting is enclosed with this Circular. Whether or not you intend to be present at the Just Retirement General Meeting, you are requested to complete and sign the Form of Proxy in accordance with the instructions printed on it so as to be received by Just Retirement's Registrars, Equiniti, at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, as soon as possible, and in any event, no later than 10.00 a.m. on 24 March 2016 (or, in the case of an adjournment, not later than 48 hours (excluding non-working days) before the time fixed for the holding of the adjourned meeting). If you hold Just Retirement Shares in CREST, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction to Just Retirement's Registrars, Equiniti. Alternatively, you may give proxy instructions by logging on to www.sharevote.co.uk and following the instructions. Proxies sent electronically must be sent as soon as possible and, in any event, so as to be received by not later than 10.00 a.m. on 24 March 2016 (or, in the case of an adjournment, not later than 48 hours (excluding non-working days) before the time fixed for the holding of the adjourned meeting). The completion and return of a Form of Proxy (or the electronic appointment of a proxy) will not preclude you from attending and voting in person at the Just Retirement General Meeting or any adjournment thereof, if you wish to do so and are so entitled.

This Circular is a circular relating to the Proposed Merger which has been prepared in accordance with the Listing Rules. This Circular has been approved by the FCA.

Just Retirement Shareholders should only rely on the information contained in this Circular, the Prospectus (as supplemented by the Supplementary Prospectus) and the documents (or parts thereof) incorporated herein by reference. No person has been authorised to give any information or make any representations other than those contained in this Circular, the Prospectus (as supplemented by the Supplementary Prospectus) and the documents (or parts thereof) incorporated by reference herein and, if given or made, such information or representation must not be relied upon as having been so authorised by the Company, the Just Retirement Directors, Barclays, Fenchurch, Deutsche Bank, Nomura or Evercore. In particular, the contents of the Company's and Partnership Assurance's websites do not form part of this Circular and Just Retirement Shareholders should not rely on them. Without prejudice to any legal or regulatory obligation on the Company to publish a supplementary prospectus pursuant to section 87G of FSMA and Prospectus Rule 3.4 and/or a supplementary circular pursuant to 10.5.4R of the Listing Rules, neither the delivery of this Circular nor Admission shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Just Retirement Group or the Combined Group taken as a whole since the date of this Circular or that the information in it is correct as of any time after the date of this Circular.

Persons into whose possession this Circular comes should inform themselves about and observe any applicable restrictions and legal, exchange control or regulatory requirements in relation to the distribution of this Circular and the Proposed Merger. Any failure to comply with such restrictions or requirements may constitute a violation of the securities laws of any such jurisdiction. The contents of this Circular should not be construed as legal, business or tax advice.

The distribution of this Circular and any accompanying documents and the allotment and issue of the New Just Retirement Shares in jurisdictions other than the United Kingdom may be restricted by law. Persons outside the United Kingdom into whose possession this Circular and any accompanying documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of the relevant jurisdiction. No action has been taken by Just Retirement or its advisers to obtain any approval, authorisation or exemption to permit the allotment or issue of the New Just Retirement Shares or the possession or distribution of this Circular (or any other publicity material relating to the New Just Retirement Shares) in any jurisdiction other than the United Kingdom.

The New Just Retirement Shares have not been, and will not be, registered under the US Securities Act, or under any laws of any state, district or any other jurisdiction of the United States, nor have clearances been, nor will they be, obtained from the securities commission or similar authority of any province or territory of Canada and no prospectus has been, or will be filed, or registration made, under any securities law of any province or territory of Canada, nor has a prospectus in relation to the New Just Retirement Shares been, nor will one be, lodged with or registered by, the Australian Securities and Investments Commission, nor have any steps been taken, nor will any steps be taken, to enable the New Just Retirement Shares to be offered in compliance with applicable securities laws of Japan and no regulatory clearances in respect of the New Just Retirement Shares have been, or will be, applied for in any other jurisdiction.

Accordingly, the New Just Retirement Shares may not be offered, sold or otherwise transferred, directly or indirectly, in or into the United States absent registration under the US Securities Act or an exemption from such act. The New Just Retirement Shares to be issued to Partnership Assurance Shareholders pursuant to the terms of the Scheme are expected to be issued in reliance upon an exemption from the registration requirements of the US Securities Act provided by section 3(a)(10) thereof. Partnership Assurance Shareholders (whether or not US persons (as defined in the US Securities Act)) who are affiliates of Just Retirement after the Effective Date will be subject to certain US transfer restrictions relating to the New Just Retirement Shares received pursuant to the terms of the Proposed Merger.

None of the securities referred to in this Circular have been approved or disapproved by the SEC, any state securities commission in the United States or any other US regulatory authority, nor have such authorities passed upon or determined the adequacy or accuracy of the information contained in this Circular. Any representation to the contrary is a criminal offence in the United States.

Barclays, which is authorised in the United Kingdom by the Prudential Regulation Authority and regulated in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority, is acting as sponsor and lead financial adviser exclusively for Just Retirement and no one else in connection with the Proposed Merger, the contents of this Circular and Admission of the New Just Retirement Shares. Barclays will not regard any other person (whether or not a recipient of this Circular) as its client in relation to the Proposed Merger, the contents of this Circular and Admission of the New Just Retirement Shares and will not be responsible to anyone other than Just Retirement for providing the protections afforded to its clients or for providing advice in connection with the Proposed Merger, the contents of this Circular, Admission of the New Just Retirement Shares or any other transaction or arrangement referred to in this Circular.

Fenchurch, which is authorised and regulated by the Financial Conduct Authority, is acting for Just Retirement and no one else in connection with the contents of this Circular and will not be responsible to anyone other than Just Retirement for providing the protections afforded to its clients or for providing advice in connection with the Proposed Merger, the contents of this Circular and Admission of the New Just Retirement Shares. Fenchurch will not regard any other person (whether or not a recipient of this Circular) as its client in relation to the Proposed Merger, the contents of this Circular and Admission of the New Just Retirement Shares.

Deutsche Bank is authorised under German Banking Law (competent authority: European Central Bank) and, in the United Kingdom, by the Prudential Regulation Authority. It is subject to supervision by the European Central Bank and by BaFin, Germany's Federal Financial Supervisory Authority and is subject to limited regulation in the United Kingdom by the Prudential Regulation Authority and the Financial Conduct Authority. Details about the extent of its authorisation and regulation by the Prudential Regulation Authority and regulation by the Financial Conduct Authority are available on request. Deutsche Bank is acting as a corporate broker to Just Retirement and no other person in connection with this Circular or its contents. Deutsche Bank will not be responsible to any person other than Just Retirement for providing any of the protections afforded to its clients, nor for providing any advice in relation to any matter referred to herein.

Nomura, which is authorised in the United Kingdom by the Prudential Regulation Authority and registered in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority, is acting for Just Retirement and no one else in connection with the matters referred to in this Circular and will not be responsible to anyone other than Just Retirement for providing the protections afforded to clients of Nomura, or for giving advice in connection with the matters referred to in this Circular or any matter referred to herein.

Barclays, Fenchurch, Deutsche Bank, Nomura and any of their respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services for, the Just Retirement Shareholders and the Company for which they would have received customary fees.

Evercore, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority, is acting for Partnership Assurance and no one else in connection with the matters referred to in this Circular and will not be responsible to anyone other than Partnership Assurance for providing the protections afforded to clients of Evercore, or for giving advice in relation to the matters referred to in this Circular, the contents of this Circular or any matter referred to herein.

Apart from the responsibilities and liabilities, if any, which may be imposed on Barclays, Fenchurch, Deutsche Bank, Nomura or Evercore by FSMA or the regulatory regime established thereunder, or under the regulatory regime of any jurisdiction where the exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, Barclays, Fenchurch, Deutsche Bank, Nomura and Evercore do not accept any responsibility whatsoever for, or makes any representation or warranty, express or implied, as to the contents of this Circular or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the New Just Retirement Shares or the Proposed Merger and nothing in this Circular will be relied upon as a promise or representation in this respect, whether or not to the past or future. Barclays, Fenchurch, Deutsche Bank, Nomura and Evercore accordingly disclaim all and any responsibility or liability, whether arising in tort, contract or otherwise (save as referred to above), which they might otherwise have in respect of this Circular or any such statement.

Just Retirement Shareholders acknowledge that: (i) they have not relied on Barclays, Fenchurch, Deutsche Bank, Nomura, Evercore or any person affiliated with Barclays, Fenchurch, Deutsche Bank, Nomura or Evercore in connection with any investigation of the accuracy of any information contained in this Circular or their investment decision; and (ii) they have relied only on the information contained in this Circular and the documents (or parts thereof) incorporated herein by reference. No person has been authorised to give any information or make any representations other than those contained in this Circular and, if given or made, such information or representations must not be relied on as having been so authorised.

Dated: 14 March 2016

CURRENCY PRESENTATION

Unless otherwise indicated, all references in this Circular to "sterling", "pounds sterling", "£", or "pence" are to the lawful currency of the United Kingdom. The Company prepares its financial statements in pounds sterling.

ROUNDING

Certain data in this Circular, including financial, statistical, and operating information has been rounded. As a result of the rounding, the totals of data presented in this Circular may vary slightly from the actual arithmetic totals of such data. Percentages in tables have been rounded and accordingly may not add up to 100 per cent.

INFORMATION NOT CONTAINED IN THIS CIRCULAR

No person has been authorised to give any information or make any representation other than those contained in this Circular and, if given or made, such information or representation must not be relied upon as having been so authorised. Neither the delivery of this Circular nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this Circular or that the information in this Circular is correct as of any time subsequent to the date hereof.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Circular includes forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the Company's, Partnership Assurance's and/or the Combined Group's control and all of which are based on the current beliefs and expectations of the Just Retirement Directors about future events. Forward-looking statements are sometimes indentified by the use of forward-looking terminology such as "believe", "expects", "may", "will", "could", "should", "shall", "risk", "intends", "estimates", "aims", "plans", "predicts", "continues", "assumes", "positioned" or "anticipates" or the negative thereof, other variations thereon or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Circular and include statements regarding the intentions, beliefs or current expectations of the Just Retirement Directors or the Just Retirement Group concerning, among other things, the results of operations, financial condition, prospects, growth, strategies, and dividend policy of the Just Retirement Group, the Partnership Assurance Group and/or the Combined Group and the industry in which they operate.

Just Retirement Shareholders should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors that are in many cases beyond the control of the Company, Partnership Assurance and/or the Combined Group. By their nature, forward-looking statements involve risks and uncertainties because such statements relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not indicative of future performance and the actual results of operations and financial condition of the Just Retirement Group, the Partnership Assurance Group and/or the Combined Group, and the development of the industry in which the Just Retirement Group, the Partnership Assurance Group and/or the Combined Group operate, may differ materially from those made in or suggested by the forward-looking statements contained in this Circular. Important risk factors which may cause actual results to differ include, but are not limited to, those described in Part II (*Risk Factors*) of this Circular. The cautionary statements set out above should be considered in connection with any subsequent written or oral forward-looking statements that Just Retirement, Partnership Assurance and/or the Combined Group, or persons acting on their behalf, may issue.

These forward-looking statements reflect Just Retirement's and Partnership Assurance's judgement at the date of this Circular and are not intended to provide any representations, assurances or guarantees as to future events or results. To the extent required by the Listing Rules, the Prospectus Rules, the Disclosure and Transparency Rules and other applicable regulation, Just Retirement will update or revise the information in this Circular. Otherwise, Just Retirement undertakes no obligation to update or revise any forward-looking statements or other information, and will not publicly release any revisions it may make to any forward-looking statements or other information that may result from events or circumstances arising after the date of this Circular. Just Retirement Shareholders should note that this paragraph is not intended to qualify the statement as to working capital set out in Part IX (*Additional Information*) of this Circular.

No statement in this Circular (including any information incorporated by reference into this Circular from the Prospectus) is intended to constitute a profit forecast or profit estimate for any period, nor should any statement be interpreted to mean that earnings or earnings per share will necessarily be greater or lesser than those for the relevant preceding financial periods for either Just Retirement or Partnership Assurance, as appropriate.

QUANTIFIED FINANCIAL BENEFITS STATEMENT

No statement in the Quantified Financial Benefits Statement, or this Circular generally, should be construed as a profit forecast or interpreted to mean that the Combined Group's earnings in the first full year following the Effective Date of the Scheme, or in any subsequent period, would necessarily match or be greater than or be less than those of Just Retirement and/or Partnership Assurance for the relevant preceding financial period or any other period. For the purposes of Rule 28 of the Code, the Quantified Financial Benefits Statement contained in this Circular is the responsibility of Just Retirement and the Just Retirement Directors.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Expected timetable of principal events

Event	Time and Date[1]
Publication of this Circular	14 March 2016
Publication of the Supplementary Prospectus	14 March 2016
Latest time for receipt of Just Retirement Forms of Proxy/ CREST Proxy Instructions for the Just Retirement General Meeting	10.00 a.m. on 24 March 2016[2]
Voting record time for the Just Retirement General Meeting	6.00 p.m. on 24 March 2016[3]
Just Retirement General Meeting	10.00 a.m. on 30 March 2016
Partnership Assurance Court Meeting	12.00 p.m. on 30 March 2016
Partnership Assurance General Meeting	12.15 p.m. on 30 March 2016[4]
The following dates are subject to change[5]	
Scheme Court Hearing (to sanction the Scheme)	1 April 2016
Last day of dealings in, and for registration of transfers of, and disablement in CREST of, Partnership Assurance Shares	1 April 2016
Dealings in Partnership Assurance Shares suspended	5.00 p.m. on 1 April 2016
Scheme Record Time	6.00 p.m. on 1 April 2016
Effective Date of the Scheme	4 April 2016[6]
Cancellation of admission of and dealings in Partnership Assurance Shares	By 8.00 a.m. on 4 April 2016
Issue of New Just Retirement Shares	By 8.00 a.m. on 4 April 2016
Admission and commencement of dealings in the New Just Retirement Shares	8.00 a.m. on 4 April 2016
CREST accounts credited with New Just Retirement Shares	As soon as possible after 8.00 a.m. on 4 April 2016
Despatch of definitive share certificates for the New Just Retirement Shares, where applicable	Within 14 days of the Effective Date
Despatch of cheques, or CREST accounts credited in respect of fractional entitlements to New Just Retirement Shares	Within 14 days of the Effective Date
Long Stop Date	30 April 2016[7]

All times are London times. Each of the times and dates in the above timetable is subject to change without further notice.

Notes:

(1) All times shown in this Circular are London times unless otherwise stated. **The dates and times given are indicative only and are based on current expectations and may be subject to change.** If any of the times and/or dates above change, the revised times and/or dates will be announced via a Regulatory Information Services.

(2) The Just Retirement Forms of Proxy/CREST Proxy Instructions for the Just Retirement General Meeting must be returned by no later than 10.00 a.m. on 24 March 2016 (or in the case of an adjournment of the Just Retirement General Meeting, not less than 48 hours (excluding non-working days) prior to the time set for the adjourned Just Retirement General Meeting) to be valid.

(3) Only those Just Retirement Shareholders registered on the register of members of Just Retirement as at 6.00 p.m. on 24 March 2016 (or in the case of an adjournment of the Just Retirement General Meeting, on the register of members of Just Retirement at 6.00 p.m. on the day which is two days (excluding non-working days) prior to the time set for the adjourned Just Retirement General Meeting) will be entitled to attend and/or vote at the Just Retirement General Meeting.

(4) Or, if later, as soon thereafter as the Partnership Assurance Court Meeting shall have concluded or been adjourned.

(5) These times and dates are indicative only and will depend, amongst other things, on the dates upon which (i) the Conditions are satisfied or, if capable of waiver, waived; (ii) the Court sanctions the Scheme; and (iii) the Scheme Court Order is delivered to the Registrar of Companies.

(6) This date will be the date the Scheme Court Order is delivered to the Registrar of Companies.

(7) This is the latest date by which the Scheme may become Effective unless Partnership Assurance and Just Retirement agree, with the consent of the Panel and (if required) the Court, a later date.

Indicative statistics

Number of existing Just Retirement Shares in issue as at 11 March 2016 (being the Last Practicable Date)	564,397,402
Number of New Just Retirement Shares to be issued in connection with the Proposed Merger[(1)]	369,893,501
Number of JRP Group Shares in issue immediately following Admission[(1)(2)]	934,290,903
New Just Retirement Shares as a percentage of the total JRP Group Shares immediately following completion of the Proposed Merger[(1)(2)]	39.6%

Notes:

(1) Based on the number of Partnership Assurance Shares in issue as at 11 March 2016 (being the Last Practicable Date) and assumes that 3,385,266 Partnership Assurance Shares are issued as a result of the exercise of any options of, or awards vesting under, the Partnership Assurances Employee Share Plans between 11 March 2016 (being the Last Practicable Date) and Admission.

(2) Assumes that no new Just Retirement Shares are issued as a result of the exercise of any options of, or awards vesting under, the Just Retirement Employee Share Plans between 11 March 2016 (being the Last Practicable Date) and Admission.

JUST RETIREMENT DIRECTORS, PROPOSED DIRECTORS, COMPANY SECRETARY, REGISTERED AND HEAD OFFICE AND ADVISERS

Just Retirement Directors	Tom Cross Brown Rodney Cook Kate Avery Michael Deakin Shayne Deighton James Fraser Steve Melcher Keith Nicholson Simon Thomas
Proposed Directors	Chris Gibson-Smith David Richardson Paul Bishop Peter Catterall Ian Cormack Clare Spottiswoode
Company Secretary	Martin Smith
Registered and head office of the Company	Vale House Roebuck Close Bancroft Road Reigate Surrey RH2 7RU
Sponsor and Lead Financial Adviser and, for the purposes of the Proposed Merger, Corporate Broker to Just Retirement	Barclays Bank PLC, acting through its Investment Bank 5 North Colonnade London E14 4BB
Financial Adviser to Just Retirement	Fenchurch Advisory Partners LLP Tower 42 25 Old Broad Street London EC2N 1HQ
Corporate Broker to Just Retirement	Deutsche Bank AG London Branch Winchester House 1 Great Winchester Street London EC2N 2DB
Corporate Broker to Just Retirement	Nomura International plc 1 Angel Lane London EC4R 3AB
English and US legal advisers to Just Retirement	Clifford Chance LLP 10 Upper Bank Street London E14 5JJ
English legal advisers to the Sponsor	Davis Polk & Wardwell London LLP 5 Aldermanbury Square London EC2V 7HR
Reporting Accountants and Auditors	KPMG LLP 15 Canada Square London E14 5GL

Rule 3 Adviser to Partnership Assurance	Evercore Partners International LLP 15 Stanhope Gate London W1K 1LN
Auditors to Partnership Assurance	Deloitte LLP Hill House 1 Little New Street London EC4A 3TR
Registrar to Just Retirement	Equiniti Limited Aspect House Spencer Road Lancing West Sussex BN99 6DA

PART I:
LETTER FROM THE CHAIRMAN OF JUST RETIREMENT

JUST RETIREMENT GROUP PLC
(Incorporated and registered in England and Wales under the Companies Act with registered number 08568957)

Just Retirement Directors:
Tom Cross Brown *(Independent Non-executive Chairman)*
Rodney Cook *(Chief Executive Officer)*
Simon Thomas *(Group Finance Director)*
Shayne Deighton *(Chief Group Actuary)*
Keith Nicholson *(Senior Independent Non-executive Director)*
Kate Avery *(Independent Non-executive Director)*
Michael Deakin *(Independent Non-executive Director)*
James Fraser *(Non-executive Director)*
Steve Melcher *(Independent Non-executive Director)*

Registered Office:
Vale House, Roebuck Close,
Bancroft Road, Reigate,
Surrey RH2 7RU

14 March 2016

To Just Retirement Shareholders and, for information only, to persons with information rights

Dear Just Retirement Shareholder

RECOMMENDED ALL-SHARE MERGER OF JUST RETIREMENT AND PARTNERSHIP ASSURANCE

1. Introduction

On 11 August 2015, the Just Retirement Board and the Partnership Assurance Board announced that they had agreed the terms of a recommended all-share merger of the Company and Partnership Assurance to create JRP Group plc (the "**Firm Offer Announcement**").

The Proposed Merger is to be effected by means of a court-sanctioned scheme of arrangement of Partnership Assurance under Part 26 of the Companies Act.

Owing to its size, the Proposed Merger constitutes a class 1 transaction for Just Retirement for the purposes of the Listing Rules and therefore requires the approval of Just Retirement Shareholders. Accordingly, the Just Retirement General Meeting has been convened for 10.00 a.m. on 30 March 2016 at Reigate Town Hall, Castlefield Road, Reigate, Surrey RH2 0SH. Just Retirement Shareholders will be asked, among other things, to approve the Proposed Merger and the allotment of New Just Retirement Shares in connection with the Proposed Merger. The notice convening the Just Retirement General Meeting is set out at the end of this Circular and an explanation of each of the resolutions to be proposed at the meeting is set out in paragraph 27 below.

The Just Retirement Board considers the Proposed Merger and the resolutions to be proposed at the Just Retirement General Meeting to be in the best interests of Just Retirement and Just Retirement Shareholders as a whole and unanimously recommends that Just Retirement Shareholders vote in favour of the resolutions to be proposed at the Just Retirement General Meeting, as the Just Retirement Directors who hold or are beneficially entitled to Just Retirement Shares have irrevocably undertaken to do (or procure) in respect of their own beneficial holdings of Just Retirement Shares. The Proposed Merger has also been unanimously recommended by the Partnership Assurance Board.

I am writing to give you further details of the Proposed Merger, including the background to and reasons for it, to explain why the Just Retirement Board considers this to be in the best interests of Just Retirement and Just Retirement Shareholders as a whole, and to seek your approval of the resolutions to be proposed at the Just Retirement General Meeting. A Prospectus dated 28 September 2015, prepared in connection with the Proposed Merger and in accordance with the Prospectus Rules which contains further details of the Proposed Merger, and as supplemented by a Supplementary Prospectus dated 14 March 2016, have been published on Just Retirement's website (www.justretirementgroup.com).

2. The Proposed Merger

Under the terms of the Proposed Merger, which is subject to the Conditions and certain further terms summarised below and set out in full in the Scheme Document dated 5 November 2015, Partnership Assurance Shareholders will be entitled to receive:

for each Partnership Assurance Share held **0.834 New Just Retirement Shares**

The Proposed Merger is expected to result in Just Retirement Shareholders owning approximately 60 per cent. of the Combined Group and Partnership Assurance Shareholders owning approximately 40 per cent. of the Combined Group.

Based on the Closing Price of Just Retirement Shares of 137.0 pence on 11 March 2016 (being the Last Practicable Date), the Proposed Merger represents an indicative value of 114.3 pence per Partnership Assurance Share and values the entire issued and to be issued ordinary share capital of Partnership Assurance at approximately £507 million.

The Proposed Merger is conditional on, amongst other things: (i) the Scheme becoming Effective no later than the Long Stop Date; and (ii) approval by the requisite majority of Just Retirement Shareholders at the Just Retirement General Meeting and of Partnership Assurance Shareholders at the Partnership Assurance Meetings.

3. Background to and reasons for the Proposed Merger

The UK retirement income market has evolved significantly since the 2014 Budget. Until this date, as providers of annuities underwritten on the basis of medical and lifestyle factors, both Just Retirement and Partnership Assurance were able to achieve fast, profitable growth in the retirement income market by offering customers better value alternatives to the annuity products typically provided by the larger incumbent insurers.

The 2014 Budget, and the greater freedom for accessing pension savings that it entailed, represented the most fundamental reforms to the retirement income market since the 1920s. These reforms had an immediate impact on the sales of individual annuities, which fell by 42 per cent. from £11.9 billion in 2013 to £6.9 billion in 2014.

Just Retirement and Partnership Assurance responded promptly and effectively to the changes, reducing their respective cost bases and focusing on their defined benefit de-risking propositions. Today, defined benefit de-risking accounts for around half of the new business sales for both Just Retirement and Partnership Assurance (based on new business volumes for the 12-month period from 1 July 2014 to 30 June 2015).

The UK is one of the largest private defined benefit markets in the world, with aggregate liabilities of approximately £1.7 trillion across more than 6,000 pension plans. Each year a number of these plans decide to de-risk through a bulk annuity purchase. Bulk annuity sales were unaffected by the 2014 Budget and represent a significant growth segment in the UK life sector, with total defined benefit de-risking sales expected to reach £25 billion per annum by 2020.

In the retirement income market, key lead indicators now show early signs of a return to growth in Just Retirement's and Partnership Assurance's sales of annuities (e.g. Just Retirement's guaranteed income for life sales for the three months ended 30 September 2015 were 26 per cent. higher than the preceding quarter, and Partnership Assurance's quote volumes for individually underwritten annuities in September and October 2015 were approximately a third higher than in April 2015), with individuals appearing to recognise the value of a guaranteed income for life and the better value for money offered in many cases by guaranteed income for life solutions based on medical and/or lifestyle factors, which are more tailored to meet the individual needs of customers.

Given the recent changes in the retirement income market, notwithstanding early signs of an improvement in market outlook, the Just Retirement Board and the Partnership Assurance Board consider that through a combination of the two companies, the Combined Group will be better placed both to tackle the challenges that still remain and to take advantage of the opportunities that the current environment presents. Moreover, the Just Retirement Board believes that the combination creates the potential for substantial synergies resulting in significant value creation for both Just Retirement and Partnership Assurance Shareholders and better outcomes for both pension trustees and retail customers.

Greater scale and "consumer champion"

The Proposed Merger is expected to result in a Combined Group with £1.8 billion of new business premiums (based on the 12 months to 30 June 2015) serving over 60 defined benefit pension scheme customers and around 280,000 in-force customers. The Just Retirement Board believes that this increased scale will benefit the Combined Group in the defined benefit de-risking segment and retirement income markets, allowing it to compete with the larger incumbent players on equal terms.

The defined benefit de-risking segment is very important for the Combined Group, accounting for around half of Just Retirement and Partnership Assurance's new business volumes on a *pro forma* basis over the 12 months to 30 June 2015. The Combined Group would have a *pro forma* share of 5.2 per cent. (by value) of all UK bulk annuity deals in 2014.[1]

To date, Just Retirement and Partnership Assurance have been successful in targeting relatively small defined benefit schemes with up to £200 million of assets and up to 300 members, or specific cohorts of lives in larger schemes on an individually underwritten basis. The median size of the schemes transacted to date for Just Retirement is approximately £17 million and the average size of the schemes transacted to date for Partnership Assurance is approximately £18 million. Both companies have developed successful propositions in this area, and individual underwriting based on medical and/or lifestyle factors has become an established option for employee benefit consultants advising their pension scheme clients (including in particular mid-sized scheme clients) on de-risking. The Just Retirement Board sees a clear opportunity for the Combined Group in the provision of de-risking solutions for small to mid-sized defined benefit pension schemes.

In the defined benefit de-risking segment, scale and financial strength are necessary to be considered a credible counterparty for prospective pension fund clients. The Just Retirement Board and Partnership Assurance Board expect the Proposed Merger to give the Combined Group the critical mass to compete more credibly for "top slicing" or selective annuitisation of more sizeable defined benefit pension schemes and drive the growth of the business going forward.

In the retirement income market, there is enduring demand for individual retirement income products, with market studies indicating that around 70 per cent. of customers surveyed continue to prefer their pension to deliver a guaranteed income for life over any other option. Just Retirement and Partnership Assurance have achieved significant success in the retirement income market in recent years by providing better rates and more tailored solutions to customers with a reduced life expectancy than the larger incumbent providers. The Just Retirement Board believes that combining the two businesses will create a stronger retirement income specialist even better able to serve the changing demands of individual retail customers. The enhanced scale and capital position of the Combined Group is also expected to provide further security for retail customers.

In addition, the Just Retirement Board believes that the Combined Group will be better placed to invest in new technology, capabilities and geographic expansion, the latter building on existing initiatives in South Africa and the US. In a fast evolving retirement income market characterised by increased choice and freedom for customers, the ability of firms to innovate and augment their product proposition will be an essential requirement for success. By pooling their expertise, the combined specialist management teams of the two businesses expect to be able to accelerate product development.

Overall, it is expected that the Combined Group will be a "consumer champion" for both the defined benefit de-risking segment and the retirement income market, offering better outcomes for pension trustees and retail customers.

Outstanding intellectual property

Extensive experience in individual underwriting based on medical and lifestyle factors, built up through hundreds of thousands of person-years of actuarial experience, is at the heart of the business models of Just Retirement and Partnership Assurance. Individual underwriting on the basis of medical and/or lifestyle data is increasingly important, both for the defined benefit de-risking segment and individual customers. It is expected that the significance of such individual underwriting will accelerate, both for healthy and impaired lives, as the open market option becomes increasingly accessible to customers.

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1 Based on the value of UK bulk annuity deals of £13,185 million in 2014 extracted from a report titled "UK life insurance: Bulk growth more than makes up for individual slowdown" dated 22 April 2015 published by RBC Capital Markets.

The Proposed Merger will result in a combined group with extensive mortality data sets and underwriting expertise. The Just Retirement Board believes that the Combined Group will be able to utilise key features of each business, including Just Retirement's next generation PrognoSys™ underwriting system and Partnership Assurance's many years of fully developed mortality curves. The Combined Group will have around 280,000 in-force customers and an experienced medical team to support underwriting of complex cases.

This outstanding intellectual property will provide a number of clear commercial benefits. Enhanced data sets will allow improved risk selection, reserving accuracy and greater capital efficiency through individual underwriting based on medical and lifestyle factors. In addition, the Just Retirement Board believes that it will provide the ability to negotiate better reinsurance terms, with reinsurers taking comfort from the size and accuracy of the Combined Group's intellectual property. The Combined Group is also expected to have an improved ability to innovate and accelerate new product launches.

The Just Retirement Board therefore believes that this will allow the business to sustain its position in the rapidly developing retirement income market, delivering better outcomes for customers and enhanced returns for shareholders.

More efficient distribution model

The Proposed Merger will allow Just Retirement and Partnership Assurance to combine their multi-channel distribution networks within the UK, bringing together their long standing relationships with financial intermediaries and increasing penetration of emerging channels in order to anticipate the longer term changes in industry distribution.

Both Just Retirement and Partnership Assurance have historically operated primarily through the intermediary channel, reflecting a greater focus on individual business. However, with around 50 per cent. of new business volumes of the two companies now relating to defined benefit pension schemes, the employee benefit consultant channel is becoming increasingly important.

The Just Retirement Board believes that the Proposed Merger will improve the Combined Group's visibility and access to pension schemes through the employee benefit consultant channel. Pension scheme trustees rely on the advice of these consultants to secure appropriate and best value bulk annuity de-risking solutions for scheme members. The greater scale and financial resources of the Combined Group are expected to raise its profile with consultants and help in winning new de-risking mandates.

The two companies' intermediary relationships are also complementary and encompass national, regional and specialist independent financial advisers.

In addition to deepening core distribution channel relationships, the Proposed Merger will also be additive to distribution through corporate partners. Both Just Retirement and Partnership Assurance have relationships with a number of blue chip institutions, which the Just Retirement Board believes will be complementary.

Furthermore, the Just Retirement Board believes that the enhanced scale and resources of the Combined Group will aid the realisation of Just Retirement's and Partnership Assurance's international growth ambitions, expanding the Combined Group's proposition to new geographies. The success of the Combined Group's distribution channels, and in particular its emerging channels, will be aided by the development of a stronger combined brand with enhanced market recognition.

Significant synergy potential

The combination of the two businesses is expected to create the potential for significant synergies supporting meaningful EPS accretion for Just Retirement Shareholders and Partnership Assurance Shareholders on a fully phased basis.[2] The Just Retirement Directors also expect these synergies to have a positive impact on embedded value, new business margin, economic capital and Solvency II capital ratios over time.

The Just Retirement Board expects the Proposed Merger to result in pre-tax cost savings of at least £40 million per annum. These synergies are expected to be implemented following completion of the Proposed Merger with the full run-rate being achieved in 2018 (the third year following completion), and are expected to require one-off integration costs of approximately £60 million over two years.

2 Excluding any non-recurring items.

The cost savings represent approximately one third of the combined addressable cost base and are expected to be derived from the following key areas:

- approximately one third from the streamlining of sales and pricing functions through the removal of duplicate quotes, sales and pricing activity for annuities and defined benefit de-risking;
- approximately one third from the removal of duplicated corporate functions within the Combined Group;
- approximately one quarter from the removal of overlapping IT systems and associated costs as well as from the streamlining of customer services and operations functions; and
- the balance from the reduction in office space utilised by the Combined Group.

The identified synergies will accrue as a direct result of the Proposed Merger and would not be achieved on a standalone basis (together with the foregoing two paragraphs, the "**Quantified Financial Benefits Statement**").

These estimated synergies reflect both the beneficial elements and relevant costs of achieving them.

In addition to the targeted cost savings, the Just Retirement Directors believe there is the potential for additional financial benefits to be achieved over time.

These synergy estimates consider only costs and exclude any potential benefits from increasing operational gearing, improved commercial terms with business partners or access to financial markets.

Further information on the bases of belief supporting the Quantified Financial Benefits Statement, including the principal assumptions and sources of information, is set out in Part VII (*Quantified Financial Benefits Statement*) of this Circular.

These statements of identified synergies and estimated costs savings relate to future actions and circumstances which by their nature involve risks, uncertainties and contingencies. As a consequence, the identified synergies and estimated cost savings referred to may not be achieved, may be achieved later or sooner than estimated, or those achieved could be materially different from those estimated. For the purposes of Rule 28 of the Code, the Quantified Financial Benefits Statement is the responsibility of Just Retirement and the Just Retirement Directors.

The Quantified Financial Benefits Statement is not intended as a profit forecast and should not be interpreted as such. The Just Retirement Directors have confirmed that there have been no material changes to the Quantified Financial Benefits Statement since the date of the Firm Offer Announcement and the Quantified Financial Benefits Statement remains valid. KPMG and the Company's financial advisers, Barclays and Fenchurch, have also confirmed to Just Retirement that the reports they provided in connection with the Quantified Financial Benefits Statement continue to apply.

Additional synergies may be realised through further headcount reductions and other initiatives that cannot be quantified for reporting under the Code.

The Just Retirement Board is confident in the ability of the respective management teams of Just Retirement and Partnership Assurance to maximise the value from the Proposed Merger. A separate integration team will be established comprising executives from the Just Retirement Group and the Partnership Assurance Group to oversee integration matters. This team will aid the realisation of the synergies outlined above and ensure that other executives and senior managers are not distracted from the development and growth agenda.

High quality cash generation

The Just Retirement Board believes that the Combined Group will see high quality, stable cash generation from Just Retirement and Partnership Assurance's books of business. On a *pro forma* basis, the Combined Group's cash generation is balanced, with operating profits split broadly 50:50 between new business and in-force.

The relatively shorter duration of Partnership Assurance's in-force portfolio also provides a balance to Just Retirement's relatively longer duration book, reflecting the varying severity of the medical conditions on which the lives within the two portfolios have been underwritten.

In addition, Partnership Assurance's 20 years of mortality experience comprises a number of years where underwriting years are fully developed, enhancing the robustness and maturity of the cash generation from the in-force books. The Just Retirement Board believes that the cash generation ability of the Combined

Group will be further enhanced by the targeted cost synergies, which will improve efficiency and increase the Combined Group's capacity for cash generation and, over time, support the Combined Group's dividend capacity.

4. **Benefits and financial effects of the Proposed Merger**

On a *pro forma* basis and assuming that the Proposed Merger had become Effective on 1 January 2015, the Combined Group would have made a comprehensive loss of approximately £50.7 million (based on the comprehensive loss of the Just Retirement Group for the year ended 30 June 2015 and the comprehensive loss of the Partnership Assurance Group for the year ended 31 December 2015) as more fully described in Section A (*Unaudited pro forma income statement*) of Part VI (*Unaudited pro forma financial information of the Combined Group*) of this Circular.

On a *pro forma* basis and assuming that the Proposed Merger had become Effective on 31 December 2015, the Combined Group would have had total equity of approximately £1,590.0 million (based on the total equity of the Just Retirement Group and the Partnership Assurance Group as at 31 December 2015) as more fully described in Section B (*Unaudited pro forma statement of net assets*) of Part VI (*Unaudited pro forma financial information of the Combined Group*) of this Circular.

5. **Irrevocable undertakings**

The Partnership Assurance Directors who beneficially hold Partnership Assurance Shares, being Chris Gibson-Smith, David Richardson, Douglas Ferrans, Ian Owen, Steve Groves, Ian Cormack and Richard Ward, have irrevocably undertaken to vote (or procure the voting) in favour of the Scheme at the Partnership Assurance Court Meeting and the special resolution relating to the Proposed Merger to be proposed at the Partnership Assurance General Meeting in respect of their (and their connected persons') Partnership Assurance Shares which amount in aggregate to 16,860,526 Partnership Assurance Shares, representing approximately 3.8 per cent. of the issued ordinary share capital of Partnership Assurance on 11 March 2016 (being the Last Practicable Date).[3]

The Cinven Funds have irrevocably undertaken to vote in favour of the Scheme at the Partnership Assurance Court Meeting and the special resolution relating to the Proposed Merger to be proposed at the Partnership Assurance General Meeting in respect of their entire beneficial holding of 218,800,152 Partnership Assurance Shares, representing approximately 49.7 per cent. of the issued ordinary share capital of Partnership Assurance on 11 March 2016 (being the Last Practicable Date).

As such, Just Retirement and Partnership Assurance have received irrevocable undertakings to vote in favour of the Scheme at the Partnership Assurance Court Meeting and the special resolution to be proposed at the Partnership Assurance General Meeting in respect of 235,660,678 Partnership Assurance Shares in aggregate, representing approximately 53.5 per cent. of the issued ordinary share capital of Partnership Assurance on 11 March 2016 (being the Last Practicable Date).

The Just Retirement Directors who beneficially hold Just Retirement Shares have irrevocably undertaken to vote (or procure the voting) in favour of the resolutions to be proposed at the Just Retirement General Meeting in respect of their own aggregate beneficial holdings of 5,863,267 Just Retirement Shares, representing approximately 1.0 per cent. of the issued ordinary share capital of Just Retirement on 11 March 2016 (being the Last Practicable Date).

Avallux (a company wholly owned by Permira IV Fund) has irrevocably undertaken to vote in favour of the resolutions to be proposed at the Just Retirement General Meeting in respect of its entire beneficial holding of 273,057,001 Just Retirement Shares, representing approximately 48.4 per cent. of the issued ordinary share capital of Just Retirement on 11 March 2016 (being the Last Practicable Date).

As such, Just Retirement and Partnership Assurance have received irrevocable undertakings to vote in favour of the resolutions to be proposed at the Just Retirement General Meeting in respect of 278,920,268 Just Retirement Shares in aggregate, representing approximately 49.4 per cent. of the issued ordinary share capital of Just Retirement on 11 March 2016 (being the Last Practicable Date).

The undertakings referred to in this paragraph 5 are in relation to all shares held by the persons giving the undertakings as at the Last Practicable Date and include shares issued pursuant to the Capital Raise, a

3 Steve Groves and Ian Owen may each dispose of up to 25 per cent. of the Partnership Assurance Shares held by them (or their respective connected persons) as at the Last Practicable Date and the irrevocable undertakings provided by each of them shall cease to apply to any such disposed Partnership Assurance Shares.

summary of which has been included at paragraph 6 of this Part I (*Letter from the Chairman of Just Retirement*).

Copies of the irrevocable undertakings given by Avallux, Cinven Funds, the Just Retirement Directors (who beneficially hold Just Retirement Shares) and the Partnership Assurance Directors (who beneficially hold Partnership Assurance Shares) are available on the Company's website at www.justretirementgroup.com and on Partnership Assurance's website at www.partnership-group.co.uk until the Scheme becomes Effective.

6. Capital Raise

On 11 August 2015, the Just Retirement Board and the Partnership Assurance Board announced their intention to raise equity capital amounting, in aggregate, to £150 million.

On 16 October 2015, Just Retirement completed a placing and open offer of 63,525,672 Just Retirement Shares at a price of 159 pence per Just Retirement Share, raising net proceeds of approximately £96.9 million (the "**Just Retirement Placing and Open Offer**"). Under the Just Retirement Placing and Open Offer, Avallux subscribed for 11,268,744 Just Retirement Shares for a total consideration of approximately £17.9 million.

Separately, on 29 September 2015, Partnership Assurance completed a placing of 39,995,997 Partnership Assurance Shares, representing approximately 9.99 per cent. of Partnership Assurance's issued ordinary share capital prior to the placing, at a price of 135 pence per share, raising net proceeds of approximately £52.9 million (the "**Partnership Assurance Placing**", together with the Just Retirement Placing and Open Offer, the "**Capital Raise**"). Under the Partnership Assurance Placing, the Cinven Funds subscribed for 11,206,585 Partnership Assurance Shares for a total consideration of approximately £15.1 million.

The Just Retirement Placing and Open Offer and the Partnership Assurance Placing raised, in aggregate, net proceeds of approximately £150 million. The proceeds of the Capital Raise will allow the Combined Group to cover expected non-recurring integration and transaction costs, provide further comfort over the transition to Solvency II, and support future growth initiatives and product development. In line with Just Retirement's previously stated strategy, the Combined Group will explore, on an on-going basis, a range of balance sheet options (including accessing the debt capital markets) with a view to providing further financial strength and supporting future growth against the backdrop of the changing solvency regime applicable to the sector.

In the event the Proposed Merger does not complete, the Just Retirement Board will consider the best use for the net proceeds of the Just Retirement Placing and Open Offer, including accelerating the growth plans of the Just Retirement Group's business on a stand-alone basis and providing further comfort over the transition to Solvency II.

7. PRA / FCA approvals

On 5 December 2015, the PRA approved the application of Just Retirement Limited, a wholly owned subsidiary of Just Retirement, to use its full internal model under Solvency II.

Further, on 10 March 2016, Just Retirement and Partnership Assurance announced that the PRA and the FCA had each approved the change in control applications made in connection with the Proposed Merger.

8. Information on Just Retirement and Partnership Assurance

(a) Just Retirement

Established in 2004, Just Retirement is a specialist UK financial services group focusing on the retirement income market in the UK. For defined benefit pension scheme clients, Just Retirement provides de-risking solutions through bulk purchase guaranteed income for life solutions based on medical and/or lifestyle factors. Originally launched in 2012 with a "deep underwritten approach" focused on smaller pension schemes, these de-risking solutions now account for around half of Just Retirement's new business volumes.

In the UK retail retirement income market, Just Retirement is a leading player in the provision of guaranteed income for life solutions and lifetime mortgages (which allow individuals to convert the equity in their residential property assets into cash). Just Retirement focuses on providing better value for money and more tailored alternatives to customers who, due to one or more pre-existing medical conditions or lifestyle factors, are likely to have a reduced life expectancy.

Just Retirement secures new mandates in the defined benefit de-risking segment primarily through its strong relationships with employee benefit consultants. Just Retirement's guaranteed income products for the UK retirement income market are distributed through a number of different channels, including national and regional financial advisory businesses and a number of corporate partners.

Just Retirement is the holding company of the Just Retirement Group. On 15 November 2013, Just Retirement's ordinary share capital was admitted to listing on the premium listing segment of the Official List and to trading on the London Stock Exchange. As at 11 March 2016 (being the Last Practicable Date), Just Retirement had a market capitalisation of £773 million.

For the six months ended 31 December 2015, Just Retirement reported new business sales of £1,233.2 million and operating profit of £49.8 million. As of 31 December 2015, the business had embedded value of £1,143.8 million and total assets of £12,351.9 million.

Investors should read the whole of this Circular and not rely solely on the summarised financial information in this section.

(b) **Partnership Assurance**

Established in 2005 following the acquisition of the business of the Pension Annuity Friendly Society, Partnership Assurance is a UK life insurer focused on retirement income products, offering better rates to customers who suffer from shortened life expectancy by utilising an intellectual property-led, capital-efficient business model.

In the retail retirement income market in the UK, Partnership Assurance's annuity products are purchased by customers either to provide a guaranteed income or to meet the costs of long term care. Partnership Assurance also sells limited volumes of individually underwritten protection products to customers with shortened life expectancy. In addition, Partnership Assurance originates and purchases equity release mortgages with shorter expected duration for homeowners with medical conditions or for older homeowners, primarily to diversify its investment portfolio and enhance its risk-adjusted yields.

In defined benefit de-risking solutions, Partnership Assurance is able to use its expertise and proprietary intellectual property in individual underwriting to price the longevity risk of pensioners within defined benefit schemes more accurately, often resulting in more attractive prices for trustees.

Partnership Assurance's retirement income products are typically sold to customers by intermediaries. Partnership Assurance's defined benefit de-risking solutions are typically sold to scheme trustees via employee benefit consultants. Partnership Assurance has implemented a multi-channel distribution strategy and has strong relationships with its key partners which have supported its growth in recent years.

In June 2013 Partnership Assurance was admitted to listing on the premium listing segment of the Official List and to trading on the London Stock Exchange. As at 11 March 2016 (being the Last Practicable Date), Partnership Assurance had a market capitalisation of £524 million.

For the twelve months ended 31 December 2015, Partnership Assurance reported new business premiums of £631 million and operating profit of £40 million. As of 31 December 2015, embedded value was £633 million and total assets under management was £5.3 billion.

Investors should read the whole of this Circular and not rely solely on the summarised financial information in this section. Further financial information is contained in Part III (*Partnership Assurance Financial Information*) of this Circular.

9. **Current trading and prospects**

(a) **Just Retirement**

Just Retirement published its unaudited financial statements for the six months ended 31 December 2015 on 11 March 2016.

Current trading remains in line with the statements and trends described in Just Retirement's Interim Results 2016 and continues to be in line with Just Retirement management's expectations.

Information on the Solvency II capital position of Just Retirement is set out in Section A of Part III (*Information on the Solvency II Capital Position of Just Retirement and Partnership Assurance*) of this Circular.

(b) **Partnership Assurance**

Partnership Assurance published its Audited Results 2015 on 11 March 2016, which includes the audited financial statements of Partnership Assurance for the years ended 31 December 2015.

Current trading remains in line with the statements and trends described in Partnership Assurance's Audited Results 2015 and continues to be in line with Partnership Assurance management's expectations.

Information on the Solvency II capital position of Partnership Assurance is set out in Section B of Part III (*Information on the Solvency II Capital Position of Just Retirement and Partnership Assurance*) of this Circular.

10. **Management, employees and locations**

Just Retirement and Partnership Assurance attach great importance to the skills and experience of the existing management and employees of the respective groups.

Details of the proposed JRP Group Board are set out in paragraph 12 below. The remaining existing directors of Just Retirement and Partnership Assurance confirm they intend to resign as directors of Just Retirement or Partnership Assurance (as applicable) upon completion of the Proposed Merger.

The Just Retirement Board and the Partnership Assurance Board each recognise that in order to achieve the expected benefits of the Proposed Merger, operational and administrative restructuring will be required following completion of the Proposed Merger.

The Just Retirement Board and the Partnership Assurance Board recognise that an opportunity exists to rationalise premises and the final locations of specific teams, together with the location of head office of the Combined Group, which will be assessed following completion of the Proposed Merger by an integration team consisting of executives from the Just Retirement Group and the Partnership Assurance Group.

The initial synergy work carried out up to the publication of the Scheme Document on 5 November highlighted the potential to generate savings for the Combined Group in areas where there may be duplication and the Just Retirement Board and the Partnership Assurance Board each anticipated that this would involve headcount reduction.

Integration planning has continued following the publication of the Scheme Document. Since publication, the integration team has undertaken a further and more detailed analysis across all business units which will, following completion of the Proposed Merger, comprise the Combined Group. Although this further detailed analysis remains preliminary in nature and will, following completion of the Proposed Merger, require agreement from each of those business units and, ultimately, approval from the JRP Group Board following completion, this analysis has highlighted that headcount reductions over and above those assessed at the time of the publication of the Scheme Document may be possible. The headcount reduction is now expected to be at least 20 per cent. following the completion of the Proposed Merger (excluding any reduction in headcount attributable to an anticipated rate of employee attrition). This figure also excludes the positive impact of any growth in business in the Combined Group following completion of the Proposed Merger which would be expected to result in fewer reductions in headcount. It should be further noted that no decisions have been made to date and, therefore, the precise number of employees and specific teams, roles and locations affected will depend on the outcome of a post-completion consultation and integration planning process.

The headcount reductions in excess of those detailed in the Scheme Document are not capable of quantification at this time, as the relevant assessment is subject to further analysis, factual verification, consultation and, as stated above, agreement from each of the relevant business units and, ultimately, approval from the JRP Group Board. This will only be undertaken and finalised following completion of the Proposed Merger. Finalisation of the integration plan will be subject to engagement and consultation with appropriate stakeholders, including employee representative bodies in accordance with the legal obligations of the Combined Group.

Just Retirement confirms that, following implementation of the Proposed Merger, the existing contractual and statutory employment rights of all Just Retirement and Partnership Assurance employees will be fully observed. Further, Just Retirement confirms that there is no current intention to make any material change to the terms and conditions of employment of the employees of the Combined Group. Any changes that are proposed will be subject to appropriate consultation in accordance with the legal obligations of the Combined Group. The Just Retirement Board and the Partnership Assurance Board intend that, following completion of the Proposed Merger, the Combined Group will continue to comply with all of its pension obligations (including any commitment to make employer contributions) and that the pension schemes of the Combined Group will continue to admit new members. In addition, Just Retirement has acknowledged that it and Partnership Assurance will, in the course of any redundancy consultation process that may take place after the Effective Date, consult with affected employees on the possibility of offering enhanced severance arrangements (in addition to a payment in lieu of contractual notice and non-contractual core benefits (excluding discretionary bonus save as set out below)) for Just Retirement and Partnership Assurance employees whose employment is terminated by reason of redundancy following the Effective Date in connection with the realisation of synergies as a result of the Proposed Merger.

11. **Change of name**

A resolution to change the name of the Company to JRP Group plc, to take effect on completion of the Proposed Merger, will be put to Just Retirement Shareholders at the Just Retirement General Meeting.

The JRP Group Board will undertake a review of the branding strategy once the Proposed Merger has been completed. Prior to completion of such review, the existing brands of Just Retirement and Partnership Assurance will be retained across specific product lines.

12. **JRP Group Board**

It is anticipated that the JRP Group Board will be made up of 13 directors, comprising directors from both Just Retirement and Partnership Assurance's existing Boards, with suitable individuals selected to create a balanced Board with appropriate skills and relevant experience:

Executive directors:

Rodney Cook, Group Chief Executive Officer
David Richardson, Deputy Group Chief Executive Officer
Simon Thomas, Group Finance Director

Non-executive directors:

Chris Gibson-Smith, Chairman
Tom Cross Brown, Deputy Chairman
Keith Nicholson, Senior Independent Director
Paul Bishop
Peter Catterall (Cinven Funds nominated director)
Ian Cormack
Michael Deakin
James Fraser (Avallux nominated director)
Steve Melcher
Clare Spottiswoode

It is envisaged that the JRP Group Board will establish five committees to assist the JRP Group Board with its governance mandate, comprising Nominations, Risk and Compliance, Audit, Remuneration and Market Disclosure Committees. Steve Groves, the current Chief Executive Officer of Partnership Assurance, will step down as Chief Executive Officer at the time of completion of the Proposed Merger. Further, at the time of completion of the Proposed Merger, Kate Avery and Shayne Deighton will step down as directors of Just Retirement and Douglas Ferrans, Ian Owen, Richard Ward and Simon Waugh will step down as directors of Partnership Assurance.

Pursuant to the Avallux Relationship Agreement, Avallux is entitled to appoint one non-executive director to the Just Retirement Board as long as Avallux (together with its associates) holds 15 per cent. or more of the voting rights of the Company. Following completion of the Proposed Merger, Avallux will hold approximately 29.2 per cent of Just Retirement Shares and will continue to be entitled to appoint one non-executive director (currently James Fraser) to the JRP Group Board.

On 14 November 2014, Partnership Assurance and the Cinven Entities entered into a relationship agreement whereby the Cinven Entities have the right, amongst other things, to appoint certain non-executive directors to the Partnership Assurance Board dependent upon the percentage of voting rights held by them. Peter Catterall is currently the Cinven Entities' appointee to the Partnership Assurance Board. This relationship agreement will terminate upon the completion of the Proposed Merger and consequently, Just Retirement has entered the Cinven Relationship Agreement pursuant to which (among other things), conditional upon the Proposed Merger becoming Effective, the Cinven Entities will be entitled to appoint one non-executive director to the JRP Group Board as long as the Cinven Entities (together with their associates) hold 15 per cent. or more of the voting rights of Just Retirement. Following completion of the Proposed Merger, the Cinven Entities will hold approximately 19.5 per cent of the Just Retirement Shares and will therefore be entitled to appoint one non-executive director (currently Peter Catterall) to the JRP Group Board.

13. **Merger-related arrangements**

(a) **Confidentiality Agreement**

Just Retirement and Partnership Assurance have entered into a confidentiality agreement dated 27 April 2015 pursuant to which each of Just Retirement and Partnership Assurance has undertaken to keep certain information relating to the Proposed Merger and to the other party confidential and not to disclose such information to third parties, except to certain permitted disclosees for the purposes of evaluating the Proposed Merger or if required by applicable laws or regulations.

The confidentiality obligations of each party under this agreement will terminate on the earlier of (i) 26 April 2017 and (ii) the Effective Date.

(b) **Confidentiality and Joint Defence Agreement**

Just Retirement, Partnership Assurance, Clifford Chance LLP and Freshfields Bruckhaus Deringer LLP have entered into a confidentiality and joint defence agreement dated 26 June 2015 which governs how confidential, sensitive and/or privileged information can be disclosed, used or shared for the purpose of preparing submissions to the CMA and the PRA.

(c) **Co-operation Agreement**

Just Retirement and Partnership Assurance have entered into a co-operation agreement dated 11 August 2015 with respect to the implementation of the Proposed Merger.

Just Retirement and Partnership Assurance have agreed to co-operate and provide each other with reasonable information, assistance and access in relation to the filings, submissions and notifications to be made for the purpose of obtaining all regulatory clearances. Just Retirement and Partnership Assurance have also agreed to provide each other with reasonable information, assistance and access for the preparation of the key shareholder documentation. Just Retirement has also agreed to convene the Just Retirement General Meeting so that it is held on or around the same date as the Partnership Assurance Meetings.

Just Retirement is subject to certain customary restrictions on the conduct of its business during the period pending completion of the Proposed Merger, and which prohibit, among other things: (a) the payment by Just Retirement of dividends (other than in the ordinary course and consistent with past practice and its published dividend policy) and (b) the allotment of further shares (or rights or options in respect of shares) (other than pursuant to the Capital Raise, its existing share incentive schemes, or in order to settle options or awards vesting under its existing incentive schemes).

The Co-operation Agreement records Just Retirement and Partnership Assurance's intention to implement the Proposed Merger by way of the Scheme. However, Just Retirement may implement the Proposed Merger by way of a Takeover Offer: (i) if Partnership Assurance consents; (ii) if the Partnership Assurance Directors withdraw or modify their unanimous and unconditional recommendation of the Scheme to the shareholders of Partnership Assurance; or (iii) if a third party announces a possible or firm intention to make an offer for the entire issued share capital of Partnership Assurance which is recommended by the Partnership Assurance Directors. If Just Retirement elects to implement the Proposed Merger by way of a Takeover Offer, Just Retirement has agreed not to take any action which would cause the Takeover Offer not to proceed, to lapse or to be withdrawn in each case for nonfulfilment of the acceptance condition prior to the 60th day after publication of the offer document and Just Retirement has agreed to keep the Takeover Offer open for acceptances until such time.

The Co-operation Agreement will terminate if: (i) agreed in writing between Just Retirement and Partnership Assurance; (ii) any Condition (which has not been waived) is invoked (with permission of the Panel); (iii) if the Scheme is not approved by Partnership Assurance Shareholders or the Court refuses to sanction the Scheme or grant the Scheme Court Order (unless Just Retirement has within five Business Days of such event elected to implement the Proposed Merger by way of a Takeover Offer); (iv) (save as the parties may otherwise agree in writing) the Proposed Merger is not implemented on or before the Long Stop Date; (v) an independent competing transaction becomes effective, becomes or is declared unconditional in all respects or is completed; or (vi) upon written notice from Just Retirement to Partnership Assurance in the event that the Partnership Assurance Board no longer unconditionally and unanimously recommends (or intends to recommend), or has adversely modified or qualified their recommendation (or intention to recommend) of, the Proposed Merger (or the Takeover Offer, as the case may be), or recommends (or intends to recommend) an independent competing transaction.

The Co-operation Agreement also contains provisions that will apply in respect of Partnership Assurance Employee Share Plans and certain other employee incentive arrangements.

(d) **Cinven Relationship Agreement**

On 11 August 2015, Just Retirement and the Cinven Entities entered into the Cinven Relationship Agreement which will, following completion of the Proposed Merger, regulate the ongoing relationship between Just Retirement and the Cinven Entities.

Under the Cinven Relationship Agreement, the Cinven Entities undertake (amongst other things):

(i) to exercise all of their powers to ensure that the Just Retirement Group is able to operate and make decisions independently of the Cinven Entities and not take any action which inhibits the Just Retirement Group from carrying on an independent business as its main activity;

(ii) to conduct all transactions and relationships with the Just Retirement Group at arm's length terms and on normal commercial terms;

(iii) to procure that the business and affairs of the Just Retirement Group are conducted in accordance with the Just Retirement articles and all applicable laws and independently of the Cinven Entities and, not to exercise any of their voting or other rights to procure any amendment to the Just Retirement articles which would be inconsistent with the Just Retirement Group or the ability of the Just Retirement Group to carry on its business independently;

(iv) to ensure that the Cinven Entities comply with all provisions of the Listing Rules, the Disclosure and Transparency Rules, the requirements of the London Stock Exchange and the FSMA that apply to it in connection with Just Retirement and do not take any action that would have the effect of preventing Just Retirement from complying with its obligations under the Listing Rules, the Disclosure and Transparency Rules, the requirements of the London Stock Exchange or the FSMA;

(v) not to influence the day-to-day running of Just Retirement at an operational level or hold or acquire a material shareholding in one or more material subsidiaries;

(vi) to abstain from voting on any resolution to approve a "related party transaction" under the Listing Rules involving the Cinven Entities;

(vii) not to propose a shareholder resolution which is intended to circumvent the proper application of the Listing Rules, or cause or authorise to be done anything which would prejudice either Just Retirement's listing on the premium segment of the Official List or its suitability for such listing;

(viii) to exercise all of their voting rights so as to ensure that at least half the Just Retirement Board, excluding the Chairman, will consist of independent directors, as defined in the UK Corporate Governance Code; and

(ix) to keep confidential and not use for their own benefit any confidential information relating to the Just Retirement Group.

Under the Cinven Relationship Agreement, the Cinven Entities are entitled to appoint one non-executive director to the JRP Group Board for so long as the Cinven Entities (together with their associates) are entitled to exercise or to control the exercise of 15 per cent. or more of the votes able to be cast on all or substantially all matters at general meetings of Just Retirement.

The Cinven Relationship Agreement will continue for so long as (a) Just Retirement Shares are listed on the premium listing segment of the Official List and traded on the London Stock Exchange's main market for listed securities; and (b) the Cinven Entities together with their associates are entitled to exercise or to control the exercise of 15 per cent. or more of the votes able to be cast on all or substantially all matters at general meetings of Just Retirement.

(e) **Lock-up Agreement**

On 11 August 2015, Avallux, the Cinven Funds and Barclays entered into the Lock-up Agreement, pursuant to which Avallux and the Cinven Funds each agreed that they will not, without Barclays' consent, dispose of any Just Retirement Shares at any time during the lock-up period (subject to certain customary carve outs). The Lock-up Agreement is conditional upon and shall come into force upon the Effective Date, at which point the lock-up period commences and continues until 30 calendar days following the Effective Date.

(f) **Sell-down Agreement**

On 11 August 2015, Avallux and the Cinven Funds entered into the Sell-down Agreement, pursuant to which Avallux and the Cinven Funds each agreed that that they will not dispose of any Just Retirement Shares without first offering each other the right to elect to participate in the proposed disposal at the same price and on the same terms and conditions, in the respective ratio 60:40. The Sell-down Agreement is conditional upon and shall come into force upon the Effective Date. The Sell-down Agreement terminates if either Avallux or the Cinven Funds cease to hold or control, in aggregate, five per cent. or more of the Just Retirement Shares or votes able to be cast at general meetings of Just Retirement.

Copies of these documents are available on the Company's website at www.justretirementgroup.com and on Partnership Assurance's website at www.partnership-group.com until the Scheme becomes Effective.

14. **Employee incentivisation**

Both Just Retirement and Partnership Assurance recognise the importance of retaining the necessary skills and experience within Just Retirement and Partnership Assurance in the period to completion of the Proposed Merger and beyond. Just Retirement and Partnership Assurance have therefore agreed that appropriate retention arrangements may be put in place for certain employees of the Combined Group (conditional upon completion of the Proposed Merger).

Evercore has advised Partnership Assurance that the proposed terms relating to the treatment of awards under the Partnership Assurance LTIP are fair and reasonable insofar as they apply to members of management. Under these arrangements, which would apply to all plan participants, it is intended that the Partnership Assurance LTIP awards granted in 2014 will now be exchanged for an equivalent award over Just Retirement Shares. 40 per cent. of the award will vest on 31 December 2016 (including in respect of Good Leavers) and 60 per cent. of the award will vest on the third anniversary of grant in accordance with the rules of the Partnership Assurance LTIP, in each case subject to the applicable performance condition. In relation to the awards under the Partnership Assurance LTIP, which were granted on 11 August 2015, the award will be exchanged for an equivalent award over Just Retirement Shares. 20 per cent. of that award will vest on the earlier of 31 December 2016 and on the date on which the participant becomes a Good Leaver, and the remaining 80 per cent. of the award will vest on the third anniversary of grant of the 2015 award, subject to a performance condition appropriate for the Combined Group.

15. **Partnership Assurance Employee Share Plans and other incentive matters**

Participants in the Partnership Assurance Employee Share Plans were contacted separately regarding the effect of the Proposed Merger on their rights under the Partnership Assurance Employee Share Plans and with the details of Just Retirement's appropriate proposals. A summary of the effect of the Scheme on options and awards under the Partnership Assurance Employee Share Plans ("**Awards**") and associated incentive arrangements is set out below.

The Proposed Merger will extend to any Partnership Assurance Shares which are unconditionally allotted, issued or transferred, on or prior to the Scheme Record Time to satisfy the exercise of existing options (or awards) under the Partnership Assurance Employee Share Plans prior to the Scheme Record Time. Any Partnership Assurance Shares allotted, issued or transferred after the Scheme Record Time under the Partnership Assurance Employee Share Plans will, subject to the Scheme becoming Effective, be immediately transferred to Just Retirement in exchange for the same consideration as Partnership Assurance Shareholders will be entitled to receive under the terms of the Proposed Merger. The terms of this exchange are to be set out in the proposed amendments to Partnership Assurance's articles of association which will be considered at the Partnership Assurance General Meeting. Further information in respect of the proposed amendments to Partnership Assurance's articles of association is contained in the Scheme Document dated 5 November 2015.

Partnership Assurance Long-Term Incentive Plan

The Co-operation Agreement described the proposed terms in relation to the treatment of the Partnership Assurance LTIP awards granted in 2014 (the "**2014 Partnership Assurance LTIP Awards**"). Under these arrangements, it was intended that to the extent that they vested in accordance with the plan rules (on application of the relevant performance condition which assesses Partnership Assurance's total shareholder return relative to a comparator group), 40 per cent. of each 2014 Partnership Assurance LTIP Award would become exercisable on the date of the Scheme Court Hearing with the remaining 60 per cent. being exchanged for an equivalent award over Just Retirement Shares, vesting on the earlier of 31 December 2016 and the date on which a participant became a Good Leaver. The Partnership Assurance remuneration committee (the "**Partnership Assurance Remuneration Committee**") has considered on a provisional basis the extent to which the performance condition for the 2014 LTIP Awards was likely to be met at the latest practicable time prior to the date of the Scheme Court Order. The Partnership Assurance Remuneration Committee concluded that it would be unlikely that any Partnership Assurance Shares would vest on the date of the Scheme Court Order in light of the provisional performance data reviewed.

Both Just Retirement and Partnership Assurance consider that non-vesting of the 2014 Partnership Assurance LTIP Awards would present challenges to the Combined Group in retaining the necessary skills and experience within the Combined Group. In order to incentivise and retain participants holding 2014 Partnership Assurance LTIP Awards, Just Retirement and Partnership Assurance have agreed that, in substitution for the terms agreed in relation to the 2014 Partnership Assurance LTIP Awards in the Co-operation Agreement, participants will, in accordance with the rules of the plan, be required to exchange each 2014 Partnership Assurance LTIP Award over Partnership Assurance Shares for an equivalent award over Just Retirement Shares following the date of the Scheme Court Order, such award to be subject to the terms and conditions of the Partnership Assurance LTIP (the "**2014 Rollover LTIP Award**") save that:

(a) 40 per cent. of the 2014 Rollover LTIP Award will vest on 31 December 2016, subject to the performance condition being satisfied, and provided that the participant is still employed by the Combined Group on that date or has left employment with the Combined Group prior to that date as a Good Leaver. Such awards will not be subject to time pro-rating; and

(b) 60 per cent. of the 2014 Rollover LTIP Award will vest on the third anniversary of grant (that is, 22 May 2017) subject to the performance condition being satisfied (which will be tested on 31 December 2016), and provided that the participant is still employed by the Combined Group on that date. If a participant leaves employment with the Combined Group as a Good Leaver prior to 22 May 2017, whether and the extent to which the 2014 Rollover LTIP Award will vest will be determined by the remuneration committee of the Combined Group in accordance with the rules of the Partnership Assurance LTIP.

Participants who received LTIP Awards in 2015 (the "**2015 LTIP Awards**") will, in accordance with the terms of the Award, be required to exchange each 2015 LTIP Award for an equivalent award over Just Retirement Shares following the date of the Scheme Court Hearing, such award to be subject to the terms and conditions of the Partnership Assurance LTIP (the "**2015 Rollover LTIP Award**") save that:

(a) 20 per cent. of the 2015 Rollover LTIP Award will vest on 31 December 2016 provided that the participant is still employed by the Combined Group on that date or (if earlier) on the date on which the participant leaves employment with the Combined Group as a Good Leaver. Such awards will not be subject to performance conditions or time pro-rating; and

(b) 80 per cent. of the 2015 Rollover LTIP Award will vest subject to the performance condition being satisfied (as amended in respect of the period following the Proposed Merger) on the third anniversary of grant (that is, 11 August 2018) or (if earlier) on the date on which the participant leaves employment with the Combined Group as a Good Leaver after 31 December 2016.

Partnership Assurance Deferred Share Bonus Plan

Awards granted under the Partnership Assurance DSBP in 2014 and 2015 will vest in full and become exercisable from the date of the Scheme Court Hearing for one month or until the date as is one month following the date on which the Combined Group announces its financial results for the next period ending after completion of the Proposed Merger (or, if dealing restrictions apply following such announcement, one month following the date on which the dealing restrictions are lifted) whichever is later.

The Partnership Assurance employee benefit trust holds £466,000 in cash which it will use to subscribe for new Partnership Assurance Shares in order to satisfy outstanding awards or to acquire Partnership Assurance Shares in the market to satisfy Awards under the Partnership Assurance DSBP.

Partnership Assurance Save As You Earn Share Option Plan

Outstanding options under the Partnership Assurance SAYE which would not otherwise have been exercisable prior to the Proposed Merger will (in consequence of the Proposed Merger and in accordance with participants' contractual rights under the Partnership Assurance SAYE) be exercisable to the extent permitted under the Partnership Assurance SAYE rules in the six months following the date of the Scheme Court Hearing and will be exercisable over fewer than the full number of Partnership Assurance Shares that could otherwise have been acquired on maturity of the related savings contracts. Consequently, Just Retirement has agreed that participants in the Partnership Assurance SAYE may elect to roll over their existing rights over Partnership Assurance Shares under the Partnership Assurance SAYE into equivalent options over Just Retirement Shares.

Partnership Assurance Share Incentive Plan

The participants in the Partnership Assurance SIP will be treated in the same way as other Partnership Assurance Shareholders. Partnership Assurance Shares held in the Partnership Assurance SIP trust on behalf of the Partnership Assurance SIP participants ("**SIP Shares**") will participate in the Scheme (on the same terms as the other Partnership Assurance Shareholders) and the Partnership Assurance SIP Shares will remain in the SIP trust in accordance with the rules of the Partnership Assurance SIP.

2015 Bonus

Just Retirement has acknowledged and agreed that eligible Partnership Assurance employees will be due to receive annual cash bonuses in respect of 2015 in accordance with their employment contracts and/or Partnership Assurance policies and practices.

16. **De-listing of Partnership Assurance Shares and cancellation of Partnership Assurance Share certificates**

It is intended that dealings in Partnership Assurance Shares should be suspended at 5.00 p.m. London time on the date of the Scheme Court Hearing and no transfers of Partnership Assurance Shares will be registered after 5.00 p.m. on that day. It is further intended that an application will be made to the London Stock Exchange on the Effective Date for the cancellation of the trading of Partnership Assurance Shares on its market for listed securities and the UKLA will be requested to cancel the listing of Partnership Assurance Shares on the Official List to take effect by 8.00 a.m. on the Effective Date.

Share certificates in respect of the Partnership Assurance Shares will cease to be valid and should be destroyed following the Effective Date. In addition entitlements to Partnership Assurance Shares held within the CREST system will be cancelled after the Scheme Record Time but before the Scheme becomes Effective.

As soon as reasonably practicable after the Effective Date, it is intended that Partnership Assurance will be re-registered as a private limited company under the relevant provisions of the Companies Act.

17. **Dividends and dividend policy**

The Boards of Just Retirement and Partnership Assurance agreed that Just Retirement Shareholders were entitled to receive the final dividend of 2.2 pence per Just Retirement Share for the year ended 30 June 2015, which was paid on 7 December 2015, and Partnership Assurance Shareholders were entitled to receive the interim dividend of 0.5 pence per Partnership Assurance Share for the six months ended 30 June 2015, which was paid on 30 October 2015. As the Proposed Merger is expected to complete on 4 April 2016, Partnership Assurance Shareholders in JRP Group plc at the record date of 6 May 2016 will be entitled to the Just Retirement interim dividend of 1.1 pence per JRP Group Share following completion of the Proposed Merger, subject to the agreed Exchange Ratio of 0.834 New Just Retirement Share being issued for every Partnership Assurance Share in connection with the Proposed Merger. The declaration of this interim dividend will not result in any adjustment to the Exchange Ratio. The Just Retirement Board expects that, in the first year following completion of the Proposed Merger, JRP Group plc will pay dividends in line with Just Retirement's existing dividend policy. Under the Just

Retirement Group's existing dividend policy, dividend payments will be made on an approximated one-third:two-thirds split for interim and final dividends, respectively.

18. **Scheme**

The Proposed Merger will be effected by a court-sanctioned scheme of arrangement between Partnership Assurance and the Scheme Shareholders under Part 26 of the Companies Act. The purpose of the Scheme is to provide for Just Retirement to become owner of the whole issued and to be issued share capital of Partnership Assurance.

Under the Scheme, the Proposed Merger is to be principally achieved by:

- the transfer of the Scheme Shares held by Scheme Shareholders in consideration for which Scheme Shareholders will receive New Just Retirement Shares on the basis set out in paragraph 2 of this Part I (*Letter from the Chairman of Just Retirement*); and
- amendments to Partnership Assurance's articles of association to ensure that any Partnership Assurance Shares issued (other than to Just Retirement) between approval of the Scheme at the Partnership Assurance Court Meeting and the Scheme Record Time will be subject to the Scheme and that any Partnership Assurance Shares issued after the Scheme Record Time will automatically be acquired by Just Retirement.

The Proposed Merger will be subject to the Conditions and further terms and conditions summarised in paragraphs 19 and 20 below of this Part I (*Letter from the Chairman of Just Retirement*) and set out in full in the Scheme Document.

To become Effective, the Scheme requires, among other things, the approval of a majority in number of the relevant Scheme Shareholders present and voting in person or by proxy, representing not less than 75 per cent. in value of the Scheme Shares that are voted (or the relevant class or classes thereof, if applicable), at the Partnership Assurance Court Meeting, which is convened by order of the Court, and the passing of the resolutions necessary to implement the Proposed Merger at the Partnership Assurance General Meeting.

Following the Partnership Assurance Meetings, the Scheme must be sanctioned by the Court. The Scheme will become Effective in accordance with its terms on delivery of the Scheme Court Order to the Registrar of Companies.

Upon the Scheme becoming Effective, it will be binding on all Partnership Assurance Shareholders, irrespective of whether or not they attended or voted at the Partnership Assurance Meetings and the consideration due under the Proposed Merger will be despatched by Just Retirement to Scheme Shareholders no later than 14 days after the Effective Date.

The Scheme Document, which includes notices of the Partnership Assurance Meetings, was despatched by Partnership Assurance to Partnership Assurance Shareholders on 5 November 2015 and is available on Just Retirement's website (www.justretirementgroup.com).

The Scheme will be governed by English law. The Scheme will be subject to the applicable requirements of the Code, the Panel, the London Stock Exchange and the FCA.

The Scheme is expected to become Effective on or around 4 April 2016, subject to the satisfaction or waiver of the Conditions and certain further terms set out in the Scheme Document.

19. **Conditions to the Scheme**

On 28 October 2015, the CMA announced that it has unconditionally cleared the Proposed Merger following its Phase 1 investigation. Therefore, the CMA Pre-Condition has been satisfied.

Further, on 10 March 2016, Just Retirement and Partnership Assurance announced that the PRA and the FCA had each approved the change in control applications made in connection with the Proposed Merger.

The Proposed Merger remains subject to the Conditions and to the full terms and conditions which are set out in the Scheme Document dated 5 November 2015, including, amongst other things:

(i) approval by a majority in number representing not less than 75 per cent. in value of Partnership Assurance Shareholders who are on the register of members of Partnership Assurance at the Voting Record Time, present and voting, whether in person or by proxy, at the Partnership Assurance Court Meeting and at any separate class meeting which may be required (or any adjournment thereof);

(ii) the passing of all resolutions required to approve and implement the Scheme and to approve certain related matters by the requisite majority of Partnership Assurance Shareholders at the Partnership Assurance General Meeting (or any adjournment thereof);

(iii) the Scheme becoming Effective no later than the Long Stop Date; and

(iv) the passing of the Just Retirement Resolutions as are necessary to approve, implement and effect the Proposed Merger and acquisition of the Partnership Assurance Shares by the requisite majority of Just Retirement Shareholders at the Just Retirement General Meeting (or any adjournment thereof).

If the Conditions have not been satisfied or waived by the Long Stop Date, or such later date (if any) as Just Retirement and Partnership Assurance may agree and (if required) the Panel and the Court may allow, the Proposed Merger will not proceed.

20. **Further terms of the Proposed Merger**

In so far as a distribution is declared, made, paid or payable by Partnership Assurance or Just Retirement in respect of the Partnership Assurance Shares or Just Retirement Shares (as applicable) on or after the date of the Firm Offer Announcement save as set out in paragraph 17 of this Part I (*Letter from the Chairman of Just Retirement*), the Exchange Ratio will be adjusted accordingly by reference to the aggregate amount of the distribution that has been declared, made, paid or is payable. To the extent that a distribution that has been declared, made, paid or is payable is or will be transferred or cancelled pursuant to the Proposed Merger on a basis which entitles Just Retirement alone to receive the distribution and to retain it, the Exchange Ratio will not be subject to change in accordance with this paragraph.

The Partnership Assurance Shares will be acquired pursuant to the Proposed Merger fully paid and free from all liens, charges, equities, encumbrances, rights of pre-emption and any other interests of any nature whatsoever and together with all rights now or hereafter attaching thereto, including without limitation voting rights and the right to receive and retain in full all dividends and other distributions (if any) declared, made or paid on or after the Effective Date, save for any dividends payable on the terms set out in paragraph 17 of this Part I (*Letter from the Chairman of Just Retirement*).

The New Just Retirement Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the existing Just Retirement Shares, including the right to receive and retain in full all dividends and other distributions (if any) made, paid or declared after the Effective Date.

21. **Prospectus and Supplementary Prospectus**

Just Retirement published a Prospectus on 28 September 2015 in connection with the Just Retirement Placing and Open Offer and Proposed Merger. Just Retirement further published a Supplementary Prospectus on 14 March 2016. The Prospectus and the Supplementary Prospectus contain information relating to the Just Retirement Group, the Partnership Assurance Group, the Combined Group and the New Just Retirement Shares.

22. **Admission of New Just Retirement Shares**

Application will be made to the FCA and the London Stock Exchange for the New Just Retirement Shares to be admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities respectively. It is expected that Admission will become effective and that dealings for normal settlement in the New Just Retirement Shares will commence on the London Stock Exchange at 8.00 a.m. on the Effective Date.

23. **Fractional entitlements**

Fractions of New Just Retirement Shares will not be allotted or issued to Partnership Assurance Shareholders and entitlements will be rounded down to the nearest whole number of Just Retirement Shares and all fractions of New Just Retirement Shares will be aggregated and sold in the market as soon as practicable after the Effective Date. The net proceeds of such sale (after deduction of all expenses and commissions incurred in connection with the sale) will be distributed by Just Retirement in due proportions to Partnership Assurance Shareholders who would otherwise have been entitled to such fractions, save that individual entitlements to amounts of less than £5 will be retained for the benefit of the Combined Group.

24. **Reserving the right to proceed by way of a Takeover Offer**

Subject to the terms of the Co-operation Agreement, Just Retirement reserves the right to implement the Proposed Merger by way of a Takeover Offer for the entire issued and to be issued share capital of Partnership Assurance not already held by Just Retirement as an alternative to the Scheme. In such an event, the Takeover Offer will be implemented on the same terms (subject to appropriate amendments), so far as applicable, as those which would apply to the Scheme.

If the Proposed Merger is effected by way of a Takeover Offer and such Takeover Offer becomes or is declared unconditional in all respects and sufficient acceptances are received, Just Retirement intends to:

(a) make a request to the London Stock Exchange to cancel trading in Partnership Assurance Shares on its market for listed securities;

(b) make a request to the UKLA to cancel the listing of the Partnership Assurance Shares from the Official List; and

(c) exercise its rights to apply the provisions of Chapter 3 of Part 28 of the Companies Act to acquire compulsorily the remaining Partnership Assurance Shares in respect of which the Takeover Offer has not been accepted.

25. **Dilution**

If the Proposed Merger becomes Effective, it is expected that up to 369,893,501 New Just Retirement Shares will be issued. This will result in Just Retirement's issued ordinary share capital increasing by approximately 65.5 per cent. Just Retirement Shareholders will suffer an immediate dilution as a result of the Proposed Merger, following which they will hold approximately 60 per cent. of the issued ordinary share capital of JRP Group plc.

26. **Risk factors**

For a discussion of certain risk factors which should be taken into account when considering whether or not to vote in favour of the resolutions to be proposed at the Just Retirement General Meeting, see Part II (*Risk Factors*).

27. **Just Retirement General Meeting and the resolutions to be proposed at the Just Retirement General Meeting**

As described in paragraph 19 above, the implementation of the Proposed Merger is conditional upon, among other things, Just Retirement Shareholders' approval being obtained for the Just Retirement Resolutions at the Just Retirement General Meeting. Accordingly, you will find, set out at the end of this Circular, a notice convening a general meeting to be held at Reigate Town Hall, Castlefield Road, Reigate, Surrey RH2 0SH at 10.00 a.m. on 30 March 2016 at which the Just Retirement Resolutions will be proposed to approve the Proposed Merger, among other matters. The full text of the resolutions to be proposed at the Just Retirement General Meeting is set out in the notice.

Just Retirement resolution 1—Approval of the Proposed Merger

Just Retirement resolution 1 will be proposed as an ordinary resolution requiring a simple majority of votes cast by way of a poll in favour of the resolution (see Note 10 to the Notice of General Meeting). Just Retirement resolution 1 proposes that the Proposed Merger be approved and the Just Retirement Directors be authorised to implement the Proposed Merger. The Proposed Merger will not proceed if Just Retirement resolution 1 is not passed.

Just Retirement resolution 2—Authority to allot New Just Retirement Shares

Just Retirement resolution 2 will be proposed as an ordinary resolution requiring a simple majority of votes cast by way of a poll in favour of the resolution (see Note 10 to the Notice of General Meeting). Just Retirement resolution 2 proposes that the Just Retirement Directors be authorised to allot New Just Retirement Shares in connection with the Proposed Merger up to an aggregate nominal amount of £36,989,350.10 (representing, in aggregate, 369,893,501 New Just Retirement Shares). The Proposed Merger will not proceed if Just Retirement resolution 2 is not passed.

The authority represents approximately 65.5 per cent. of the total issued ordinary share capital of Just Retirement as at 11 March 2016 (being the Last Practicable Date). If the resolution is passed, this authority will expire on the Long Stop Date (unless previously revoked, renewed, varied or extended by

Just Retirement in general meeting) and is in addition to any subsisting authorities to allot shares in Just Retirement. As at 11 March 2016 (being the Last Practicable Date), Just Retirement held no shares in treasury.

Just Retirement resolution 3—Change of name

Just Retirement resolution 3 will be proposed as a special resolution requiring at least 75 per cent. of the votes cast by way of a poll in favour of the resolution (see Note 10 to the Notice of General Meeting). Just Retirement resolution 3 proposes that, subject to and conditional upon the Scheme becoming Effective or, as the case may be, the Takeover Offer becoming or being declared wholly unconditional, the Company's name be changed from Just Retirement Group plc to JRP Group plc.

Action to be taken

You will find enclosed with this Circular a Form of Proxy for use at the Just Retirement General Meeting or any adjournment thereof. Whether or not you intend to be present at the Just Retirement General Meeting, you are requested to complete and sign the Form of Proxy in accordance with the instructions printed on it so as to be received by Just Retirement's registrars, Equiniti, at the address shown on the Form of Proxy, as soon as possible, and in any event no later than 10.00 a.m. on 24 March 2016 (or, in the case of an adjournment, not later than 48 hours (excluding non-working days) before the time fixed for the holding of the adjourned meeting).

If you hold Just Retirement Shares in CREST you may appoint a proxy by completing and transmitting a CREST Proxy Instruction in accordance with the procedures set out in the notice convening the Just Retirement General Meeting at the end of this Circular.

Alternatively, you may give proxy instructions by logging on to www.sharevote.co.uk and following the instructions. Proxies sent electronically (either via the CREST system or online) must also be sent as soon as possible and, in any event, so as to be received no later than 10.00 a.m. on 24 March 2016 (or, in the case of an adjournment, not later than 48 hours (excluding non-working days) before the time fixed for the holding of the adjourned meeting).

The completion and return of a Form of Proxy (or the electronic appointment of a proxy) will not preclude you from attending and voting in person at the Just Retirement General Meeting or any adjournment thereof, if you so wish.

28. **Further Information**

Your attention is drawn to the further information contained in Part II (*Risk Factors*) and the information set out in Part IX (*Additional Information*) of this Circular.

29. **Recommendation**

The Just Retirement Board considers the Proposed Merger to be in the best interest of Just Retirement and the Just Retirement Shareholders as a whole and unanimously recommends that Just Retirement Shareholders vote in favour of each of the resolutions to be proposed at the Just Retirement General Meeting, as all Just Retirement Directors who hold Just Retirement Shares have irrevocably undertaken to do so in respect of their own aggregate beneficial holdings of 5,863,267 Just Retirement Shares, representing approximately 1.0 per cent. of the issued ordinary share capital of Just Retirement on the Last Practicable Date.

The Just Retirement Board has received financial advice from Barclays and Fenchurch in relation to the Proposed Merger. In providing their advice to the Just Retirement Board, Barclays and Fenchurch have relied upon the commercial assessments of the Just Retirement Directors of the Proposed Merger.

Yours faithfully,

Tom Cross Brown
Chairman

PART II:
RISK FACTORS

Just Retirement Shareholders should consider the following risks and uncertainties together with all the other information set out in, or incorporated by reference into, this Circular prior to making any decision as to whether or not to vote in favour of the Proposed Merger.

The risks described below are all of the material risk factors related to the Proposed Merger, material new risk factors to the Just Retirement Group or the Partnership Assurance Group as a result of the Proposed Merger, or existing material risk factors to the Just Retirement Group or the Partnership Assurance Group which will be impacted by the Proposed Merger.

The risks described below are based on information known at the date of this Circular, but may not be the only risks to which the Just Retirement Group, the Partnership Assurance Group or, following completion, the Combined Group is or might be exposed. Additional risks and uncertainties, which are currently unknown to Just Retirement or that Just Retirement does not currently consider to be material, may materially affect the business of the Just Retirement Group, the Partnership Assurance Group and/or the Combined Group and could have material adverse effects on the business, financial condition, results of operations and prospects of the Just Retirement Group, the Partnership Assurance Group and/or the Combined Group. If any of the following risks were to occur, the business, financial condition, results of operations and prospects of the Just Retirement Group, the Partnership Assurance Group and/or the Combined Group could be materially adversely affected and the value of the Just Retirement Shares and/or the JRP Group Shares could decline and shareholders could lose all or part of the value of their investment in Just Retirement Shares and/or JRP Group Shares.

RISKS RELATED TO THE PROPOSED MERGER

Completion is subject to a number of conditions which may not be satisfied or waived

Completion of the Proposed Merger is conditional upon, *inter alia*, the Scheme becoming Effective no later than the Long Stop Date; the approval of the Scheme by a majority in number of the Scheme Shareholders (other than non-voting persons) (or the relevant class or classes thereof, if applicable) present and voting, either in person or by proxy, at the Partnership Assurance Court Meeting representing not less than 75 per cent. in value of the Scheme Shares voted by such Scheme Shareholders; all resolutions necessary to approve and implement the Scheme and to approve certain related matters being duly passed by the requisite majority or majorities at any Partnership Assurance General Meeting or at any adjournment of that meeting; the sanction of the Scheme with or without modification (but subject to any such modification being acceptable to Just Retirement and Partnership Assurance) by the Court; and the passing of the Just Retirement Resolutions at the Just Retirement General Meeting.

Although the Just Retirement Directors and Proposed Directors believe that the Conditions will be satisfied, it is possible that the parties may not obtain the requisite approvals from shareholders and, accordingly, the Proposed Merger may not be completed. If this were to happen it is possible that the business, results of operations, financial condition and/or prospects of the Just Retirement Group, the Partnership Assurance Group and/or, following completion of the Proposed Merger, the Combined Group may be materially adversely affected.

The Combined Group's success will be dependent upon its ability to integrate the two businesses; there will be numerous challenges associated with the integration and the synergies expected from the Proposed Merger may not be fully achieved

The current operations of the Just Retirement Group and the Partnership Assurance Group will be integrated to form the combined operations of the Combined Group over a period of two years. To the extent that the Combined Group is unable to efficiently integrate the operations, realise cost reductions, retain qualified personnel or customers and avoid unforeseen costs or delay, there may be an adverse effect on the business, results of operations, the financial condition and/or prospects of the Combined Group. While the Just Retirement Directors and the Proposed Directors believe that the costs and synergies expected to arise from the Proposed Merger have been reasonably estimated, unanticipated events or liabilities may arise (whether as a result of a decision or action taken by a regulator with jurisdiction over the Combined Group's business or otherwise) which result in a delay or reduction in the benefits derived from the Proposed Merger, or in costs significantly in excess of those estimated. The integration of the Just Retirement Group and the Partnership Assurance Group will be supported by a management team and the JRP Group Board with experience of large integration processes and cost reduction exercises. However, no assurance can be given that the integration process will deliver all or substantially all of the expected benefits or realise such benefits in a timely manner.

The Combined Group will encounter numerous integration challenges as a consequence of the Proposed Merger. In particular, following completion, the Combined Group's management and resources may be diverted from its core business activity due to personnel being required to assist in the integration process. The integration process may lead to an increase in the level of administrative errors. A decline in the service standards of the Combined Group may result in an increase in customer complaints and customer and/or regulatory actions, which may lead to reputational damage and the loss of customers and/or distributors by the Combined Group and have an adverse impact on financial performance and condition.

Following completion of the Proposed Merger, there is also a risk that some current and prospective employees may experience uncertainty about their future roles within the Combined Group, which may adversely affect the Combined Group's ability to retain or recruit key managers and other employees.

There will inevitably be a cost involved in revising the current systems and structures of the Combined Group following completion of the Proposed Merger. There is a risk that these costs could exceed current estimates, which may adversely affect anticipated integration benefits.

During the integration period following Admission, the Combined Group may not be in a position to acquire other companies or businesses that it might otherwise have sought to acquire. In view of the demands the integration process may have on management time, it may also cause a delay in other projects currently contemplated by the Just Retirement Group and the Partnership Assurance Group.

Under any of these circumstances, the business growth opportunities, overhead cost reductions, purchasing and distribution benefits and other synergies anticipated by Just Retirement and Partnership Assurance to result from the Proposed Merger may not be achieved as expected, or at all, or may be materially delayed. To the extent that the Combined Group incurs higher integration costs or achieves lower synergy benefits than expected, its business, results of operations, financial condition and/or prospects, and the price of JRP Group Shares, may be adversely affected.

A third party may be able to obtain a large enough shareholding in either the Just Retirement Group or the Partnership Assurance Group to delay or prevent completion of the Proposed Merger

Both Just Retirement and Partnership Assurance are listed companies whose ordinary shares are freely traded on the London Stock Exchange. It is possible that an existing or new shareholder with a significant shareholding in either Just Retirement or Partnership Assurance could use, or could threaten to use, its shareholding to vote against the Proposed Merger when shareholder consent is sought. Such an action could materially delay or prevent the implementation of the Scheme and therefore deprive the parties of some or all of the anticipated benefits of the Proposed Merger.

Substantial future sales or issues of JRP Group Shares could impact their market price

The Company cannot predict what effect, if any, future sales or issues of JRP Group Shares, or the possibility or perception of such future sales or issues, will have on the market price of the JRP Group Shares. Avallux and the Cinven Funds entered into the Lock-up Agreement with Barclays, pursuant to which Avallux and the Cinven Funds have agreed that they will not, without Barclays' consent, dispose of any Just Retirement Shares or, following the completion of the Proposed Merger, JRP Group Shares until 30 calendar days following the Effective Date. Sales of substantial amounts of JRP Group Shares in the public market by Avallux and the Cinven Funds following expiry of the lock-up period or by other shareholders at any time following completion of the Proposed Merger, or the issuance of a substantial number of JRP Group Shares, or the perception or any announcement that such sales or issuance could occur, could affect the market price of the JRP Group Shares and may make it more difficult for investors to sell their JRP Group Shares at a time and price which they deem appropriate, or at all.

The value of the JRP Group Shares may fluctuate significantly

Following completion of the Proposed Merger, the JRP Group Shares may be subject to market price volatility and the value of the JRP Group Shares may fluctuate significantly as a result of a large number of factors, including, but not limited to, those referred to in this Part II (*Risk Factors*), as well as period-to-period variations in operating results or change in revenue or profit estimates by the Company, industry participants or financial analysts. The value of the JRP Group Shares could also be affected by developments unrelated to the Company's operating performance, such as the operating and share price performance of other companies that investors may consider comparable to the Company, speculation about the Company in the press or the investment community, strategic actions by competitors, including acquisitions and/or restructurings, changes in market conditions and regulatory changes in any number of countries, whether or not the Company derives significant revenue therefrom and shifts in macro-economic or geopolitical conditions generally. Investors may not be able to sell their JRP Group Shares at or above the market price used to determine the Exchange Ratio.

The market price of the JRP Group Shares could be negatively affected by sales of substantial amounts of JRP Group Shares in the public markets or the perception that these sales could occur, which could impair the Combined Group's ability to raise capital through the sale of additional equity securities.

JRP Group Shareholders may earn a negative or no return on their investment in the Company

The Company's results of operations and financial condition are dependent on the trading performance of the members of the Combined Group. There can be no assurance that the Company will pay dividends in the future. Any decision to declare and pay dividends in the future will be made at the discretion of the JRP Group Board and will depend on, *inter alia*, applicable law, regulation, restrictions, the Company's and the Combined Group's financial performance and position (including the availability of distributable profits and reserves and cash available for this purpose), regulatory capital requirements, working capital requirements, finance costs, general economic conditions and other factors the JRP Group Board deems significant from time to time. The Company's ability to pay dividends will also depend on the level of dividends and other distributions, if any, received from its operating subsidiaries and companies in which it has an investment. The payment of dividends by subsidiaries is, in turn, subject to restrictions, including the existence of sufficient distributable reserves and cash in those subsidiaries as well as certain restrictions in the Company's debt financing arrangements. These restrictions could limit or prohibit the payment of dividends to the Company by its subsidiaries, which could restrict the Company's ability to pay dividends to JRP Group Shareholders.

Just Retirement Shareholders and Partnership Assurance Shareholders will own a smaller percentage of the Combined Group than they currently own of Just Retirement and Partnership Assurance, respectively

After completion of the Proposed Merger, the Just Retirement Shareholders and Partnership Assurance Shareholders will own a smaller percentage of the Combined Group than they currently own of the Just Retirement Group and the Partnership Assurance Group, respectively. Based on the number of Partnership Assurance Shares in issue as at the close of business on 11 March 2016 (being the Last Practicable Date) and assuming that there are no other issues of Just Retirement Shares or Partnership Assurance Shares (including under the Just Retirement Employee Share Plans or Partnership Assurance Employee Share Plans) between 11 March 2016 (being the Last Practicable Date) and the date of Admission and that 369,893,501 New Just Retirement Shares are issued in connection with the Proposed Merger, the Just Retirement Shareholders and former Partnership Assurance Shareholders will own approximately 60 per cent. and approximately 40 per cent., respectively, of the JRP Group Shares. As a consequence, the number of voting rights which can be exercised and the influence which may be exerted by JRP Group Shareholders will be reduced.

The issue of additional JRP Group Shares in connection with future acquisitions, any share incentive or share option plan or otherwise may dilute all other shareholdings

The Combined Group may seek to raise financing to fund future acquisitions and other growth opportunities and may, for these and other purposes, such as in connection with share incentive and share option plans, issue additional equity or convertible equity securities. As a result, JRP Group Shareholders may suffer dilution in their percentage ownership or the price of the JRP Group Shares may be adversely affected.

RISKS RELATED TO THE COMBINED GROUP FOLLOWING COMPLETION OF THE PROPOSED MERGER

The current solvency regime with which members of the Just Retirement Group and the Partnership Assurance Group are, and following completion of the Proposed Merger, the Combined Group will be, required to comply has only recently been implemented and the full impact of that implementation remains uncertain

A new solvency regime applicable to the EU insurance sector, known as Solvency II, has been developed over recent years. The main aim of this new prudential framework is to ensure the financial stability of the insurance industry across the EU and protect policyholders through establishing solvency requirements better matched to the true risks of the business. Full implementation of Solvency II took place on 1 January 2016.

One key feature of the new regime for insurers and reinsurers under Solvency II is that these entities will be allowed to make use of internal capital models to calculate capital requirements if the model has been approved by the appropriate regulator. Just Retirement has received approval from the PRA to use an internal model to calculate regulatory capital. It has also received approval for its matching adjustment application. Matching adjustment permits insurers to apply an addition to the risk free rate used to discount liabilities when calculating their technical provisions. This matching adjustment recognises a proportion of the yield on the assets (including lifetime mortgages) that rewards the provision of long-term liquidity, and has the effect of reducing the amount of technical provisions below the level that would otherwise be required, for both existing and new business.

The PRA has also given approval for Just Retirement to gain the benefit of certain transitional arrangements to spread technical provisions increases arising from Solvency II over a future period. Under technical provision transitional arrangements, insurers are, subject to approval, permitted to apply a deduction to the calculation of their technical provisions which reflects the difference between the technical provisions as calculated under the current regime (as at 31 December 2015) versus the technical provisions as calculated under Solvency II. The value of that deduction reduces over time with no deduction being permitted after 16 years.

It is important to note, however, that the transitional deduction approved by the PRA was calculated on the basis of Just Retirement's technical provisions at the point in time in which it applied for transitional measures. Technical provisions comprise the mean best estimate of liabilities of the insurance company and a risk margin. The risk margin is calculated by reference to the risk free rate and as such is sensitive to changes in this rate. Following Just Retirement's application to the PRA, the risk free rate (as published by EIOPA) has fallen and this has resulted in insurers such as Just Retirement having to calculate a materially higher risk margin. Just Retirement has applied to the PRA to recalculate its transitional deduction to reflect the larger technical provisions it currently holds; if successful, the application will increase the amount of the transitional deduction. Insurers are permitted to recalculate the transitional deduction where a firm's risk profile has materially changed but must apply to the PRA for approval to do so. To the extent to which the PRA does not approve the recalculation, there is a risk that Just Retirement's own funds may be lower than if there were a re-calculation, lowering its coverage ratio of the solvency capital requirement. Further falls in risk free rates could then lead to even lower coverage ratios. To the extent that the Just Retirement Board was concerned at the extent of this deterioration in ratio, it might require management, if they have not already done so, to take mitigating actions. These could include reducing expenses, increasing the prices of products to customers, or taking out hedges to protect against further falls in risk free rates.

Partnership Assurance Group's life company subsidiary, PLACL, has received approval for a matching adjustment application and will benefit from certain transitional arrangements. In due course, the Combined Group expects to apply to use an internal model to calculate capital for the Partnership Assurance business also.

Both businesses are taking steps to mitigate potential risks associated with the new regulation (e.g. the impact of matching adjustment on lifetime mortgages) including, in the case of Just Retirement, seeking to recalculate the transitional deduction of which it has the benefit. Although the Just Retirement Board and the Partnership Assurance Board are confident of their ability to manage the Combined Group in accordance with Solvency II and believe there is potential to optimise the Combined Group's capital structure following completion of the Proposed Merger, as at the date of this Circular it remains possible that implementation of the rules, or the outcome of the application of the approvals, may give rise to greater capital requirements, or may require changes to the structures and/or businesses, or result in price increases for products of the Just Retirement Group, the Partnership Assurance Group or, following completion of the Proposed Merger, the Combined Group (including holding additional capital or placing restrictions on the ability of the Just Retirement Group, the Partnership Assurance Group or the Combined Group to pay dividends, or requiring the Just Retirement Group, the Partnership Assurance Group or the Combined Group to raise additional capital).

In addition, following the implementation of Solvency II, regulators may continue to issue guidance and other interpretations or calibrations of applicable requirements, which could require further adjustments by the Just Retirement Group, the Partnership Assurance Group or, following completion of the Proposed Merger, the Combined Group in the future. A failure by the Just Retirement Group or the Partnership Assurance Group to comply with the measures required by Solvency II in a timely manner could also lead to regulatory action and have a material adverse effect on the business, results of operations and financial condition of the Just Retirement Group, the Partnership Assurance Group and, following completion of the Proposed Merger, the Combined Group.

The outcome of PRA's review of the valuations and capital treatment of equity release mortgages could have a material adverse effect on the business, results of operations, financial condition and prospects of the Just Retirement Group, the Partnership Assurance Group and, following completion of the Proposed Merger, the Combined Group

On 6 November 2015, the PRA published a letter from Andrew Bulley and Chris Moulder stating that it intends, during 2016, to undertake an industry-wide review of the valuations and capital treatment of equity release mortgages (which would include lifetime mortgages). The letter states that the outcome of that review may lead to a re-assessment of the extent to which firms are complying with the Solvency II requirements in areas such as asset valuation and the prudent person principle. This could cover internal models, the requirements for assumptions underlying the solvency capital requirement or the criteria for matching adjustment eligibility. There is also a risk that a change in the regulatory treatment of equity release mortgages/lifetime mortgages will result in a negative impact on the value of those products or the capital which needs to be held in respect of them which could have a material adverse effect on the business, results of operations, financial condition and prospects of the Just Retirement Group, the Partnership Assurance Group and, following completion of the Proposed Merger, the Combined Group.

Changes in lifestyle, medicine, technology, regulation or taxation could reduce demand for the products of the Just Retirement Group, the Partnership Assurance Group and, following completion of the Proposed Merger, the Combined Group

The Just Retirement Group and the Partnership Assurance Group are exposed to changes in the behaviour of their customers and the markets in which they sell their insurance products. For example, changes in lifestyle or medicine could significantly alter customers' actual or perceived need for annuity products. In addition, further changes to regulation or taxation may make alternative at-retirement propositions more attractive to customers than annuities. Changes in technology could also give rise to new types of entrants into the insurance and/or insurance sales sectors, or the development of new distribution channels requiring further adaptation of the Just Retirement Group's and the Partnership Assurance Group's business and operations. Additionally, declines in the financial markets, for instance equity markets, can reduce the value of a customer's pension funds available to purchase an annuity, which could influence the decision to purchase an annuity. Moreover, declines in annuity yields could make the purchase of annuities unattractive and inhibit market growth. Such changes could result in reduced demand for the Just Retirement Group's and the Partnership Assurance Group's products and/or require the Just Retirement Group and the Partnership Assurance Group to expend significant energy, resources and capital to change their product offering, build new risk and pricing models, modify and renew their operating and IT systems and/or retrain or hire new people. Such changes could have a material adverse effect on the business, results of operations, financial condition and prospects of the Just Retirement Group, the Partnership Assurance Group and, following completion of the Proposed Merger, the Combined Group.

Downgrades or the revocation of the financial strength rating of the Just Retirement Group, the Partnership Assurance Group or, following completion of the Proposed Merger, the Combined Group could affect their standing in the market, result in a loss of business and/or reduced earnings

Just Retirement Ltd has been assigned an insurer financial strength rating of "B" by the actuarial consulting firm AKG, as last confirmed in January 2016. Just Retirement Ltd's insurer financial strength rating is subject to periodic review by, and may be revised downward or revoked at the sole discretion of, AKG.

PLACL has been assigned an insurer financial strength rating of "B-strong" by the actuarial consulting firm AKG, as last confirmed in November 2015. PLACL's insurer financial strength rating is subject to periodic review by, and may be revised downward or revoked at the sole discretion of, AKG.

Downgrade or revocation of Just Retirement Ltd's or PLACL's insurer financial strength rating could have a negative impact on the Just Retirement Group's and Partnership Assurance Group's public reputation, ability to secure reinsurance, and competitive position in the market, especially in relation to their distribution arrangements and commercial business, where partners or customers may not be willing or permitted to place their insurance business with a lower rated insurer, which could result in reduced business volumes and income. The occurrence of any of the above could have a material adverse effect on the business, results of operations, financial condition and prospects of the Just Retirement Group, the Partnership Assurance Group and, following completion of the Proposed Merger, the Combined Group.

The Just Retirement Group, the Partnership Assurance Group and, following completion of the Proposed Merger, the Combined Group, may face increased compliance costs as a result of legislation passed in the United States

In March 2010, the United States passed legislation that would require non-United States financial institutions to enter into agreements to provide information on United States accountholders beginning in 2015. If this information is not provided in a form and with contents satisfactory to the United States tax authorities, a non-United States financial institution will have a 30 per cent. withholding tax applied to certain amounts derived from United States sources. Under final United States Treasury regulations, no such withholding tax will be imposed on any payments made prior to 1 July 2014. On 1 September 2013, regulations were introduced in the UK (the "**Regulations**") to give effect to the UK-US IGA. Under the UK-US IGA, UK-based financial institutions should not be subject to a 30 per cent. withholding on US source income, unless they fail to meet the requirements set out in the UK-US IGA and the Regulations.

The political, regulatory, economic and business conditions in new geographical markets could impair the ability of the Just Retirement Group, the Partnership Assurance Group and following completion of the Proposed Merger, the Combined Group to succeed in new territories

Any expansion into new geographies will expose the Just Retirement Group, the Partnership Assurance Group and, following completion of the Proposed Merger, the Combined Group to different local political, regulatory, business and financial risks and challenges which may affect their ability to implement the intended strategy and business plans for those geographic markets. These risks could include political, social or economic instability, credit and counterparty risks in new geographies, lack of local business experience and risks of cultural incompatibility with foreign parties. The occurrence of any of these events could have a material adverse effect on the business, results of operations, financial condition and prospects of the Just Retirement Group, the Partnership Assurance Group and, following completion of the Proposed Merger, the Combined Group.

Following completion of the Proposed Merger, the Cinven Funds and Avallux will hold a significant but non-controlling interest in the Combined Group, and their interests may differ from or conflict with those of other shareholders

Following completion of the Proposed Merger, Avallux and the Cinven Funds will own beneficially 29.2 per cent. and 19.5 per cent., respectively, of the issued ordinary share capital of the Company. As a result, each of Avallux and the Cinven Funds may, following completion of the Proposed Merger, possess voting power sufficient to have influence over all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions.

The Company has entered into relationship agreements with Avallux and the Cinven Funds to regulate their relationship following completion of the Proposed Merger. Pursuant to these relationship agreements, Avallux will, following completion of the Proposed Merger, continue to be entitled to appoint one non-executive director to the JRP Group Board and the Cinven Funds will also be entitled to appoint one non-executive director to the JRP Group Board. Notwithstanding that Avallux and the Cinven Funds have entered into relationship agreements, the interests of Avallux and the Cinven Funds may not always be aligned with those of other holders of the JRP Group Shares and each will have a significant influence over matters requiring shareholder approval, including the election of directors and the approval of significant corporate transactions. In addition, Avallux and the Cinven Funds may hold interests in, or may make acquisitions of or investments in, other businesses that may be, or may become, competitors of the Combined Group.

PART III:
PARTNERSHIP ASSURANCE FINANCIAL INFORMATION

Historical Consolidated Financial Information relating to the Partnership Assurance Group

In this Part III (*Partnership Assurance Financial Information*), unless otherwise stated, references to the "Parent Company" or the "Company" are references to Partnership Assurance, references to "Group" are references to the Partnership Assurance Group, references to the "directors" or the "Board of Directors" are references to the Partnership Assurance Directors and the Partnership Assurance Board, respectively, and references to pages are to the relevant pages of Partnership Assurance's Audited Results 2015, Partnership Assurance's Annual Report & Accounts 2014 or Partnership Assurance's Annual Report & Accounts 2013 (as applicable).

Basis of Financial Information

The following pages set out consolidated financial information relating to Partnership Assurance prepared under IFRS as adopted by the EU for each of the financial years ended 31 December 2015, 31 December 2014 and 31 December 2013. The financial information has been extracted without material adjustment from Partnership Assurance's Audited Results 2015, Partnership Assurance's Annual Report & Accounts 2014 or Partnership Assurance's Annual Report & Accounts 2013 (as applicable). Deloitte LLP of 2 New Street Square, London EC4A, chartered accountants regulated by the ICAEW, has issued unqualified audit opinions on the consolidated financial statements of the Partnership Assurance Group for each of the financial years ended 31 December 2015, 31 December 2014 and 31 December 2013.

The consolidated financial information contained in this Part III (*Partnership Assurance Financial Information*) does not constitute statutory information within the meaning of section 434 of the Companies Act.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF PARTNERSHIP ASSURANCE GROUP PLC FOR THE YEAR ENDED 31 DECEMBER 2015

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF PARTNERSHIP ASSUARANCE GROUP PLC

OPINION ON FINANCIAL STATEMENTS OF PARTNERSHIP ASSURANCE GROUP PLC

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2015 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity, the related notes 1 to 45, and the Critical Accounting Estimates and Judgements on page 51. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

GOING CONCERN AND THE DIRECTORS' ASSESSMENT OF PRINCIPAL RISKS THAT WOULD THREATEN THE SOLVENCY OR LIQUIDITY OF THE GROUP

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

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

- the directors' confirmation on page 52 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 27–31 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the director's explanation on page 51 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

INDEPENDENCE

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

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

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

RISK	HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK
Insurance liabilities (£5,425m; 2014: £5,231m)	
The Group predominantly writes enhanced annuities which it prices using its bespoke mortality data and internally generated intellectual property. The Group reserves for the future expected cost of these policies using complex actuarial models to project the insurance liabilities. These models are dependent on key assumptions made by management in respect of the following: • projected cash flows—the expected payments on the portfolio based on assumptions as to the mortality of the policyholders based on their medical condition or lifestyle characteristics; and • the valuation rate of interest based on the yield of the portfolio of assets that back the liabilities that is used to discount the expected cash flows, which also needs to reflect a deduction for the credit risk of the underlying assets. Further detail on these principal assumptions can be found in note 20 to the financial statements. Management's own assessment of critical accounting estimates is disclosed on page 62 of the financial statements. The significance and inherent subjectivity of these assumptions means that we view this as an area of significant risk.	We used our actuarial specialist auditors to test the controls over the end-to-end reserving process, focusing on the controls over changes to the reserving model and changes to the underlying demographic and economic assumptions. We performed detailed substantive testing on the data inputs to the model including checks on policy data via agreeing a sample back to original policyholder documentation and checks that all assumptions for retirement annuities had been input to the model accurately. In addition, we test the Group's controls over the completeness of the data. Management has updated their mortality basis for the largest policy group. We tested these assumptions, in addition to testing manual provisions, the closure reserve, reinsurance reserves, allowance for counterparty default risk, allowance for cash flow and currency mis-matching risk and statutory capital requirements. We used our actuarial specialist auditors to challenge management's assumptions by considering the Group's own experience, comparison to industry benchmarks and by testing compliance with regulations. An assessment on the overall results was made by reviewing the analysis of change in reserves over the period under audit.
Merger with Just Retirement	
On 11 August 2015, Partnership announced it is to merge with Just Retirement plc to form JRP Group plc. The formation of JRP Group plc resulted in a pervasive risk for our audit due to the numerous challenges it creates for PAG plc's management due to the complexities of the merger process and the additional financial reporting requirements such as reporting into the newly formed group. Periods of change and integration such as this also increase the risk of breakdowns in the control environment due to resource being diverted from business as usual tasks. The transaction also has a potential impact on senior managements' share options and hence the incentive for bias to be introduced into the financial statements may be heightened.	We held regular meetings with management to understand the impact of the transaction on the financial reporting process and assesed any potential and actual impact when performing our controls testing. We read the Scheme Document, Long Term Incentive Plan (LTIP) announcements and other supporting information published in relation to the merger to determine whether the transaction gave rise to any incentives for management to manipulate the 2015 financial results.

RISK	HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK
Equity release assets (£1,435m; 2014: £1,212m)	
The Group's investments include loans secured by residential mortgages ("equity release assets"). In 2015 the Group completed bulk purchase with a face value of £39m, bringing the total value of the equity release book to £1.4bn. The fair value of the investment is dependent on the valuation of the underlying properties and the assumptions used in the fair value calculation, such as the property growth rate, property volatility, a revaluation index to revalue properties to the valuation date, swap rates, and mortality assumptions. Property assumptions are derived from macroeconomic data received from a third party. Note 26b to the financial statements provides further detail as to the methodology for calculating the fair value of these assets. The subjectivity of the key assumptions, coupled with the significance of the bulk transactions, means that we view this as an area of significant risk.	We tested the new bulk transactions through reviewing the due diligence work performed by the Group and then tested the whole portfolio by challenging the valuation basis put forward by management based on independent macroeconomic advice received. We assessed the competence of the third party advisor and also tested the underlying data used in the valuation of the equity release assets via agreement of a sample of loans back to original policy documentation. We assessed the underlying portfolio of assets for indicators of impairment via segmenting the portfolio geographically and using applicable regional property valuation indices to check for signs of significant diminution in the value of underlying property. Our actuarial specialist auditors challenged management's methodology and assumptions used to value the equity release assets via comparison to industry benchmarks, consultation with Deloitte real estate specialists on property growth and overvaluation assumptions and consideration of whether the valuation was sensitive to the mortality assumption.
Valuation of Goodwill and intangible assets (£129m; 2014: £129m)	
The Group holds a significant amount of goodwill on its statement of financial position, in addition to intangible assets representing intellectual property. Further detail can be found in notes 10 and 11 to the financial statements. Goodwill and intangible assets have been identified as a significant risk area due to the uncertainties following the Pensions Freedoms introduced in April 2015, which continue to make forecasting future sales difficult for the life assurance industry. There is also judgment over the allocation of assets and liabilities to the in-force and new business cash generating units (see note 11 to the financial statements for further detail). This in turn affects the carrying value within the impairment assessment. Management's own assessment of critical accounting estimates is disclosed on page 62 of the financial statements.	Management's methodology for its impairment assessment has been reviewed, comparing it to the requirements of IAS 36 and checking for consistency with the prior year approach. Our procedures then included: • obtaining management's business plan and considering the methodology behind its production, as well as challenging the assumptions on which it is based. This included challenging management's market projections and scrutinising the underlying analysis for evidence of bias. • challenging whether all relevant assets and liabilities had been allocated to the new business cash generating unit; and • engaging our valuation specialists to recalculate the discount rate used and verify the inputs to the impairment calculation, which is based on the capital asset pricing model, in conjunction with challenging the sophistication of management's assessment by checking that key parameters are supported by the most up-to-date information.

RISK	HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK
Defined Benefit transactions (£277m; 2014: £247m)	
Individually underwritten bulk annuities are a key source of revenue for the Group, representing 43% of the Group's gross written premium for 2015, including a single premium of £59m. The significance of the individual transactions means that we see this as an area of significant risk.	We have substantively tested all of the contracts written by tracing the premiums to signed quotations and observing the cash receipts into the Group's bank account.

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

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

OUR APPLICATION OF MATERIALITY

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

We determined materiality for the Group to be £4.3m (2014: £4.5m), which is below 1% of net written premiums. We consider a turnover based measure to be the most suitable benchmark at this stage in Partnership Assurance Group plc's development as it drives one of the Group's key performance indicators and is a figure on which the users of the financial statements focus.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £86,000 (2014: £90,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the group level. Our Group audit has covered entities representing 100% of the Group's net assets, 100% of the Group's revenue and 100% of the Group's profit before tax (2014: 100% of net assets, revenue and profit before tax). The result of the Group is predominantly driven by a single trading company, Partnership Life Assurance Company Limited. All of the Group entities audited are based in the same location and were audited by the Group audit team and the Group engagement partner.

Our audit work was executed at levels of materiality applicable to each individual entity which were lower than Group materiality. Component materialities ranged from £0.02m to £4.09m (2014: £0.03m to £4.28m).

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

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

The notes are an integral part of these financial statements.

AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

		Attributable to Owners of the Parent								
	Note	Share Capital	Share Premium	Merger Relief Reserve	Merger Reserve	Shares held by Employee Benefit Trust	Retained profit	Total	Non-controlling interest	Total
		£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
At 1 January 2014		40,000	435,249	—	(24,521)	(58)	147,945	598,615	(66)	598,549
Share based payments	19	—	—	—	—	(78)	1,301	1,223	—	1,223
Disposal of subsidiary		—	—	—	—	—	—	—	64	64
Dividends paid		—	—	—	—	—	(14,000)	(14,000)	—	(14,000)
Profit for the year		—	—	—	—	—	18,852	18,852	2	18,854
At 31 December 2014		40,000	435,249	—	(24,521)	(136)	154,098	604,690	—	604,690
At 1 January 2015		**40,000**	**435,249**	**—**	**(24,521)**	**(136)**	**154,098**	**604,690**	**—**	**604,690**
Share issued/ bought for cash	32	**4,013**	**—**	**49,085**	**—**	**—**	**—**	**53,098**	**—**	**53,098**
Share based payments	19	**—**	**—**	**—**	**—**	**(56)**	**3,186**	**3,130**	**—**	**3,130**
Dividends paid		**—**	**—**	**—**	**—**	**—**	**(6,000)**	**(6,000)**	**—**	**(6,000)**
Loss for the year		**—**	**—**	**—**	**—**	**—**	**(14,100)**	**(14,100)**	**—**	**(14,100)**
At 31 December 2015		**44,013**	**435,249**	**49,085**	**(24,521)**	**(192)**	**137,184**	**640,818**	**—**	**640,818**

The notes are an integral part of these financial statements.

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

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

The notes are an integral part of these financial statements.

AUDITED CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2015

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

Cash flows related to the sale and purchase of financial investments are included in operating cash flows as they are associated with the origination of insurance contracts and payment of insurance claims.

The notes are an integral part of these financial statements.

1 SEGMENTAL ANALYSIS

The operating segments reflect the level within the Group at which key strategic and resource allocation decisions are made and the way in which operating performance is reported internally to the chief operating decision makers in the Group, being the Group Board.

Information is provided to the Board which identifies operating profit segmented between: that achieved on new business written in the period; that which derives from in-force policies; and that relating to the long-term expected return on surplus assets. This split forms the reportable operating segments in accordance with IFRS 8 *"Operating Segments"*.

New business revenue is reported as Single Premium Equivalent ("SPE"), being the actual single premium plus ten times the annual regular premium for new contracts written during the year. These revenue measures are monitored by the Board separately for each core target market.

a) Segmental analysis of profit

The table below shows operating profit for each year, together with a reconciliation to profit before tax:

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

Investment variances reflect:

(a) the difference between actual performance on investment assets (including cash, gilts, corporate bonds, loans secured by residential mortgages and loans secured by commercial mortgages) over the reporting period and the investment yield allowed for in the calculation of in-force liabilities at the start of the reporting period;

(b) the difference between the yield on investment assets allowed for in the calculation of new business profits and the actual investment performance including differences arising from investing at different yields and asset allocations than those expected when pricing new business;

(c) the difference between actual performance on investment assets and long-term assumed return on surplus assets; and

(d) the impact of changes in the best-estimate credit default allowance made against the Group's invested assets.

Non-recurring expenditure primarily relates to:

- £3.5m of Solvency II related costs (2014: £2.0m)
- £4.8m of implementation costs in respect of product development and new initiatives (2014: £0.8m)
- £5.8m of deal costs relating to the proposed merger with Just Retirement plc and costs relating to the capital raise in March 2015 (2014: £nil)
- £1.7m of costs incurred in developing scalable and flexible DB architecture (2014: £2.3m)

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

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

1 SEGMENTAL ANALYSIS (Continued)

The profit measure used by the Board to monitor performance is operating profit before tax, analysed between new business operating profit, in-force operating profit and the long-term expected return on surplus assets.

- New business operating profit is profit generated from new business completed in the period, calculated using actuarial assumptions applicable at the time the new business was written, and utilising a discount rate based upon investment yields on investment assets (including cash, gilts, corporate bonds, loans secured by residential mortgages and loans secured by commercial mortgages) used to generate the annuity quotation, net of expenses allocated against new business.
- In-force operating profit is generated from the actual experience measured against the assumed experience in the actuarial basis. The actuarial basis includes a number of assumptions, the most material of which are mortality levels, levels of default on investments, expense levels (to maintain the business in-force), levels of inflation, and lapse rates (for regular premium business). In-force operating profit also includes the effect recognised in the IFRS profit arising from changes to the reported value of insurance (and associated financial) liabilities resulting from changes to the actuarial assumptions, valuation methods, or underlying data, made subsequent to the point of sale.
- Return on surplus assets is the long-term, risk-adjusted, expected return on investments that are surplus to those investments that are used to back insurance liabilities. The long-term expected return is derived from applying an average expected yield appropriate to the category of surplus assets held, and is adjusted for the best-estimate expected level of defaults on those investments. The risk-adjusted annual yields applied to surplus assets during the period were:

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

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

b) Segmental analysis of new business revenue by target market

Segmental analysis of new business revenue by target market

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

c) Reconciliation of new business revenue by target market to gross premiums written

Premiums are recognised in the accounting period in which an insurance contract commences, gross of any commission paid. Premiums which have been received and for which no contract is yet in-force are classified as payables arising from insurance contracts and are included within insurance and other payables in the Consolidated Statement of Financial Position. Where a contract has been issued but premiums have not yet been received, a debtor arising out of direct insurance operations is recognised for the expected premiums due. Reinsurance premiums and recoveries are accounted for in the accounting period in accordance with the contractual terms of the reinsurance treaties. Premiums exclude any taxes or duties based on premiums.

1 SEGMENTAL ANALYSIS (Continued)

New business revenue by target market reconciles to gross premiums written as follows:

For the year ended 31 December	2015	2014
	£000's	£000's
Total SPE	**630,780**	791,237
Adjustment in respect of regular premium business	**(4,393)**	135
Change in premiums receivable—not included in SPE	**25,060**	(30,734)
Gross premiums written	**651,447**	760,638

Premiums are written at the point an insurance contract comes into force. For management purposes SPE is recorded when all funds have been received from the policyholder. Amounts due from policyholders for premiums not yet received is shown in note 15.

d) Product revenue information

The following table illustrates revenue by product as required by IFRS 8 '*Operating Segments*'. All revenues from external customers are predominantly derived from business originated in the UK, and as such no geographical information is disclosed.

The Board considers the Group's external customers to be the individual policyholders. As such, the Group is not reliant on any individual customer.

An analysis of gross premiums written by product is set out below:

For the year ended 31 December	2015	2014
	£000's	£000's
Individual retirement annuities	**305,525**	435,106
Defined benefit buy-in/buy-out annuities	**274,155**	246,573
Individual care annuities	**68,522**	75,864
Individual protection policies	**3,245**	3,095
Total gross premiums written	**651,447**	760,638

2 BASIS OF PREPARATION AND NEW AND REVISED STANDARDS

Basis of preparation

Partnership Assurance Group (PAG) plc (the "Company") was incorporated in the United Kingdom and registered in England and Wales on 26 February 2013 as a public company limited by shares. The Company's registered office address is 5th Floor, 110 Bishopsgate, London, EC2N 4AY.

The principal activity of the Company is that of a holding company. The Company and the entities controlled by the Company (its "subsidiaries") are collectively "the Group".

The Strategic Report on pages 1 to 33 outlines the activities, performance and future outlook of the Group. Note 30 to the Financial Statements sets out the Group's policies and procedures for managing insurance and financial risk, and note 31 sets out how the Group manages its capital resources.

These financial statements comprise the consolidated annual financial statements of the Group and the individual annual financial statements of the Company made up to 31 December 2015.

The results of subsidiaries acquired or disposed of during the period are included from or up to the effective date of acquisition or disposal. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The Group has control over an entity if all of the following conditions are met: (a) the Group has power over an entity; (b) the Group is exposed to, or has rights, to variable returns from its involvement with the entity; (c) the Group has the ability to use its power over the entity to affect its own returns.

2 BASIS OF PREPARATION AND NEW AND REVISED STANDARDS (Continued)

The presentation currency of the Group is sterling. Unless otherwise stated, the amounts shown in the consolidated financial statements are in thousands of pounds sterling (£'000).

The consolidated financial statements and those of the Company have been prepared and approved by the Directors in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Group has applied all IFRS standards and interpretations adopted by the EU effective for the year ended 31 December 2015.

The Directors have undertaken a going concern assessment in accordance with *'Going Concern and Liquidity Risk: Guidance for UK directors of UK Companies 2009'*, published by the Financial Reporting Council in October 2009 as described on page 51 of the Directors' Report.

Significant accounting policies applied to the preparation of these financial statements are presented in the designated boxes within the notes to the financial statements, aligning disclosure of accounting policies to the item which is most directly relevant to the policy.

Adoption of new and revised standards

The Group has adopted the following new or revised standards that became effective (as adopted by the EU) as of 1 January 2015:

- An amendment to IAS 19 Employee benefits clarifying the requirements on attributing to periods of service contributions from employees or third parties that are linked to service. The amendment has no impact on the financial statements in the current or prior periods, and
- Minor amendments to various standards arising from the Annual Improvements 2010 - 2012 and 2011 - 2013 cycles, these changes have no impact on the financial statements in the current or prior periods.

Other changes in accounting policy are:

The following new or revised or amended standards, in issue, were not yet effective, or in some cases not yet endorsed by the EU. The Group has not early adopted any of these standards.

Standard/ Interpretation	Content/amendment	Applicable for annual financial periods beginning on or after
IFRS 9	**Financial Instruments** IFRS 9 will replace IAS 39: Financial Instruments— Recognition and Measurement. The impact of the adoption of IFRS 9 on the Group will depend on the finalisation of the standard and the interaction of the requirements of IFRS 9 with the IASB's on-going insurance contracts accounting project. The standard has not yet been endorsed by the EU.	1 January 2018
IFRS 10, IFRS 11 and IAS 28	**Consolidated Financial Statements, Joint Arrangements, Investments in Associates and Joint Ventures** Amendments regarding the sale of contribution of assets between an investor and its associate or joint venture. The amendments have not yet been endorsed by the EU.	1 January 2016

2 BASIS OF PREPARATION AND NEW AND REVISED STANDARDS (Continued)

Standard/ Interpretation	Content/amendment	Applicable for annual financial periods beginning on or after
IFRS 14	**Regulatory Deferral Accounts** The standard permits an entity which is a first-time adopter of IFRS to continue to account for 'regulatory deferral account balances' in accordance with its previous GAAP. As the Group is not a first-time adopter of IFRS, the standard will have no impact on the Group. The standard will not be endorsed by the EU.	1 January 2016
IFRS 15	**Revenue from Contracts with Customers** IFRS 15 specifies how and when to recognise revenue, and requires additional disclosures. The standard provides a single, principles based five-step model to be applied to contracts with customers. Insurance contracts and financial instruments are excluded from the scope of the standard. Therefore the standard is not expected to have a material impact on the Group's profit before tax for the year or equity. The standard has not yet been endorsed by the EU.	1 January 2018
IFRS 16	**Leases** IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard will require the recognition of assets and liabilities arising from contracts currently classified as operating lease but is not expected to have a material impact on Group profit before tax. The standard has not yet been endorsed by the EU.	1 January 2019
IAS 16	**Property, Plant and Equipment** Amendments regarding the clarification of acceptable methods of depreciation and amortisation and brining bearer plants into the scope of IAS 16. The standard has not yet been endorsed by the EU.	1 January 2016
IAS 27	**Separate Financial Statements** Amendments reinstating the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The standard has not yet been endorsed by the EU.	1 January 2016
IAS 38	**Intangible Assets** Amendments regarding the clarification of acceptable methods of depreciation and amortisation. The standard has not yet been endorsed by the EU.	1 January 2016
IAS 41	**Agriculture** Amendments bringing bearer plants into the scope of IAS 16. The standard has not yet been endorsed by the EU.	1 January 2016

2 BASIS OF PREPARATION AND NEW AND REVISED STANDARDS (Continued)

Standard/ Interpretation	Content/amendment	Applicable for annual financial periods beginning on or after
Annual Improvements— 2012 - 2014 cycle	Amendments to a number of IFRS standards, clarifying guidance, wording or minor corrections. None of the proposed amendments are expected to have a material impact on the Group's profit before tax for the year or equity. The standard has not yet been endorsed by the EU.	1 January 2016
IFRS 11	**Accounting for Acquisitions of interests in Joint Operations** Amendments clarify that all the measurement and disclosure requirements of IFRS 3 apply to the acquisition of interests in Joint Operations. None of the proposed amendments are expected to have a material impact on the Group's profit before tax for the year or equity. The amendments will be applied prospectively.	1 January 2016
IAS 1	**Disclosure Initiative** Amendments that provide clarification on permissible aggregation and disaggregation of financial statement items, and additional examples of possible ways of ordering notes to the financial statements. None of the proposed amendments are expected to have a material impact on the Group's profit before tax for the year or equity.	1 January 2016
IAS 12	**Recognition of Deferred Tax Assets for Unrealised Losses** Amendments that clarify the recognition of deferred tax assets for unrealised losses on debt instruments, guidance on estimates for future taxable profits and the assessment of multiple deferred tax assets in combination. None of the proposed amendments are expected to have a material impact on the Group's profit before tax for the year or equity. The amendments have not yet been endorsed by the EU.	1 January 2017

3 NET INVESTMENT INCOME

Investment income comprises interest received on financial investments, realised investment gains and losses and movements in unrealised gains and losses.

Expenses and charges are included on an accruals basis.

Realised gains and losses on investments are calculated as the difference between net sales proceeds less costs of sale and original cost. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date. The movement in unrealised gains and losses recognised in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

For the year ended 31 December	2015	2014
	£000's	£000's
Net Interest income on financial assets and financial liabilities	**63,837**	71,454
(Losses)/gains on financial assets and financial liabilities	**(7,782)**	231,327
Losses on derivative instruments (designated as held for trading)	**(4,784)**	(3,549)
Total net investment income	**51,271**	299,232

All financial assets and liabilities at 31 December 2015 are classified at fair value through profit and loss.

4 ACQUISITION COSTS

Acquisition costs comprise direct costs such as commissions and indirect costs of obtaining and processing new business. They are allocated to particular categories of business based on available information. Acquisition costs are not deferred as they are largely recovered at policy inception through profit margins.

For the year ended 31 December	2015	2014
	£000's	£000's
Commission	**2,469**	4,049
Other acquisition expenses	**620**	948
Total acquisition costs	**3,089**	4,997

5 OTHER OPERATING EXPENSES

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

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

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

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

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

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

6 STAFF COSTS

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

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

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

7 INCOME TAX

Income tax comprises current and deferred tax. Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited to equity if it relates to items that are credited or charged directly to equity.

Provision is made for taxation on taxable profits for the year, using tax rates enacted or substantially enacted at the balance sheet date together with adjustments to tax payable in respect of previous years.

Deferred tax is provided in full on temporary differences arising, which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on tax rates and laws enacted or substantively enacted at the balance sheet date. Temporary differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements except for differences arising from the initial recognition of goodwill and the initial recognition of assets and liabilities in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable profit.

A deferred tax asset is recognised to the extent that it is regarded as more likely than not that it will be recovered. Deferred tax assets and liabilities are not discounted.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset only if: a legally enforceable right exists to set off current tax assets against current tax liabilities; the deferred income taxes relate to the same taxation authority; and that authority permits the Group to make a single net payment.

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

7 INCOME TAX (Continued)

The actual tax charge of the Group differs from the expected tax charge, computed by applying the average rate of UK corporation tax for the year of 20.25% (2014: 21.5%), as follows:

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

Taxation was all from continuing operations in 2015 and 2014.

8 EARNINGS PER SHARE

Basic earnings per share is calculated using the earnings attributable to ordinary equity holders of the parent, divided by the weighted average number of ordinary shares in issue during the period.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares, including share options and awards.

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ordinary shares into ordinary shares.

The calculation of the basic and diluted earnings per share from continuing operations is based on the following data:

For the year ended 31 December	2015	2014
	£000's	£000's
(Loss)/ profit for the year	(14,100)	18,854
Less non controlling interests	—	(2)
(Loss)/ profit attributable to equity holders of the parent	(14,100)	18,852
Effect of dilutive potential ordinary shares:		
Share options	—	—
Diluted profit attributable to equity holders of the parent	(14,100)	18,852

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

The Group has a number of other employee share based plans (note 19). Each of these plans has a dilutive effect.

8 EARNINGS PER SHARE (Continued)

It is our current intention that the Long Term Incentive Plan (LTIP) and the share element of the Deferred Share Bonus Plan (DBSP) be settled by fresh issues of shares as the awards vest. The weighted average number of shares calculation above has been derived on the assumption that the vesting of shares in respect of the LTIP and DSBP awards will be settled by a fresh issue of shares when the awards vest and hence will be dilutive.

On 29 September 2015, an additional 39,995,997 shares were issued raising capital of £53,284,942 and a further 136,154 shares were issued during December 2016 to settle LTIP and DBSP awards (see note 32).

9 PROPERTY, PLANT AND EQUIPMENT

Assets are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated to write off the :cost of tangible assets over their estimated useful life on a straight-line basis. The principal rates used for this purpose are as follows:

	2015	**2014**
Computer equipment	33%	33%
Fixutres and fittings	10% to 20%	10% to 20%
Office re-fit	10% to 50%	10% to 50%

Property, plant and equipment	**Computer equipment**	**Fixtures and fittings**	**Office refit costs**	**Total**
	£000's	**£000's**	**£000's**	**£000's**
Cost at 1 January 2015	8,680	496	11,225	20,401
Additions	275	—	10	285
Disposals	—	—	(577)	(577)
At 31 December 2015	**8,955**	**496**	**10,658**	**20,109**
Accumulated depreciation at 1 January 2015	5,592	454	1,798	7,844
Charge for the year	**1,945**	**19**	**1,310**	**3,274**
Disposals	**—**	**—**	**(306)**	**(306)**
At 31 December 2015	**7,537**	**473**	**2,802**	**10,812**
Net book value at 31 December 2014	3,088	42	9,427	12,557
Net book value at 31 December 2015	**1,418**	**23**	**7,856**	**9,297**

10 GOODWILL

Goodwill represents the excess of cost of acquisition over the fair value of the separable net assets of businesses acquired. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is allocated to each of the cash-generating units ("CGU") that are expected to benefit from the combination. Goodwill is tested for impairment at least annually, or when circumstances or events indicate there may be uncertainty over this value. Impairment is determined by assessing the recoverable amount of each CGU to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Any impairment is recognised immediately in the Consolidated Statement of Comprehensive Income and is not subsequently reversed.

	2015	**2014**
	£000's	**£000's**
At 1 January	**126,207**	126,207
At 31 December	**126,207**	126,207

10 GOODWILL (Continued)

The goodwill arose on acquisition of the PLACL operations and the value represented the potential of this business to generate value from future sales. Therefore the goodwill is allocated to the new business cash generating unit, the scope of which is identical to the "new business" operating segment described in note 1.

The carrying value of goodwill has been tested for impairment at the balance sheet date. Value in use has been determined as the present value of expected future cash flows associated with new business. The cash flows used in this calculation are consistent with those monitored by management.

Expected future new business cash flows are based on financial plans approved by management, covering a period of 5 years from the balance sheet date. A rate of 15.1% (2014: 13.1%) has been applied to discount cash flows to a present value.

No impairment has been recognised in 2015 or 2014.

11 OTHER INTANGIBLE ASSETS

Other intangible assets comprise intellectual property and software development costs.

The intellectual property asset comprises of specific mortality tables derived from data collected over an extended period and are deemed to have an indefinite life. Consequently no amortisation is charged against its carrying value.

Development costs that are directly attributable to the design and testing of identifiable software products, controlled by the Group, are recognised as intangible assets when it can be demonstrated that it is technically feasible to complete the product so that it is available for use and will generate probable future economic benefits. Software development costs have a finite useful life and are amortised using the straight-line method over three to five years.

Impairment review of other intangible assets

The carrying amounts of intangible assets with finite expected useful economic lives are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. A review for indicators of impairment is conducted annually. The carrying amounts of intangible assets with indefinite expected useful economic lives are tested for impairment at least annually, or when circumstances or events indicate there may be uncertainty over this value. An impairment loss is recognised in the Consolidated Statement of Comprehensive Income for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

11 OTHER INTANGIBLE ASSETS (Continued)

recoverable amount is determined for the cash-generating unit, or company of units, to which the asset belongs.

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

The value of intellectual property has been determined based upon an estimate of the costs to employ adequately skilled individuals over an appropriate period of time to develop intellectual property of a similar nature sufficient to enable the Group to replicate the estimated future cash flows and profits deriving from that intellectual property.

The intellectual property is continually updated through the collection of further data, updated analyses, and conversion into new and more detailed underwriting manuals and mortality tables. For this reason, the intangible asset is deemed to have an indefinite life, and consequently, no amortisation is provided against the value of the intangible asset. The carrying value of the intangible asset is tested for impairment at each reporting date, and is allocated to the "new business" cash-generating unit, the scope of which is identical to the "new business" operating segment described in note 1. The method and assumptions used in this test are identical to those applied in the goodwill impairment test, as set out in note 10.

No impairment of intellectual property has been recognised in 2015 or 2014.

12 FINANCIAL ASSETS

Financial assets classification

The Group classifies its financial assets as financial investments, loans secured by residential mortgages, loans secured by commercial mortgages and derivative financial assets at fair value through profit and loss. The category of fair value through profit and loss has two sub-categories: those that meet the definition as being held for trading; and those that the Group chooses to designate as fair value. The fair value through profit and loss is selected as the Group's strategy is to manage its financial assets, as a portfolio, on a fair value basis.

Financial investments

Purchases and sales of debt securities and other fixed income securities are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets, at their fair values. Transaction costs are expensed as incurred. These investments are derecognised when the contractual rights to receive cash flows from the investments expire, or where the investments have been transferred, together with substantially all the risks and rewards of ownership.

12 FINANCIAL ASSETS (Continued)

Debt securities and other fixed income securities are subsequently carried at fair value with changes in fair value included in the Consolidated Statement of Comprehensive Income in the period in which they arise.

The fair values of debt securities are based on quoted bid prices, or based on modelled prices (using observable market inputs) where quoted bid-prices are not available.

Commodity Trade Finance Investments, whether by way of a direct loan or an investment in a fund of such loans (CTF Investments), are carried at fair value on initial recognition and are recognised when the cash is advanced for the trade. CTF Investments are subsequently carried at fair value with changes in fair value included in the Consolidated Statement of Comprehensive Income in the period in which they arise. The fair value of these investments is not based on observable market data.

Loans secured by residential mortgages

Loans secured by residential mortgages are recognised when the cash is advanced to borrowers at their fair values. These loans are derecognised when the contractual rights to receive cash flows from the investments expire, or where the investments have been transferred, together with substantially all the risks and rewards of ownership.

Loans secured by residential mortgages are subsequently carried at fair value with changes in fair value included in the Consolidated Statement of Comprehensive Income in the period in which they arise.

The fair value of loans secured by residential mortgages is initially deemed to be the transaction price and subsequently marked to model. The underlying model follows the methodology used to establish transaction prices. It uses longevity assumptions to derive expected cash flows and the Black Scholes option pricing methodology to establish the value of the no negative equity guarantee that is embedded in the product. The discount rates that are applied to cash flows to produce the fair values are based on long-dated swaps adjusted so that they would produce transaction date prices on the date of transaction.

Loans secured by commercial mortgages

Loans secured by commercial mortgages are recognised when the cash is advanced to borrowers at their fair values. These loans are derecognised when the contractual rights to receive cash flows from the investments expire, or where the investments have been transferred, together with substantially all the risks and rewards of ownership.

Loans secured by commercial mortgages are subsequently carried at fair value with changes in fair value included in the Consolidated Statement of Comprehensive Income in the period in which they arise.

The fair value of loans secured by commercial mortgages is initially deemed to be the transaction price and subsequently marked to model. The valuation model produces a series of projected future cash flows for each mortgage, based on a range of simulations of changes in property prices drawn from a distribution based on historic observed changes. Potential changes in property tenancy are also modelled in a range of simulations. The discount rates that are applied to cash flows to produce the fair values are based on long-dated swaps adjusted so that they would produce transaction date prices on the date of the transaction.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rates, inflation, credit default and foreign exchange rate risk, including foreign exchange forward currency contracts, interest rate swaps, credit default swaps, inflation swaps, fixed coupon cross currency swaps, interest rate futures and swaptions.

Derivative contracts are traded either through an exchange or over-the-counter ("OTC"). OTC derivative contracts are individually negotiated between contracting parties and can include options, swaps, caps and floors.

12 FINANCIAL ASSETS (Continued)

Derivatives are initially recognised at fair value at the date that a derivative contract is entered into and are subsequently remeasured to fair value at each balance sheet date. The resulting gain or loss is recognised in the Consolidated Statement of Comprehensive Income. The fair values are obtained from quoted market prices or, if these are not available, by using standard valuation techniques based on discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair value is positive and liabilities when the fair values are negative. Premiums paid for derivatives are recorded as an asset in the Consolidated Statement of Financial Position at the date of purchase representing their fair value at that date.

Financial assets Fair value at 31 December	2015	2014
	£000's	£000's
Financial investments	**3,371,950**	3,584,820
Loans secured by residential mortgages	**1,434,788**	1,212,324
Derivative assets	**14,228**	75,892
Loans secured by commercial mortgages	**65,617**	37,868
Total financial assets	**4,886,583**	4,910,904

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

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

13 PRINCIPAL GROUP UNDERTAKINGS

Foreign currencies

Items included in the financial statement of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of each of the Group's material entities is sterling. The consolidated financial statements are presented in sterling, which is the Group's presentation currency.

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the financial period. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in net investment income in the Consolidated Statement of Comprehensive Income.

Set out below are the principal subsidiary and associate undertakings of Partnership Assurance Group plc. All of the companies are incorporated in the United Kingdom and registered in England and Wales unless otherwise indicated. The shares held are voting ordinary equity shares. A full list of subsidiary and joint

13 PRINCIPAL GROUP UNDERTAKINGS (Continued)

venture undertakings will be annexed to the Partnership Assurance Group plc annual return filed at Companies House.

Name:	Principal activity:	Holding:
PAG Holdings Limited(i)	Holding company	100%
PAG Finance Limited(i)	Holding company	100%
Partnership Holdings Limited	Holding company	100%
Partnership Group Holdings Limited	Holding company	100%
Partnership Life Assurance Company Limited	Life assurance and pension annuities	100%
Partnership Home Loans Limited	Provision of lifetime mortgage products	100%
Partnership Services Limited	Service company	100%
Payingforcare Limited	Website	100%
PASPV Limited	Investment activity	100%
Partnership Life US Company(ii)	Management services	100%
PAERSPV Limited(iii)	Investment activity	100%
Eldercare Group Limited(iv)	Independent financial advisors	33%

(i) Incorporated in Jersey (now dormant)

(ii) Incorporated in the USA

(iii) Yet to start trading

(iv) Associate

Partnership Assurance Group plc directly or indirectly holds 100% of the ordinary shares and voting rights in the entities listed above (with the exception of Eldercare Group Limited), therefore Partnership Assurance Group plc controls these entities as subsidiaries.

Partnership Life Assurance Company Limited

The Group's regulated insurance entity, Partnership Life Assurance Company Limited, is subject to UK solvency requirements which may, in the event of a breach of those requirements, affect that entity's ability to transfer funds in the form of cash dividends to other entities in the Group. The net assets of Partnership Life Assurance Company Limited at the balance sheet date are £450.3m (2014: £459.0m). There are no protective rights of non-controlling interests which significantly restrict the Group's ability to access or use the assets and settle the liabilities of the Group.

14 INVESTMENT IN JOINT VENTURES AND ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

The Group uses the equity method to consolidate its investments in joint ventures and associates. Under the equity method of accounting the investment is initially recognised at fair value and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the joint venture.

Associates	2015	2014
	£000's	£000's
At 1 January	**233**	—
Fair value on initial recognition	**—**	206
Share of profit from continuing operations	**21**	27
At 31 December	**254**	233

14 INVESTMENT IN JOINT VENTURES AND ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD (Continued)

Joint ventures	2015	2014
	£000's	£000's
At 1 January	—	206
Impairment of joint venture	—	(206)
At 31 December	**—**	—

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

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

15 INSURANCE AND OTHER RECEIVABLES

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

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

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

The Directors consider that the carrying value of insurance and other receivables in the balance sheet is a reasonable approximation of the fair value.

16 PREPAYMENTS AND ACCRUED INCOME

Interest accrued represents the balance receivable for interest income, calculated daily based on the contractual interest rates of the relevant instruments, recognised since the last interest payment date.

At 31 December	2015	2014
	£000's	£000's
Accrued interest	**188**	32
Prepayments	**3,292**	3,583
Total prepayments and accrued income	**3,480**	3,615

17 DEFERRED TAX ASSET/ LIABILITY

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

The deferred tax asset is recognised as a result of the difference between: the accumulated depreciation and the capital allowances claimed on property, plant and equipment and the accumulated share based payment charges and a more current estimation of the likely cost of schemes that have not yet vested based on a revaluation at the balance sheet date.

The deferred tax liability is recognised as a result of the difference between the accumulated amortisation and research and development claims relating to software development costs. The UK corporation tax rate that is expected to be appropriate when each of these timing differences arise is 18.75% (2014: 20%).

18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, deposits held on call with banks and other short term highly liquid investments with original maturities of 90 days or less. Bank overdrafts are included in cash and cash equivalents for the purposes of the Consolidated Cash Flow Statement.

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

19 SHARE BASED PAYMENTS

Equity-settled share based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest.

At each period end, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the Consolidated Statement of Comprehensive Income such that the cumulative expense reflects the revised estimate with a corresponding adjustment to equity.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of those instruments, measured immediately before and after the modification, is also charged to the Consolidated Statement of Comprehensive Income over the remaining vesting period.

19 SHARE BASED PAYMENTS (Continued)

The share based payment expense recognised for employee services receivable during the year is as follows:

For the year ended 31 December	2015	2014
	£000's	£000's
Long Term Incentive Plan	**1,877**	863
Deferred Share Bonus Plan	**989**	273
Share Incentive Plan	**102**	92
Save As You Earn Plan	**176**	(5)
Total expense	**3,144**	1,223

i) Long Term Incentive Plan (LTIP)

	2015	2014
	No of Awards	No of Awards
Outstanding at the beginning of the year	**5,731,511**	1,280,414
Granted during the year	**3,249,243**	4,745,589
Forfeited during the year	**(304,854)**	(294,492)
Settled during the year	**(202,922)**	—
Outstanding at the end of the year	**8,472,978**	5,731,511

The Group made awards under the LTIP to Executive Directors and other senior executives in August 2015 (2015 LTIP), May 2014 (2014 LTIP) and June 2013 (2013 LTIP). The LTIP awards will be subject to the satisfaction of the following performance conditions which will determine the proportion (if any) of the LTIP award to vest at the end of the performance period:

50 per cent of the 2013 LTIP awards are subject to a performance condition relating to the growth in the Group's operating profit over a performance period of three financial years. If operating profit for the financial year ending 31 December 2015 exceeds operating profit for the financial year ending 31 December 2012 by 33.1 per cent, 10 per cent of the 2013 LTIP award will vest. The maximum 50 per cent will vest if operating profit for the financial year ending 31 December 2015 exceeds operating profit for the financial year ending 31 December 2012 by at least 64.3 per cent. Payment will be on a sliding scale in between these points.

The remaining 50 per cent of the 2013 LTIP awards and all of the 2014 LTIP and 2015 LTIP will be subject to a condition measuring the Company's total shareholder return (TSR) performance relative to the constituent companies of the FTSE 250 index (excluding investment trusts, mining companies and oil and gas producers), over the period from admission to the London stock exchange in June 2013 to 31 December 2015, in respect of the 2013 LTIP, the period from 22 May 2014 to 22 May 2017 in respect of the 2014 LTIP, and 11 August 2015 to 11 August 2018 in respect of the 2015 LTIP. Vesting of 10 per cent of the 2013 LTIP award and 20 per cent of the 2014 and 2015 LTIP awards will occur for median performance and the maximum vesting (50 per cent for the 2013 LTIP and 100 per cent for the 2014 and 2015 LTIPs) at upper quartile performance or above, with the proportion vesting between these points calculated on a straight line basis.

The awards are accounted for as equity-settled schemes. The fair value of these schemes is calculated at each award date based upon the number of shares expected to vest and the expense charge is recognised over the course of the vesting period.

A charge of £1,876,730 (2014: £862,718) has been recognised in the Consolidated Statement of Comprehensive Income with a corresponding increase in equity in the Consolidated Statement of Financial Position. The weighted average fair value of awards made in the year was £0.88.

19 SHARE BASED PAYMENTS (Continued)

The fair value of the award was measured with reference to the quoted share price of PAG plc at the measurement date. The performance condition relating to total shareholder return was incorporated into the measure of fair value through stochastic models incorporating the historical TSR volatility of the Group and other comparable listed entities. The performance condition relating to operating profit performance and other non-market vesting conditions are incorporated into the estimate of the total number of awards expected to vest. This expectation is reviewed and if necessary, revised at each reporting date.

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

ii) Deferred Share Bonus Plan (DSBP)

	2015	2014
	No of Awards	No of Awards
Outstanding at the beginning of the year	**899,528**	—
Granted during the year	**887,699**	946,134
Forfeited during the year	**(3,322)**	(46,606)
Settled during the year	**(134,989)**	—
Outstanding at the end of the year	**1,648,916**	899,528

Effective from June 2013, one-third of the bonuses earned by Executive Directors and certain other senior executives in respect of the Company's annual bonus arrangements are deferred into shares in PAG plc. The remaining two thirds of the awards will continue to be paid in cash. The share element of the bonus awards will vest on the third anniversary of the date of the determination of the bonus in respect of which they were granted. Options are then exercisable until the tenth anniversary of the grant date, unless the exercise period is shortened in accordance with DSBP rules.

The share element of these bonus awards are accounted for as equity-settled schemes. The fair value of these awards are calculated at each award date based on one-third of the estimated annual bonus payout and the expense charge is recognised over the course of the service period to which the bonus relates and the vesting period.

A charge of £988,642 (2014: £272,545) has been recognised in the Consolidated Statement of Comprehensive Income in respect of these schemes for the year to 31 December 2014 with a corresponding increase in equity in the Consolidated Statement of Financial Position.

The weighted average fair value of awards made during the year was £1.56. The fair value of the award was measured with reference to the quoted share price of PAG plc at the measurement date. Non-market vesting conditions are incorporated into the estimate of the total number of awards expected to vest. This expectation is reviewed and, if necessary, revised at each reporting date.

iii) Share incentive plan (SIP)

	2015	2014
	No of Awards	No of Awards
Outstanding at the beginning of the year	**87,843**	119,340
Granted during the year	**864**	2,911
Forfeited during the year	**(16,347)**	(34,408)
Outstanding at the end of the year	**72,360**	87,843

In 2013 the Company made a one-off award of £1,000 of free shares immediately after admission to all eligible employees under a new all-employee share plan, known as the Share Incentive Plan (SIP). These

19 SHARE BASED PAYMENTS (Continued)

shares will be forfeited if the employees cease employment (except in "good leaver" circumstances) within the first three years from the date of the award. Awards made under this plan entitle these employees to:

- a conditional right to acquire shares in PAG plc at no cost;
- an option to acquire shares in PAG plc at no cost; or
- a right to receive a cash amount which relates to the value of certain number of notional ordinary shares

These awards are accounted for as equity-settled schemes. The fair value of these schemes is calculated at each award date based upon the number of shares awarded multiplied by the share price at grant date and expensed over the vesting period. The weighted average exercise price of the awards is £nil.

A charge of £102,497 (2014: £92,430) has been recognised in the Consolidated Statement of Comprehensive Income in respect of this scheme for the year to 31 December 2015 with a corresponding increase in equity in the Consolidated Statement of Financial Position.

Further awards have been made in the year to 31 December 2015, reflecting additional shares to scheme participants on payment on dividends by the Group, subject to the same conditions as the original award. The weighted average fair value of awards made in the year was £1.35. The fair value of the award was measured with reference to the quoted share price of PAG plc at the measurement date. Non-market vesting conditions are incorporated into the estimate of the total number of awards expected to vest. The expectation is reviewed and, if necessary, revised at each reporting date.

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

			Weighted average exercise price	
	2015	2014	2015	2014
	No of Awards		£	£
Outstanding at the beginning of the year	**1,560,562**	465,761	**1.08**	3.57
Granted during the year	**396,843**	1,536,051	**1.23**	0.94
Forfeited during the year	**(231,436)**	(441,250)	**1.45**	3.21
Outstanding at the end of the year	**1,725,969**	1,560,562	**1.07**	1.08

In July 2013, the Group introduced a SAYE scheme. Under this plan, employees may elect to save up to £500 per month over a three or five year period. The amount of ordinary shares of PAG plc over which the option is granted will be determined at the grant date to reflect the amount that each employee has agreed to save under the Share Save contract. Awards were granted under the scheme to member employees in July 2013 and November 2014 and 2015.

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

The fair value of the awards made in the year has been determined using a Black-Scholes valuation model. Key assumptions within this valuation model were: expected share price volatility (41.8%), expected dividend yield (1%), risk free interest rate (1.7%), expected option life (three years and five years), exercise price (£1.23) and share price at the measurement date 16 September 2015 (£1.50).

20 INSURANCE LIABILITIES AND REINSURANCE ASSETS

Insurance liabilities

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

20 INSURANCE LIABILITIES AND REINSURANCE ASSETS (Continued)

The Group's long-term insurance contracts include annuities to fund retirement income, annuities to fund care fees (immediate needs and deferred), long-term care insurance and whole of life and term protection insurance. These contracts are expected to remain in force for an extended period of time, and insure events associated with human life.

One of the purposes of insurance is to enable policyholders to protect themselves against future uncertain events such as death or specific types of illness. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. As a consequence of this uncertainty, estimation techniques are employed by suitably qualified personnel in computing the levels of provisions held against such uncertainty.

The insurance liabilities, which are also referred to as the long-term business provision and policyholder reserves elsewhere in this report, are determined by the Partnership Board on the advice of the Group's Chief Actuary on the modified statutory basis using recognised actuarial methods with due regard to the actuarial principles set out in the PRA's Insurance Prudential Sourcebook. In particular, a prospective gross premium valuation method has been adopted for major classes of business.

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

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

At the balance sheet date, provision is made for all notified claims plus an estimate for those claims that have been incurred but not reported. The principal assumptions underlying the calculation of insurance liabilities are set out in note 20.

Reinsurance assets

Long-term business is ceded to reinsurers under contracts to transfer part or all of one or more of the following risks: mortality, morbidity, investment, persistency and expenses. The benefits to which the Group are entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within "Insurance and other receivables") as well as longer term receivables that are dependent on the expected benefits arising under the related reinsured contracts.

Amounts recoverable from reinsurers are estimated in a consistent manner with insurance liabilities, and are classified as "Reinsurance assets".

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

If the reinsurance asset were impaired, the Group would adjust the carrying amount accordingly and recognise that impairment loss in the Consolidated Statement of Comprehensive Income. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract, and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

20 INSURANCE LIABILITIES AND REINSURANCE ASSETS (Continued)

Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the insurance liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from assets backing such liabilities, are used. Any deficiency is immediately charged to the Consolidated Statement of Comprehensive Income.

Claims

Maturity claims and annuities are charged against revenue when due for payment. Death claims and all other claims are accounted for when notified. Claims reinsurance recoveries are accounted for in the same period as the related claim. Where reinsurance treaties are recaptured, amounts received to compensate for the transfer of risk from the reinsurer are accounted for when received or, if earlier, on the date the treaty ceases to be included within the calculation of the reinsurers' share of long-term business provision.

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

a) Principal assumptions

The principal assumptions underlying the calculation of the long-term business provision are as follows:

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

Valuation discount rate assumptions are set with regards to yields on supporting assets. An allowance for risk is included by making an explicit deduction from the yields on debt and other fixed income securities based on historical default experience and expected experience of each asset class. The allowance for credit risk has been set at 43% (31 December 2014: 42%) of the spread on the yield of the corporate bonds over the yield on gilts

The changes in the valuation discount rates at each period end reflect changes in yields on the supporting assets and changes made to the allowance for risk.

20 INSURANCE LIABILITIES AND REINSURANCE ASSETS (Continued)

The mortality tables used have been adjusted to reflect additional mortality based on the proprietary data held by the Group developed from actual experience incurred. The valuation basis used to calculate the long-term business provisions includes an allowance for future expenses.

b) Movements

Movements in the carrying amount of insurance liabilities and reinsurance assets are explained as follows:

For the year ended 31 December 2015	Gross	Reinsurance	Net
	£000's	£000's	£000's
At 1 January 2015	**5,231,112**	**(3,246,008)**	**1,985,104**
Increase in liability from new business	**613,687**	**(149,631)**	**464,056**
Release of in-force liability	**(166,449)**	**107,560**	**(58,889)**
Release of liability due to recorded deaths	**(80,311)**	**39,467**	**(40,844)**
Economic changes	**(195,491)**	**113,394**	**(82,097)**
Non-economic changes	**521**	**—**	**521**
Other	**21,774**	**(68,837)**	**(47,063)**
At 31 December 2015	**5,424,843**	**(3,204,055)**	**2,220,788**

For the year ended 31 December 2014	Gross	Reinsurance	Net
	£000's	£000's	£000's
At 1 January 2014	4,347,588	(2,840,749)	1,506,839
Increase in liability from new business	692,005	(266,845)	425,160
Release of in-force liability	(130,286)	87,709	(42,577)
Release of liability due to recorded deaths	(67,743)	31,799	(35,944)
Economic changes	332,956	(211,434)	121,522
Non-economic changes	912	—	912
Other	55,680	(46,488)	9,192
At 31 December 2014	5,231,112	(3,246,008)	1,985,104

c) Analysis of expected maturity

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

	Expected cash flows (undiscounted)				
At 31 December 2015	less than one year	one to five years	five to ten years	more than ten years	Carrying value (discounted)
	£000's	£000's	£000's	£000's	£000's
Long term business provision	**432,711**	**1,592,748**	**1,715,036**	**4,603,886**	**5,424,843**
Reinsurer's' share of long term business provision	**(266,774)**	**(993,084)**	**(1,071,279)**	**(2,612,022)**	**(3,204,055)**
Net	**165,937**	**599,664**	**643,757**	**1,991,864**	**2,220,788**

	Expected cash flows (undiscounted)				
At 31 December 2014	less than one year	one to five years	five to ten years	more than ten years	Carrying value (discounted)
	£000's	£000's	£000's	£000's	£000's
Long term business provision	411,885	1,510,716	1,624,201	4,367,492	**5,231,112**
Reinsurers' share of long term business provision	(258,539)	(966,479)	(1,053,161)	(2,699,933)	**(3,246,008)**
Net	**153,346**	**544,237**	**571,040**	**1,667,559**	**1,985,104**

20 INSURANCE LIABILITIES AND REINSURANCE ASSETS (Continued)

d) Sensitivity analysis

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

Sensitivity factor	Description of sensitivity factor applied
Interest rate & investment return	The impact of a change in the market interest rates by +/− 1% (e.g. if a current interest rate is 5%, the impact of an immediate change to 4% and 6% respectively). The test allows consistently for similar changes to investment returns and movements in the market backing fixed interest securities.
Credit spreads	The impact of credit spreads widening by 50bps with a corresponding pro-rated change to defaults.
Expenses	The impact of an increase in maintenance expenses by 10%.
Mortality rates	The impact of a decrease in mortality rates by 5%.
Property values	The impact of an immediate decrease in the value of properties by 10%. The test allows for the impact on the annuity liabilities arising from any change in yield on the loans secured by residential mortgages and loans secured by commercial mortgages used to back the liabilities.
Voluntary redemptions	The impact of an increase in voluntary redemption rates on loans secured by residential mortgages by 10%. The test allows for the impact on the annuity liabilities arising from any change in yield on the loans secured by residential mortgages that are used to back the liabilities.

The table below demonstrates the effect of a change in a key assumption whilst other assumptions remain unchanged. In reality, such an occurrence is unlikely due to correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results. The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed and may vary at the time that any actual market movement occurs.

	Increase / (decrease) in profit before tax	
Change in assumption:	2015	2014
	£000's	£000's
Interest rates +1%	**(6,805)**	2,866
Interest rates −1%	**35,537**	(5,993)
Credit spreads +0.5%	**(22,267)**	(11,621)
Expenses +10%	**(10,126)**	(10,906)
Mortality −5%	**(34,314)**	(32,027)
Property Prices −10%	**(42,252)**	(38,583)
Voluntary redemptions +10%	**(5,861)**	(6,412)

21 INSURANCE AND OTHER PAYABLES

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

The Directors consider that the carrying value of insurance and other payables in the balance sheet is a reasonable approximation of the fair value.

22 FINANCIAL LIABILITIES

As well as derivative financial liabilities, the Group carries financial liabilities where assets under specific reinsurance treaties are legally and physically deposited back to the Group by reinsurers. Financial liabilities are initially recognised at fair value on the same date that the value of underlying deposited assets is recognised and are subsequently remeasured at fair value at each balance sheet date. The resulting gain or loss is recognised in the Consolidated Statement of Comprehensive Income. The net gain or loss recognised incorporates any interest paid on the financial liability. Fair value is determined as the amount payable discounted from the first date that the amount is required to be paid.

A financial liability (including subordinated debt and external borrowings) is generally derecognised when the contract that gives rise to it, is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange of modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the Consolidated Statement of Comprehensive Income.

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

At 31 December	2015	2014
	£000's	£000's
Deposits from reinsurers	**2,506,378**	2,491,795
Derivative liabilities	**54,912**	79,493
Total financial liabilities	**2,561,290**	2,571,288

Payables arising from reinsurance contracts at fair value through profit and loss are designated as such on initial recognition. Derivative liabilities are carried at fair value through profit and loss.

23 CURRENT TAX LIABILITIES

At 31 December	2015	2014
	£000's	£000's
Other taxes and social security costs	**3,957**	3,735
Total current tax liabilities	**3,957**	3,735

24 EXTERNAL BORROWINGS

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

At 31 December	2015	2014
	£000's	£000's
External Borrowings	**107,257**	—
Total External borrowings	**107,257**	—

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

25 DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses various derivative financial instruments to manage its exposure to interest rates, counterparty credit risk, inflation and foreign exchange risk, including foreign exchange forward contracts, interest rate swaps, credit default swaps and inflation swaps, cross currency interest rate swap, and swaptions.

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

At 31 December 2014	Asset fair value	Liability fair value	Notional amount
	£000's	£000's	£000's
Forward currency positions	7,335	1,615	553,106
Interest rate swaps	66,651	62,030	1,119,400
Inflation swaps	309	15,848	414,646
Credit default swaps	1,597	—	38,104
Total derivative financial instruments	75,892	79,493	2,125,256

All over-the-counter derivative transactions are conducted under standardised ISDA (International Swaps and Derivatives Association Inc) master agreements and the Group has collateral agreements between the individual group entities and relevant counterparties in place under each of these master agreements.

At 31 December 2015, the Group had pledged £34.6m (2014: £29.8m) and held collateral of £6.7m (2014: £19.0m) in respect of outstanding over-the-counter derivative positions.

26 FINANCIAL INSTRUMENTS—FAIR VALUE METHODOLOGY

All financial instruments, with the exception of external borrowings, are classified at fair value through profit and loss. In accordance with IFRS 13 Fair Value Measurement, financial instruments at fair value have been classified into three categories:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); or

Level 3: Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs)

An analysis of financial assets and liabilities held at fair value in accordance with the fair value hierarchy is set out below. All these financial assets and liabilities relate to recurring fair value measurements. There are no non-recurring fair value measurements as at 31 December 2015 and 31 December 2014.

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

At 31 December 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000's	**£000's**	**£000's**	**£000's**
Financial investments (a)	3,583,183	—	1,637	3,584,820
Loans secured by residential mortgages (b)	—	—	1,212,324	1,212,324
Derivative assets (c)	—	75,892	—	75,892
Loans secured by commercial mortgages (d)	—	—	37,868	37,868
Total financial assets held at fair value	3,583,183	75,892	1,251,829	4,910,904
Deposits from reinsurers (e)	—	—	2,491,795	2,491,795
Derivative liabilities (c)	—	79,493	—	79,493
Total financial liabilities held at fair value	—	79,493	2,491,795	2,571,288

The Group's policy is to recognise transfers into and transfers out of levels 1, 2 and 3 as of the date at which the Consolidated Statement of Financial Position is prepared.

There have been no transfers between levels 1, 2 and 3 in 2015.

26 FINANCIAL INSTRUMENTS—FAIR VALUE METHODOLOGY (Continued)

The table below reconciles the opening and closing recorded amount of level 3 financial liabilities and financial assets which are stated at fair value.

For the year ended 31 December 2015	Deposits from reinsurers	Loans secured by commercial mortgages	CTF Investments	Loans secured by residential mortgages
	£000's	£000's	£000's	£000's
At 1 January 2015	**(2,491,795)**	**37,868**	**1,637**	**1,212,324**
Loans (received)/ advanced	**(217,586)**	**31,415**	**—**	**219,160**
Total (losses)/ gains in Consolidated Statement of Comprehensive Income	**(70,189)**	**(1,356)**	**79**	**(215)**
Redemptions made/ (received)	**366,377**	**(3,905)**	**(1,624)**	**(57,567)**
(Interest payable accrued)/ interest receivable accrued	**(93,185)**	**1,595**	**—**	**61,086**
At 31 December 2015	**(2,506,378)**	**65,617**	**92**	**1,434,788**

For the year ended 31 December 2014	Deposits from reinsurers	Loans secured by commercial mortgages	CTF Investments	Loans secured by residential mortgages
	£000's	£000's	£000's	£000's
At 1 January 2014	(2,182,350)	—	11,568	840,066
Loans (received)/ advanced	(307,959)	37,480	6,321	232,519
Total (losses)/ gains in Consolidated Statement of Comprehensive Income	(139,376)	263	(884)	185,634
Redemptions made/ (received)	229,082	—	(16,386)	(51,273)
(Interest payable accrued)/ interest receivable accrued	(91,192)	125	1,018	5,378
At 31 December 2014	(2,491,795)	37,868	1,637	1,212,324

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

The unrealised gains/(losses) in respect of deposits from reinsurers, loans secured by commercial mortgages, commodity trade finance investments and loans secured by residential mortgages for the period to 31 December 2015 are £(70.2)m (2014: £(139.4)m), £(1.4)m (2014: £0.3m) and £0.1m (2014: £(0.9)m) and £(0.2)m (2014: £185.6m) respectively. These unrealised gains and losses are included within net investment income in the Consolidated Statement of Comprehensive Income.

Level 3 Sensitivity Analysis

At 31 December 2015	Significant assumption	Impact of alternative assumption		
		Current fair value	Increase in fair value	Decrease in fair value
		£000's	£000's	£000's
Assets				
Loans secured by commercial mortgages	Discount rate	**65,617**	**3,881**	**(3,582)**
Loans secured by residential mortgages	Discount rate	**1,434,788**	**182,255**	**(153,479)**
Liabilities				
Deposits from reinsurers	Discount rate	**(2,506,378)**	**(223,056)**	**190,339**

26 FINANCIAL INSTRUMENTS—FAIR VALUE METHODOLOGY (Continued)

At 31 December 2014		Current fair value	Increase in fair value	Decrease in fair value
		£000's	£000's	£000's
Assets				
CTF Investments	Expected defaults	1,637	289	(353)
Loans secured by commercial mortgages	Discount rate	37,868	2,744	(2,501)
Loans secured by residential mortgages	Discount rate	1,212,324	156,367	(132,186)
Liabilities				
Deposits from reinsurers	Discount rate	(2,491,795)	(220,538)	192,268

The impact of reasonably possible alternative assumptions are estimated by modelling alternative scenarios for the key assumptions for each valuation model.

a) Financial investments

All financial investments are designated at fair value through profit and loss. All financial investments excluding commodity trade finance (CTF) are listed.

In assessing the fair value of the debt securities and other fixed income securities, the Directors have relied upon values provided by an independent third party which specialises in providing such values to companies. The third party provides prices based upon quoted market prices, or where not available, modelled prices using observable market inputs. At 31 December 2015 and 31 December 2014, 100% of the values provided were based on quoted market prices that are observable for the asset or liability.

Due to the short-term nature of the CTF loans, the fair value of these instruments is estimated as the principal amount borrowed plus accrued interest from the date of acquisition, adjusted for incurred and expected defaults. These CTF loans are considered to be Level 3 within the valuation category prescribed by IFRS 13 as the inputs to the fair value calculation are not based on observable market data, and includes the Group's own assumptions.

The change in the fair value of level 3 financial instruments from period to period is analysed into loans advanced, loans repaid/ redemptions, and interest accrued, with the remaining balance representing fair value measurement gains and losses recognised in the Statement of Comprehensive Income.

Interest rate: The interest rate used in estimating the fair value of the CTF Funds as at 31 December 2015 was nil% p.a. (31 December 2014: nil%).

b) Loans secured by residential mortgages

The fair value recognised in the financial statements for loans secured by residential mortgages is determined using a marked to model valuation technique where a significant proportion of inputs are not based on observable market data and so these assets are considered to be Level 3 within the valuation category prescribed by IFRS 13.

The valuation model discounts the expected future cash flows using an interest rate swap curve with an additional spread or yield factor minus the cost of the no-negative equity guarantee. The no-negative equity guarantee represents an embedded guarantee that the repayment of the loan cannot exceed the value of the property at the time of repayment.

Although such valuations are sensitive to various estimates, it is considered that only the discount rate and no-negative equity guarantee assumptions would have significant impact on the fair value.

Discount rate: Loans secured by residential mortgages are valued using the swap rate appropriate to the term of each contract with adjustment to reflect the credit and liquidity risk associated with such long-dated contracts. The risk adjusted swap rate for the portfolio weighted by average value at 31 December 2015 was 5.10% (31 December 2014: 5.05%).

26 FINANCIAL INSTRUMENTS—FAIR VALUE METHODOLOGY (Continued)

No-negative equity guarantee: The fair value of loans secured by residential mortgages takes into account an explicit provision in respect of the no-negative equity guarantee which is calculated using a variant of the Black Scholes option pricing model. The key assumptions used to derive the value of the no-negative equity guarantee include property growth, volatility and over-valuation. The property growth and volatility assumed at 31 December 2015 were 5.5% (31 December 2014: 5.5%) and 13% (31 December 2014: 13%) respectively. The over-valuation assumption used as at 31 December 2015 was 28% (31 December 2014: 27.4%). The value of the no-negative equity guarantee as at 31 December 2015 was £128.7m (31 December 2014: £112.5m).

The valuation technique that the Group uses to assess the fair value of loans secured by mortgages is consistent with that used to derive the prices applied at the initial transaction. As such, there is no difference between the fair value of loans secured by equity release mortgages at initial recognition and the amount that would have been determined at that date using the valuation technique.

c) Derivative assets and liabilities

The estimated fair value of derivative instruments reflects the estimated amount the Group would receive or pay in an arm's length transaction. All the derivatives held at 31 December 2015 and 31 December 2014 were purchased over-the-counter.

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

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

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

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

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

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

26 FINANCIAL INSTRUMENTS—FAIR VALUE METHODOLOGY (Continued)

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

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

d) Loans secured by commercial mortgages

The fair value recognised in the financial statements for loans secured by commercial mortgages is determined using a marked to model valuation technique where a significant proportion of inputs are not based on observable market data and so these assets are considered to be Level 3 within the valuation category prescribed by IFRS 13.

The valuation model produces a series of projected future cash flows for each mortgage, based on a range of simulations of changes in property prices drawn from a distribution based on historic observed changes. Potential changes in property tenancy (e.g. tenant default, exercise of break clause or non-renewal of lease) are also modelled in a range of simulations. Risk adjusted cash flows are calculated as the average across the range of simulations.

The risk adjusted cash flows are discounted using a swap curve with an additional spread. The additional spread is the increase in swap discount rates required so that the initial discounted risk adjusted cash flows equal the initial purchase price. This uplift is reviewed if there is evidence that market has moved materially.

The discount rate and changes in property prices and tenancy are the most significant assumptions applied in calculating the fair value of the loans.

e) Deposits from reinsurers

The fair value recognised in the financial statements is determined using a marked to model valuation technique where not all inputs are based on observable market data and so these liabilities are considered to be Level 3 within the valuation category prescribed by IFRS 13.

The valuation model discounts the expected future cash flows using a discount rate derived from the assets hypothecated to back these liabilities at a product level.

As payables arising from reinsurance contracts do not have a single fixed maturity date it is not possible to determine an amount that would be contractually required to pay at maturity.

Discount rate: The key inputs to the derivation of the discount rate include market observable gross redemption yields, contractual investment expenses and an allowance for credit risk on a best estimate basis. The discount rates used as at 31 December 2015 for Individual retirement and Individual care annuities were 4.43% and 1.67% respectively (31 December 2014: 4.16% and 1.67% respectively).

27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

28 EMPLOYEE BENEFITS

Pension scheme

Details of the amounts payable for the year are included in 'Other pension costs', in note 6. No amounts are outstanding in respect of these contributions at the end of the year.

The Group is a Participating Employer for a money purchase group personal pension plan. The assets of the plan are held separately from those of the Group. The Group does not provide a final salary plan.

29 DEPOSITS RECEIVED FROM REINSURERS

Financial assets arising from the payment of reinsurance premiums, less the repayment of claims, to certain reinsurers in relation to specific treaties are legally and physically deposited back with the Group. Although the funds are managed by the Group (as the Group controls the investment of the asset), no future benefits accrue to the Group as any returns on the deposits are paid to reinsurers. Consequently the deposits are not recognised as assets of the Group and the investment income they produce does not accrue to the Group.

In addition, the Group has trust agreements with two reinsurers (2014: two) whereby the assets are held in trust in order to fully fund the reinsurers' obligations under the reinsurance treaty. As the Group has no control over these funds and does not accrue any future benefit these funds are not recognised as assets of the Group.

At 31 December	2015	2014
	£000's	£000's
Deposits managed by the Group	**232,720**	269,630
Deposits held in trust	**279,640**	279,619
Total deposits received from reinsurers	**512,360**	549,249

30 MANAGEMENT OF INSURANCE AND FINANCIAL RISK

The Group issues contracts that accept insurance risk in return for a premium. In addition the Group is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from contracts with policyholders. The most important components of this financial risk are interest rate risk, credit risk, property risk and liquidity risk. The Group is not exposed to any equity price risk and to currency risk only to an immaterial extent.

a) Insurance risk

a1) Underwriting, pricing and reserving risk

Underwriting and pricing risk is the risk that insurance contracts will be written that are not within the Board's risk appetite, or that the premium charged for that business is not adequate to cover the risks borne by the Group.

The accurate pricing of non-standard annuities is dependent on the Group's assessment of the impact on prospective customers' longevity of various medical and lifestyle factors and an estimate of future investment yields and credit default.

The actual timing of deaths and investment income experience may be inconsistent with the assumptions and pricing models used in underwriting and setting prices for its products.

Reserving risk is the risk that the reserves have been calculated incorrectly, or the assumptions used in the calculations are inappropriate.

As the Group's insurance business is targeted at people with conditions affecting their life expectancy, or people seeking to fund domiciliary or residential care, the underwriting risk is managed through the use of highly trained, and qualified underwriting staff, together with detailed underwriting manuals designed to cover a large range of medical conditions.

Partnership has developed its own proprietary underwriting manuals for retirement annuity business and those seeking care funding, based on industry standard mortality tables modified to take account of experience data recorded by Partnership.

The assumptions used in the reserving for future policyholder payments are set based on available market and experience data, on the advice of Partnership's Chief Actuary. The assumptions are approved by the Board. The reserves are calculated using recognised actuarial methods with due regard to the actuarial principles set out in the PRA's sourcebooks, including appropriate levels of prudential margin against future adverse experience.

a2) Specific insurance risk

Insurance risk on the Group's annuity contracts arises through longevity risk and through the risk that operating factors, such as administration expenses, are worse than expected.

Insurance risk on the Group's protection policies arises through higher than expected mortality levels.

The Group's longevity and mortality experience is monitored on a regular basis and compared to the underlying assumptions used to reserve for future insurance payments. The exposure to longevity and mortality risk is reduced through the use of reinsurance.

Expense risk is managed through regular assessment and quarterly reforecasting of expenses incurred against budgets.

b) Interest Rate Risk

Interest rate risk arises from open positions in fixed and variable rate stock issued by government and corporate bodies that are exposed to general and specific market movements. The Group is exposed to the

30 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

market movements in interest rates to the extent that the asset value movement is different to the accompanying movement in the value of its insurance liabilities.

The difference between asset and liability movements can arise from both a change in the absolute level of interest rates, and from a change in the "spread" (that is the level of interest rates applying to an asset in excess of the risk-free interest rate).

The Group manages its interest rate risk within an asset liability management (ALM) framework that has been developed to achieve investment returns in excess of its obligations under insurance contracts. The principal technique of the ALM framework is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to policyholders.

The Group monitors interest rate risk by calculating the mean duration and cash flow profile of the investment portfolio and the liabilities. The mean duration is an indicator of the sensitivity of the assets and insurance liabilities to changes in current interest rates but is not sufficient in isolation. The mean duration of the liabilities is determined by means of projecting expected cash flows from the contracts using best estimates of mortality and voluntary terminations. No future discretionary supplemental benefits are assumed to accrue. The mean duration of the assets is calculated in a consistent manner. Any gap between the mean duration of the assets and the mean duration of the liabilities is minimised by means of buying and selling fixed interest securities of different durations or purchasing interest rate swap derivatives to alter the effective mean duration of the assets. Periodically the cash flow matching is reviewed and rebalanced.

At 31 December 2015, the mean duration of the assets including surplus assets was 8.7 years (2014: 8.3 years) measured with reference to a gross redemption yield and the mean duration of the liabilities (including both retirement and care liabilities) was at 9.8 years (2014: 9.6 years) measured with reference to the valuation interest rate.

The Group has reinsurance arrangements in place which provide for fixed payments to the reinsurer over future periods. In assessing the fair value of this liability, the Directors have used a discount rate derived from current market yields earned on assets held to fund the future cash outflows, adjusted for the risk of default on those assets. No further adjustment to the discount rate to reflect any risk of the Group defaulting on those payments to the reinsurer was deemed appropriate.

c) Credit risk

Market credit risk is the risk that the Group invests in assets that may default.

If an asset fails to repay either interest or capital, or that payment is significantly delayed, the Group may make losses and be unable to meet liabilities as they fall due.

The Group's Investment Management Guidelines set out maximum exposure to bonds issued by a single, or related group of, counterparty(/ies) and to credit ratings. The allowance made for issuer default in the Group's valuation is regularly monitored and kept up to date.

At 31 December 2015, £6.7m of collateral (2014: £19.0m) had been pledged to the Group to mitigate the credit risk exposure associated with the derivative assets held at that time.

Counterparty credit risk arises if another party fails to honour its obligations to the Group including failure to honour these obligations in a timely manner.

The Group's primary counterparty credit risk exposure arises from the inability of the reinsurers to meet their claim payment obligations.

The Group has arrangements with its reinsurers whereby most reinsurance premiums are either deposited back to the Group or held by a third party in a trust arrangement.

In addition, the Group's reinsurance policy is to seek to choose companies with a minimum "A" credit rating.

30 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

The following table analyses the credit exposure of the Group by type of asset and includes the credit risk arising out of reinsurance exposures, based on the credit ratings of the reinsurer, as published by Standard & Poors, or an equivalent rating from another recognised rating agency. These principles continue to be the basis for IFRS reporting, though the new Solvency II regime works on a different basis for setting margins.

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

	Credit rating					
At 31 December 2014	**AAA**	**AA**	**A**	**BBB**	**Unrated**	**Total**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Financial Investments	815,605	234,771	1,251,104	1,280,870	2,470	3,584,820
Derivative assets	—	—	—	—	75,892	75,892
Loans secured by residential mortgages	—	—	—	—	1,212,324	1,212,324
Loans secured by commercial mortgages	—	—	—	—	37,868	37,868
Reinsurance assets	—	1,290,232	1,955,776	—	—	3,246,008
Insurance and other receivables	—	17,761	4,761	—	16,645	39,167
Total	815,605	1,542,764	3,211,641	1,280,870	1,345,199	8,196,079

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

d) Liquidity risk

Liquidity risk arises where cash flows from investments and from new premiums prove insufficient to meet our obligations to policyholders and other third parties as they fall due.

The Group's Asset Liability Matching ('ALM') framework ensures that cash flows are sufficient to meet both long- and short-term liabilities.

The Group maintains a minimum level of cash and highly liquid assets such that, in the extreme scenario of new business cash flows being insufficient to meet current obligations, those obligations can continue to be met.

In accordance with PRA regulations, the Group's assets are reviewed to ensure they are of sufficient amount and of an appropriate currency and term to ensure that the cash inflows from those assets will meet the expected cash outflows from the Group's insurance and other financial liabilities.

In the following table expected cash outflows for:

- net insurance liabilities have been modelled with reference to underlying mortality and longevity assumptions;

30 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

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

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

At 31 December 2015	Expected cashflows (undiscounted)				Carrying value (discounted)
	less than one year	one to five years	five to ten years	more than ten years	
	£000's	£000's	£000's	£000's	£000's
Net insurance liabilities	**165,937**	**599,664**	**643,757**	**1,991,864**	**2,220,788**
Deposits from reinsurers	**223,309**	**825,619**	**863,813**	**1,983,497**	**2,506,378**
Derivative liabilities	**4,220**	**30,957**	**26,813**	**64,432**	**54,912**
External borrowings	**9,500**	**38,000**	**147,500**	**—**	**107,257**
Total	**402,966**	**1,494,240**	**1,681,883**	**4,039,793**	**4,889,335**

At 31 December 2014	Expected cashflows (undiscounted)				Carrying value (discounted)
	less than one year	one to five years	five to ten years	more than ten years	
	£000's	£000's	£000's	£000's	£000's
Net insurance liabilities	153,346	544,237	571,040	1,667,559	1,985,104
Deposits from reinsurers	213,142	793,042	843,324	2,005,880	2,491,795
Derivative liabilities	13,523	37,602	10,603	34,097	79,493
Total	380,011	1,374,881	1,424,967	3,707,536	4,556,392

The maximum exposure to credit risk is equal to the balance sheet value of debt instruments / derivatives.

e) Property risk

Property risk arises from the provision of a protected equity guarantee on the mortgages underlying the equity release assets purchased. The Group is exposed to the risk that property values do not rise sufficiently, or that the property is not maintained properly, to recover the full value of the loan made plus accrued interest.

The Group manages its purchase of loan assets to a level appropriate to its liability profile and ensures that the purchase prices of loan assets reflect a prudent assessment of future property price growth. Appropriate limits are applied to the "loan to value ratio" in order to limit the risk exposure to the Group. The Group seeks to avoid excess concentration of property holdings in any geographical area.

Property risk on commercial mortgages is the risk that property values decline or property tenancy changes such that the full value of the commercial mortgage loan is not recovered. The initial loan value is restricted to a maximum "loan to value" that limits its exposure for the Group.

31 AVAILABLE CAPITAL RESOURCES

Economic capital is the principal risk-based capital measure used by the Board. Economic capital is based on the Board's view of the available capital and required capital calibrated to a 1 in 200 stress.

The Group's capital consists of the equity attributable to the equity holders of the parent company. For the purposes of regulatory capital requirements, certain assets are restricted, or are inadmissible.

The Group manages its capital to ensure that all of the entities within the Group will be able to continue to operate as going concerns, remaining compliant with all regulatory capital requirements to which each is subject.

31 AVAILABLE CAPITAL RESOURCES (Continued)

Up until 31 December 2015 'PLACL', the principal operating and only insurance company in the Group, is required to comply with minimum capital requirements calculated at the level of its EEA parent and ultimate parent company level as required by the PRA as set out in the Insurance Groups Directive, as well as its own single entity level as required by the PRA. PAG plc is both the EEA parent and ultimate parent company of PLACL. From 1 January 2016 the minimum capital requirement that apply at the 'PLACL' and 'PAG plc level have become those set out in the Solvency II regulation.

The table below provides a reconciliation between the available capital resources of the PAG plc Group, measured under IFRS, and the surplus over the regulatory capital requirement as is required to be measured under the Insurance Groups Directive. Any changes or release of capital from long-term funds is subject to there being an established surplus shown by an actuarial investigation.

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

Movements in Equity are shown in the Consolidated Statement of Changes in Equity.

Throughout the year, each regulated subsidiary has maintained capital resources in excess of the minimum required by the PRA regulations and the EU directives.

32 SHARE CAPITAL

The Group has issued ordinary shares which are classified as equity. Incremental external costs that are directly attributable to the issue of the ordinary shares are recognised in equity, net of tax.

At 31 December 2015	Number of shares	Share Capital	Share Premium
		£000's	£000's
The allotted and issued Share Capital of PAG plc:			
Shares subdivided into 500,000 ordinary shares of £0.10 each	**399,999,971**	**40,000**	**435,249**
Shares issued for cash	**40,132,151**	**4,013**	**—**
As at 31 December 2015, ordinary shares of £0.10 each	**440,132,122**	**44,013**	**435,249**

At 31 December 2014			
The allotted and issued Share Capital of PAG plc:			
Shares subdivided into 500,000 ordinary shares of £0.10 each	399,999,971	40,000	435,249
As at 31 December 2014, ordinary shares of £0.10 each	399,999,971	40,000	435,249

The ordinary share entitles the holder to dividends declared by the Board which are not cumulative. The ordinary share entitles the holder to one vote for every share held.

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

32 SHARE CAPITAL (Continued)

Merger Reserve

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

Merger Relief Reserve

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

Shares held by the employee trust

Where an employee trust acquires shares in the Company or obtains rights to purchase its shares, the consideration paid (including attributable transaction costs, net of tax) is shown as a deduction from the owners' equity. Gains and losses on sales of shares held by the employee trust are charged or credited to the own shares account in equity.

At 31 December	2015	2014
	£000's	£000's
Employee benefit trust	**(192)**	(136)

33 OPERATING LEASE COMMITMENTS

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

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

34 RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

During the period, the Group entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into and balances outstanding at the end of each reporting date are detailed below.

a) Remuneration of key management personnel

Key management personnel consist of the directors of the Company. The remuneration of the Directors, who are the key management personnel of the Group, is set out below:

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

34 RELATED PARTY TRANSACTIONS (Continued)

b) Directors' loans

A number of directors who are defined as key management personnel of the Company held loans during the period. The loans owed to/by the Directors are detailed as follows:

At 31 December	2015	2014
	£000's	£000's
Amounts owed to directors:		
Loan advances	**313**	302
Loans owed by Directors	**313**	302

The loan advances to directors accrue interest fixed at 4% per annum and are repayable in whole or in part at any time.

The amounts accruing from the Directors in respect of loans are detailed below:

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

c) Other related party transactions

During the year the Group entered into transactions with other entities controlled by Cinven Limited, associates and joint ventures as set out below. All transactions were on a commercial basis.

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

At 31 December 2015 there was no amount due or receivable from any entities related to the ultimate parent controlling party (2014: £nil).

Loans are regularly advanced to the Group's associate, Eldercare to provide short term prefunding for policy holder annuity purchases. At 31 December 2015, Eldercare owed the Group £184,000 (2014: £185,000).

d) Ultimate controlling party

Prior to 29 September 2015 the majority of the Company's ordinary shares were held by the partnerships comprising the Fourth Cinven Funds (the "Cinven Funds"), being funds managed and advised by Cinven Limited, a company incorporated in the United Kingdom. After this point the Company did not have an Ultimate controlling party.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF PARTNERSHIP ASSURANCE GROUP PLC FOR THE YEAR ENDED 31 DECEMBER 2014

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF PARTNERSHIP ASSURANCE GROUP PLC

OPINION ON FINANCIAL STATEMENTS OF PARTNERSHIP ASSURANCE GROUP PLC

In our opinion:

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

The financial statements comprise the consolidated statement of comprehensive income, the consolidated and Parent Company statements of financial position, the consolidated and Parent Company cash flow statements, the consolidated statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the EU and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

GOING CONCERN

As required by the Listing Rules we have reviewed the Directors' statement that the Group is a going concern. We confirm that:

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

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

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

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

RISK	HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK
Insurance liabilities (£5,231m)	
The Group predominantly writes enhanced annuities which it prices using its bespoke mortality data and internally generated intellectual property. The Group reserves for the future expected cost of these policies using complex actuarial models to project the insurance liabilities. These models are dependent on key assumptions made by management in respect of the following: • projected cash flows—the expected payments on the portfolio based on assumptions as to the mortality of the policyholders based on their medical condition or lifestyle characteristics; and • the valuation rate of interest based on the yield of the portfolio of assets that back the liabilities that is used to discount the expected cash flows, which also needs to reflect a deduction for the credit risk of the underlying assets. Further detail on these principal assumptions can be found in note 20 to the financial statements. The significance and inherent subjectivity of these assumptions means that we view this as an area of significant risk.	We used our actuarial specialist auditors to test the controls over the end-to-end reserving process, focussing on the controls over changes to the reserving model and changes to the underlying demographic and economic assumptions. We performed detailed substantive testing on the data inputs to the model including checks on policy data via agreeing a sample back to original policyholder documentation and checks that all assumptions had been input to the model accurately. In addition, we test the Group's controls over the completeness of the data. Management have updated their mortality basis for the largest policy group. We tested these assumptions, in addition to testing manual provisions, the closure reserve, reinsurance reserves, allowance for counterparty default risk, allowance for cash flow and currency mis-matching risk and statutory capital requirements. We used our actuarial specialist auditors to challenge management's assumptions by considering the Group's own experience, comparison to industry benchmarks and by testing compliance with regulations. An assessment on the overall results was made by reviewing the analysis of change in reserves over the period under audit.
Equity release assets (£1,212m)	
The Group's investments include loans secured by residential mortgages (equity release assets). In Q4 2014 the Group completed one bulk purchase deal with a face value of £61m, bringing the total value of the equity release book to £1.2bn. The fair value of the investment is dependent on the valuation of the underlying properties and the assumptions used in the fair value calculation, such as the property growth rate, property volatility, a revaluation index to revalue properties to the valuation date, swap rates, and mortality assumptions. Note 25b to the financial statements provides further detail as to the methodology used to calculate the fair value of these assets. The subjectivity of the key assumptions, coupled with the significance of the bulk transaction, means that we view this as an area of significant risk.	We tested the new bulk transaction through reviewing the due diligence work performed by the Group, and then tested the whole portfolio by challenging the valuation basis put forward by management based on independent macroeconomic advice received. We also tested the underlying data used in the valuation of the equity release assets via agreement of a sample of loans back to original policy documentation. We assessed the underlying portfolio of assets for indicators of impairment by segmenting the portfolio geographically and using applicable regional property valuation indices to check for signs of significant diminution in the value of underlying property. Our actuarial specialist auditors assessed management's methodology and assumptions used to value the equity release assets via comparison to industry benchmarks, consultation with real estate specialists and consideration of whether the valuation was sensitive to the mortality assumption.

RISK	HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK
Valuation of Goodwill and intangible assets (£129m)	
The Group holds a significant amount of goodwill on its statement of financial position, in addition to intangible assets representing intellectual property. Further detail can be found in notes 10 and 11 to the financial statements. Goodwill and intangible assets have been identified as a significant risk area due to the uncertainties following the Chancellor's Budget announcement in March 2014 surrounding rules on the use of pensions. A key parameter within the goodwill and intangible assets valuation is current and projected new business sales, which have become more uncertain given the regulatory changes. There is also judgement over the allocation of assets and liabilities to the in-force and new business cash-generating units (see note 10 to the financial statements for further detail). This in turn affects the carrying value within the impairment assessment.	Management's methodology for its impairment assessment has been reviewed, comparing it to the requirements of IAS 36 and checking for consistency with the prior year approach. Our procedures then included: • obtaining management's business plan and considering the methodology behind its production, as well as challenging the assumptions on which it is based. This included challenging management's market projections and scrutinising the underlying analysis for evidence of bias; • challenging whether all relevant assets and liabilities had been allocated to the new business cash-generating unit; and • engaging our valuation specialists to recalculate the discount rate used and verify the inputs to the impairment calculation, which is based on the capital asset pricing model, in conjunction with challenging the sophistication of management's assessment by checking that key parameters are supported by the most up-to-date information.
Defined benefit transactions (£247m)	
Individually underwritten bulk annuities are becoming an increasingly important source of revenue for the Group, representing 32% of the Group's gross written premium for 2014, including a single premium of £206m. The significance of the individual transactions means that we see this as an area of significant risk.	We have substantively tested 100% of the contracts written by tracing the premiums to signed quotations and agreeing the consideration received to bank accounts or custodian confirmations as appropriate.

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

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

OUR APPLICATION OF MATERIALITY

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

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

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £86,000 (2013: £84,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Our Group audit has covered entities representing 100% of the Group's net assets, 100% of the Group's revenue and 100% of the Group's profit before tax (2013: 100% of net assets, revenue and profit before tax). The result of the Group is predominantly driven by a single trading company, Partnership Assurance Life Assurance Company Limited. All of the Group entities audited are based in the same location and were audited by the Group audit team and the Group engagement partner.

Our audit work was executed at levels of materiality applicable to each individual entity which were lower than Group materiality. Component materialities ranged from £0.03m to £4.28m (2013: £0.06m to £3.99m).

At the Parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with 10 provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Paul Stephenson
BA ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
2 March 2015

AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	2014	2013
		£000's	£000's
Gross premiums written	1	**760,638**	1,159,562
Outward reinsurance premiums		**(307,959)**	(733,849)
Net premiums earned		**452,679**	425,713
Net investment income	3	**299,232**	137,762
Share of results of joint ventures and associates accounted for using the equity method	14	**(179)**	(162)
Profit on loss of control of subsidiary	13	**158**	—
Other income		**207**	219
Total income		**752,097**	563,532
Gross claims paid		**(390,570)**	(341,124)
Reinsurers' share of claims paid		**255,957**	225,277
Change in insurance liabilities:			
Gross amount		**(883,524)**	(624,290)
Reinsurers' share		**405,259**	428,197
Acquisition costs	4	**(4,997)**	(13,036)
Investment expenses and charges		**(14,352)**	(13,270)
Interest on external borrowings		**—**	(25,403)
Other operating expenses	5	**(95,803)**	(117,223)
Total claims and expenses		**(728,030)**	(480,871)
Profit from continuing operations before tax	5	**24,067**	82,661
Income tax charge from continuing operations	7	**(5,213)**	(23,240)
Profit for the year from continuing operations		**18,854**	59,421
Profit/(loss) attributable to:			
Owners of the Parent		**18,852**	59,465
Non-controlling interest		**2**	(44)
Profit for the period		**18,854**	59,421
Basic earnings per ordinary share	8	**£ 0.05**	£ 0.17
Diluted earnings per ordinary share	8	**£ 0.05**	£ 0.17

The notes are an integral part of these financial statements.

AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

		Attributable to Owners of the Parent								
	Note	Share Capital	Share Premium	Capital Redemption Reserve	Proposed Merger Reserve	Shares held by Employee Benefit Trust	Retained profit	Total	Non-controlling interest	Total
		£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
At 1 January 2013		36	182	3,297	—	(33)	78,901	82,383	(22)	82,361
PAG Holdings Limited shares exchanged for ordinary shares		28,250	(182)	(3,297)	(24,521)	(250)	—	—	—	—
Loan notes exchanged for ordinary shares		8,462	317,288	—	—	—	—	325,750	—	325,750
Share issued/bought for cash		3,252	121,993	—	—	(46)	526	125,725	—	125,725
Share issue costs		—	(4,032)	—	—	—	—	(4,032)	—	(4,032)
Share-based payments	19	—	—	—	—	271	9,053	9,324	—	9,324
Profit for the year		—	—	—	—	—	59,465	59,465	(44)	59,421
At 31 December 2013		40,000	435,249	—	(24,521)	(58)	147,945	598,615	(66)	598,549
At 1 January 2014		**40,000**	**435,249**	**—**	**(24,521)**	**(58)**	**147,945**	**598,615**	**(66)**	**598,549**
Share-based payments	19	**—**	**—**	**—**	**—**	**(78)**	**1,301**	**1,223**	**—**	**1,223**
Disposal of subsidiary		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**64**	**64**
Dividends paid		**—**	**—**	**—**	**—**	**—**	**(14,000)**	**(14,000)**	**—**	**(14,000)**
Profit for the year		**—**	**—**	**—**	**—**	**—**	**18,852**	**18,852**	**2**	**18,854**
At 31 December 2014		40,000	435,249	—	(24,521)	(136)	154,098	604,690	—	604,690

The notes are an integral part of these financial statements.

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	2014	Restated 2013
		£000's	£000's
Assets			
Property, plant and equipment	9	12,557	15,459
Goodwill	10	126,207	126,207
Other intangible assets	11	15,219	16,401
Financial assets	12	4,910,904	4,010,269
Investment in joint ventures and associates	14	233	206
Reinsurance assets	20	3,246,008	2,840,749
Insurance and other receivables	15	39,167	79,633
Prepayments and accrued income	16	3,615	10,991
Deferred tax asset	17	519	424
Cash and cash equivalents	18	87,251	112,741
Total assets		**8,441,680**	7,213,080
Equity			
Share capital	31	40,000	40,000
Share premium	31	435,249	435,249
Merger reserve		(24,521)	(24,521)
Shares held by Employee Benefit Trust	31	(136)	(58)
Retained profit		154,098	147,945
Total equity attributable to owners of the Parent		604,690	598,615
Non-controlling interest		—	(66)
Total equity		**604,690**	598,549
Liabilities			
Insurance liabilities	20	5,231,112	4,347,588
Insurance and other payables	21	29,527	34,004
Financial liabilities	22	2,571,288	2,214,741
Current tax liabilities	23	3,735	18,198
Deferred tax liability	17	1,328	—
Total liabilities		**7,836,990**	6,614,531
Total equity and liabilities		**8,441,680**	7,213,080

The notes are an integral part of these financial statements.

AUDITED CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2014

	Note	2014	2013
		£000's	£000's
Cash generated from/(used in) operations	26	**11,664**	**(56,851)**
Corporation tax paid		(19,705)	(17,000)
Net cash used in operating activities		**(8,041)**	**(73,851)**
Cash flows from investing activities:			
Purchase of property, plant and equipment	9	(1,308)	(13,657)
Purchase of other intangible assets	11	(2,093)	(7,696)
Investment in associate		(48)	—
Disposal of subsidiary		—	—
Net cash used in investing activities		**(3,449)**	**(21,353)**
Cash flows from financing activities:			
Proceeds from issuance of share capital	31	—	121,693
Repayment of loan notes		—	(7,656)
Repayment of bank loan		—	(70,000)
Dividends paid to shareholders		(14,000)	—
Interest payable on external borrowings		—	(2,365)
Net cash (used in)/from financing activities		**(14,000)**	**41,672**
Net (decrease)/increase in cash and cash equivalents		**(25,490)**	**(53,532)**
Cash and cash equivalents brought forward		112,741	166,273
Cash and cash equivalents carried forward	18	**87,251**	**112,741**

Cash flows related to the sale and purchase of financial investments are included in operating cash flows as they are associated with the origination of insurance contracts and payment of insurance claims.

The notes are an integral part of these financial statements.

1 SEGMENTAL ANALYSIS

The operating segments reflect the level within the Group at which key strategic and resource allocation decisions are made and the way in which operating performance is reported internally to the chief operating decision makers in the Group, being the Group Board.

Information is provided to the Board which identifies operating profit segmented between: that achieved on new business written in the period; that which derives from in-force policies; and that relating to the long-term expected return on surplus assets. This split forms the reportable operating segments in accordance with IFRS 8 *"Operating Segments"*.

New business revenue is reported as Single Premium Equivalent (SPE), being the actual single premium plus 10 times the annual regular premium for new contracts written during the year. These revenue measures are monitored by the Board separately for each core target market.

(a) **Segmental analysis of profit**

The table below shows operating profit for each year, together with a reconciliation to profit before tax:

For the year ended 31 December	2014	2013
	£000's	£000's
New business operating profit	**38,962**	85,678
In-force operating profit	**8,477**	34,278
Long-term expected return on surplus assets	**16,328**	11,435
Operating profit	**63,767**	131,391
Investment variances	**(23,491)**	8,643
Non-recurring expenditure	**(16,348)**	(30,769)
Other	**139**	(1,201)
Interest on borrowings	—	(25,403)
Profit from continuing operations before tax	**24,067**	82,661

Investment variances reflect:

(a) the difference between actual performance on investment assets (e.g. cash, gilts, corporate bonds, loans secured by residential mortgages and loans secured by commercial mortgages) over the reporting period and the investment yield allowed for in the calculation of in-force liabilities at the start of the reporting period;

(b) the difference between the yield on investment assets allowed for in the calculation of new business profits and the actual investment performance including differences arising from investing at different yields and asset allocations than those expected when pricing new business;

(c) the difference between actual performance on investment assets and long-term assumed return on surplus assets; and

(d) the impact of changes in the best-estimate credit default allowance made against the Group's invested assets.

Non-recurring expenditure primarily relates to:

- £2.0m of Solvency II related costs (2013: £4.1m);
- £2.3m of costs incurred in developing scalable and flexible DB architecture (2013: £nil);
- £3.5m of implementation costs in respect of cost management actions, new initiatives, product development and other items (2013: £1.1m).

In addition, non-recurring non cash items were recognised, comprising £6.0m impairment of sales infrastructure in and a further £2.5m of IT development costs, which are being amortised over a 5 year period (2013: £nil).

1 SEGMENTAL ANALYSIS (Continued)

2013 non-recurring expenditure also included £15.8m expenses in respect of the Group's restructure and IPO and £9.8m in respect of the Group's staff share option which vested as a result of the IPO.

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

The profit measure used by the Board to monitor performance is operating profit before tax, analysed between new business operating profit, in-force operating profit and the long-term expected return on surplus assets.

- New business operating profit is profit generated from new business completed in the period, calculated using actuarial assumptions applicable at the time the new business was written, and utilising a discount rate based upon investment yields on investment assets (e.g. cash, gilts, corporate bonds, loans secured by residential mortgages and loans secured by commercial mortgages) used to generate the annuity quotation, net of expenses allocated against new business.
- In-force operating profit is generated from the actual experience measured against the assumed experience in the actuarial basis. The actuarial basis includes a number of assumptions, the most material of which are mortality levels, levels of default on investments, expense levels (to maintain the business in-force), levels of inflation, and lapse rates (for regular premium business). In-force operating profit also includes the effect recognised in the IFRS profit arising from changes to the reported value of insurance (and associated financial) liabilities resulting from changes to the actuarial assumptions, valuation methods, or underlying data, made subsequent to the point of sale.
- Return on surplus assets is the long-term, risk-adjusted, expected return on investments that are surplus to those investments that are used to back insurance liabilities. The long-term expected return is derived from applying an average expected yield appropriate to the category of surplus assets held, and is adjusted for the best-estimate expected level of defaults on those investments. The risk-adjusted annual yields applied to surplus assets during the period were:

For the year ended 31 December	2014	2013
	% p.a.	% p.a.
Cash	**0.5**	0.5
Gilts	**3.0**	3.0
Corporate bonds	**4.5**	4.5
Commodity trade finance	**10.0**	10.0
Loans secured by residential mortgages	**6.0**	n/a

(b) **Segmental analysis of new business revenue by target market**

For the year ended 31 December	2014	2013
	£000's	£000's
Individual retirement annuities	**465,840**	1,076,693
Defined benefit buy-in/buy-out annuities	**246,573**	82,923
Individual care annuities	**75,741**	65,854
Individual protection policies	**3,083**	3,389
Total SPE	**791,237**	1,228,859

(c) **Reconciliation of new business revenue by target market to gross premiums written**

Premiums are recognised in the accounting period in which an insurance contract commences, gross of any commission paid. Premiums which have been received and for which no contract is yet in-force are classified as payables arising from insurance contracts and are included within insurance and other payables in the consolidated statement of financial position. Where a contract has been issued but premiums have not yet been received, a debtor arising out of direct insurance operations is recognised for the expected premiums due. Reinsurance premiums and recoveries are accounted for in the accounting

1 SEGMENTAL ANALYSIS (Continued)

period in accordance with the contractual terms of the reinsurance treaties. Premiums exclude any taxes or duties based on premiums.

New business revenue by target market reconciles to gross premiums written as follows:

For the year ended 31 December	2014	2013
	£000's	£000's
Total single premium equivalent	**791,237**	1,228,859
Adjustment in respect of regular premium business	**135**	(5)
Change in premiums receivable—not included in SPE	**(30,734)**	(69,335)
Reinsurance premiums received	—	43
Gross premiums written	**760,638**	1,159,562

Premiums are written at the point an insurance contract comes into force. For management purposes SPE is recorded when all funds have been received from the policyholder. Amounts due from policyholders for premiums not yet received is shown in note 15.

(d) Product revenue information

The following table illustrates revenue by product as required by IFRS 8 *"Operating Segments"*. All revenues from external customers are predominantly derived from business originated in the UK, and as such no geographical information is disclosed.

The Board considers the Group's external customers to be the individual policyholders. As such, the Group is not reliant on any individual customer.

An analysis of gross premiums written by product is set out below:

For the year ended 31 December	2014	2013
	£000's	£000's
Individual retirement annuities	**435,106**	1,007,359
Defined benefit buy-in/buy-out annuities	**246,573**	82,923
Individual care annuities	**75,864**	65,979
Individual protection policies	**3,095**	3,258
Other	—	43
Total gross premiums written	**760,638**	1,159,562

2 BASIS OF PREPARATION AND NEW AND REVISED STANDARDS

Basis of preparation

Partnership Assurance Group plc (the Company) was incorporated in the United Kingdom and registered in England and Wales on 26 February 2013 as a public company limited by shares. The Company's registered office address is 5th Floor, 110 Bishopsgate, London, EC2N 4AY.

The principal activity of the Company is that of a holding company. The Company and the entities controlled by the Company (its subsidiaries) are collectively "the Group".

Note 29 to the financial statements sets out the Group's policies and procedures for managing insurance and financial risk, and note 30 sets out how the Group manages its capital resources.

These financial statements comprise the consolidated annual financial statements of the Group and the individual annual financial statements of the Company made up to 31 December 2014.

The results of subsidiaries acquired or disposed of during the period are included from or up to the effective date of acquisition or disposal. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The Group has control over an

2 BASIS OF PREPARATION AND NEW AND REVISED STANDARDS (Continued)

entity if all of the following conditions are met: (a) the Group has power over an entity; (b) the Group is exposed to, or has rights, to variable returns from its involvement with the entity; (c) the Group has the ability to use its power over the entity to affect its own returns.

The presentation currency of the Group is sterling. Unless otherwise stated, the amounts shown in the consolidated financial statements are in thousands of pounds sterling (£'000).

The consolidated financial statements and those of the Company have been prepared and approved by the Directors in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Group has applied all IFRS standards and interpretations adopted by the EU effective for the year ended 31 December 2014.

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

Significant accounting policies applied to the preparation of these financial statements are presented in the designated boxes within the notes to the financial statements, aligning disclosure of accounting policies to the item which is most directly relevant to the policy.

Adoption of new and revised standards

The Group has adopted the following new standards and changes to existing standards which are relevant to the Group's operations, and became effective for financial years beginning on or after 1 January 2014:

- **IFRS 10 Consolidated financial statements**—This standard sets out the requirements for the preparation and presentation of consolidated financial statements, requiring entities controlled by the Parent Company to be consolidated as subsidiaries. The standard changes the definition of "control" from that previously established in IFRS. As a result of the adoption of this standard the Group has changed its accounting policy for determining when the Group has control over an entity to the following: The Group has control over an entity if all of the following conditions are met: (a) the Group has power over an entity; (b) the Group is exposed to, or has rights, to variable returns from its involvement with the entity; (c) the Group has the ability to use its power over the entity to affect its own returns. Associated amendments to IAS 27 *Separate financial statements* have also been adopted. The application of IFRS 10, and associated amendments, has not resulted in any change in the entities which are determined to be subsidiaries of the Group. There is no impact on the financial statements in the current or comparative periods.

- **IFRS 11 Joint Arrangements**—This standard defines joint arrangements and related accounting principles. The standard established two types of joint arrangement—joint ventures and joint arrangements—based on how rights and obligations are shared by investors in the arrangements. Associated amendments to IAS 28 Investments in associates and joint ventures have also been adopted. The application of IFRS 11 has no impact on the financial statements in the current or comparative periods.

- **IFRS 12 Disclosures of interests in other entities**—IFRS 12 requires additional disclosures for investments in subsidiaries, joint arrangements, associates and structured entities. The new disclosures required by this standard are presented in note 13 and note 14.

- **IAS 32 Financial Instruments**—Presentation—An amendment to IAS 32 clarifies the requirements for offsetting financial assets and liabilities. The application of the amendment has no impact on the financial statements in the current or comparative periods.

- **IAS 36 Impairment of assets**—An amendment to IAS 36 which reduces the circumstances in which the recoverable amount of nonfinancial assets is required to be disclosed. The application of the amendment has no impact on the financial statements in the current or comparative periods.

2 BASIS OF PREPARATION AND NEW AND REVISED STANDARDS (Continued)

- **IAS 39 Financial Instruments: Recognition and measurement**—An amendment to IAS 39 which clarifies the circumstances in which hedge accounting can be continued when derivatives are novated to a central counterparty. The application of the amendment has no impact on the financial statements in the current or comparative periods.

Other changes in accounting policy are:

- **Segmental analysis**—To reflect changes in the information provided to the Board, revenue attributable to Defined Benefit buy-in/buy out annuities is now presented separately from revenue attributable to Individual retirement annuities in the segmental analysis of revenue. Previously these categories were presented together in a Retirement Annuity segment. Comparative information has been re-analysed accordingly.
- Restatement of 2013 balance sheet
- **Presentation of accrued income arising from financial investments**—During the year the Group reviewed the presentation of accrued income arising from financial investments classified as fair value through profit and loss in the consolidated statement of financial position. It was concluded that presenting all components of the fair value of financial investments on the same line provides more clarity as to the Group's exposure to these investments and therefore provides more relevant and no less reliable information. As a result of this change in policy an amount of £65.8m (2013: £59.1m) was reclassified from Prepayments and accrued income to Financial Assets. This change in policy has no effect on profit for the current or prior period or earnings per share.
- **Payables and receivables arising from reinsurance contracts**—During the year the Group reviewed the presentation of balances due to and from the Group under reinsurance contracts. It was concluded that presenting financial liabilities due to reinsurers where assets are legally and physically deposited back to the Group separately from other payables and receivables under reinsurance contracts better reflects the Group's management of reinsurance balances and therefore provides more relevant and no less reliable information. As a result of this change in policy an amount of £21.5m (2013: £15.2m) was reclassified from financial liabilities to Insurance and other receivables. An amount of £3.2m (2013: £1.9m) was reclassified from financial liabilities to Insurance and other payables. This change in policy has no effect on profit for the current or prior period or earning per share.

The following new or revised or amended standards, in issue, were not yet effective, or in some cases not yet endorsed by the EU. The Group has not early adopted any of these standards.

Standard/ Interpretation	Content/amendment	Applicable for annual financial periods beginning on or after
IFRS 9	**Financial Instruments** IFRS 9 will replace IAS 39: "*Financial Instruments—Recognition and Measurement*". The impact of the adoption of IFRS 9 on the Group will depend on the finalisation of the standard and the interaction of the requirements of IFRS 9 with the IASB's on-going insurance contracts accounting project. The standard has not yet been endorsed by the EU.	1 January 2018
IFRS 10, IFRS 11, and IAS 28	**Consolidated Financial Statements, Joint Arrangements, Investments in Associates and Joint Ventures** Amendments regarding the sale of contribution of assets between an investor and its associate or joint venture and application of the consolidation exception. The amendments have not yet been endorsed by the EU.	1 January 2016

2 BASIS OF PREPARATION AND NEW AND REVISED STANDARDS (Continued)

Standard/ Interpretation	Content/amendment	Applicable for annual financial periods beginning on or after
IFRS 14	**Regulatory Deferral Accounts** The standard permits an entity which is a first-time adopter of IFRS to continue to account for "regulatory deferral account balances" in accordance with its previous GAAP. As the Group is not a first-time adopter of IFRS, the standard will have no impact on the Group. The standard has not yet been endorsed by the EU.	1 January 2016
IFRS 15	**Revenue from Contracts with Customers** IFRS 15 specifies how and when to recognise revenue, and requires additional disclosures. The standard provides a single, principles-based five-step model to be applied to contracts with customers. Insurance contracts and financial instruments are excluded from the scope of the standard. Therefore the amendments are not expected to have a material impact on the Group's profit before tax for the year or equity. The standard has not yet been endorsed by the EU.	1 January 2017
IAS 16	**Property, Plant and Equipment** Amendments regarding the clarification of acceptable methods of depreciation and amortisation and bringing bearer plants into the scope of IAS 16. The standard has not yet been endorsed by the EU.	1 January 2016
IAS 19	**Employee Benefits** Amendments clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. The amendments have been endorsed by the EU.	1 July 2014
IAS 27	**Separate Financial Statements** Amendments reinstating the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The amendments have not yet been endorsed by the EU.	1 January 2016
IAS 38	**Intangible Assets** Amendments regarding the clarification of acceptable methods of depreciation and amortisation. The amendments have not yet been endorsed by the EU.	1 January 2016
IAS 41	**Agriculture** Amendments bringing bearer plants into the scope of IAS 16. The amendments have not yet been endorsed by the EU.	1 January 2016

2 BASIS OF PREPARATION AND NEW AND REVISED STANDARDS (Continued)

Standard/ Interpretation	Content/amendment	Applicable for annual financial periods beginning on or after
IAS1	**Presentation of Financial Statements**	1 January 2016
	Amendments that provide additional clarity and explanations on the application of materiality and the presentation of accounting policies and disclosures in financial statements. The amendments have not yet been endorsed by the EU.	
Annual Improvements 2010–2012 Cycle	Amendments to a number of IFRS standards, clarifying guidance, wording or minor corrections. None of the proposed amendments are expected to have a material impact on the Group's profit before tax for the year or equity.	1 July 2014
	The amendments have been endorsed by the EU.	
Annual Improvements 2011–2013 Cycle	Amendments to a number of IFRS standards, clarifying guidance, wording or minor corrections. None of the proposed amendments are expected to have a material impact on the Group's profit before tax for the year or equity.	1 July 2014
	The amendments have been endorsed by the EU.	
Annual Improvements 2012–2014 Cycle	Amendments to a number of IFRS standards, clarifying guidance, wording or minor corrections. None of the proposed amendments are expected to have a material impact on the Group's profit before tax for the year or equity.	1 January 2016
	The amendments have not yet been endorsed by the EU.	

3 NET INVESTMENT INCOME

Investment income comprises interest received on financial investments, realised investment gains and losses and movements in unrealised gains and losses. Expenses and charges are included on an accruals basis.

Realised gains and losses on investments are calculated as the difference between net sales proceeds less costs of sale and original cost. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date. The movement in unrealised gains and losses recognised in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

For the year ended 31 December	2014	2013
	£000's	£000's
Interest receivable from financial assets	**152,519**	138,533
Interest payable on financial liabilities	**(81,065)**	(71,596)
Movement in fair value of financial assets	**365,915**	26,616
Movement in fair value of financial liabilities	**(176,573)**	17,382
Realised gains on financial assets	**95,158**	72,604
Realised losses on financial liabilities	**(56,723)**	(45,777)
Total net investment income	**299,232**	**137,762**

All financial assets and liabilities at 31 December 2014 are classified at fair value through profit and loss.

4 ACQUISITION COSTS

Acquisition costs comprise direct costs such as commissions and indirect costs of obtaining and processing new business. They are allocated to particular categories of business based on available information. Acquisition costs are not deferred as they are largely recovered at policy inception through profit margins.

For the year ended 31 December	2014	2013
	£000's	£000's
Commission	**4,049**	11,435
Other acquisition expenses	**948**	1,601
Total acquisition costs	**4,997**	13,036

5 OTHER OPERATING EXPENSES

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

For the year ended 31 December	Note	2014	2013
		£000's	£000's
Staff costs, including Directors' remuneration	6	**40,760**	41,052
Depreciation of property, plant and equipment	9	**3,239**	1,843
Amortisation of intangible assets	11	**3,275**	1,997
Rental of leased premises		**3,220**	2,860
Other operating leases		**308**	419
Auditor remuneration		**704**	3,307
Share-based payment charges	19	**1,223**	9,324
Consultancy		**8,681**	11,507
Legal and professional fees		**5,288**	20,143
Marketing		**12,591**	11,591
Other (primarily office maintenance and supplies)		**16,515**	13,180
Total other operating expenses		**95,803**	117,223

Included in the expenses above are £78.1m (2013: £83.9m) of Operating expenses that are included in the derivation of the Operating profit. A further £16.3m (2013: £30.8m) are reported as non-Recurring expenditure and the balance of £1.4m (2013: £2.5m) are included within other non-operating items.

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

Fees payable for the year ended 31 December were in respect of:	2014	2013
	£000's	£000's
The audit of the Partnership Assurance Group plc Annual Report and Accounts	**94**	85
The audit of other Group entities	**192**	336
Audit related assurance services	**172**	166
Taxation compliance services	**118**	44
All other assurance services	**128**	—
Corporate finance transactions relating to the IPO in June 2013	—	2,676
Auditor remuneration	**704**	3,307

6 STAFF COSTS

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

For the year ended 31 December	2014	2013
	£000's	**£000's**
Wages and salaries	**34,202**	33,839
Social security costs	**4,494**	5,528
Other pension costs	**2,064**	1,685
Total staff costs	**40,760**	41,052
The average number of persons employed during the year were:		
Administration and finance	**444**	430
Sales and marketing	**73**	109
Average number of employees	**517**	539

An analysis of Directors' remuneration is included in the Remuneration Report.

7 INCOME TAX

Income tax comprises current and deferred tax. Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the consolidated statement of comprehensive income.

Provision is made for taxation on taxable profits for the year, using tax rates enacted or substantially enacted at the balance sheet date together with adjustments to tax payable in respect of previous years.

Deferred tax is provided in full on temporary differences arising, which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on tax rates and laws enacted or substantively enacted at the balance sheet date. Temporary differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements except for differences arising from the initial recognition of goodwill and the initial recognition of assets and liabilities in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable profit.

A deferred tax asset is recognised to the extent that it is regarded as more likely than not that it will be recovered. Deferred tax assets and liabilities are not discounted.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset only if: a legally enforceable right exists to set off current tax assets against current tax liabilities; the deferred income taxes relate to the same taxation authority; and that authority permits the Group to make a single net payment.***

For the year ended 31 December	2014	2013
	£000's	**£000's**
Current taxation:		
Tax charge for the year	**6,015**	23,112
Adjustment in respect of prior periods	**(2,035)**	394
	3,980	23,506
Deferred taxation:		
Tax credit for the year	**1,233**	(266)
Net taxation charge	**5,213**	23,240

7 INCOME TAX (Continued)

The actual tax charge of the Group differs from the expected tax charge, computed by applying the average rate of UK corporation tax for the year of 21.5% (2013: 23.25%), as follows:

For the year ended 31 December	2014	2013
	£000's	£000's
Profit before tax	**24,067**	82,661
Current taxation at 21.5% (2013: 23.25%)	**5,173**	19,216
Disallowable expenses	**51**	4,140
Adjustments in respect of prior periods	**(2,035)**	394
Adjustments to deferred tax in respect of prior periods	**1,903**	(315)
Rate change impact	**55**	15
Non-qualifying depreciation	**106**	66
Share-based payment charge on which deferred tax not recognised	**(40)**	(276)
Net taxation charge	**5,213**	23,240

Taxation was all from continuing operations in 2014 and 2013.

8 EARNINGS PER SHARE

Basic earnings per share is calculated using the earnings attributable to ordinary equity holders of the Parent, divided by the weighted average number of ordinary shares in issue during the period.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares, including share options and awards.

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ordinary shares into ordinary shares.

The calculation of the basic and diluted earnings per share from continuing operations is based on the following data:

For the year ended 31 December	2014	2013
	£000's	£000's
Profit for the year	**18,854**	59,421
Less non-controlling interests	**(2)**	44
Profit attributable to equity holders of the Parent	**18,852**	59,465
Effect of dilutive potential ordinary shares:		
Share options	**—**	—
Diluted profit attributable to equity holders of the Parent	**18,852**	59,465

Prior to 12 June 2013 the top holding company in the Group was PAG Holdings Limited. All of PAG Holdings Limited's A, B and C shares (see note 31) were exchanged for Partnership Assurance Group plc shares on 12 June 2013. For the purpose of the earnings per share calculation, the weighted average

8 EARNINGS PER SHARE (Continued)

number of share shown below has been calculated as if the exchange of these PAG Holdings Limited shares had occurred at the beginning of the comparative period.

For the year ended 31 December	2014	2013
	Number of shares	Number of shares
Basic weighted average number of shares	**399,870,568**	346,138,910
Effect of dilutive potential ordinary shares:		
Share options	**2,780,521**	1,276,243
Diluted weighted average number of shares	**402,651,089**	347,415,153

The options granted by the PAG Holdings Limited trust in respect of the ESOP scheme have a dilutive effect, up to the date of the IPO when these options vested.

As detailed in note 19, the Group implemented a number of new employee share-based plans following admission on the London Stock Exchange. The Share Incentive Plan (SIP) has a dilutive effect.

It is our current intention that the Long Term Incentive Plan (LTIP) and the share element of the Deferred Share Bonus Plan (DSBP) be settled by fresh issues of shares as the awards vest. The weighted average number of shares calculation above has been derived on the assumption that the vesting of shares in respect of the LTIP and DSBP awards will be settled by a fresh issue of shares when the awards vest and hence will be dilutive.

9 PROPERTY, PLANT AND EQUIPMENT

Assets are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated to write off the cost of tangible assets over their estimated useful life on a straight-line basis. The principal rates used for this purpose are as follows:

Computer equipment	33%
Fixtures and fittings	10% to 20%
Office re-fit	10% to 50%

	Computer equipment	Fixtures and fittings	Office refit costs	Total
	£000's	£000's	£000's	£000's
Cost at 1 January 2014	7,830	1,373	11,164	20,367
Additions	873	16	419	1,308
Disposals	(22)	(893)	(358)	(1,273)
At 31 December 2014	**8,681**	**496**	**11,225**	**20,402**
Accumulated depreciation at 1 January 2014	3,577	423	908	4,908
Charge for the year	2,037	31	1,171	3,239
Disposals	(22)	—	(280)	(302)
At 31 December 2014	**5,592**	**454**	**1,798**	**7,845**
Net book value:				
At 31 December 2013	4,253	950	10,256	15,459
At 31 December 2014	3,089	42	9,427	12,557

10 GOODWILL

Goodwill represents the excess of cost of acquisition over the fair value of the separable net assets of businesses acquired. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is allocated to each of the cash generating

10 GOODWILL (Continued)

units (CGU) that are expected to benefit from the combination. Goodwill is tested for impairment at least annually, or when circumstances or events indicate there may be uncertainty over this value. Impairment is determined by assessing the recoverable amount of each CGU to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Any impairment is recognised immediately in the consolidated statement of comprehensive income and is not subsequently reversed.

	2014	2013
	£000's	£000's
At 1 January	**126,207**	126,207
At 31 December	**126,207**	126,207

The goodwill arose on acquisition of the PLACL operations and the value represented the potential of this business to generate value from future sales. Therefore the goodwill is allocated to the new business cash-generating unit, the scope of which is identical to the "new business" operating segment described in note 1.

The carrying value of goodwill has been tested for impairment at the balance sheet date.

The impairment test compares the carrying value of the new business cash generating unit (including goodwill and intangible assets) to its recoverable amount. The recoverable amount of the CGU is the higher of fair value less costs to sell and value in use. The Group uses an estimate of value in use is the primary measure of the recoverable amount. The future cash flows from the CGU are estimated as the expected future profits for the CGU set out in the Group's business plan as determined by management for a period of five years from the balance sheet date. These plans reflect management's best estimate of future profits based on both historical experience and expected growth rates for the CGU. The underlying assumptions of these projections include market size and growth, market share, profit margins, customer numbers and mortality.

Expected future profits for the CGU are discounted using a risk adjusted discount rate. The risk adjusted discount rate is a combination of a risk-free rate and an allowance for risk estimated with reference to observable rates and factors applied to business of similar size and nature. A rate of 13.1% (2013: 10.0%) has been applied to discount cash flows to a present value.

No impairment has been recognised in 2014 or 2013.

11 OTHER INTANGIBLE ASSETS

Other intangible assets comprise intellectual property and software development costs.

The intellectual property asset comprising specific mortality tables derived from data collected over an extended period and are deemed to have an indefinite life. Consequently no amortisation is charged against its carrying value.

Development costs that are directly attributable to the design and testing of identifiable software products, controlled by the Group, are recognised as intangible assets when it can be demonstrated that it is technically feasible to complete the product so that it is available for use and will generate probable future economic benefits. Software development costs have a finite useful life and are amortised using the straight-line method over three to five years.

Impairment review of other intangible assets

The carrying amounts of intangible assets with finite expected useful economic lives are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. A review for indicators of impairment is conducted annually. The carrying amounts of intangible assets with indefinite expected useful economic lives are tested for impairment at least annually, or when circumstances or events indicate there may be uncertainty over this value. An impairment loss is

11 OTHER INTANGIBLE ASSETS (Continued)

recognised in the Consolidated Statement of Comprehensive Income for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

	2014	2013
	£000's	£000's
Intellectual property cost and carrying amount:		
At 1 January	**3,100**	3,100
At 31 December	**3,100**	3,100
Software development cost:		
At 1 January	**17,805**	11,750
Additions at cost	**2,093**	7,696
Assets written off	**—**	(1,641)
At 31 December	**19,898**	17,805
Software development accumulated amortisation:		
At 1 January	**4,504**	2,507
Charge for the year	**3,275**	1,997
At 31 December	**7,779**	4,504
Total intangible assets at 1 January	**16,401**	12,343
Total intangible assets at 31 December	**15,219**	16,401

The value of intellectual property has been determined based upon an estimate of the costs to employ adequately skilled individuals over an appropriate period of time to develop intellectual property of a similar nature sufficient to enable the Group to replicate the estimated future cash flows and profits deriving from that intellectual property.

The intellectual property is continually updated through the collection of further data, updated analyses, and conversion into new and more detailed underwriting manuals and mortality tables. For this reason, the intangible asset is deemed to have an indefinite life, and consequently, no amortisation is provided against the value of the intangible asset. The carrying value of the intangible asset is tested for impairment at each reporting date, and is allocated to the "new business" cash-generating unit, the scope of which is identical to the "new business" operating segment described in note 1. The method and assumptions used in this test are identical to those applied in the goodwill impairment test, as set out in note 10.

No impairment of intellectual property has been recognised in 2013 or 2014.

12 FINANCIAL ASSETS

Financial assets classification

The Group classifies its financial assets as financial investments, loans secured by residential mortgages, loans secured by commercial mortgages and derivative financial assets at fair value through profit and loss. The category of fair value through profit and loss has two sub-categories: those that meet the definition as being held for trading; and those that the Group chooses to designate as fair value. The fair value through profit and loss is selected as the Group's strategy is to manage its financial assets, as a portfolio, on a fair value basis.

12 FINANCIAL ASSETS (Continued)

Financial investments

Purchases and sales of debt securities and other fixed income securities are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets, at their fair values. Transaction costs are expensed as incurred. These investments are derecognised when the contractual rights to receive cash flows from the investments expire, or where the investments have been transferred, together with substantially all the risks and rewards of ownership.

Debt securities and other fixed income securities are subsequently carried at fair value with changes in fair value included in the Consolidated Statement of Comprehensive Income in the period in which they arise.

The fair values of debt securities are based on quoted bid prices, or based on modelled prices (using observable market inputs) where quoted bid-prices are not available.

Commodity Trade Finance Investments, whether by way of a direct loan or an investment in a fund of such loans (CTF Investments), are carried at fair value on initial recognition and are recognised when the cash is advanced for the trade. CTF Investments are subsequently carried at fair value with changes in fair value included in the consolidated statement of comprehensive income in the period in which they arise. The fair value of these investments is not based on observable market data.

Loans secured by residential mortgages

Loans secured by residential mortgages are recognised when the cash is advanced to borrowers at their fair values. These loans are derecognised when the contractual rights to receive cash flows from the investments expire, or where the investments have been transferred, together with substantially all the risks and rewards of ownership.

Loans secured by residential mortgages are subsequently carried at fair value with changes in fair value included in the consolidated statement of comprehensive income in the period in which they arise.

The fair value of loans secured by residential mortgages is initially deemed to be the transaction price and subsequently marked to model. The underlying model follows the methodology used to establish transaction prices. It uses longevity assumptions to derive expected cash flows and the Black-Scholes option pricing methodology to establish the value of the "no negative equity guarantee" (NNEG) that is embedded in the product. The discount rates that are applied to cash flows to produce fair value are based on long dated swaps adjusted so that they would produce transaction date prices on the date of transaction.

Loans secured by commercial mortgages

Loans secured by commercial mortgages are recognised when the cash is advanced to borrowers at their fair values. These loans are derecognised when the contractual rights to receive cash flows from the investments expire, or where the investments have been transferred, together with substantially all the risks and rewards of ownership.

Loans secured by commercial mortgages are subsequently carried at fair value with changes in fair value included in the consolidated statement of comprehensive income in the period in which they arise.

The fair value of loans secured by commercial mortgages is initially deemed to be the transaction price and subsequently marked to model. The valuation model produces a series of projected future cash flows for each mortgage, based on a range of simulations of changes in property prices drawn from a distribution based on historic observed changes. Potential changes in property tenancy are also modelled in a range of simulations. The discount rates that are applied to cash flows to produce the fair value are based on long dated swaps adjusted so that they would produce transaction date prices on the date of the transaction.

12 FINANCIAL ASSETS (Continued)

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rates, inflation, credit default and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps, credit default swaps and inflations swaps.

Derivative contracts are traded either through an exchange or over-the-counter (OTC). OTC derivative contracts are individually negotiated between contracting parties and can include options, swaps, caps and floors.

Derivatives are initially recognised at fair value at the date that a derivative contract is entered into and are subsequently remeasured to fair value at each balance sheet date. The resulting gain or loss is recognised in the consolidated statement of comprehensive income. The fair values are obtained from quoted market prices or, if these are not available, by using standard valuation techniques based on discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair value is positive and liabilities when the fair values are negative. Premiums paid for derivatives are recorded as an asset in the consolidated statement of financial position at the date of purchase representing their fair value at that date.

Financial assets: Fair value at 31 December	2014	Restated[(i)] 2013
	£000's	£000's
Financial investments	**3,584,820**	3,133,790
Loans secured by residential mortgages	**1,212,324**	840,066
Derivative assets	**75,892**	36,413
Loans secured by commercial mortgages	**37,868**	—
Total financial assets	**4,910,904**	4,010,269

(i) See note 2.

The methodology used to derive the fair values is set out in note 25.

Financial assets: Cost at 31 December	2014	2013
	£000's	£000's
Financial investments	**3,298,543**	2,991,196
Loans secured by residential mortgages at cost	**950,909**	796,788
Derivative assets	**—**	—
Loans secured by commercial mortgages at cost	**37,481**	—
Total financial assets	**4,286,933**	3,787,984

13 PRINCIPAL GROUP UNDERTAKINGS

Foreign currencies

Items included in the financial statement of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of each of the Group's material entities is sterling. The consolidated financial statements are presented in sterling, which is the Group's presentation currency.

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the financial period. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in net investment income in the consolidated statement of comprehensive income.

13 PRINCIPAL GROUP UNDERTAKINGS (Continued)

Set out below are the principal subsidiary and associate undertakings of Partnership Assurance Group plc. All of the companies are incorporated in the United Kingdom and registered in England and Wales unless otherwise indicated. The shares held are voting ordinary equity shares. A full list of subsidiary and joint venture undertakings will be annexed to the Partnership Assurance Group plc annual return filed at Companies House.

Name:	Principal activity:	Holding
PAG Holdings Limited[(i)]	Holding company	100%
PAG Finance Limited[(i)]	Holding company	100%
Partnership Holdings Limited	Holding company	100%
Partnership Group Holdings Limited	Holding company	100%
Partnership Life Assurance Company Limited	Life assurance and pension annuities	100%
Partnership Home Loans Limited	Provision of lifetime mortgage products	100%
Partnership Services Limited	Service company	100%
Payingforcare Limited	Website	100%
PASPV Limited	Investment activity	100%
Partnership Life US Company[(ii)]	Management services	100%
Eldercare Group Limited[(iii)]	Independent financial advisers	33%

(i) Incorporated in Jersey (now dormant).

(ii) Incorporated in the USA.

(iii) Associate.

Partnership Assurance Group plc directly or indirectly holds 100% of the ordinary shares and voting rights in the entities listed above (with the exception of Eldercare Group Limited), therefore Partnership Assurance Group plc controls these entities as subsidiaries.

Eldercare Group Limited

On 6 February 2014 the Group's subsidiary, Eldercare Group Limited (Eldercare), entered into a transaction to acquire Care Fee Investment Limited, an independent financial adviser in exchange for the issue of ordinary shares. As part of the transaction the Group made a capital contribution to Eldercare of £48,345. As a result of this transaction the Group's holding in Eldercare represented a smaller proportion of the enlarged Eldercare group, decreasing to 33% of its ordinary shares. Eldercare therefore ceased to be a subsidiary and became an associate of the Group. The Group's interest in the associate was initially measured at £206,000, representing its fair value on the date of the transaction. As a result of the transaction a gain of £157,509 arose, representing the difference between the fair value of the Group's interest in the associate and the prior carrying value of the Group's share of the subsidiary, less the capital contribution and attributable costs.

Gateway Specialist Advice Services

During 2014 the Group completed a review of the operations of Gateway Specialist Advice Services Limited (Gateway), and wrote down to £nil the value of its joint venture investment in Gateway and wrote down to £nil the value of its loans to Gateway (see note 8). A £334,000 charge for the write down of the value of loans is included in Operating expenses and a £206,000 charge for the write down of the investment is included in Share of result of joint venture and associates accounted for using the equity method in the Statement of Comprehensive Income. On 29 August 2014 the Group disposed of its investment in Gateway to Sesame Limited for consideration of £1, resulting in a profit on disposal of £1 recognised in the Share of results in joint ventures and associates using the equity method in the Statement of Total Comprehensive Income.

13 PRINCIPAL GROUP UNDERTAKINGS (Continued)

Partnership Assurance Life Assurance Company Limited

The Group's regulated insurance entity, Partnership Assurance Life Assurance Company Limited, is subject to UK solvency requirements which may, in the event of a breach of those requirements, affect that entity's ability to transfer funds in the form of cash dividends to other entities in the Group. The net assets of Partnership Assurance Life Assurance Company Limited at the balance sheet date are £459.0m (2013: £415.5m). There are no protective rights of non-controlling interests which significantly restrict the Group's ability to access or use the assets and settle the liabilities of the Group.

14 INVESTMENT IN JOINT VENTURES AND ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

The Group uses the equity method to consolidate its investments in joint ventures and associates. Under the equity method of accounting the investment is initially recognised at fair value and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the joint venture.

Associates	2014	2013
	£000's	£000's
At 1 January	**—**	—
Fair value on initial recognition	**206**	—
Share of profit from continuing operations	**27**	—
At 31 December	**233**	—

Joint ventures	2014	2013
	£000's	£000's
At 1 January	**206**	368
Impairment of joint venture	**(206)**	(162)
At 31 December	**—**	206

In the year the Group entered into a transaction that changed its holding in Eldercare from a subsidiary to an associate and also disposed of its joint venture investment in Gateway. Details of both of these transactions are included in note 13.

There were no profits or losses arising from discontinued operations in joint ventures or associates in 2014 or 2013. There were no items of other comprehensive income in joint ventures or associates in 2014 or 2013.

15 INSURANCE AND OTHER RECEIVABLES

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

As at 31 December	2014	Restated(i) 2013
	£000's	£000's
Debtors arising out of insurance contracts(ii)	**11,135**	51,140
Debtors arising out of reinsurance contracts	**22,522**	24,196
Other debtors	**3,266**	4,008
Corporation tax receivable	**2,091**	—
Amounts due from associate	**153**	—
Amounts due from joint venture	**—**	289
Total insurance and other receivables	**39,167**	79,633

(i) See note 2.

(ii) Includes £9.7m in respect of premiums written for which funds have not yet been received from the policyholder (2013: £51.1m).

15 INSURANCE AND OTHER RECEIVABLES (Continued)

The Directors consider that the carrying value of insurance and other receivables in the balance sheet is a reasonable approximation of the fair value.

16 PREPAYMENTS AND ACCRUED INCOME

Interest accrued represents the balance receivable for interest income, calculated daily based on the contractual interest rates of the relevant instruments, recognised since the last interest payment date.

As at 31 December	2014	Restated[(i)] 2013
	£000's	£000's
Accrued interest	**32**	11
Prepayments	**3,583**	10,980
Total prepayments and accrued income	**3,615**	10,991

(i) See note 2.

17 DEFERRED TAX ASSET/LIABILITY

For the year ended 31 December	2014	2013
	£000's	£000's
At 1 January	**424**	158
(Debit)/credit to consolidated statement of comprehensive income	**(1,233)**	266
Deferred tax asset at 31 December	**519**	424
Deferred tax liability at 31 December	**(1,328)**	—

The deferred tax asset is recognised as a result of the difference between: the accumulated depreciation and the capital allowances claimed on property, plant and equipment and the accumulated share based payment charges and a more current estimation of the likely cost of schemes that have not yet vested based on a revaluation at the balance sheet date. The recoverability of deferred tax assets have been considered with regard to the future taxable profits expected in management plans. The deferred tax liability is recognised as a result of the difference between the accumulated amortisation and research and development claims relating to software development costs. The UK corporation tax rate that is expected to be appropriate when each of these timing differences arise is 20% (2013: 20%).

18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, deposits held on call with banks and other short-term highly liquid investments with original maturities of 90 days or less. Bank overdrafts are included in cash and cash equivalents for the purposes of the consolidated cash flow statement.

As at 31 December	2014	2013
	£000's	£000's
Short-term bank deposits	**56,159**	94,723
Cash at bank and in hand	**31,092**	18,018
Total cash and cash equivalents	**87,251**	112,741

19 SHARE-BASED PAYMENTS

Equity-settled share-based payments to employees and others providing services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. The fair value determined at the grant date of the equity-settled share-based payments

19 SHARE-BASED PAYMENTS (Continued)

is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest.

At each period end, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the consolidated statement of comprehensive income such that the cumulative expense reflects the revised estimate with a corresponding adjustment to equity.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of those instruments, measured immediately before and after the modification, is also charged to the consolidated statement of comprehensive income over the remaining vesting period.

The share-based payment expense recognised for employee services receivable during the year is as follows:

For the year ended 31 December	2014	2013
	£000's	£000's
Employee Share Option Plan	**—**	8,378
Long Term Incentive Plan	**863**	432
Deferred Share Bonus Plan	**273**	374
Share Incentive Plan	**92**	65
Save As You Earn Plan	**(5)**	75
Total expense	**1,223**	9,324

(i) Employee Share Option Plan (ESOP)

In 2009, the Group implemented an Employee Share Option Plan (ESOP) to retain and motivate its employees. Following admission on the London Stock Exchange on 12 June 2013, all the awards under the ESOP vested in full and were exercised immediately. There were no outstanding options under the ESOP as at 31 December 2014 or 31 December 2013.

(ii) Long Term Incentive Plan (LTIP)

	2014	2013
	Number of Awards	Number of Awards
Outstanding at the beginning of the year	**1,280,414**	—
Granted during the year	**4,745,589**	1,294,740
Forfeited during the year	**(294,492)**	(14,326)
Outstanding at the end of the year	**5,731,511**	1,280,414

The Group made awards under the LTIP to Executive Directors and other senior executives in May 2014 (2014 LTIP) and June 2013 (2013 LTIP). The LTIP awards will be subject to the satisfaction of the following performance conditions which will determine the proportion (if any) of the LTIP award to vest at the end of the performance period.

50% of the 2013 LTIP awards are subject to a performance condition relating to the growth in the Group's operating profit over a performance period of three financial years. If operating profit for the financial year ending 31 December 2015 exceeds operating profit for the financial year ending 31 December 2012 by 33.1%, 10% of the 2013 LTIP award will vest. The maximum 50% will vest if operating profit for the financial year ending 31 December 2015 exceeds operating profit for the financial year ending 31 December 2012 by at least 64.3%. Payment will be on a sliding scale in between these points.

The remaining 50% of the 2013 LTIP awards and all of the 2014 LTIP will be subject to a condition measuring the Company's total shareholder return (TSR) performance relative to the constituent

19 SHARE-BASED PAYMENTS (Continued)

companies of the FTSE 250 index (excluding investment trusts, mining companies and oil and gas producers), over the period from admission to 31 December 2015, in respect of the 2013 LTIP, and over the period from 22 May 2014 to 22 May 2017 in respect of the 2014 LTIP. Vesting of 10% of the 2013 LTIP award and 20% of the 2014 LTIP award will occur for median performance and the maximum vesting (50% for the 2013 LTIP and 100% for the 2014 LTIP) at upper quartile performance or above, with the proportion vesting between these points calculated on a straight-line basis.

The awards are accounted for as equity-settled schemes. The fair value of these schemes is calculated at each award date based upon the number of shares expected to vest and the expense charge is recognised over the course of the vesting period.

A charge of £862,718 (2013: £431,848) has been recognised in the consolidated statement of comprehensive income with a corresponding increase in equity in the consolidated statement of financial position. The weighted average fair value of awards made in the year was £0.74.

The fair value of the award was measured with reference to the quoted share price of Partnership Assurance Group plc at the measurement date. The performance condition relating to total shareholder return was incorporated into the measure of fair value through stochastic models incorporating the historical TSR volatility of the Group and other comparable listed entities. The performance condition relating to operating profit performance and other non-market vesting conditions are incorporated into the estimate of the total number of awards expected to vest. This expectation is reviewed and if necessary, revised at each reporting date.

During the period the Group reviewed the stochastic model used to incorporate the performance condition into the fair value of the LTIP awards. Resulting corrections to the working of the model resulted in an increase in the value of the 2013 LTIP award recognised. This correction has resulted in an increase in the charge recognised during the period of £194,000.

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

(iii) Deferred Share Bonus Plan (DSBP)

Effective from June 2013, one-third of the bonuses earned by Executive Directors and certain other senior executives in respect of the Company's annual bonus arrangements are deferred into shares in Partnership Assurance Group plc. The remaining two-thirds of the awards will continue to be paid in cash. The share element of the bonus awards will vest on the third anniversary of the date of the determination of the bonus in respect of which they were granted.

The share element of these bonus awards are accounted for as equity-settled schemes. The fair value of these awards are calculated at each award date based on one-third of the estimated annual bonus payout and the expense charge is recognised over the course of the service period to which the bonus relates and the vesting period.

A charge of £272,545 (2013: £374,072) has been recognised in the consolidated statement of comprehensive income in respect of these schemes for the year to 31 December 2014 with a corresponding increase in equity in the consolidated statement of financial position. 946,134 awards were made in the period. 46,606 awards were forfeit during the period and 899,528 awards were outstanding at the end of the period. The weighted average exercise price of the awards is £nil.

The weighted average fair value of awards made during the year was £1.25. The fair value of the award was measured with reference to the quoted share price of Partnership Assurance Group plc at the measurement date. Non-market vesting conditions are incorporated into the estimate of the total number of awards expected to vest. This expectation is reviewed and, if necessary, revised at each reporting date.

19 SHARE-BASED PAYMENTS (Continued)

(iv) Share Incentive Plan (SIP)

	2014 Number of Awards	2013 Number of Awards
Outstanding at the beginning of the year	**119,340**	—
Granted during the year	**2,911**	131,300
Forfeited during the year	**(34,408)**	(11,960)
Outstanding at the end of the year	**87,843**	119,340

In 2013 the Company made a one-off award of £1,000 of free shares immediately after admission to all eligible employees under a new all-employee share plan, known as the Share Incentive Plan (SIP). These shares will be forfeited if the employees cease employment (except in "good leaver" circumstances) within the first three years from the date of the award. Awards made under this plan entitle these employees to:

- a conditional right to acquire shares in Partnership Assurance Group plc at no cost;
- an option to acquire shares in Partnership Assurance Group plc at no cost; or
- a right to receive a cash amount which relates to the value of certain number of notional ordinary shares.

These awards are accounted for as equity-settled schemes. The fair value of these schemes is calculated at each award date based upon the number of shares awarded multiplied by the share price at grant date and expensed over the vesting period. The weighted average exercise price of the awards is £nil.

A charge of £92,430 (2013: £65,277) has been recognised in the consolidated statement of comprehensive income in respect of this scheme for the year to 31 December 2014 with a corresponding increase in equity in the consolidated statement of financial position.

Further awards have been made in the year to 31 December 2014, reflecting additional shares to scheme participants on payment on dividends by the Group, subject to the same conditions as the original award. The weighted average fair value of awards made in the year was £1.31. The fair value of the award was measured with reference to the quoted share price of Partnership Assurance Group plc at the measurement date. Non-market vesting conditions are incorporated into the estimate of the total number of awards expected to vest. The expectation is reviewed and, if necessary, revised at each reporting date.

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

	2014 Number of Awards	2013 Number of Awards	2014 Weighted average of exercise price £	2013 Weighted average of exercise price £
Outstanding at the beginning of the year	**465,761**	—	**3.57**	0.00
Granted during the year	**1,536,051**	508,261	**0.94**	3.57
Forfeited during the year	**(441,250)**	(42,500)	**3.21**	3.57
Outstanding at the end of the year	**1,560,562**	465,761	**1.08**	3.57

In July 2013, the Group introduced a SAYE scheme. Under this plan, employees may elect to save up to £500 per month over a three- or five-year period. The amount of ordinary shares of Partnership Assurance Group plc over which the option is granted will be determined at the grant date to reflect the amount that each employee has agreed to save under the Share Save contract. Awards were granted under the scheme to member employees in July 2013 and November 2014.

A credit of £4,954 (2013 charge of £74,734) has been recognised in the Consolidated Statement of Comprehensive Income in respect of this scheme for the year to 31 December 2014 with a corresponding

19 SHARE-BASED PAYMENTS (Continued)

decrease in equity in the consolidated statement of financial position, reflecting an increase in the lapse assumption applied to the 2013 award as a result of lapse experience during the period exceeding previous expectations.

The fair value of the awards made in the year has been determined using a Black-Scholes valuation model. Key assumptions within this valuation model were: expected share price volatility (41.8%), expected dividend yield (1%), risk-free interest rate (1.7%), expected option life (three years and five years), exercise price (£0.94) and share price at the measurement date (£1.17).

20 INSURANCE LIABILITIES AND REINSURANCE ASSETS

Insurance liabilities

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

The Group's long-term insurance contracts include annuities to fund retirement income, annuities to fund care fees (immediate needs and deferred), long-term care insurance and whole of life and term protection insurance. These contracts are expected to remain in force for an extended period of time, and insure events associated with human life.

One of the purposes of insurance is to enable policyholders to protect themselves against future uncertain events such as death or specific types of illness. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. As a consequence of this uncertainty, estimation techniques are employed by suitably qualified personnel in computing the levels of provisions held against such uncertainty.

The insurance liabilities, which are also referred to as the long-term business provision and policyholder reserves elsewhere in this report, are determined by the Partnership Assurance Board on the advice of the Group's Actuarial Function Holder on the modified statutory basis using recognised actuarial methods with due regard to the actuarial principles set out in the PRA's (formerly the FSA's) Insurance Prudential Sourcebook. In particular, a prospective gross premium valuation method has been adopted for major classes of business.

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

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

At the balance sheet date, provision is made for all notified claims plus an estimate for those claims that have been incurred but not reported. The principal assumptions underlying the calculation of insurance liabilities are set out in note 20.

Reinsurance assets

Long-term business is ceded to reinsurers under contracts to transfer part or all of one or more of the following risks: mortality, morbidity, investment, persistency and expenses. The benefits to which the Group are entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within "Insurance and other receivables") as

20 INSURANCE LIABILITIES AND REINSURANCE ASSETS (Continued)

well as longer-term receivables that are dependent on the expected benefits arising under the related reinsured contracts.

Amounts recoverable from reinsurers are estimated in a consistent manner with insurance liabilities, and are classified as "Reinsurance assets".

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

If the reinsurance asset were impaired, the Group would adjust the carrying amount accordingly and recognise that impairment loss in the consolidated statement of comprehensive income. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract, and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the insurance liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from assets backing such liabilities, are used. Any deficiency is immediately charged to the consolidated statement of comprehensive income.

Claims

Maturity claims and annuities are charged against revenue when due for payment. Death claims and all other claims are accounted for when notified. Claims reinsurance recoveries are accounted for in the same period as the related claim. Where reinsurance treaties are recaptured, amounts received to compensate for the transfer of risk from the reinsurer are accounted for when received or, if earlier, on the date the treaty ceases to be included within the calculation of the reinsurers' share of long-term business provision.

As at 31 December	2014	2013
	£000's	£000's
Long-term business provision	**5,231,112**	4,347,588
Reinsurers' share of long-term business provision	**(3,246,008)**	(2,840,749)
Net provision	**1,985,104**	1,506,839

(a) Principal assumptions

The principal assumptions underlying the calculation of the long-term business provision are as follows:

		Mortality tables	Valuation discount rates
Medically underwritten annuity products	2014	Modified E&W Population Mortality with CMI 2013m (1.25%) and CMI 2013f (1.00%)	**3.53%**
	2013	Modified E&W Population Mortality with CMI 2012m (1.75%) and CMI 2012f (1.50%)	4.31%
Other annuity products	2014	Modified PCMA/PCFA00u bespoke	**1.35%**
	2013	Modified PCMA/PCFA00u bespoke	1.70%
Term and whole of life products	2014	86.25% TM/TF00Select	**1.00%**
	2013	86.25% TM/TF00Select	1.44%

20 INSURANCE LIABILITIES AND REINSURANCE ASSETS (Continued)

Valuation discount rate assumptions are set with regards to yields on supporting assets. An allowance for risk is included by making an explicit deduction from the yields on debt and other fixed income securities based on historical default experience and expected experience of each asset class. The allowance for credit risk has been set at 42% (31 December 2013: 47%) of the spread on the yield of the corporate bonds over the yield on gilts.

The changes in the valuation discount rates at each period end reflect changes in yields on the supporting assets and changes made to the allowance for risk.

The mortality tables used have been adjusted to reflect additional mortality based on the proprietary data held by the Group developed from actual experience incurred. The valuation basis used to calculate the long-term business provisions includes an allowance for future expenses.

(b) Movements

Movements in the carrying amount of insurance liabilities and reinsurance assets are explained as follows:

For the year ended 31 December 2014	Gross	Reinsurance	Net
	£000's	£000's	£000's
At 1 January 2014	**4,347,588**	**(2,840,749)**	**1,506,839**
Increase in liability from new business	**692,005**	**(266,845)**	**425,160**
Release of in-force liability	**(130,286)**	**87,709**	**(42,577)**
Release of liability due to recorded deaths	**(67,743)**	**31,799**	**(35,944)**
Economic changes	**332,956**	**(211,434)**	**121,522**
Non-economic changes	**912**	**—**	**912**
Other	**55,680**	**(46,488)**	**9,192**
At 31 December 2014	**5,231,112**	**(3,246,008)**	**1,985,104**

For the year ended 31 December 2013	Gross	Reinsurance	Net
	£000's	£000's	£000's
At 1 January 2013	3,723,298	(2,412,551)	1,310,747
Increase in liability from new business	1,038,011	(678,827)	359,184
Release of in-force liability	(111,110)	75,012	(36,098)
Release of liability due to recorded deaths	(69,967)	31,040	(38,927)
Economic changes	(209,299)	144,164	(65,135)
Non-economic changes	(25,847)	1,609	(24,238)
Other	2,502	(1,196)	1,306
At 31 December 2013	4,347,588	(2,840,749)	1,506,839

(c) Analysis of expected maturity

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

	Expected cash flows (undiscounted)				
At 31 December 2014	less than one year	one to five years	five to ten years	more than ten years	Carrying value (discounted)
	£000's	£000's	£000's	£000's	£000's
Long-term business provision	**411,885**	**1,510,716**	**1,624,201**	**4,367,492**	**5,231,112**
Reinsurers' share of long-term business provision	**(258,539)**	**(966,479)**	**(1,053,161)**	**(2,699,933)**	**(3,246,008)**
Net	**153,346**	**544,237**	**571,040**	**1,667,559**	**1,985,104**

20 INSURANCE LIABILITIES AND REINSURANCE ASSETS (Continued)

At 31 December 2013	Expected cash flows (undiscounted) less than one year	one to five years	five to ten years	more than ten years	Carrying value (discounted)
	£000's	£000's	£000's	£000's	£000's
Long-term business provision	373,419	1,360,968	1,450,164	3,829,024	4,347,588
Reinsurers' share of long-term business provision	(241,692)	(903,711)	(985,311)	(2,544,018)	(2,840,749)
Net	131,727	457,257	464,853	1,285,006	1,506,839

(d) Sensitivity analysis

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

Sensitivity factor	Description of sensitivity factor applied
Interest rate and investment return	The impact of a change in the market interest rates by +/− 1% (e.g. if a current interest rate is 5%, the impact of an immediate change to 4% and 6% respectively). The test allows consistently for similar changes to investment returns and movements in the market backing fixed interest securities.
Credit spreads	The impact of credit spreads widening by 50bps with a corresponding pro-rated change to defaults.
Expenses	The impact of an increase in maintenance expenses by 10%.
Mortality rates	The impact of a decrease in mortality rates by 5%.
Property values	The impact of an immediate decrease in the value of properties by 10%. The test allows for the impact on the annuity liabilities arising from any change in yield on the loans secured by residential mortgages and loans secured by commercial mortgages used to back the liabilities.
Voluntary redemptions	The impact of an increase in voluntary redemption rates on loans secured by residential mortgages by 10%. The test allows for the impact on the annuity liabilities arising from any change in yield on the loans secured by residential mortgages that are used to back the liabilities.

The table below demonstrates the effect of a change in a key assumption whilst other assumptions remain unchanged. In reality, such an occurrence is unlikely due to correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results. The sensitivity analyses do not take into

20 INSURANCE LIABILITIES AND REINSURANCE ASSETS (Continued)

consideration that the Group's assets and liabilities are actively managed and may vary at the time that any actual market movement occurs.

Change in assumption:	Increase/(decrease) in profit before tax 2014	2013
	£000's	£000's
Interest rates +1%	**2,866**	2,954
Interest rates −1%	**(5,993)**	(3,308)
Credit spreads +0.5%	**(11,621)**	(10,917)
Expenses +10%	**(10,906)**	(9,962)
Mortality −5%	**(32,027)**	(22,140)
Property prices −10%	**(38,583)**	(25,313)
Voluntary redemptions +10%	**(6,412)**	(2,402)

21 INSURANCE AND OTHER PAYABLES

As at 31 December	2014	Restated[(i)] 2013
	£000's	£000's
Payables arising from insurance contracts	**4,774**	9,639
Payables arising from reinsurance contracts	**3,159**	1,916
Other creditors and accruals	**21,594**	22,449
Total insurance and other payables	**29,527**	34,004

(i) See note 2.

The Directors consider that the carrying value of insurance and other payables in the balance sheet is a reasonable approximation of the fair value.

22 FINANCIAL LIABILITIES

As well as derivative financial liabilities, the Group carries financial liabilities where assets under specific reinsurance treaties are legally and physically deposited back to the Group by reinsurers. Financial liabilities are initially recognised at fair value on the same date that the value of underlying deposited assets is recognised and are subsequently remeasured at fair value at each balance sheet date. The resulting gain or loss is recognised in the consolidated statement of comprehensive income. The net gain or loss recognised incorporates any interest paid on the financial liability. Fair value is determined as the amount payable discounted from the first date that the amount is required to be paid.

A financial liability (including subordinated debt and external borrowings) is generally derecognised when the contract that gives rise to it, is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange of modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the consolidated statement of comprehensive income.

22 FINANCIAL LIABILITIES (Continued)

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

As at 31 December	2014	Restated(i) 2013
	£000's	£000's
Deposits from reinsurers	**2,491,795**	2,182,350
Derivative liabilities	**79,493**	32,391
Total financial liabilities	**2,571,288**	2,214,741

(i) See note 2.

Payables arising from reinsurance contracts at fair value through profit and loss are designated as such on initial recognition. Derivative liabilities are carried at fair value through profit and loss.

23 CURRENT TAX LIABILITIES

As at 31 December	2014	2013
	£000's	£000's
Corporation tax payable	**—**	13,633
Other taxes and social security costs	**3,735**	4,565
Total current tax liabilities	**3,735**	18,198

24 DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses various derivative financial instruments to manage its exposure to interest rates, counterparty credit risk, inflation and foreign exchange risk, including foreign exchange forward contracts, interest rate swaps, credit default swaps and inflation swaps.

As at 31 December 2014	Asset fair value	Liability fair value	Notional amount
	£000's	£000's	£000's
Forward currency positions	**7,335**	**1,615**	**553,106**
Interest rate swaps	**66,651**	**62,030**	**1,119,400**
Inflation swaps	**309**	**15,848**	**414,646**
Credit default swaps	**1,597**	**—**	**38,104**
Total derivative financial instruments	**75,892**	**79,493**	**2,125,256**

As at 31 December 2013	Asset fair value	Liability fair value	Notional amount
	£000's	£000's	£000's
Forward currency positions	8,488	278	548,392
Interest rate swaps	24,847	31,271	1,242,924
Inflation swaps	3,078	842	162,135
Total derivative financial instruments	36,413	32,391	1,953,451

All over-the-counter derivative transactions are conducted under standardised ISDA (International Swaps and Derivatives Association Inc) master agreements and the Group has collateral agreements between the individual Group entities and relevant counterparties in place under each of these master agreements.

At 31 December 2014, the Group had pledged £29.8m (2013: £10.1m) and held collateral of £19.0m (2013: £0.9m) in respect of outstanding over-the-counter derivative positions.

25 FINANCIAL INSTRUMENTS—FAIR VALUE METHODOLOGY

All financial instruments, with the exception of external borrowings, are classified at fair value through profit and loss. In accordance with IFRS 13 Fair Value Measurement, financial instruments at fair value have been classified into three categories:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); or

Level 3: Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs).

An analysis of financial assets and liabilities held at fair value in accordance with the fair value hierarchy is set out below. All these financial assets and liabilities relate to recurring fair value measurements. There are no non-recurring fair value measurements as at 31 December 2014 and 31 December 2013.

At 31 December 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000's	**£000's**	**£000's**	**£000's**
Financial investments (a)	**3,583,183**	**—**	**1,637**	**3,584,820**
Loans secured by residential mortgages (b)	**—**	**—**	**1,212,324**	**1,212,324**
Derivative assets (c)	**—**	**75,892**	**—**	**75,892**
Loans secured by commercial mortgages (d)	**—**	**—**	**37,868**	**37,868**
Total financial assets held at fair value	**3,583,183**	**75,892**	**1,251,829**	**4,910,904**
Deposits from reinsurers (e)	**—**	**—**	**2,491,795**	**2,491,795**
Derivative liabilities (c)	**—**	**79,493**	**—**	**79,493**
Total financial liabilities held at fair value	**—**	**79,493**	**2,491,795**	**2,571,288**

Restated[(i)] **At 31 December 2013**	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000's	**£000's**	**£000's**	**£000's**
Financial investments (a)	3,122,222	—	11,568	3,133,790
Loans secured by residential mortgages (b)	—	—	840,066	840,066
Derivative assets (c)	—	36,413	—	36,413
Total financial assets held at fair value	3,122,222	36,413	851,634	4,010,269
Deposits from reinsurers (e)	—	—	2,182,350	2,182,350
Derivative liabilities (c)	—	32,391	—	32,391
Total financial liabilities held at fair value	—	32,391	2,182,350	2,214,741

(i) See note 2.

The Group's policy is to recognise transfers into and transfers out of Levels 1, 2 and 3 as of the date at which the consolidated statement of financial position is prepared.

There have been no transfers between Levels 1, 2 and 3 in 2014.

25 FINANCIAL INSTRUMENTS—FAIR VALUE METHODOLOGY (Continued)

The table below reconciles the opening and closing recorded amount of level 3 financial liabilities and financial assets which are stated at fair value.

For the year ended 31 December 2014	Deposits from reinsurers	Loans secured by commercial mortgages	CTF Investments	Loans secured by residential mortgages
	£000's	£000's	£000's	£000's
At 1 January 2014	**(2,182,350)**	**—**	**11,568**	**840,066**
Loans (received)/advanced	**(307,959)**	**37,481**	**6,321**	**232,519**
Total (losses)/gains in consolidated statement of comprehensive income	**(139,376)**	**263**	**(884)**	**185,634**
Redemptions made/(received)	**229,082**	**—**	**(16,386)**	**(51,273)**
(Interest payable accrued)/interest receivable accrued	**(91,192)**	**125**	**1,018**	**5,378**
At 31 December 2014	**(2,491,795)**	**37,869**	**1,637**	**1,212,324**

Restated(i) For the year ended 31 December 2013	Deposits from reinsurers	Loans secured by commercial mortgages	CTF Investments	Loans secured by residential mortgages
	£000's	£000's	£000's	£000's
At 1 January 2013	(1,728,998)	—	—	478,097
Loans (received)/advanced	(733,849)	—	23,990	416,473
Total (losses)/gains in consolidated statement of comprehensive income	(155,522)	—	(3,135)	(25,695)
Redemptions made/(received)	514,878	—	(11,306)	(34,187)
(Interest payable accrued)/interest receivable accrued	(78,859)	—	2,019	5,378
At 31 December 2013	(2,182,350)	—	11,568	840,066

(i) See note 2.

The gains and losses are included within net investment income in the consolidated statement of comprehensive income.

The unrealised gains/(losses) in respect of payables arising out of reinsurance contracts, commodity trade finance investments, loans secured by residential mortgages and loans secured by commercial mortgages for the period to 31 December 2014 are £139.4m (2013: £155.5m), £0.9m (2013: £(1.1)m), £191.0m (2013: £(20.3)m) and £0.2m (2013: £nil) respectively. These unrealised gains and losses are included within net investment income in the Consolidated Statement of Comprehensive Income.

Level 3 sensitivity analysis

As at 31 December 2014	Significant assumption	Impact of alternative assumption: Current fair value	Increase in fair value	Decrease in fair value
		£000's	£000's	£000's
Assets				
CTF Investments	Expected defaults	**1,637**	**289**	**(353)**
Loans secured by commercial mortgages	Discount rate	**37,868**	**2,744**	**(2,501)**
Loans secured by residential mortgages	Discount rate	**1,212,324**	**156,367**	**(132,186)**
Liabilities				
Deposits from reinsurers	Discount rate	**(2,491,795)**	**(220,538)**	**192,268**

25 FINANCIAL INSTRUMENTS—FAIR VALUE METHODOLOGY (Continued)

Restated[(i)] At 31 December 2013	Significant assumption	Current fair value	Increase in fair value	Decrease in fair value
		£000's	£000's	£000's
Assets				
CTF Investments	Expected defaults	11,568	406	(584)
Loans secured by residential mortgages	Value of NNEG	840,066	100,863	(86,046)
Liabilities				
Deposits from reinsurers	Discount rate	(2,182,350)	(182,645)	161,733

(i) See note 2.

The impact of reasonably possible alternative assumptions are estimated by modelling alternative scenarios for the key assumptions for each valuation model.

(a) Financial investments

All financial investments are designated at fair value through profit and loss. All financial investments excluding commodity trade finance are listed.

In assessing the fair value of the debt securities and other fixed income securities, the Directors have relied upon values provided by an independent third party which specialises in providing such values to companies. The third party provides prices based upon quoted market prices, or where not available, modelled prices using observable market inputs. At 31 December 2014 and 31 December 2013, 100% of the values provided were based on quoted market prices that are observable for the asset or liability.

Due to the short-term nature of the commodity trade finance (CTF) loans, the fair value of these instruments is estimated as the principal amount borrowed plus accrued interest from the date of acquisition, adjusted for incurred and expected defaults. These CTF loans are considered to be Level 3 within the valuation category prescribed by IFRS 13 as the inputs to the fair value calculation are not based on observable market data, and includes the Group's own assumptions.

The change in the fair value of Level 3 financial instruments from period to period is analysed into loans advanced, loans repaid/redemptions, and interest accrued, with the remaining balance representing fair value measurement gains and losses recognised in the statement of comprehensive income.

Interest rate: The interest rate used in estimating the fair value of the CTF Funds as at 31 December 2014 was nil% p.a. (31 December 2013: 12%).

(b) Loans secured by residential mortgages

The fair value recognised in the financial statements for loans secured by residential mortgages is determined using a marked to model valuation technique where a significant proportion of inputs are not based on observable market data and so these assets are considered to be Level 3 within the valuation category prescribed by IFRS 13.

The valuation model discounts the expected future cash flows using an interest rate swap curve with an additional spread or yield factor minus the cost of the no-negative equity guarantee. The no-negative equity guarantee represents an embedded guarantee that the repayment of the loan cannot exceed the value of the property at the time of repayment.

Although such valuations are sensitive to various estimates, it is considered that only the discount rate and no-negative equity guarantee assumptions would have significant impact on the fair value.

Discount rate: Loans secured by mortgages are valued using the swap rate appropriate to the term of each contract with adjustment to reflect the credit and liquidity risk associated with such long dated contracts. The risk adjusted swap rate for the portfolio weighted by average value at 31 December 2014 was 5.05% (31 December 2013: 6.42%).

25 FINANCIAL INSTRUMENTS—FAIR VALUE METHODOLOGY (Continued)

No-negative equity guarantee: The fair value of loans secured by residential mortgages takes into account an explicit provision in respect of the no-negative equity guarantee which is calculated using a variant of the Black-Scholes option pricing model. The key assumptions used to derive the value of the no-negative equity guarantee include property growth, volatility and over-valuation. The property growth and volatility assumed at 31 December 2014 were 5.5% (31 December 2013: 5.5%) and 13% (31 December 2013: 13%) respectively. The over-valuation assumption used as at 31 December 2014 was 27.4% (31 December 2013: 22%). The value of the no-negative equity guarantee as at 31 December 2014 was £112.5m (31 December 2013: £67.3m).

The valuation technique that the Group uses to assess the fair value of loans secured by mortgages is consistent with that used to derive the prices applied at the initial transaction. As such, there is no difference between the fair value of loans secured by equity release mortgages at initial recognition and the amount that would have been determined at that date using the valuation technique.

(c) Derivative assets and liabilities

The estimated fair value of derivative instruments reflects the estimated amount the Group would receive or pay in an arm's length transaction. All the derivatives held at 31 December 2014 and 31 December 2013 were purchased over-the-counter.

The Group's derivative assets and liabilities largely relate to forward currency positions, interest rate swaps and inflation swaps.

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

Interest rate swaps: The fair value of the interest rate swaps is derived using an interest rate swap pricing model, using a time series of historical LIBOR rates, an applicable zero coupon interest rate swap curve to derive future cash flows (forward curve) and an applicable zero coupon interest rate swap curve to discount future cash flows (discount curve) as inputs. The forward curve is used by the pricing model to determine the future LIBOR rates to be applied in the calculation of the floating leg cash flow(s). The discount curve is used to calculate the present value of the future cash flow(s) of both the fixed and floating legs of the swap and its composition is driven by the terms of the Credit Support Annex under which the swap is traded.

Inflation swaps: The fair value of the inflation swaps is derived using the inflation swap pricing model, using a time series of historical inflation index levels, a zero coupon swap inflation expectation curve, an inflation seasonality model and a zero coupon interest rate swap curve as inputs. The inflation swap pricing model generates a future cash flow for both the fixed and inflation legs of a swap for which a present value is determined using zero coupon interest rate swap curve.

The derivative assets and liabilities are presented on a gross basis in the consolidated statement of financial position. All over-the-counter derivative transactions are conducted under standardised ISDA (International Swaps and Derivatives Association Inc) master agreements and the Group has collateral agreements between the individual Group entities and relevant counterparties in place under each of these master agreements.

(d) Loans secured by commercial mortgages

The fair value recognised in the financial statements for loans secured by commercial mortgages is determined using a marked to model valuation technique where a significant proportion of inputs are not based on observable market data and so these assets are considered to be Level 3 within the valuation category prescribed by IFRS 13.

The valuation model produces a series of projected future cash flows for each mortgage, based on a range of simulations of changes in property prices drawn from a distribution based on historic observed changes. Potential changes in property tenancy (e.g. tenant default, exercise of break clause or non-renewal of

25 FINANCIAL INSTRUMENTS—FAIR VALUE METHODOLOGY (Continued)

lease) are also modelled in a range of simulations. Risk adjusted cash flows are calculated as the average across the range of simulations.

The risk adjusted cash flows are discounted using a swap curve with an additional spread. The additional spread is the increase in swap discount rates required so that the initial discounted risk adjusted cash flows equal the initial purchase price. This uplift is reviewed if there is evidence that market has moved materially.

The discount rate and changes in property prices and tenancy are the most significant assumptions applied in calculating the fair value of the loans.

Discount rate: Loans secured by commercial mortgages are valued using the swap rate appropriate to the term of each contract with adjustment to reflect the credit and liquidity risk associated with such long dated contracts. The risk adjusted swap rate for the portfolio weighted by average value at 31 December 2014 was 3.02%.

(e) Deposits from reinsurers

The fair value recognised in the financial statements is determined using a marked to model valuation technique where not all inputs are based on observable market data and so these liabilities are considered to be Level 3 within the valuation category prescribed by IFRS 13.

The valuation model discounts the expected future cash flows using a discount rate derived from the assets hypothecated to back these liabilities at a product level.

As payables arising from reinsurance contracts do not have a single fixed maturity date it is not possible to determine an amount that would be contractually required to pay at maturity.

Discount rate: The key inputs to the derivation of the discount rate include market observable gross redemption yields, contractual investment expenses and an allowance for credit risk on a best estimate basis. The discount rates used as at 31 December 2014 for Individual retirement and Individual care annuities were 4.16% and 1.67% respectively (31 December 2013: 4.95% and 1.97% respectively).

26 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December	2014	Restated[(i)] 2013
	£000's	£000's
Profit before income tax including discontinued operations	**24,067**	82,661
Fair value gains and interest accrued on financial assets	**(365,937)**	(32,028)
Fair value losses and interest accrued on financial liabilities	**257,638**	54,214
Depreciation of property, plant and equipment	**3,238**	1,843
Amortisation of intangible assets	**3,275**	1,997
Assets written off	**971**	1,684
Investment in associate—Eldercare	**(27)**	—
Profit on reclassification of subsidiary to associate	**(94)**	—
Share of loss of joint venture	**206**	162
Profit of subsidiary before disposal	**2**	—
Share-based payment charge	**1,223**	9,324
Amortisation of capitalised loan note debt issuance costs	**—**	2,519
Amortisation of capitalised bank loan debt issuance costs	**—**	1,765
Interest accrued on loan notes	**—**	19,125
Interest on bank loan	**—**	1,995
Net investment in financial assets	**(534,698)**	(764,815)
Net receipt of financial liabilities	**98,909**	340,612
Increase in reinsurance assets	**(405,259)**	(428,198)
Decrease in insurance and other receivables excluding Corporation Tax	**42,557**	61,916
Decrease/(increase) in prepayments and accrued income	**7,376**	(2,293)
Increase in insurance liabilities	**883,524**	624,290
Decrease in insurance and other payables	**(4,477)**	(34,462)
(Decrease)/increase in other taxes and social security payables	**(830)**	838
Cash generated from/(used in) operations	**11,664**	(56,851)

(i) See note 2.

27 EMPLOYEE BENEFITS

Pension scheme

Details of the amounts payable for the year are included in "Other pension costs", in note 6. No amounts are outstanding in respect of these contributions at the end of the year.

The Group is a Participating Employer for a money purchase group personal pension plan. The assets of the plan are held separately from those of the Group. The Group does not provide a final salary plan.

28 DEPOSITS RECEIVED FROM REINSURERS

Financial assets arising from the payment of reinsurance premiums, less the repayment of claims, to certain reinsurers in relation to specific treaties are legally and physically deposited back with the Group. Although the funds are managed by the Group (as the Group controls the investment of the asset), no future benefits accrue to the Group as any returns on the deposits are paid to reinsurers. Consequently the deposits are not recognised as assets of the Group and the investment income they produce does not accrue to the Group.

In addition, the Group has trust agreements with two reinsurers (2013: two) whereby the assets are held in trust in order to fully fund the reinsurers' obligations under the reinsurance treaty. As the Group has no control over these funds and does not accrue any future benefit these funds are not recognised as assets of the Group.

As at 31 December	2014	2013
	£000's	£000's
Deposits managed by the Group	**269,630**	272,493
Deposits held in trust	**279,619**	241,699
Total deposits received from reinsurers	**549,249**	514,192

29 MANAGEMENT OF INSURANCE AND FINANCIAL RISK

The Group issues contracts that accept insurance risk in return for a premium. In addition the Group is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from contracts with policyholders. The most important components of this financial risk are interest rate risk, credit risk, property risk and liquidity risk. The Group is not exposed to any equity price risk and to currency risk only to an immaterial extent.

(a) Insurance risk

(a1) Underwriting, pricing and reserving risk

Underwriting and pricing risk is the risk that insurance contracts will be written that are not within the Board's risk appetite, or that the premium charged for that business is not adequate to cover the risks borne by the Group.

The accurate pricing of non-standard annuities is dependent on the Group's assessment of the impact on prospective customers' longevity of various medical and lifestyle factors and an estimate of future investment yields and credit default.

The actual timing of deaths and investment income experience may be inconsistent with the assumptions and pricing models used in underwriting and setting prices for its products.

Reserving risk is the risk that the reserves have been calculated incorrectly, or the assumptions used in the calculations are inappropriate.

As the Group's insurance business is targeted at people with conditions affecting their life expectancy, or people seeking to fund domiciliary or residential care, the underwriting risk is managed through the use of highly trained, and qualified underwriting staff, together with detailed underwriting manuals designed to cover a large range of medical conditions.

Partnership Assurance has developed its own proprietary underwriting manuals for retirement annuity business and those seeking care funding, based on industry standard mortality tables modified to take account of experience data recorded by Partnership Assurance.

The assumptions used in the reserving for future policyholder payments are set based on available market and experience data, on the advice of Partnership Assurance's Actuarial Function Holder. The assumptions are approved by the Board. The reserves are calculated using recognised actuarial methods with due regard to the actuarial principles set out in the PRA's sourcebooks, including appropriate levels of prudential margin against future adverse experience.

(a2) Specific insurance risk

Insurance risk on the Group's annuity contracts arises through longevity risk and through the risk that operating factors, such as administration expenses, are worse than expected. Insurance risk on the Group's protection policies arises through higher than expected mortality levels. The Group's longevity and mortality experience is monitored on a regular basis and compared to the underlying assumptions used to reserve for future insurance payments. The exposure to longevity and mortality risk is reduced through the use of reinsurance.

Expense risk is managed through regular assessment and quarterly reforecasting of expenses incurred against budgets.

(b) Interest Rate Risk

Interest rate risk arises from open positions in fixed and variable rate stock issued by government and corporate bodies that are exposed to general and specific market movements. The Group is exposed to the market movements in interest rates to the extent that the asset value movement is different to the accompanying movement in the value of its insurance liabilities.

29 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

The difference between asset and liability movements can arise from both a change in the absolute level of interest rates, and from a change in the "spread" (that is the level of interest rates applying to an asset in excess of the risk-free interest rate).

The Group manages its interest rate risk within an asset liability management (ALM) framework that has been developed to achieve investment returns in excess of its obligations under insurance contracts. The principal technique of the ALM framework is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to policyholders.

The Group monitors interest rate risk by calculating the mean duration and cash flow profile of the investment portfolio and the liabilities. The mean duration is an indicator of the sensitivity of the assets and insurance liabilities to changes in current interest rates but is not sufficient in isolation. The mean duration of the liabilities is determined by means of projecting expected cash flows from the contracts using best estimates of mortality and voluntary terminations. No future discretionary supplemental benefits are assumed to accrue. The mean duration of the assets is calculated in a consistent manner. Any gap between the mean duration of the assets and the mean duration of the liabilities is minimised by means of buying and selling fixed interest securities of different durations or purchasing interest rate swap derivatives to alter the effective mean duration of the assets. Periodically the cash flow matching is reviewed and rebalanced.

At 31 December 2014, the mean duration of the assets including surplus assets was 8.3 years (2013: 7.5 years) measured with reference to a gross redemption yield and the mean duration of the liabilities (including both retirement and care liabilities) was at 9.6 years (2013: 8.9 years) measured with reference to the valuation interest rate.

The Group has reinsurance arrangements in place which provide for fixed payments to the reinsurer over future periods. In assessing the fair value of this liability, the Directors have used a discount rate derived from current market yields earned on assets held to fund the future cash outflows, adjusted for the risk of default on those assets. No further adjustment to the discount rate to reflect any risk of the Group defaulting on those payments to the reinsurer was deemed appropriate.

(c) Credit risk

Market credit risk is the risk that the Group invests in assets that may default.

If an asset fails to repay either interest or capital, or that payment is significantly delayed, the Group may make losses and be unable to meet liabilities as they fall due.

The Group's Investment Management Guidelines set out maximum exposure to bonds issued by a single, or related group of, counterparty(/ies) and to credit ratings. The allowance made for issuer default in the Group's valuation is regularly monitored and kept up to date.

At 31 December 2014, £19.0m of collateral (2013: £0.9m) had been pledged to the Group to mitigate the credit risk exposure associated with the derivative assets held at that time.

Counterparty credit risk arises if another party fails to honour its obligations to the Group including failure to honour these obligations in a timely manner.

The Group's primary counterparty credit risk exposure arises from the inability of the reinsurers to meet their claim payment obligations.

The Group has arrangements with its reinsurers whereby most reinsurance premiums are either deposited back to the Group or held by a third party in a trust arrangement.

In addition, the Group's reinsurance policy is to seek to choose companies with a minimum "A" credit rating.

29 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

The following table analyses the credit exposure of the Group by type of asset and includes the credit risk arising out of reinsurance exposures, based on the credit ratings of the reinsurer, as published by Standard & Poor's, or an equivalent rating from another recognised rating agency.

At 31 December 2014	Credit rating					
	AAA	AA	A	BBB	Unrated	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Financial investments	**815,605**	**234,771**	**1,251,104**	**1,280,870**	**2,470**	**3,584,820**
Derivative assets	—	—	—	—	**75,892**	**75,892**
Loans secured by residential mortgages	—	—	—	—	**1,212,324**	**1,212,324**
Loans secured by commercial mortgages	—	—	—	—	**37,868**	**37,868**
Reinsurance assets	—	**1,290,232**	**1,955,776**	—	—	**3,246,008**
Insurance and other receivables	—	**17,761**	**4,761**	—	**16,645**	**39,167**
Total	**815,605**	**1,542,764**	**3,211,641**	**1,280,870**	**1,345,199**	**8,196,079**

Restated(i) At 31 December 2013	Credit rating					
	AAA	AA	A	BBB	Unrated	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Financial investments	611,062	260,620	1,193,352	1,057,189	11,568	3,133,790
Derivative assets	—	—	—	—	36,413	36,413
Loans secured by residential mortgages	—	—	—	—	840,066	840,066
Reinsurance assets	—	1,240,280	1,600,469	—	—	2,840,749
Insurance and other receivables	—	13,132	11,064	—	55,437	79,633
Total	611,062	1,514,032	2,804,885	1,057,189	943,484	6,930,651

(i) See note 2.

The following table presents an aging analysis of financial assets by payment due status:

No financial assets were past due at 31 December 2014.

Restated(i) As at 31 December 2013	Not past due	Past due but not impaired: Less than 1 month	1–3 months	3–6 months	More than 6 months	Impaired	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
CTF investments	**7,094**	—	**742**	**3,732**	—	—	**11,568**
Loans secured by mortgages	**840,066**	—	—	—	—	—	**840,066**
Other financial assets	**6,079,017**	—	—	—	—	—	**6,079,017**

(i) See note 2.

(d) Liquidity risk

Liquidity risk arises where cash flows from investments and from new premiums prove insufficient to meet our obligations to policyholders and other third parties as they fall due.

The Group's ALM framework ensures that cash flows are sufficient to meet both long- and short-term liabilities.

The Group maintains a minimum level of cash and highly liquid assets such that, in the extreme scenario of new business cash flows being insufficient to meet current obligations, those obligations can continue to be met.

29 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

In accordance with PRA regulations, the Group's assets are reviewed to ensure they are of sufficient amount and of an appropriate currency and term to ensure that the cash inflows from those assets will meet the expected cash outflows from the Group's insurance and other financial liabilities.

In the following table expected cash outflows for:

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

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

	Expected cash flows (undiscounted)				
At 31 December 2014	**less than one year**	**one to five years**	**five to ten years**	**more than ten years**	**Carrying value (discounted)**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Net insurance liabilities	**153,346**	**544,237**	**571,040**	**1,667,559**	**1,985,104**
Deposits received from reinsurers	**213,142**	**793,042**	**843,324**	**2,005,880**	**2,491,795**
Derivative liabilities	**13,523**	**37,602**	**10,603**	**34,097**	**79,493**
Total	**380,011**	**1,374,881**	**1,424,967**	**3,707,536**	**4,556,392**

	Expected cash flows (undiscounted)				
Restated At 31 December 2013	**less than one year**	**one to five years**	**five to ten years**	**more than ten years**	**Carrying value (discounted)**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Net insurance liabilities	131,727	457,257	464,853	1,285,066	1,506,839
Deposits received from reinsurers	1,831,083	735,336	792,792	1,934,163	2,182,350
Derivative liabilities	584	10,252	14,381	15,596	32,391
Total	1,963,394	1,202,845	1,272,026	3,234,825	3,721,580

The maximum exposure to credit risk is equal to the balance sheet value of debt instruments/derivatives.

(e) Property risk

Property risk arises from the provision of a protected equity guarantee on the mortgages underlying the equity release assets purchased. The Group is exposed to the risk that property values do not rise sufficiently, or that the property is not maintained properly, to recover the full value of the loan made plus accrued interest.

The Group manages its purchase of loan assets to a level appropriate to its liability profile and ensures that the purchase prices of loan assets reflect a prudent assessment of future property price growth. Appropriate limits are applied to the "loan-to-value" ratio in order to limit the risk exposure to the Group. The Group seeks to avoid excess concentration of property holdings in any geographical area.

Property risk on commercial mortgages is the risk that property values decline or property tenancy changes such that the full value of the commercial mortgage loan is not recovered. The initial loan value is restricted to a maximum "loan-to-value" ratio that limits its exposure for the Group.

30 AVAILABLE CAPITAL RESOURCES

Economic capital is the principal risk-based capital measure used by the Board. Economic capital is based on the Board's view of the available capital and required capital calibrated to a 1 in 200 stress.

30 AVAILABLE CAPITAL RESOURCES (Continued)

The Group's capital consists of equity attributable to equity holders of the Parent Company. For the purposes of regulatory capital requirements, certain assets are restricted, or are inadmissible.

The Group manages its capital to ensure that all of entities within the Group will be able to continue to operate as going concerns, remaining compliant with all regulatory capital requirements to which each is subject.

Partnership Assurance Life Assurance Company Limited (PLACL), the principal operating and only insurance company in the Group, is required to comply with minimum capital requirements calculated at the level of its EEA parent and ultimate Parent Company level as required by the PRA as set out in the Insurance Groups Directive, as well as its own single entity level as required by the PRA. Partnership Assurance Group plc is both the EEA parent and ultimate Parent Company of PLACL.

The table below provides a reconciliation between the available capital resources of the Partnership Assurance Group, measured under IFRS, and the surplus over regulatory capital requirement as is required to be measured under the Insurance Groups Directive. Any changes or release of capital from long-term funds is subject to there being an established surplus shown by an actuarial investigation.

As at 31 December	2014	2013
	£000's	£000's
Total equity of Partnership Assurance Group	**604,690**	598,549
Minority interest in equity for regulated business	**—**	(66)
Adjustments in respect of regulatory capital basis:		
Inadmissible intangible assets	**(15,219)**	(16,401)
Inadmissible goodwill	**(126,207)**	(126,207)
Inadmissible deferred tax asset	**(519)**	(424)
Equity and reserves related to non-regulated entities (excluded from regulatory capital calculation), adjusted for inadmissible assets already adjusted above	**3,042**	13,031
Total available capital resources (IGD basis)	**465,787**	468,482
Group minimum capital requirement (IGD basis)	**(224,127)**	(191,630)
Surplus over regulatory capital requirement	**241,660**	276,852

Movements in equity are shown in the Consolidated Statement of Changes in Equity.

Throughout the year, each regulated subsidiary has maintained capital resources in excess of the minimum required by the PRA regulations and the EU directives.

31 SHARE CAPITAL

The Group has issued ordinary shares which are classified as equity. Incremental external costs that are directly attributable to the issue of the ordinary shares are recognised in equity, net of tax.

As at 31 December 2014	Number of shares	Share capital	Share premium
		£000's	£000's
The allotted and issued share capital of Partnership Assurance Group plc:			
Shares subdivided into 500,000 ordinary shares of £0.10 each	**399,999,971**	**40,000**	**435,249**
As at 31 December 2014, ordinary shares of £0.10 each	**399,999,971**	**40,000**	**435,249**

31 SHARE CAPITAL (Continued)

As at 31 December 2013	Number of shares	Share capital	Share premium
		£000's	£000's
The allotted and issued share capital of Partnership Assurance Group plc:			
On incorporation, ordinary shares of £1.00 each	50,000	50	—
On 12 June 2013:			
Shares subdivided into 500,000 ordinary shares of £0.10 each	450,000	—	—
Exchange of the A and B loan notes	69,212,294	6,921	259,547
Exchange of C loan notes	15,397,726	1,540	57,742
Share for share exchange of A, B and C ordinary shares in PAG Holdings Limited for ordinary shares in Partnership Assurance Group plc	282,358,446	28,236	—
New issue of shares as part of Global Offer	32,467,532	3,247	121,752
New ordinary shares issued to senior management	51,948	5	195
New ordinary shares issued to EBT	12,025	1	45
Share issue costs	—	—	(4,032)
As at 31 December 2013, ordinary shares of £0.10 each	399,999,971	40,000	435,249

The ordinary share entitles the holder to dividends declared by the Board which are not cumulative. The ordinary share entitles the holder to one vote for every share held.

Shares held by the employee trust

Where an employee trust acquires shares in the Company or obtains rights to purchase its shares, the consideration paid (including attributable transaction costs, net of tax) is shown as a deduction from the owners' equity. Gains and losses on sales of shares held by the employee trust are charged or credited to the own shares account in equity.

As at 31 December	2014	2013
	£000's	£000's
Employee benefit trust	**(136)**	(58)

32 OPERATING LEASE COMMITMENTS

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

As at 31 December	2014	2013
	£000's	£000's
Leases expiring not later than one year	**2,816**	3,645
Leases expiring between one and five years	**9,036**	11,671
Leases expiring in more than five years	**7,835**	9,453
Total lease commitments	**19,687**	24,769

33 RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

During the period, the Group entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into and balances outstanding at the end of each reporting date are detailed below.

33 RELATED PARTY TRANSACTIONS (Continued)

(a) Remuneration of key management personnel

Key management personnel consist of the Directors of the Company. The key management personnel changed during the year 2014 reflecting the Group reorganisation. The remuneration of the Directors, who are the key management personnel of the Group, is set out below:

As at 31 December	2014	2013
	£000's	£000's
Short-term employee benefits	**2,850**	2,060
Post-employment benefits	**16**	55
Total	**2,866**	2,115

(b) Directors' loans

A number of Directors who are defined as key management personnel of the Company held loans during the period. The loans owed to/by the Directors are detailed as follows:

As at 31 December	2014	2013
	£000's	£000's
Amounts owed by Directors:		
Loan advances	**302**	289
Loans owed by Directors	**302**	289

The terms of the B and Vendor loan notes are detailed in note 31 and, as set out in that note, were exchanged for ordinary shares in the Company as part of the IPO.

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

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

As at 31 December	2014	2013
	£000's	£000's
Interest accrued on B and Vendor loan notes	**—**	(663)
Interest accrued on Directors' loan advances	**12**	6
Total	**12**	(657)

(c) Other related party transactions

During the year the Group entered into transactions with other entities controlled by Cinven Limited, associates and joint ventures as set out below. All transactions were on a commercial basis.

	2014	2013
	£000's	£000's
Costs paid to entities related to the ultimate parent controlling party	**122**	558
Group's share of losses of joint venture investment	**6**	—
Loans advanced to associate and fees on loans	**187**	—
Value of other related party transactions	**315**	558

Costs paid to entities related to the ultimate parent controlling party include management fees paid to Cinven Partnerships LLP for director services. The comparative cost in 2013 included expenses associated with the 2013 IPO. At 31 December 2014 there was no amount due or receivable from any entities related to the ultimate parent controlling party (2013: £nil).

33 RELATED PARTY TRANSACTIONS (Continued)

The Group's share of losses of joint venture investment arose in Gateway prior to sale on 29 August 2014. Note 13 includes detail of loans from Gateway that were written off in 2014. At 31 December 2014 there was no amount due or receivable from Gateway (2013: £289,000).

Loans were advanced to the Group's associate, Eldercare, during the 2014. At 31 December 2014, Eldercare owed the Group £153,000. At 31 December 2013 Eldercare was not an associate of the Group.

(d) Ultimate controlling party

As at 31 December 2014 a majority of the Company's ordinary shares are held by the partnerships comprising the Fourth Cinven Funds (the Cinven Funds), being funds managed and advised by Cinven Limited, a company incorporated in the United Kingdom. Accordingly, the Directors consider the Company's ultimate controlling party to be Cinven Limited, the manager and adviser to the Cinven Funds.

34 EVENTS AFTER THE BALANCE SHEET DATE

Dividend

Subsequent to 31 December 2014, the Directors proposed a final dividend for 2014 of 1.0 pence per ordinary share (2013: 3.0 pence), amounting to £4.0m (2013: £12m) in total. Subject to approval by shareholders at the AGM, the dividend will be paid on 29 May 2015 and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2015.

Bond issue

On 2 March 2015 the Group entered into an agreement to issue a £100m bond to funds managed by Cinven Capital Management ('Cinven'), its majority shareholder. The bond is repayable after a 10 year term with possible redemption, at option of the Group, at the fifth anniversary or on any interest payment date thereafter, in each case subject to PRA consent. The bond has an annual interest rate of 9.5% payable annually in arrears from the issue date. The bond is a Tier 2 qualifying regulatory capital instrument under existing solvency regulations and Solvency II compliant following implementation of the Solvency II regime on 1 January 2016. The bond is issued by Partnership Assurance Group plc with a guarantee provided by Partnership Assurance Life Assurance Company Limited.

35 BASIS OF PREPARATION

The separate financial statements of Partnership Assurance Group plc (the Company) have been prepared on a going concern basis in accordance with the Companies Act 2006 applicable to companies reporting under IFRS, and accounting policies have been applied consistently. As permitted by that act, the separate financial statements have been prepared in accordance with IFRS which comprise standards and interpretations approved by either the International Accounting Standards Board or the IFRS Interpretations Committee or their predecessors, as adopted by the European Union (EU) as at 31 December 2013. The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its own Income Statement and Statement of Comprehensive Income.

The financial statements have been prepared on the historical cost basis, except for the measurement of long-term employee benefits at present value of the obligation less fair value of any assets held to settle the obligation. The principal accounting policies adopted are the same as those set out in the Group's financial statement note disclosures. In addition, note 36 sets out the accounting policy in respect of investments in subsidiary undertakings.

36 INVESTMENT IN SUBSIDIARIES

Investments in subsidiaries are stated at cost less impairment in the Statement of Financial Position of the Company, as determined by the Company's Directors.

As at 31 December	2014	2013
	£000's	£000's
Investment in PAG Holdings Limited	28,286	28,286
Investment in Partnership Holdings Limited (PHL)	1,171,534	1,148,534
Investment in Partnership Services Limited (PSL)	**2,169**	946
Investment in subsidiaries	**1,201,989**	1,177,766

During the year the Company made a capital contribution of £23m in the form of a gift to the Company's subsidiary, PHL. The capital contribution is recognised as an increase in cost of investment in the subsidiary.

37 INSURANCE AND OTHER RECEIVABLES

As at 31 December	2014	2013
	£000's	£000's
Other debtors	29	—
Amounts due from other Group undertakings	**9,932**	25,514
Total insurance and other receivables	**9,961**	25,514

38 PREPAYMENTS AND ACCRUED INCOME

As at 31 December	2014	2013
	£000's	£000's
Accrued income	**4**	10
Total prepayments and accrued income	**4**	10

39 CASH AND CASH EQUIVALENTS

As at 31 December	2014	2013
	£000's	£000's
Short-term bank deposits	**10,846**	30,012
Cash at bank and in hand	**66**	2,548
Total cash and cash equivalents	**10,912**	32,560

40 INSURANCE AND OTHER PAYABLES

As at 31 December	2014	2013
	£000's	£000's
Amounts due to other Group undertakings	**58,219**	58,219
Total insurance and other payables	**58,219**	58,219

41 CURRENT TAX LIABILITIES

As at 31 December	2014	2013
	£000's	£000's
Income taxes	**46**	421
Total current tax liabilities	**46**	421

42 SHARE CAPITAL

Details of the Company's share capital and share premium are set out in note 31.

43 RELATED PARTY TRANSACTIONS

During the year the Company made a capital contribution of £23m to PHL in the form of a gift (note 36).

On 14 July 2014, the Company advanced a loan to its subsidiary, PSL. At 31 December 2014 the balance on that loan was £9.4m and is included in Amounts due from other Group undertakings (note 37). Interest is charged on that loan at 150 basis points over 6 months LIBOR. £155,800 of interest accrued to the Company on the loan in 2014.

The Company received no other interest or income, neither did it suffer costs incurred from any other Group entity during 2014. The Amounts due from other Group undertakings receivable, included in insurance and other payables, are not interest bearing.

The Amounts due to another Group undertaking (note 40) is a balance due to the Company's wholly owned dormant subsidiary, PAG Finance Limited, and is equal to the equity of that subsidiary.

Details of the remuneration of key management personnel is set out in note 33.

44 ULTIMATE PARENT UNDERTAKING

The Company's ultimate Parent undertakings are the partnerships comprising the Fourth Cinven Funds (the Cinven Funds), being funds managed and advised by Cinven Limited, a company incorporated in the United Kingdom. Accordingly, the Directors consider the Company's ultimate controlling party to be Cinven Limited, the manager and adviser to the Cinven Funds.

45 EVENTS AFTER THE BALANCE SHEET DATE

The events after the balance sheet date applicable to the Company are set out in note 34.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF PARTNERSHIP ASSURANCE GROUP PLC FOR THE YEAR ENDED 31 DECEMBER 2013

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF PARTNERSHIP ASSURANCE GROUP PLC

OPINION ON FINANCIAL STATEMENTS OF PARTNERSHIP ASSURANCE GROUP PLC

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2013 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the EU,
- the Parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the consolidated statement of comprehensive income, the consolidated and Parent Company statements of financial position, the consolidated and Parent Company cash flow statements, the consolidated and Parent Company statements of changes in equity and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and IFRS as adopted by the EU and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

GOING CONCERN

As required by the Listing Rules we have reviewed the directors' statement that the Group is a going concern. We confirm that:

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

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

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

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

RISK	HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK

Insurance liabilities

The Group predominantly writes non-standard annuities which it prices using its bespoke mortality data and internally generated intellectual property. The Company reserves for the future expected cost of these policies using complex actuarial models to project the insurance liabilities. These models are dependent on key assumptions made by management in respect of the following:

- projected cash flows—the expected payments on the portfolio based on assumptions as to the mortality of the policyholders based on their medical condition or lifestyle characteristic; and
- the valuation rate of interest based on the yield of the portfolio of assets that back the liabilities that is used to discount the expected cash flows, which also needs to reflect a deduction for the credit risk of the underlying assets.

Further detail on these principal assumptions can be found in note 20 to the financial statements. The significance and inherent subjectivity of these assumptions means that we view this as an area of heightened risk.

We used our internal actuarial specialists to test the controls over the end-to-end reserving process, focusing on the controls over changes to the reserving model and changes to the underlying demographic and economic assumptions.

We performed detailed substantive testing on the data inputs to the model including checks on policy data via agreeing a sample back to original policyholder documentation and checks that all assumptions had been input to the model accurately.

Management has updated their mortality basis for the largest policy group and a new valuation rate of interest model has been implemented during the year. We tested these assumptions, in addition to testing manual provisions, reinsurance reserves, allowance for counterparty default risk, allowance for cash flow and currency mis-matching risk and statutory capital requirements. We used our internal actuarial specialists to challenge management's assumptions by considering the Group's own experience, comparison to industry benchmarks and by testing compliance with regulations.

An assessment on the overall results was made by reviewing the analysis of change in reserves over the period under audit.

Equity release asset transactions

The Group's investments include loans backed by a portfolio of equity release assets. In Q3 2013 the Group completed a large bulk purchase deal for a value of £218m, with a further deal completed in Q4 2013 for a value of £69m.

The fair value of the investment is dependent on the valuation of the underlying properties and the assumptions used in the fair value calculation, such as the property growth rate, property volatility, a revaluation index to revalue properties to the valuation date, swap rates, and mortality assumptions. Note 26b to the financial statements provides further detail as to the methodology for calculating the fair value of these assets.

The subjectivity of the key assumptions, coupled with the significance of the transactions, means that we view this as an area of risk.

We tested the new transactions through reviewing the due diligence work performed by the Group, challenging the valuation basis put forward by management based on independent macroeconomic advice received, and testing the underlying data used in the valuation of the equity release assets via agreement of a sample of loans back to original policy documentation.

We also assessed the underlying portfolio of assets for indicators of impairment via segmenting the portfolio geographically and using applicable regional property valuation indices to check for signs of significant diminution in the value of the underlying properties on which the loans are secured, as well as analysing the age of the loan book.

Our internal actuarial specialists challenged management's methodology and assumptions used to value the equity release assets via comparison to industry benchmarks, including whether the valuation was sensitive to the mortality assumption.

RISK	HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK
Defined benefit scheme buy-in and buy-out transactions	
The Group is further diversifying its business through insuring the risk on defined benefit schemes, focusing specifically on high value, impaired policies. A new model was introduced during the period to calculate the reserves for this liability. The lack of maturity around this model means that we view this as an area of risk.	Our internal actuarial specialists have reviewed the controls over, and management's testing of, the model and gained assurance that it is operating effectively with a framework of supporting controls. The assumptions underlying the model were challenged via comparison to industry benchmarks and by testing compliance with regulations.

The Audit Committee's consideration of these risks is set out herein.

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

OUR APPLICATION OF MATERIALITY

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

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

We agreed with the Audit Committee that we would report to the Audit Committee all audit differences in excess of £84,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Our Group audit has covered entities representing 100% of the Group's net assets, 100% of the Group's revenue and 100% of the Group's profit before tax. The result of the Group is predominantly driven by a single trading company, Partnership Assurance Life Assurance Company Limited. All of the Group entities audited are based in the same location and were audited by the Group audit team and the Group engagement partner.

Our audit work was executed at levels of materiality applicable to each individual entity which were lower than Group materiality.

Further information on the Group and the recent restructure can be found in notes 13 and 32 to the Annual Report and Accounts.

At the Parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

Directors' remuneration

We have nothing to report in respect of these matters.

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, strategically focused second partner reviews and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the

Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Alex Arterton
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
18 March 2014

AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Note	2013	2012
		£000's	**£000's**
Gross premiums written	1	**1,159,562**	1,468,008
Outward reinsurance premiums		**(733,849)**	(554,620)
Net premiums earned before restructure of reinsurance treaty		**425,713**	913,388
Reinsurance premium related to restructure of treaty		**—**	(495,803)
Net premiums earned		**425,713**	417,585
Net investment income	3	**137,762**	290,738
Share of results of joint venture	14	**(162)**	(40)
Other income		**219**	180
Total income		**563,532**	708,463
Gross claims paid		**(341,124)**	(273,655)
Reinsurers' share of claims paid		**225,277**	188,462
Recovery related to recapture of reinsurance treaty		**—**	99,748
Net claims (paid)/recovered		**(115,847)**	14,555
Change in insurance liabilities:			
Gross amount		**(624,290)**	(1,564,761)
Reinsurers' share not related to restructure and recapture		**428,197**	663,452
Reinsurers' share related to restructure and recapture	20	**—**	396,213
Net change in insurance liabilities		**(196,093)**	(505,096)
Acquisition costs	4	**(13,036)**	(34,566)
Investment expenses and charges		**(13,270)**	(8,178)
Interest on subordinated debt		**—**	(496)
Interest on external borrowings		**(25,403)**	(33,976)
Administrative and other expenses	5	**(117,223)**	(73,227)
Total expenses		**(168,931)**	(150,443)
Total claims, change in insurance liabilities and expenses		**(480,872)**	(640,984)
Profit from continuing operations before tax	5	**82,661**	67,479
Income tax charge from continuing operations	7	**(23,240)**	(17,245)
Profit for the year from continuing operations		**59,421**	50,234
Loss for the year from discontinued operations	7	**—**	(28)
Profit for the period		**59,421**	50,206
Profit/(loss) attributable to:			
• Owners of the Parent		**59,465**	50,193
• Non-controlling interest		**(44)**	13
Profit for the period		**59,421**	50,206
Basic earnings per ordinary share	8	**£ 0.17**	£ 0.18
Diluted earnings per ordinary share	8	**£ 0.17**	£ 0.18

The notes are an integral part of these financial statements.

AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Note	Attributable to Owners of the Parent								
		Share Capital	Share Premium	Capital Redemption Reserve	Merger Reserve	Shares held by Employee Benefit Trust	Retained profit	Total	Non-controlling interest	Total
		£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
At 1 January 2013		**36**	**182**	**3,297**	**—**	**(33)**	**78,901**	**82,383**	**(22)**	**82,361**
PAG Holdings Limited shares exchanged for ordinary shares	33	**28,250**	**(182)**	**(3,297)**	**(24,521)**	**(250)**	**—**	**—**	**—**	**—**
Loan notes exchanged for ordinary shares	33	**8,462**	**317,288**	**—**	**—**	**—**	**—**	**325,750**	**—**	**325,750**
Shares issued for cash	33	**3,252**	**121,993**	**—**	**—**	**(46)**	**526**	**125,725**	**—**	**125,725**
Share issue costs		**—**	**(4,032)**	**—**	**—**	**—**	**—**	**(4,032)**	**—**	**(4,032)**
Share-based payments	19	**—**	**—**	**—**	**—**	**271**	**9,053**	**9,324**	**—**	**9,324**
Profit for the year		**—**	**—**	**—**	**—**	**—**	**59,465**	**59,465**	**(44)**	**59,421**
At 31 December 2013		**40,000**	**435,249**	**—**	**(24,521)**	**(58)**	**147,945**	**598,615**	**(66)**	**598,549**

	Note	Attributable to Owners of the Parent								
		Share Capital	Share Premium	Capital Redemption Reserve	Merger Reserve	Shares held by Employee Benefit Trust	Retained profit	Total	Non-controlling interest	Total
		£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
At 1 January 2012		3,330	182	—	—	(33)	27,208	30,687	(35)	30,652
Shares issued/(bought back) for cash	33	(3,294)	—	3,297	—	—	—	3	—	3
Share-based payments	19	—	—	—	—	—	1,500	1,500	—	1,500
Profit for the year		—	—	—	—	—	50,193	50,193	13	50,206
At 31 December 2012		36	182	3,297	—	(33)	78,901	82,383	(22)	82,361

The notes are an integral part of these financial statements.

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	2013	2012
		£000's	£000's
Assets			
Property, plant and equipment	9	**15,459**	3,688
Goodwill	10	**126,207**	126,207
Other intangible assets	11	**16,401**	12,343
Financial assets	12	**3,950,443**	3,159,001
Investment in joint ventures	14	**206**	368
Reinsurance assets	20	**2,840,749**	2,412,551
Insurance and other receivables	15	**64,476**	94,881
Prepayments and accrued income	16	**70,817**	63,123
Deferred tax assets	17	**424**	158
Cash and cash equivalents	18	**112,741**	166,273
Total assets		**7,197,923**	6,038,593
Equity			
Share capital	33	**40,000**	36
Share premium	33	**435,249**	182
Capital redemption reserve	33	**—**	3,297
Merger reserve	33	**(24,521)**	—
Shares held by Employee Benefit Trust	33	**(58)**	(33)
Retained profit		**147,945**	78,901
Total equity attributable to owners of the Parent		**598,615**	82,383
Non-controlling interest		**(66)**	(22)
Total equity		**598,549**	82,361
Liabilities			
Insurance liabilities	20	**4,347,588**	3,723,298
Insurance and other payables	21	**32,088**	62,948
Financial liabilities	22	**2,201,500**	1,778,765
External borrowings	23	**—**	380,367
Current tax liabilities	24	**18,198**	10,854
Total liabilities		**6,599,374**	5,956,232
Total equity and liabilities		**7,197,923**	6,038,593

The notes are an integral part of these financial statements.

AUDITED CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2013

	Note	2013	2012
		£000's	£000's
Cash (used in)/from operations	27	**(56,851)**	46,171
Corporation tax paid		**(17,000)**	(17,074)
Net cash (used in)/from operating activities		**(73,851)**	29,097
Cash flows from investing activities:			
Purchase of property, plant and equipment	9	**(13,657)**	(3,058)
Purchase of other intangible assets	11	**(7,696)**	(7,385)
Net cash used in investing activities		**(21,353)**	(10,443)
Cash flows from financing activities:			
Proceeds from issuance of share capital	33	**121,693**	3
Repayment of subordinated debt	23	**—**	(16,000)
Repayment of loan notes	23	**(7,656)**	—
(Repayment)/receipt of bank loan	23	**(70,000)**	50,000
Proceeds from issuance of bank loan	23	**—**	68,075
Interest on subordinated debt		**—**	(496)
Interest payable on external borrowings		**(2,365)**	(829)
Net cash from financing activities		**41,672**	100,753
Net (decrease)/increase in cash and cash equivalents		**(53,532)**	119,407
Cash and cash equivalents brought forward		**166,273**	46,866
Cash and cash equivalents carried forward	18	**112,741**	166,273

Cash flows related to the sale and purchase of financial investments are included in operating cash flows as they are associated with the origination of insurance contracts and payment of insurance claims.

The notes are an integral part of these financial statements.

1 SEGMENTAL ANALYSIS

The operating segments reflect the level within the Group at which key strategic and resource allocation decisions are made and the way in which operating performance is reported internally to the chief operating decision makers in the Group, being the Board.

Information is provided to the Board, which identifies operating profit split between that achieved on new business written in the period, that which derives from in-force policies and that relating to the long-term expected return on surplus assets, and therefore this split forms the reportable operating segments in accordance with IFRS 8 "*Operating Segments*".

New business revenue is reported as Single Premium Equivalent (SPE), being the actual single premium plus ten times the annual regular premium for new contracts written during the year. These revenue measures are monitored by the Board separately for each core target market.

(a) Segmental analysis of profit

The table below shows operating profit for each year, together with a reconciliation to profit before tax

For the year ended 31 December	2013	2012
	£000's	£000's
New business operating profit	**85,678**	93,871
In-force operating profit	**34,278**	14,263
Long-term expected return on surplus assets	**11,435**	3,997
Operating profit	**131,391**	112,131
Investment variances	**8,643**	(3,289)
Non-recurring expenditure	**(30,769)**	(5,735)
Other	**(1,201)**	(1,156)
Interest on borrowings	**(25,403)**	(34,472)
Profit from continuing operations before tax	**82,661**	67,479

Investment variances reflect:

(a) the difference between actual performance on investment assets (e.g. cash, gilts, corporate bonds and equity release) over the reporting period and the investment yield allowed for in the calculation of in-force liabilities at the start of the reporting period;

(b) the difference between the yield on investment assets allowed for in the calculation of new business profits and the actual investment performance including differences arising from investing at different yields and asset allocations than those expected when pricing new business;

(c) the difference between actual performance on investment assets and long-term assumed return on surplus assets; and

(d) the impact of changes in the best-estimate credit default allowance made against the Group's invested assets.

Non-recurring expenditure comprises:

- £158m expenses in respect of the Group's restructuring and IPO (2012: £2.3m);
- £9.8m charge related to the Group's staff share option plan which vested in full as a result of the IPO (2012: £1.5m);
- £4.1m of costs relating to regulatory projects (Solvency II) and re-engineering of financial processes (2012: £1.9m); and
- £1.1m of other costs including redundancy, office relocation costs and other professional fees (2012: £nil).

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

1 SEGMENTAL ANALYSIS (Continued)

The profit measure used by the Board to monitor performance is operating profit before tax, analysed between new business operating profit, n-force operating profit and the long-term expected return on surplus assets. Each component of operating profit is explained as

- New business operating profit is profit generated from new business completed in the period, calculated using actuarial assumptions applicable at the time the new business was written, and utilising a discount rate based upon investment yields on investment assets (e.g. cash, gilts, corporate bonds and loans secured by mortgages) used to generate the annuity quotation, net of expenses allocated against new business.
- In-force operating profit is generated from the actual experience measured against the assumed experience in the actuarial basis. The actuarial basis includes a number of assumptions, the most material of which are mortality levels, levels of default on investments, expense levels (to maintain the business in-force), levels of inflation, and lapse rates (for regular premium business). In-force operating profit also includes the effect recognised in the IFRS profit arising from changes to the reported value of insurance (and associated financial) liabilities resulting from changes to the actuarial assumptions, valuation methods, or underlying data, made subsequent to the point-of-sale.
- Return on surplus assets is the long-term, risk-adjusted, expected return on investments that are surplus to those investments that are used to back insurance liabilities. The long-term expected return is derived from applying an average expected yield appropriate to the category of surplus assets held, and is adjusted for the best-estimate expected level of defaults on those investments. The risk-adjusted annual yields applied to surplus assets during the period were

For the year ended 31 December	2013	2012
	% p.a.	% p.a.
Cash	**0.5**	0.5
Gilts	**3.0**	3.0
Corporate bonds	**4.5**	4.5
Commodity trade finance	**10.0**	n/a

(b) Segmental analysis of new business revenue by target market

For the year ended 31 December	2013	2012
	£000's	£000's
Retirement	**1,159,616**	1,167,537
Care	**65,854**	94,362
Protection	**3,389**	2,738
Total single premium equivalent	**1,228,859**	1,264,637

(c) Reconciliation of new business revenue by target market to gross premiums written

Premiums are recognised in the accounting period in which an insurance contract commences, gross of any commission paid. Single premium retirement policies commence at the point that the policyholder accepts a quote. Other policies commence on the date set out in the individual policy contracts. Premiums which have been received and for which no contract is yet in-force are classified as payables arising from insurance contracts and are included within insurance and other payables in the consolidated statement of financial position. Where a contract has been issued but premiums have not yet been received, a debtor arising out of direct insurance operations is recognised for the expected premiums due. Reinsurance premiums and recoveries are accounted for in the accounting period in accordance with the contractual terms of the reinsurance treaties. Premiums exclude any taxes or duties based on premiums.

1 SEGMENTAL ANALYSIS (Continued)

New business revenue by target market reconciles to gross premiums as follows:

For the year ended 31 December	2013	2012
	£000's	£000's
Total single premium equivalent	**1,228,859**	1,264,637
Adjustment in respect of regular premium business	**(5)**	—
Premiums received in respect of equity release longevity insurance	**—**	2,522
Premiums arising from change to contract terms in 2012	**(69,335)**	109,580
Reinsurance premiums received	**43**	91,269
Gross premiums written	**1,159,562**	1,468,008

Premiums are written at the point an insurance contract comes into force. In November 2012, the Group changed the terms of its offer to potential retirement policyholders such that an insurance contract would come into force at the point of their acceptance of the offered terms. Previously a contract only came into force when all funds had been received from the policyholder. For management purposes SPE continues to be recorded when all funds have been received from the policyholder. £109.6m of premium recognised in 2012 would otherwise have been recognised in 2013 and £40.3m of the premium recognised in 2013 would otherwise have been recognised in 2014 so that total premium recognised in 2013 was £69.3m lower than would otherwise have been recognised. This also gives rise to amounts due from policyholders for premiums not yet received, as shown in note 15.

(d) Product revenue information

The following table illustrates revenue by product as required by IFRS 8 "*Operating Segments*". All revenues from external customers are derived from business originated in the UK, and as such no geographical information is disclosed.

The Board consider the Group's external customers to be the individual policyholders. As such, the Group is not reliant on any individual customer.

An analysis of gross premiums written by product is set out below:

For the year ended 31 December 2013	2013	2012
	£000's	£000's
Retirement annuity	**1,090,282**	1,277,177
Care annuity	**65,979**	94,508
Protection life assurance	**3,258**	3,433
Other	**43**	92,950
Total gross premiums written	**1,159,562**	1,468,008

2 BASIS OF PREPARATION AND ADOPTION OF NEW AND REVISED STANDARDS

Basis of preparation

Partnership Assurance Group plc (the "**Company**") was incorporated and registered in England and Wales on 26 February 2013 as a public company limited by shares. The Company's registered office address is 5th Floor, 110 Bishopsgate, London EC2N 4AY

The principal activity of the Company is that of a holding company. The Company and the entities controlled by the Company (its "**subsidiaries**") are collectively "**the Group**"

On incorporation, the share capital of the Company was £50,000 divided into 50,000 ordinary shares of 100 pence each. The 50,000 subscriber shares of 100 pence each were issued in consideration for an undertaking by funds managed or advised by Cinven Partners LLP (Cinven) to pay cash at par. On 12 June 2013, at admission on the London Stock Exchange, the 50,000 ordinary shares of 100 pence each were subdivided into 500,000 ordinary of 10 pence shares each.

2 BASIS OF PREPARATION AND ADOPTION OF NEW AND REVISED STANDARDS (Continued)

During the year, prior to admission, the Company acquired a 100% shareholding in PAG Holdings Limited and completed a number of steps as part of a reorganisation of the Group. In addition, the Company also successfully completed the issue of new ordinary shares to raise approximately £125m through its admission via a Premium Listing on the London Stock Exchange, (collectively, the "**Global Offer**"). Details of these transactions are detailed in note 32.

The Strategic Report outlines the activities, performance and future outlook of the Group. Note 30 to the financial statements sets out the Group's policies and procedures for managing insurance and financial risk, and note 31 sets out how the Group manages its capital resources.

These financial statements comprise the consolidated annual financial statements of the Group and the individual annual financial statements of the Company made up to 31 December 2013.

The results of subsidiaries acquired or disposed of during the period are included from or up to the effective date of acquisition or disposal. Non-controlling interest in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The presentation currency of the Group is sterling. Unless otherwise stated, the amounts shown in the consolidated financial statements are in thousands of pounds sterling (*£'000*).

The consolidated financial statements and those of the Company have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Group has applied all IFRS standards and interpretations adopted by the EU effective for the year ended 31 December 2013. These are the first annual consolidated financial statements of the Group and are prepared in accordance with IFRS adopted for use in the EU.

IFRS 1 "*First Time Adoption of International Financial Reporting Standards*" requires an explanation to be presented of how the transition to IFRS has affected the reported financial position and the financial performance of the Group. As these are the Group's first full year financial statements no transitional disclosures are necessary.

The Group in its current structure was formed on 12 June 2013 when the Company acquired PAG Holdings Limited from the Cinven funds, certain Directors, certain members of Senior Management and other individuals (see note 32). Whilst legally the Company is the acquirer and PAG Holdings Limited the acquiree, IFRS 3, "*Business Combinations*" requires consideration as to which entity's shareholder has majority control after the combination. The majority of shares in both entities are held by the Cinven Funds, but after the restructure the majority of the share holdings in the Company are owned by virtue of holdings that had existed in PAG Holdings Limited before they were swapped for share holdings in the Company. Given this, for the purposes of IFRS 3, PAG Holdings Limited is treated as the accounting acquirer and the Company as the accounting acquiree. At the point of the acquisition, the Company did not meet the test of being a business. As the accounting acquiree is not a business, the acquisition falls outside of the scope of IFRS 3. Accordingly, as permitted by IAS 8, "*Accounting Polices, Changes in Accounting Estimates and Errors*", in the absence of specific guidance in IFRS for entities involved in common control transactions, the group has elected to account for the acquisition as a group reconstruction as described under the UK GAAP accounting standard, Financial Reporting Standard 6, "*Acquisitions and Mergers*". The consolidated financial statements have been prepared as if the transaction that gave rise to the formation of the Group had taken place at the beginning of the comparative period. Under these principles, the consolidated financial statements have been prepared as if the Company were the holding company of PAG Holdings Limited from 1 January 2012, the date of the beginning of the comparative period.

The information for the year ended 31 December 2012 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. As the predecessor holding company of the Group, PAG Holdings

2 BASIS OF PREPARATION AND ADOPTION OF NEW AND REVISED STANDARDS (Continued)

Limited is a Jersey company. A copy of the statutory accounts for that year has not been delivered to the Registrar of Companies. Deloitte LLP (the "auditor") reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and by virtue of the PAG Holdings Limited being a Jersey company, did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

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

Significant accounting policies applied to the preparation of these financial statements are presented in the notes below, aligning disclosure of accounting policies to the item which is most directly relevant to the policy.

Adoption of new and revised standards

The Group has adopted the following new standards and changes to existing standards which are relevant to the Group's operations, and became effective for financial years beginning on or after 1 January 2013

- **Amendments to IFRS 7** "***Offsetting Financial Assets and Financial Liabilities***"—these amendments require disclosure about rights to set-off financial instruments and related arrangements. These disclosures are set out in note 30.
- **IFRS 13** "***Fair Value Measurement***"—IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when the entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The standard is applied prospectively. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group. IFRS 13 also requires specific disclosures on fair values which are set out in note 26.
- **Amendments to IAS 1** "***Presentation of Items of Other Comprehensive Income***"—the amendments to IAS 1 require items of other comprehensive income to be grouped by those items that will be reclassified subsequently to profit and loss and those that will never be reclassified, together with their associated income tax. During the period the Group had no items reported within Other Comprehensive Income, and therefore the adoption of this amendment has not affected these financial statements.
- **Amendments to IAS 12** "***Income Taxes***"—These amendments provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 "Investment Property" will, normally, be through sale. The Group has held no investment property measured using the fair value model during the year, and therefore the adoption of this amendment has not affected these financial statements.
- **Annual Improvements 2009–2011 cycle**—Amendments to five standards, IFRS 1 "First Time Adoption" IAS 1 "Presentation of Financial Statements" IAS 16 "Property, Plant and Equipment" IAS 32, "Financial instruments—Presentation", and IAS 34, "Interim Financial Reporting". The amendments clarify existing guidance and have no impact on these financial statements.

2 BASIS OF PREPARATION AND ADOPTION OF NEW AND REVISED STANDARDS (Continued)

The following new or revised or amended standards, in issue, were not yet effective, or in some cases not yet endorsed by the EU. The Group has not early adopted any of these standards.

Standard/ Interpretation	Content/amendment	Applicable for financial periods beginning on or after
IFRS 10	**Consolidated financial statements** IFRS 10 establishes a new definition of "control" to be applied when determining which entities must be consolidated. This definition is based on the concept of power, exposure or rights to variable returns and their linkage. This differs from the current definition in IAS 27 which is based on the power to determine financial and operating policies. The standard is not expected to have a material impact on the Group's profit before tax for the year or equity. The standard has been endorsed by the EU.	1 January 2014*
IFRS 11	**Joint arrangements** IFRS 11 defines two types of joint arrangements—joint ventures and joint operations—based on how rights and obligations are shared by parties to the arrangements. The standard sets out the required accounting treatment for each type of joint arrangement. The standard is not expected to have a material impact on the Group's profit before tax for the year or equity. The standard has been endorsed by the EU.	1 January 2014*
IFRS 12	**Disclosures of interests in other entities** IFRS 12 requires additional disclosure for investments, in subsidiaries, joint arrangements, associates and structured entities. The standard is expected to have a significant impact on the level of disclosure in respect of subsidiaries and joint arrangements. The standard has been endorsed by the EU.	1 January 2014*
IAS 27	**Separate financial statements** Removes requirements superseded by IFRS 10. The standard has been endorsed by the EU.	1 January 2014*
IAS 28	**Associates and joint ventures** Amendment to bring joint ventures into the scope of IAS 28 and to require equity accounting for these entities. The amendment is not expected to have a significant impact on the Group financial statements. The amendment has been endorsed by the EU.	1 January 2014*
IFRS 10, IFRS 12 and IAS 27	**Investment Entities** Amendments to provide "investment entities" an exemption from the consolidation of particular subsidiaries. The Group is not an investment entity, as defined in the amendments, and therefore the amendment is not expected to have a significant impact on the Group financial statements. The amendment has been endorsed by the EU.	1 January 2014*

2 BASIS OF PREPARATION AND ADOPTION OF NEW AND REVISED STANDARDS (Continued)

Standard/ Interpretation	Content/amendment	Applicable for financial periods beginning on or after
IAS 32	**Financial Instruments—Presentation** This amendment clarifies the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The amendment is not expected to have significant implications for the Group financial statements. The amendment has been endorsed by the EU.	1 January 2014*
IAS 36	**Recoverable Amount Disclosures for Non-Financial Assets** Amendments which reduce the circumstances in which the recoverable amount of assets is required to be disclosed and clarification and amendments to the disclosures required. The amendment is not expected to have significant implications for the Group financial statements. The amendment has been endorsed by the EU.	1 January 2014*
IAS 39	**Novation of Derivatives and Continuation of Hedge Accounting** Amendment to clarify the circumstances in which hedge accounting can be continued if derivatives are novated, to facilitate the novation of derivatives to a central counterparty. The amendment is not expected to have significant implications for the Group financial statements. The amendment has been endorsed by the EU.	1 January 2014*
IFRS 9	**Financial Instruments** IFRS 9 will replace IAS 39: "*Financial instruments—Recognition and Measurement*". The impact of the adoption of IFRS 9 on the Group will depend on the finalisation of the standard and the interaction of the requirements of IFRS 9 with the IASB's on-going insurance contracts accounting project. The standard has not yet been endorsed by the EU.	1 January 2018

* as adopted by the EU.

3 NET INVESTMENT INCOME

Investment income comprises interest received on financial investments, realised investment gains and losses and movements in unrealised gains and losses.

Expenses and charges are included on an accruals basis.

Realised gains and losses on investments are calculated as the difference between net sales proceeds less costs of sale and original cost. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date. The movement in unrealised gains and losses recognised in

3 NET INVESTMENT INCOME (Continued)

the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

For the year ended 31 December	2013	2012
	£000's	£000's
Interest receivable from financial assets	**138,533**	113,479
Interest payable from financial liabilities	**(71,596)**	(58,970)
Movement in fair value of financial assets	**26,616**	247,126
Movement in fair value of financial liabilities	**17,382**	(38,787)
Realised gains on financial assets	**72,604**	65,531
Realised losses on financial liabilities	**(45,777)**	(37,641)
Total net investment income	**137,762**	290,738

All financial assets and liabilities at 31 December 2013 are classified at fair value through profit and loss.

4 ACQUISITION EXPENSES

Acquisition expenses 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 expenses are not deferred as they are largely recovered at inception through profit margins.

For the year ended 31 December	2013	2012
	£000's	£000's
Commission[(i)]	**11,435**	32,899
Other acquisition expenses	**1,601**	1,667
Total acquisition expenses	**13,036**	34,566

(i) The regulatory changes introduced by the Retail Distribution Review in December 2012 have prompted an increase in adviser fees paid directly by polio/holders to their financial advisers and a reduction in commission paid by the Group and reported in acquisition expenses.

5 ADMINISTRATIVE AND OTHER EXPENSES

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

For the year ended 31 December	2013	2012
	£000's	£000's
Staff costs, including directors' remuneration	**41,052**	34,241
Share-based payments	**9,324**	1,500
Depreciation of property, plant and equipment	**1,843**	1,037
Amortisation of intangible assets	**1,997**	1,263
Rental of leased premises	**2,860**	950
Other operating leases	**419**	9
Auditor remuneration	**3,307**	1,424
Consultancy	**11,507**	12,613
Legal and professional fees	**20,143**	3,551
Marketing	**11,591**	9,883
Other (primarily office maintenance and supplies)	**13,180**	6,756
Total administrative and other expenses	**117,223**	73,227

5 ADMINISTRATIVE AND OTHER EXPENSES (Continued)

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

Fees payable for the year ended 31 December were in respect of:	2013	2012
	£000's	£000's
Audit of the Partnership Assurance Group plc Annual Report and Accounts	**85**	8
Audit of other Group entities	**336**	160
Audit related assurance services	**166**	72
Taxation compliance services	**44**	127
Corporate finance transactions relating to the IPO in June 2013	**2,676**	1,057
Auditor remuneration	**3,307**	1,424

6 STAFF COSTS

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

For the year ended 31 December	2013	2012
	£000's	£000's
Wages and salaries	**33,839**	29,369
Social security costs	**5,528**	3,784
Other pension costs	**1,685**	1,088
Total staff costs	**41,052**	34,241
The average number of persons employed during the year were:		
Administration and finance	**430**	323
Sales and marketing	**109**	95
Average number of employees	**539**	418

An analysis of Directors' remuneration is included in the Remuneration Report.

7 INCOME TAX

Income tax comprises current and deferred tax. Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the consolidated statement of comprehensive income.

Provision is made for taxation on taxable profits for the year, using tax rates enacted or substantially enacted at the balance sheet date together with adjustments to tax payable in respect of previous years.

Deferred tax is provided in full on temporary differences arising, which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on tax rates and laws enacted or substantively enacted at the balance sheet date. Temporary differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements except for differences arising from the initial recognition of goodwill and the initial recognition of assets and liabilities in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable profit.

A deferred tax asset is recognised to the extent that it is regarded as more likely than not that it will be recovered. Deferred tax assets and liabilities are not discounted.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set-off current tax

7 INCOME TAX (Continued)

assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Group to make a single net payment.

For the year ended 31 December	Continuing operations 2013	Discontinued operations 2012	Continuing operations 2012
	£000's	£000's	£000's
Current taxation:			
Tax charge for the year	**23,112**	—	17,555
Adjustment in respect of prior periods	**394**	—	(299)
	23,506	—	17,256
Deferred taxation:			
Tax credit for the year	**(266)**	—	(11)
Net taxation charge	**23,240**	—	17,245

The actual tax charge of the Group differs from the expected tax charge, computed by applying the average rate of UK corporation tax for the year of 23.25% (2012: 24.5%), as follows:

For the year ended 31 December	Continuing operations 2013	Discontinued operations 2012	Continuing operations 2012
	£000's	£000's	£000's
Profit/(loss) before tax	**82,661**	(28)	67,479
Current taxation at 23.25% (2012: 24.5%)	**19,216**	(7)	16,532
Prior period losses utilised in period	**(5)**	—	—
Disallowable expenses	**3,892**	7	970
Difference between depreciation and capital allowances for tax purposes	**(110)**	—	42
Expenses not deductible in determining taxable profit	**247**	—	
Share-based payments crystallised in the period	**(2,296)**	—	
Add back IFRS 2 share-based payment charge	**2,168**	—	—
Deferred taxation	**(266)**	—	
Adjustment in respect of prior periods	**394**	—	(299)
Net taxation charge	**23,240**	—	17,245

For the year ended 31 December	2013	2012
	£000's	£000's
Unutilised tax losses	**44**	21,420
Unrecognised deferred tax assets	**—**	4,500

From 1 January 2013 insurers carrying on long-term insurance business in the UK are required to calculate taxable trading profits or losses by reference to the statutory accounts rather than their annual return to the Prudential Regulatory Authority. This change has little impact on the tax arrangements of the Group as it has treated all insurance profits as pension business (rather than Basic Life Assurance and General Annuity Business, 'BLAGAB', or any other tax category) in its corporation tax calculations since 2007.

Under this new regime, £14.1m of carried forward unutilised tax losses which arose in PLACL, the main life subsidiary of the Group, on BLAGAB business as a result of excess management expenses, cannot be utilised after 31 December 2013 since taxable BLAGAB profits will not arise. The remaining £7.3m of carried forward unutilised tax losses related to a Group entity which became dormant in 2013 so that future taxable profits will not arise. No deferred tax asset is recognised for any of these losses because the Group does not expect to be able to utilise them.

8 EARNINGS PER SHARE

Basic earnings per share is calculated using the earnings attributable to ordinary equity holders of the parent, divided by the weighted average number of ordinary shares in issue during the period.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares, including share options.

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The calculation of the basic and diluted earnings per share from continuing operations is based on the following data:

For the year ended 31 December	2013	2012
	£000's	£000's
Profit for the year	**59,421**	50,206
Less non-controlling interests	**44**	(13)
Profit attributable to equity holders of the Parent	**59,465**	50,193
Effect of dilutive potential ordinary shares:		
Share options	**—**	—
Diluted profit attributable to equity holders of the Parent	**59,465**	50,193

All of PAG Holdings Limited's A, B and C shares (see note 32) were exchanged for Partnership Assurance Group plc shares on 12 June 2013. For the purpose of the earnings per share calculation, the weighted average number of share shown below has been calculated as if the exchange of these PAG Holdings Limited shares had occurred at the beginning of the comparative period.

For the year ended 31 December	2013	2012
	Number of shares	Number of shares
Basic weighted average number of shares	**346,138,910**	279,527,196
Effect of dilutive potential ordinary shares:	**—**	—
Share options	**1,276,243**	2,133,025
Diluted weighted average number of shares	**347,415,153**	281,660,221

The options granted by the PAG Holdings Limited trust in respect of the ESOP scheme have a dilutive effect, up to the date of the IPO when these options vested.

As detailed in note 19, the Group implemented a number of new employee share-based plans following admission on the London Stock Exchange. The Share Incentive Plan (SIP) has a potential dilutive effect.

No decisions have been made as to the method of settlement of the Long Term Incentive Plan (LTIP) or the share element of the Deferred Share Bonus Plan (DSBP). The weighted average number of shares calculation above has been derived on the assumption that the vesting of shares in respect of the LTIP and DSBP awards will be settled with shares bought externally from the market and hence will not be dilutive.

9 PROPERTY, PLANT AND EQUIPMENT

Assets are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated to write off the cost of tangible assets over their estimated useful life on a straight-line basis. The principal rates used for this purpose are as follows:

For the year ended 31 December	2013	2012
Computer equipment	33%	33%
Fixtures and fittings	10% to 20%	20%
Office refit	10% to 50%	20% to 50%

The range of principal rates used changed during 2013 as new assets came into use.

	Computer equipment	Fixtures and fittings	Office refit costs	Total
	£000's	£000's	£000's	£000's
Cost at 1 January 2013	4,586	473	2,906	7,965
Acquired at fair value:				
Additions at cost	3,244	900	9,513	13,657
Depreciated assets written off	—	—	(1,255)	(1,255)
At 31 December 2013	**7,830**	**1,373**	**11,164**	**20,367**
Accumulated depreciation at 1 January 2013	2,397	375	1,505	4,277
Charge for the year	1,180	48	615	1,843
Depreciated assets written off	—	—	(1,212)	(1,212)
At 31 December 2013	**3,577**	**423**	**908**	**4,908**
Net book value:				
At 31 December 2012	2,189	98	1,401	3,688
At 31 December 2013	**4,253**	**950**	**10,256**	**15,459**

10 GOODWILL

Goodwill represents the excess of cost of acquisition over the fair value of the separable net assets of businesses acquired. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is allocated to each of the cash-generating units (CGU) that are expected to benefit from the combination. Goodwill is tested for impairment at least annually, or when circumstances or events indicate there may be uncertainty over this value. Impairment is determined by assessing the recoverable amount of each CGU to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Any impairment is recognised immediately in the consolidated statement of comprehensive income and is not subsequently reversed.

	2013	2012
	£000's	£000's
At 1 January	**126,207**	126,207
At 31 December	**126,207**	126,207

The goodwill arose on acquisition of the PLACL operations and the value represented the potential of this business to generate value from future sales. Therefore the goodwill is allocated to the new business cash generating unit, the scope of which is identical to the "new business" operating segment described in note 1.

The carrying value of goodwill has been tested for impairment at the balance sheet date. Value in use has been determined as the present value of expected future cash flows associated with new business. The cash flows used in this calculation are consistent with those monitored by management.

10 GOODWILL (Continued)

Expected future new business cash flows are based on financial plans approved by management, covering a period of three years from the balance sheet date. A rate of 10% has been applied to discount cash flows to a present value.

No impairment has been recognised in 2013 or 2012.

11 OTHER INTANGIBLE ASSETS

Other intangible assets comprise intellectual property and software development costs.

The intellectual property asset comprises of specific mortality tables derived from data collected over an extended period and are deemed to have an indefinite life. Consequently no amortisation is charged against its carrying value.

Development costs that are directly attributable to the design and testing of identifiable software products, controlled by the Group, are recognised as intangible assets when it can be demonstrated that it is technically feasible to complete the product so that it is available for use and will generate probable future economic benefits. Software development costs have a finite useful life and are amortised using the straight-line method over three to five years.

Impairment review of other intangible assets

The carrying amounts of intangible assets with finite expected useful economic lives are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. A review for indicators of impairment is conducted annually. The carrying amounts of intangible assets with indefinite expected useful economic lives are tested for impairment at least annually, or when circumstances or events indicate there may be uncertainty over this value. An impairment loss is recognised in the consolidated statement of comprehensive income for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

	2013	2012
	£000's	£000's
Intellectual property cost and carrying amount:		
At 1 January	**3,100**	3,100
At 31 December	**3,100**	3,100
Software development cost:		
At 1 January	**11,750**	4,365
Additions at cost	**7,696**	7,385
Assets written off	**(1,641)**	—
At 31 December	**17,805**	11,750
Software development accumulated amortisation:		
At 1 January	**2,507**	1,244
Charge for the year	**1,997**	1,263
At 31 December	**4,504**	2,507
Total intangible assets at 1 January	**12,343**	6,221
Total intangible assets at 31 December	**16,401**	12,343

11 OTHER INTANGIBLE ASSETS (Continued)

The value of intellectual property has been determined based upon an estimate of the costs to employ adequately skilled individuals over an appropriate period of time to develop intellectual property of a similar nature sufficient to enable the Group to replicate the estimated future cash flows and profits deriving from that intellectual property.

The intellectual property is continually updated through the collection of further data, updated analyses, and conversion into new and more detailed underwriting manuals and mortality tables. For this reason, the intangible asset is deemed to have an indefinite life, and consequently, no amortisation is provided against the value of the intangible asset. The carrying value of the intangible asset is tested for impairment at each reporting date, and is allocated to the "new business" cash-generating unit, the scope of which is identical to the "new business" operating segment described in note 1. The method and assumptions used in this test are identical to those applied in the goodwill impairment test, as set out in note 10.

No impairment of intellectual property has been recognised in 2012 or 2013.

The amortisation period for software development costs is three to five years. During the year the intangible assets relating to software development were reviewed for impairment. As a result of this certain software assets were identified as no longer being expected to generate economic benefits for the Group. No other indicators of impairment existed in respect of software development costs as at the balance sheet date.

12 FINANCIAL ASSETS

Financial assets classification

The Group classifies its financial assets as financial investments, loans secured by mortgages and derivative financial assets at fair value through profit and loss. The category of fair value through profit and loss has two sub-categories: those that meet the definition as being held for trading; and those that the Group chooses to designate as fair value. The fair value through profit and loss is selected as the Group's strategy is to manage its financial assets, as a portfolio, on a fair value basis.

Financial investments

Purchases and sales of debt securities and other fixed income securities are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets, at their fair values. Transaction costs are expensed as incurred. These investments are derecognised when the contractual rights to receive cash flows from the investments expire, or where the investments have been transferred, together with substantially all the risks and rewards of ownership.

Debt securities and other fixed income securities are subsequently carried at fair value with changes in fair value included in the consolidated statement of comprehensive income in the period in which they arise.

The fair values of debt securities are based on quoted bid prices, or based on modelled prices (using observable market inputs) where quoted bid-prices are not available.

Investments in Commodity Trade Finance loans are carried at fair value on initial recognition and are recognised when the cash is advanced for the trade. Commodity Trade Finance loans are subsequently carried at fair value with changes in fair value included in the consolidated statement of comprehensive income in the period in which they arise. The fair value of these investments is not based on observable market data.

Loans secured by mortgages

Loans secured by mortgages are recognised when the cash is advanced to borrowers at their fair values. These loans are derecognised when the contractual rights to receive cash flows from the investments expire, or where the investments have been transferred, together with substantially all the risks and rewards of ownership.

12 FINANCIAL ASSETS (Continued)

Loans secured by mortgages are subsequently carried at fair value with changes in fair value included in the consolidated statement of comprehensive income in the period in which they arise.

The fair value of loans secured by mortgages is initially deemed to be the transaction price and subsequently marked to model. The underlying model follows the methodology used to establish transaction prices. It uses longevity assumptions to derive expected cash flows and the Black-Scholes option pricing methodology to establish the value of the no-negative equity guarantee that is embedded in the product. The discount rates that are applied to cash flows to produce fair value are based on long dated swaps adjusted so that they would produce transaction date prices on the date of transaction.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rates, inflation, credit default and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps, credit default swaps and inflation swaps.

Derivative contracts are traded either through an exchange or over-the-counter (OTC). OTC derivative contracts are individually negotiated between contracting parties and can include options, swaps, caps and floors.

Derivatives are initially recognised at fair value at the date that a derivative contract is entered into and are subsequently remeasured to fair value at each balance sheet date. The resulting gain or loss is recognised in the consolidated statement of comprehensive income. The fair values are obtained from quoted market prices or, if these are not available, by using standard valuation techniques based on discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair value is positive and liabilities when the fair values are negative. Premiums paid for derivatives are recorded as an asset in the consolidated statement of financial position at the date of purchase representing their fair value at that date.

Fair value at 31 December	2013	2012
	£000's	£000's
Financial investments	**3,073,964**	2,645,997
Loans secured by mortgages	**840,066**	478,097
Derivative assets	**36,413**	34,907
Total financial assets	**3,950,443**	3,159,001

Cost at 31 December	2013	2012
	£000's	£000's
Financial investments	**2,991,196**	2,464,790
Loans secured by mortgages at cost	**796,788**	414,500
Derivative assets	**—**	—
Total financial assets	**3,787,984**	2,879,290

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

13 PRINCIPAL GROUP UNDERTAKINGS

Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of each of the Group's material entities is sterling. The consolidated financial statements are presented in sterling, which is the Group's presentation currency.

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the financial period. Foreign exchange gains and losses resulting from the settlement of

13 PRINCIPAL GROUP UNDERTAKINGS (Continued)

such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in net investment income in the consolidated statement of comprehensive income.

Set out below are the principal subsidiary and joint venture undertakings of Partnership Assurance Group plc. All of the companies are incorporated in England and Wales unless otherwise indicated. The shares held are voting ordinary equity shares. A full list of subsidiary and joint venture undertakings will be annexed to the Partnership Assurance Group plc annual return filed at Companies House.

Name:	Principal activity:	Holding
PAG Holdings Limited(i)	Holding company	100%
PAG Finance Limited(i)	Holding company	100%
Partnership Holdings Limited	Holding company	100%
Partnership Group Holdings Limited	Holding company	100%
Partnership Life Assurance Company Limited	Life assurance and pension annuities	100%
Partnership Home Loans Limited	Provision of Lifetime Mortgage products	100%
Partnership Services Limited	Service company	100%
Payingforcare Limited	Website company	100%
PASPV Limited	Investment activity	100%
Eldercare Group Limited	Independent financial advisers	51%
Gateway Specialist Advice Services Limited(ii)	Independent financial advisers	50%

(i) incorporated in Jersey

(ii) joint Venture

14 INVESTMENT IN JOINT VENTURES

The Group has chosen to take advantage of the option under IAS 31 to use the equity method to consolidate its investment in its joint venture. Under the equity method of accounting the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the joint venture.

	2013	2012
	£000's	£000's
At 1 January	**368**	408
Share of losses in the year	**(162)**	(40)
At 31 December	**206**	368

Gateway Specialist Advice Services Limited

The investment in joint venture at 31 December 2013 relates entirely to the Group's investment in Gateway Specialist Advice Services Limited, an IFA business that provides specialist later-life financial advice.

Pension Annuity Limited

On 3 June 2011 the Group entered into a joint venture agreement with Digitalis Retail 1 Limited. As a result of this agreement, the Group acquired 49 shares in Pension Annuity Limited (the joint venture entity) representing 49% of its issued share capital, for a total consideration of £150,000.

On 9 March 2012, the Group acquired the remaining 51 shares in Pension Annuity Limited from Digitalis Retail 1 Limited for a total consideration of £30,000, at which time Pension Annuity Limited became a wholly owned subsidiary.

The operations of Pension Annuity Limited were discontinued during 2012 and on 29 January 2013, the Company was dissolved and removed from the register of companies.

15 INSURANCE AND OTHER RECEIVABLES

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

As at 31 December	2013	2012
	£000's	£000's
Debtors arising out of insurance contracts[(i)]	**51,140**	85,153
Debtors arising out of reinsurance contracts	**9,039**	5,627
Other debtors[(i)]	**4,008**	3,879
Amounts due from joint venture	**289**	222
Total insurance and other receivables	**64,476**	94,881

(i) The 2013 balances are impacted relative to 2012 as they reflect the revised policy contract terms explained in note 1

The Directors consider that the carrying value in the balance sheet is a reasonable approximation of the fair value.

16 PREPAYMENTS AND ACCRUED INCOME

Interest accrued represents the balance receivable for interest income, calculated daily based on the contractual interest rates of the relevant instruments, recognised since the last interest payment date.

As at 31 December	2013	2012
	£000's	£000's
Accrued interest	**59,837**	54,425
Prepayments	**10,980**	8,698
Total prepayments and accrued income	**70,817**	63,123

17 DEFERRED TAX ASSETS

For the year ended 31 December	2013	2012
	£000's	£000's
At 1 January	**158**	147
Credit to consolidated statement of comprehensive income	**266**	11
At 31 December	**424**	158

Deferred tax is recognised as a result of the difference between the accumulated depreciation and the capital allowances granted in the annual corporation tax submission on property, plant and equipment using a UK corporation tax rate of 20%, which is appropriate for when the timing differences are expected to unwind (2012: 23%).

18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, deposits held on call with banks and other short-term highly liquid investments with original maturities of 90 days or less. Bank overdrafts are included in cash and cash equivalents for the purposes of the consolidated cash flow statement.

As at 31 December	2013	2012
	£000's	£000's
Short-term bank deposits	**94,723**	151,529
Cash at bank and in hand	**18,018**	14,744
Total cash and cash equivalents	**112,741**	166,273

19 SHARE-BASED PAYMENTS

Equity-settled share-based payments to employees and others providing services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest.

At each period end, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the consolidated statement of comprehensive income such that the cumulative expense reflects the revised estimate with a corresponding adjustment to equity.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of those instruments, measured immediately before and after the modification, is also charged to the consolidated statement of comprehensive income over the remaining vesting period.

The share-based payment expense recognised for employee services receivable during the year is as follows:

For the year ended 31 December	2013	2012
	£000's	£000's
Employee Share Option Plan	**8,378**	1,500
Long Term Incentive Plan	**432**	—
Deferred Share Bonus Plan	**374**	—
Share Incentive Plan	**65**	—
Save as you earn Plan	**75**	—
Total expense	**9,324**	1,500

(i) Employee Share Option Plan (ESOP)

In 2009, the Group implemented an Employee Share Option Plan (ESOP) to retain and motivate its employees. Awards under this plan were in the form of options to acquire shares of PAG Holdings Limited, the top holding company of the Group at that point in time, for an exercise price equivalent to the market value of those shares at the grant date. The expense recognised in other operating expenses in the consolidated statement of comprehensive income for the period to 31 December 2013 is £8.4m (£6.9m net of tax) (31 December 2012: £1.5m). As shares awarded under the plan were unlisted at the grant date as their fair value could not be measured reliably, therefore the value, and expense, relating to this scheme was measured at its intrinsic value, remeasured at each reporting date.

For the year ended 31 December	2013	2012
	Number of share options	Number of share options
Outstanding at the beginning of the year	**23,953**	26,285
Granted during the year	**7,910**	—
Forfeited during the year	**—**	(2,332)
Exercised during the year	**(31,863)**	—
Outstanding at the end of the year	**—**	23,953

During the year the terms of the ESOP were modified such that the options to acquire shares of PAG Holdings Limited were exchanged for options to acquire shares in Partnership Assurance Group plc of equal value at the date of the modification. No incremental fair value arose as a result of this modification.

Following admission on the London Stock Exchange, the awards under the ESOP vested in full and were exercised immediately. The settlement of these ESOPs was funded by the sale of 2,706,399 shares from the PAG Holdings Limited EBT.

19 SHARE-BASED PAYMENTS (Continued)

The weighted average exercise price for the awards exercised in the year was £0.20. The share price at the date of exercise was £3.85.

There are no outstanding options under the ESOP as at 31 December 2013.

Following admission, the Group has implemented the following employee share-based payment plans;

(ii) Long Term Incentive Plan (LTIP)

The Group made awards under the LTIP to Executive Directors and other senior executives in June 2013. The LTIP awards will be subject to the satisfaction of the following performance conditions which will determine the proportion (if any) of the LTIP award to vest at the end of the performance period.

50% of these LTIP awards are subject to a performance condition relating to the growth in the Group's operating profit over a performance period of three financial years. If operating profit for the financial year ending 31 December 2015 exceeds operating profit for the financial year ended 31 December 2012 by 33.1%, 10% of the LTIP award will vest. The maximum 50% will vest if operating profit for the financial year ending 31 December 2015 exceeds operating profit for the financial year ended 31 December 2012 by at least 64.3%. Payment will be on a sliding scale in between these points.

The remaining 50% of these LTIP awards will be subject to a condition measuring the Company's total shareholder return (TSR) performance relative to the constituent companies of the FTSE 250 index (excluding investment trusts, mining companies and oil and gas producers) over the period from admission to 31 December 2015. Vesting of 10% of the LTIP award will occur for median performance and the maximum 50% at upper quartile performance or above, with straight line vesting in between these points.

The awards are accounted for as equity-settled schemes. The total value of these schemes is measured at each award date based upon the number of shares expected to vest awarded and the expense charge is recognised over the course of the vesting period.

At 31 December 2013 there were 1,248,636 awards in issue and a charge of £431,848 has been recognised in the consolidated statement of comprehensive income with a corresponding increase in equity in the consolidated statement of financial position. The weighted average fair value of awards made during the year was £2.67.

The fair value of the award was measured with reference to the quoted share price of Partnership Assurance Group plc at the measurement date. The performance condition relating to total shareholder return was incorporated into the measure of fair value through a stochastic model incorporating the historical TSR volatility of comparable listed entities.

The performance condition relating to operating profit over performance and other non-market vesting conditions are incorporated into the estimate of the total number of awards expected to vest. This expectation is reviewed and, if necessary, revised at each reporting date.

(iii) Deferred Share Bonus Plan (DSBP)

Effective from June 2013, one-third of the bonuses earned by Executive Directors and certain other senior executives in respect of the Company's annual bonus arrangements are deferred into shares in Partnership Assurance Group plc. The remaining two-thirds of the awards will continue to be paid in cash. The share element of the bonus awards will vest on the third anniversary of the date of the determination of the bonus in respect of which they were granted.

The share element of the bonus awards are accounted for as equity-settled schemes. The fair value of the awards are calculated at each aware date based on one-third of the estimated annual bonus payout and the expense charge is recognised over the course of the vesting period.

A charge of £374,072 has been recognised in the consolidated statement of comprehensive income in respect of these schemes for the year to 31 December 2013 with a corresponding increase in equity in the consolidated statement of financial position.

19 SHARE-BASED PAYMENTS (Continued)

The weighted average fair value of awards made during the year was £3.85. The fair value of the award was measured with reference to the quoted share price of Partnership Assurance Group plc at the measurement date. Non-market vesting conditions are incorporated into the estimate of the total number of awards expected to vest. This expectation is reviewed and, if necessary, revised at each reporting date.

(iv) Share Incentive Plan (SIP)

The Company has made a one-off award of £1,000 of free shares immediately after admission to all eligible employees under a new all-employee share plan, known as the Share Incentive Plan (SIP). These shares will be forfeited if the employees cease employment (except in "good leaver" circumstances) within the first three years from the date of the award. Awards made under this plan entitle these employees to

- a conditional right to acquire shares in Partnership Assurance Group plc at no cost;
- an option to acquire shares in Partnership Assurance Group plc at no cost; or
- a right to receive a cash amount which relates to the value of certain number of notional ordinary shares.

These awards are accounted for as equity-settled schemes. The fair value of these schemes is calculated at each award date based upon the number of shares awarded multiplied by the share price at grant date and expensed over the vesting period.

A charge of £65,277 has been recognised in the consolidated statement of comprehensive income in respect of this scheme for the year to 31 December 2013 with a corresponding increase in equity in the consolidated statement of financial position.

The weighted average fair value of awards made during the year was £3.85. The fair value of the award was measured with reference to the quoted share price of Partnership Assurance Group plc at the measurement date. Non-market vesting conditions are incorporated into the estimate of the total number of awards expected to vest. This expectation is reviewed and, if necessary, revised at each reporting date.

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

In July 2013, the Group introduced a SAYE scheme. Under this plan, employees may elect to save up to £2 50 per month over a three or five year period. The amount of ordinary shares of Partnership Assurance Group plc over which the option is granted will be determined at the grant date to reflect the amount that each employee has agreed to save under the Share Save contract.

A charge of £74,734 has been recognised in the consolidated statement of comprehensive income in respect of this scheme for the year to 31 December 2013 with a corresponding increase in equity in the consolidated statement of financial position.

The weighted average fair value of the awards made during the year was £18,546. The fair value of the awards has been determined using a Black-Scholes valuation model.

Key assumptions within this valuation model were: expected share price volatility (43%), expected dividend yield (1%), risk-free interest rate (2%), expected option life (three years and five years), exercise price (£3.57), and share price at the measurement date (£4.45).

20 INSURANCE LIABILITIES AND REINSURANCE ASSETS

Insurance liabilities

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

20 INSURANCE LIABILITIES AND REINSURANCE ASSETS (Continued)

The Group's long-term insurance contracts include annuities to fund retirement income, annuities to fund care fees (immediate needs and deferred), long-term care insurance and whole of life and term protection insurance. These contracts are expected to remain in force for an extended period of time, and insure events associated with human life.

One of the purposes of insurance is to enable policyholders to protect themselves against future uncertain events such as death or specific types of illness. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. As a consequence of this uncertainty, estimation techniques are employed by suitably qualified personnel in computing the levels of provisions held against such uncertainty.

The insurance liabilities, which are also referred to as the long-term business provision and policyholder reserves elsewhere in this report, are determined by the Partnership Assurance Board on the advice of the Group's Actuarial Function Holder on the modified statutory basis using recognised actuarial methods with due regard to the actuarial principles set out in the PRA's (formerly the FSA's) Insurance Prudential Sourcebook. In particular, a prospective gross premium valuation method has been adopted for major classes of business.

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

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

At the balance sheet date, provision is made for all notified claims plus an estimate for those claims that have been incurred but not reported. The principal assumptions underlying the calculation of insurance liabilities are set out below.

Reinsurance assets

Long-term business is ceded to reinsurers under contracts to transfer part or all of one or more of the following risks: mortality, morbidity, investment, persistency and expenses. The benefits to which the Group are entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within "Insurance and other receivables") as well as longer-term receivables that are dependent on the expected benefits arising under the related re-insured contracts.

Amounts recoverable from reinsurers are estimated in a consistent manner with insurance liabilities, and are classified as "reinsurance assets".

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

If the reinsurance asset were impaired, the Group would adjust the carrying amount accordingly and recognise that impairment loss in the consolidated statement of comprehensive income. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the

20 INSURANCE LIABILITIES AND REINSURANCE ASSETS (Continued)

contract, and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the insurance liabilities. In performing these tests, current best-estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from assets backing such liabilities, are used. Any deficiency is immediately charged to the consolidated statement of comprehensive income.

Claims

Maturity claims and annuities are charged against revenue when due for payment. Death claims and all other claims are accounted for when notified. Claims reinsurance recoveries are accounted for in the same period as the related claim. Where reinsurance treaties are recaptured, amounts received to compensate for the transfer of risk from the reinsurer are accounted for when received or, if earlier, on the date the treaty ceases to be included within the calculation of the reinsurers' share of long-term business provision.

As at 31 December	2013	2012
	£000's	£000's
Long-term business provision	**4,347,588**	3,723,298
Reinsurers' share of long-term business provision	**(2,840,749)**	(2,412,551)
Net provision	**1,506,839**	1,310,747

(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	2013	Modified E&W Population Mortality with CMI 2012u (1.75%) and CMI 2012F (1.50%)	**4.31%**
	2012	Modified PML/PFL92 (U=2013) modified ave MC & LC floor 1.5%	3.76%
Other annuity products	2013	Modified PCMA/PCFA00u2014 p-spline	**1.70%**
	2012	Modified PCMA/PCFA00u2013 p-spline	2.26%
Term and whole of life products	2013	86.25% TM/TF00Select	**1.44%**
	2012	86.25% TM/TF00Select	1.07%

Valuation discount rate assumptions are set with regards to yields on supporting assets. An allowance for risk is included by making an explicit deduction from the yields on debt and other fixed income securities based on historical default experience and expected experience of each asset class. The allowance for credit risk has been set at 47% (2012: 37%) of the spread on the yield of the corporate bonds over the yield on gilts.

The changes in the valuation discount rates at each period end reflect changes in yields on the supporting assets and changes made to the allowance for risk.

The mortality tables used have been adjusted to reflect additional mortality based on the proprietary data held by the Group developed from actual experience incurred. The valuation basis used to calculate the long-term business provisions includes an allowance for future expenses.

20 INSURANCE LIABILITIES AND REINSURANCE ASSETS (Continued)

(b) Movements

Movements in the carrying amount of insurance liabilities and reinsurance assets are explained as follows:

For the year ended 31 December 2013	Gross	Reinsurance	Net
	£000's	£000's	£000's
At 1 January 2013	**3,723,298**	**(2,412,551)**	**1,310,747**
Increase in liability from new business	**1,038,011**	**(678,827)**	**359,184**
Release of in-force liability	**(111,110)**	**75,012**	**(36,098)**
Release of liability due to recorded deaths	**(69,967)**	**31,040**	**(38,927)**
Economic changes	**(209,299)**	**144,164**	**(65,135)**
Non-economic changes	**(25,847)**	**1,609**	**(24,238)**
Other	**2,502**	**(1,196)**	**1,306**
At 31 December 2013	**4,347,588**	**(2,840,749)**	**1,506,839**

For the year ended 31 December 2012	Gross	Reinsurance	Net
	£000's	£000's	£000's
At 1 January 2012	2,158,537	(1,352,886)	805,651
Increase in liability from new business	1,324,979	(532,265)	792,714
Release of in-force liability	(48,465)	30,083	(18,382)
Release of liability due to recorded deaths	(61,815)	36,098	(25,717)
Recapture and restructure of reinsurance treaties*	—	(396,213)	(396,213)
Economic changes	335,573	(200,464)	135,109
Non-economic changes	11,266	—	11,266
Other	3,223	3,096	6,319
At 31 December 2012	3,723,298	(2,412,551)	1,310,747

* The impact of the recapture and restructure of reinsurance treaties has been calculated as if both transactions occurred on 31 December 2012 before the impact of year end basis changes.

(c) Analysis of expected maturity

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

At 31 December 2013	Expected cash flows (undiscounted)				
	less than one year	one to five years	five to ten years	more than ten years	Carrying value (discounted)
	£000's	£000's	£000's	£000's	£000's
Gross	**373,419**	**1,360,968**	**1,450,164**	**3,829,024**	**4,347,588**
Reinsurance	**(241,692)**	**(903,711)**	**(985,311)**	**(2,544,018)**	**(2,840,749)**
Net	**131,727**	**457,257**	**464,853**	**1,285,066**	**1,506,839**

At 31 December 2012	Expected cash flows (undiscounted)				
	less than one year	one to five years	five to ten years	more than ten years	Carrying value (discounted)
	£000's	£000's	£000's	£000's	£000's
Gross	300,885	1,080,196	1,122,562	2,998,611	3,723,298
Reinsurance	(191,170)	(711,459)	(767,756)	(2,028,997)	(2,412,551)
Net	109,715	368,737	354,806	969,614	1,310,747

20 INSURANCE LIABILITIES AND REINSURANCE ASSETS (Continued)

(d) Sensitivity analysis

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

Sensitivity factor	Description of sensitivity factor applied
Interest rate & investment return	The impact of a change in the market interest rates by +/− 1% (e.g. if a current interest rate is 5%, the impact of an immediate change to 4% and 6% respectively). The test allows consistently for similar changes to investment returns and movements in the market backing fixed interest securities.
Credit spreads	The impact of credit spreads widening by 50bps with a corresponding pro-rated change to defaults.
Expenses	The impact of an increase in maintenance expenses by 10%.
Mortality rates	The impact of a decrease in mortality rates by 5%.
Property values	The impact of an immediate decrease in the value of properties by 10%. The test allows for the impact on the annuity liabilities arising from any change in yield on the equity release assets used to back the liabilities.
Voluntary redemptions	The impact of an increase in voluntary redemption rates on equity release loans by 10%. The test allows for the impact on the annuity liabilities arising from any change in yield on the equity release assets used to back the liabilities.

The table below demonstrates the effect of a change in a key assumption whilst other assumptions remain unchanged. In reality, such an occurrence is unlikely due to correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results. The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed and may vary at the time that any actual market movement occurs.

	Increase/(decrease) in profit before tax	
Change in assumption:	2013	2012
	£000's	£000's
Interest rates +1%	**2,954**	1,362
Interest rates −1%	**(3,308)**	(8,610)
Credit spreads +0.5%	**(10,917)**	(7,305)
Expenses +10%	**(9,962)**	(8,894)
Mortality −5%	**(22,140)**	(19,791)
Property prices −10%	**(25,313)**	(11,093)
Voluntary redemptions +10%	**(2,402)**	2,871

21 INSURANCE AND OTHER PAYABLES

As at 31 December	2013	2012
	£000's	£000's
Payables arising from insurance contracts	**9,639**	40,208
Other creditors and accruals	**22,449**	22,740
Total insurance and other payables	**32,088**	62,948

21 INSURANCE AND OTHER PAYABLES (Continued)

The Directors consider that the carrying value in the balance sheet is a reasonable approximation of the fair value.

22 FINANCIAL LIABILITIES

As well as derivative financial liabilities, the Group carries financial liabilities where assets under specific reinsurance treaties are legally and physically deposited back to the Group by reinsurers. Financial liabilities are classified as at fair value through profit and loss. As such, financial liabilities are initially recognised at fair value on the same date that the value of underlying deposited assets is recognised and are subsequently remeasured at fair value at each balance sheet date. The resulting gain or loss is recognised in the consolidated statement of comprehensive income. The net gain or loss recognised incorporates any interest paid on the financial liability. Fair value is determined as the amount payable discounted from the first date that the amount is required to be paid.

A financial liability (including subordinated debt and external borrowings) is generally derecognised when the contract that gives rise to it, is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the consolidated statement of comprehensive income.

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

As at 31 December	2013	2012
	£000's	£000's
Payables arising from reinsurance contracts	**2,169,109**	1,728,998
Derivative liabilities	**32,391**	49,767
Total financial liabilities	**2,201,500**	1,778,765

Payables arising from reinsurance contracts at fair value through profit and loss are designated as such on initial recognition. Derivative liabilities are carried at fair value through profit and loss.

23 EXTERNAL BORROWINGS

External borrowings are recorded at the proceeds received, net of direct issue costs. Issue costs are capitalised and charged to the consolidated statement of comprehensive income over the life of the loan using the effective interest method. Interest payable is accounted for on an accruals basis in the consolidated statement of comprehensive income.

Gains and losses on the repurchase, settlement or otherwise cancellation of external borrowings are recognised respectively in the income and interest expenses and charges.

As at 31 December	2013	2012
	£000's	£000's
Due in more than five years:		
Loan notes issued, repayable otherwise than by instalments (unsecured)	**—**	299,823
Less capitalised debt issuance costs on loan notes	**—**	(2,519)
Interest payable on loan notes	**—**	14,458
Due in one to five years:		
Bank loan	**—**	70,000
Less capitalised debt issuance costs on bank loan	**—**	(1,765)
Interest payable on bank loan	**—**	370
Total external borrowings	**—**	380,367

23 EXTERNAL BORROWINGS (Continued)

- A and B loan notes totalling £151,667,000 were issued by PAG Finance Limited, a Group company, to the Fourth Cinven Fund and other third parties on 5 August 2008. The interest rate on these notes was 12% p.a. and was payable at six monthly intervals starting on 30 June 2009 at the discretion of the Group. In the event that interest payments were not made, the amounts due accrued interest at the same rate from the date payment was due. Additional loan notes totalling £6.9m were issued during the period (31 December 2012: £25.6m) in settlement of interest accrued.
- On 21 August 2012, C loan notes totalling £50m were issued by the Group to the Fourth Cinven Funds. The interest rate was fixed at 22% p.a. and was payable at six monthly intervals starting 30 June 2013. In the event that interest payments were not made, the amounts due began to accrue interest at the same rate from the date payment was due.
- Vendor loan notes totalling £5m were issued by the Group on 5 August 2008 in connection with the acquisition of the former Group by the Cinven funds. The interest rate was fixed at 9% p.a. and was payable at six monthly intervals starting 30 June 2009. In the event that interest payments were not made, the amounts due began to accrue interest at the same rate from the date payment was due.
- A bank loan of £70m was taken out on 21 August 2012. The bank loan carried a fixed interest rate at LIBOR plus 4% p.a. Debt issuance costs of £1,925,000 were capitalised, of which £1,491,000 was amortised in the period (2012: £160,000).
- As set out in note 32, as a result of the reorganisation steps undertaken before the admission of the Company to the London Stock Exchange, the A,B,C and Vendor loan notes, the bank loan and accrued interest were settled in the period.

The Group hedged its exposure to LIBOR, using an interest rate swap, whereby LIBOR payments were swapped for a fixed interest payment of 0.7% p.a. for two years from the date the loan was taken. Interest was payable at three monthly instalments, in advance, starting 21 November 2012. Effective 21 June 2013, this interest rate swap arrangement was terminated.

24 CURRENT TAX LIABILITIES

As at 31 December	2013	2012
	£000's	£000's
Income taxes	**13,633**	7,127
Other taxes and social security costs	**4,565**	3,727
Total current tax liabilities	**18,198**	10,854

25 DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses various derivative financial instruments to manage its exposure to interest rates, counterparty credit risk, inflation and foreign exchange risk, including foreign exchange forward contracts, interest rate swaps, credit default swaps and inflation swaps.

As at 31 December 2013	Asset fair value	Liability fair value	Notional amount
	£000's	£000's	£000's
Forward currency positions	**8,488**	**278**	**548,392**
Interest rate swaps	**24,847**	**31,271**	**1,242,924**
Inflation swaps	**3,078**	**842**	**162,135**
Total derivative financial instruments	**36,413**	**32,391**	**1,953,451**

25 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

As at 31 December 2012	Asset fair value	Liability fair value	Notional amount
	£000s	£000s	£000s
Forward currency positions	860	2,957	372,062
Interest rate swaps	33,657	41,187	792,980
Inflation swaps	390	5,623	121,355
Total derivative financial instruments	34,907	49,767	1,286,397

All over-the-counter derivative transactions are conducted under standardised ISDA (International Swaps and Derivatives Association Inc.) master agreements and the Group has collateral agreements between the individual Group entities and relevant counterparties in place under each of these market master agreements.

At 31 December 2013, the Group had pledged £10.1m (2012: £13.8m) and held collateral of £0.9m (2012: £0.5m) in respect of over-the-counter derivative transactions.

26 FINANCIAL INSTRUMENTS—FAIR VALUE METHODOLOGY

All financial instruments, with the exception of external borrowings are classified at fair value through profit and loss. In accordance with IFRS 13 Fair Value measurement, financial instruments at fair value have been classified into three categories.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities,

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

Level 3: Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs).

An analysis of financial assets and liabilities held at fair value in accordance with the fair value hierarchy is set out below. All these financial assets and liabilities relate to recurring fair value measurements. There are no non-recurring fair value measurements as at 31 December 2013 and 31 December 2012.

At 31 December 2013	Level 1	Level 2	Level 3	Total
	£000's	£000's	£000's	£000's
Financial investments (a)	**3,063,140**	**—**	**10,824**	**3,073,964**
Loans secured by mortgages (b)	**—**	**—**	**840,066**	**840,066**
Derivative assets (c)	**—**	**36,413**	**—**	**36,413**
Total financial assets held at fair value	**3,063,140**	**36,413**	**850,890**	**3,950,443**
Payables arising from reinsurance contracts (d)	**—**	**—**	**2,169,109**	**2,169,109**
Derivative liabilities (c)	**—**	**32,391**	**—**	**32,391**
Total financial liabilities held at fair value	**—**	**32,391**	**2,169,109**	**2,201,500**

At 31 December 2012	Level 1	Level 2	Level 3	Total
	£000's	£000's	£000's	£000's
Financial investments (a)	2,645,997	—	—	2,645,997
Loans secured by mortgages (b)	—	—	478,097	478,097
Derivative assets (c)	—	34,907	—	34,907
Total financial assets held at fair value	2,645,997	34,907	478,097	3,159,001
Payables arising from reinsurance contracts (d)	—	—	1,728,998	1,728,998
Derivative liabilities (c)	—	49,767	—	49,767
Total financial liabilities held at fair value	—	49,767	1,728,998	1,778,765

26 FINANCIAL INSTRUMENTS—FAIR VALUE METHODOLOGY (Continued)

The Group's policy is to recognise transfers into and transfers out of Levels 1, 2 and 3 as of the date at which the consolidated statement of financial position is prepared.

During 2012, all the financial investments, with the exception of Commodity Trade Finance (CTF) loans were reclassified from Level 2 to Level 1. Since the financial crisis in 2008, there has been a continual improvement in the level of liquidity in the fixed and variable rate securities markets, and having considered this during 2012, the Directors considered that the market is sufficiently active to allow classification of these financial investments as Level 1. There are no transfers between Levels 1, 2 and 3 during the period to 31 December 2013.

The table below reconciles the opening and closing recorded amount of Level 3 financial liabilities and financial assets which are stated at fair value.

For the year ended 31 December 2013	Payables arising out of reinsurance contracts	Commodity Trade Finance Loans	Loans secured by mortgages
	£000's	£000's	£000's
At 1 January 2013	**(1,728,998)**	**—**	**478,097**
Loans (received)/advanced	**(733,849)**	**23,990**	**416,473**
Total (losses)/gains in consolidated statement of comprehensive income excluding reinsurance restructure	**(155,522)**	**(3,135)**	**(25,695)**
Redemptions made/(received)	**528,119**	**(11,306)**	**(34,187)**
(Interest payable accrued)/interest receivable accrued	**(78,859)**	**1,275**	**5,378**
At 31 December 2013	**(2,169,109)**	**10,824**	**840,066**

For the year ended 31 December 2012	Payables arising out of reinsurance contracts	Commodity Trade Finance Loans	Loans secured by mortgages
	£000's	£000's	£000's
At 1 January 2012	(809,641)	—	316,729
Loans (received)/advanced	(1,050,424)	—	148,030
Total (losses)/gains in consolidated statement of comprehensive income excluding reinsurance restructure	(75,427)	—	7,246
Total gains in consolidated statement of comprehensive income from reinsurance restructure	35,186	—	—
Redemptions made/(received)	224,083	—	(13,847)
(Interest payable accrued)/interest receivable accrued	(52,775)	—	19,939
At 31 December 2012	(1,728,998)	—	478,097

The gains and losses are included within net investment income in the consolidated statement of comprehensive income.

The unrealised gains/(losses) in respect of payables arising out of reinsurance contracts, commodity trade finance loans and loans secured by mortgages for the period to 31 December 2013 are £105.6m, £118.3m and £(14.1)m respectively (31 December 2012: £(40.2)m, £nil and £27.2m respectively). These unrealised gains and losses are included within net investment income in the consolidated statement of comprehensive income.

26 FINANCIAL INSTRUMENTS—FAIR VALUE METHODOLOGY (Continued)

Level 3 sensitivity analysis

As at 31 December 2013	Reasonably possible alternative assumptions	Current fair value	Increase in fair value	Decrease in fair value
		£000's	£000's	£000's
Assets				
Commodity trade finance loans	Expected defaults	**10,824**	**350**	**(528)**
Loans secured by mortgages	Discount rate, value of no-negative equity guarantee	**840,066**	**100,863**	**(86,046)**
Liabilities				
Payables arising out of reinsurance contracts	Discount rate	**(2,169,109)**	**(182,645)**	**161,733**

The impacts of reasonably possible alternative assumptions are estimated by modelling alternative scenarios for the key assumptions for each valuation model.

(a) Financial investments

All financial investments are designated at fair value through profit and loss. All financial investments excluding commodity trade finance are listed.

In assessing the fair value of the debt securities and other fixed income securities, the Directors have relied upon values provided by an independent third party which specialises in providing such values to companies. The third party provides prices based upon quoted market prices, or where not available, modelled prices using observable market inputs. At 31 December 2013 and 31 December 2012, 100% of the values provided were based on quoted market prices that are observable for the asset or liability.

Due to the short-term nature of the commodity trade finance (CTF) loans, the fair value of these instruments is estimated as the principal amount borrowed plus accrued interest from the date of acquisition, adjusted for incurred and expected defaults. These CTF loans are considered to be Level 3 within the valuation category prescribed by IFRS 13 as the inputs to the fair value calculation are not based on observable market data, and includes the Company's own assumptions.

The change in the fair value of Level 3 financial instruments from period to period is analysed into loans advanced, loans repaid/redemptions, and interest accrued, with the remaining balance representing fair value measurement gains and losses recognised in the statement of comprehensive income.

Interest rate: The interest rate used in estimating the fair value of the CTF loans as at 31 December 2013 was 12.0% p.a. (31 December 2012 not applicable).

(b) Loans secured by mortgages

The fair value recognised in the financial statements for loans secured by mortgages is determined using a marked to model valuation technique where a significant proportion of inputs are not based on observable market data and so these assets are considered to be Level 3 within the valuation category prescribed by IFRS 13.

The valuation model discounts the expected future cash flows using an interest rate swap curve with an additional spread or yield factor minus the cost of the no-negative equity guarantee. The no-negative equity guarantee represents an embedded guarantee that the repayment of the loan cannot exceed the value of the property at the time of repayment.

Although such valuations are sensitive to various estimates, it is considered that only the discount rate and no-negative equity guarantee assumptions would have significant impact the fair value.

Discount rate: Loans secured by mortgages are valued using the swap rate appropriate to the term of each contract with adjustment to reflect the credit and liquidity risk associated with such long dated contracts. The risk adjusted swap rate for the portfolio weighted by average value at 31 December 2013 was 6.24% (31 December 2012: 5.89%).

26 FINANCIAL INSTRUMENTS—FAIR VALUE METHODOLOGY (Continued)

No-negative equity guarantee: The fair value of loans secured by mortgages takes into account an explicit provision in respect of the no-negative equity guarantee which is calculated using a variant of the Black-Scholes option pricing model. The key assumptions used to derive the value of the no-negative equity guarantee include property growth, volatility and over-valuation. The property growth and volatility assumed at 31 December 2013 were 5.5% (31 December 2012: 5.5%) and 13% (31 December 2012: 13%) respectively. The over-valuation assumption used as at 31 December 2013 was 22% (31 December 2012: 17%). The value of the no-negative equity guarantee as at 31 December 2013 was £67.3m (31 December 2012: £27.6m).

The valuation technique that the Group uses to assess the fair value of loans secured by mortgages is consistent with that used to derive the prices applied at the initial transaction. As such, there is no difference between the fair value of loans secured by equity release mortgages at initial recognition and the amount that would have been determined at that date using the valuation technique.

(c) Derivative assets and liabilities

The estimated fair value of derivative instruments reflects the estimated amount the Group would receive or pay in an arm's length transaction. All the derivatives held at 31 December 2013 and 31 December 2012 were purchased over-the-counter.

The Group's derivative assets and liabilities largely relate to forward currency positions, interest rate swaps and inflation swaps.

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

Interest rate swaps: The fair value of the interest rate swaps is derived using an interest rate swap pricing model, using a time series of historical LIBOR rates, an applicable zero coupon interest rate swap curve to derive future cash flows ("forward curve") and an applicable zero coupon interest rate swap curve to discount future cash flows ("discount curve") as inputs. The forward curve is used by the pricing model to determine the future LIBOR rates to be applied in the calculation of the floating leg cash flow(s). The discount curve is used to calculate the present value of the future cash flow(s) of both the fixed and floating legs of the swap and its composition is driven by the terms of the Credit Support Annex under which the swap is traded.

Inflation swaps: The fair value of the inflation swaps is derived using the inflation swap pricing model, using a time series of historical inflation index levels, a zero coupon swap inflation expectation curve, an inflation seasonality model and a zero coupon interest rate swap curve as inputs. The inflation swap pricing model generates a future cash flow for both the fixed and inflation legs of a swap for which a present value is determined using zero coupon interest rate swap curve.

The derivative assets and liabilities are presented on a gross basis in the consolidated statement of financial position. All over-the-counter derivative transactions are conducted under standardised ISDA (International Swaps and Derivatives Association Inc) master agreements and the Group has collateral agreements between the individual Group entities and relevant counterparties in place under each of these market master agreements. As at 31 December 2013, the Group had pledged £10.1m (31 December 2012: £13.8m) and held collateral of £0.9m (31 December 2012: £0.5m) in respect of over-the-counter derivative transactions.

(d) Payables arising from reinsurance contracts

The fair value recognised in the financial statements is determined using a marked to model valuation technique where not all inputs are based on observable market data and so these liabilities are considered to be Level 3 within the valuation category prescribed by IFRS 13.

The valuation model discounts the expected future cash flows using a discount rate, derived from the assets hypothecated to back these liabilities at a product level.

26 FINANCIAL INSTRUMENTS—FAIR VALUE METHODOLOGY (Continued)

As payables arising from reinsurance contracts do not have a single fixed maturity date it is not possible to determine an amount that would be contractually required to pay at maturity.

Discount rate: The key inputs to the derivation of the discount rate include market observable gross redemption yields, contractual investment expenses and an allowance for credit risk on a best-estimate basis. The discount rate used as at 31 December 2013 for Retirement and Care was 4.95% and 1.97% respectively (31 December 2012: 4.53% and 2.45% respectively).

27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December	2013	2012
	£000's	£000's
Profit before income tax including discontinued operations	**82,661**	67,451
Non-cash movements in profit before income tax:		
Fair value gains and interest accrued on financial assets	**(32,028)**	(360,606)
Fair value losses and interest accrued on financial liabilities	**54,214**	97,758
Depreciation of property, plant and equipment	**1,843**	1,037
Amortisation of intangible assets	**1,997**	1,263
Assets written off	**1,684**	—
Interest accrued on subordinated debt	**—**	496
Share of loss of joint venture	**162**	40
Share-based payment charge	**9,324**	1,500
Amortisation of subordinated debt issuance costs	**—**	75
Amortisation of capitalised loan note debt issuance costs	**2,519**	97
Amortisation of capitalised bank loan debt issuance costs	**1,765**	160
Interest accrued on loan notes	**19,125**	32,519
Interest on bank loan	**1,995**	1,199
Net investment in financial assets	**(759,414)**	(1,048,017)
Net receipt of financial liabilities	**368,521**	837,424
Increase in reinsurance assets	**(428,198)**	(1,059,665)
Decrease/(Increase) in insurance and other receivables excluding corporation tax	**30,405**	(83,727)
Increase in prepayments and accrued income	**(7,694)**	(26,897)
Increase in insurance liabilities	**624,290**	1,564,761
(Decrease)/Increase in insurance and other payables	**(30,860)**	18,138
Increase in other taxes and social security payables	**838**	1,165
Cash (used in)/generated from operations	**(56,851)**	46,171

28 EMPLOYEE BENEFITS

Pension scheme

Details of the amounts payable for the year are included in "Other pension costs", in note 6. No amounts are outstanding in respect of these contributions at the end of the year.

The Group is a Participating Employer for a money purchase group personal pension plan. The assets of the plan are held separately from those of the Group. The Group does not provide a final salary plan.

29 DEPOSITS RECEIVED FROM REINSURERS

Financial assets arising from the payment of reinsurance premiums, less the repayment of claims, to certain reinsurers in relation to specific treaties are legally and physically deposited back with the Group. Although the funds are managed by the Group (as the Group controls the investment of the asset), no future benefits accrue to the Group as any returns on the deposits are paid to reinsurers. Consequently the deposits are not recognised as assets of the Group and the investment income they produce does not accrue to the Group.

29 DEPOSITS RECEIVED FROM REINSURERS (Continued)

In addition, the Group has trust agreements with two reinsurers (2012: two) whereby the assets are held in trust in order to fully fund the reinsurers' obligations under the reinsurance treaty. As the Group has no control over these funds and does not accrue any future benefit these funds are not recognised as assets of the Group.

As at 31 December	2013	2012
	£000's	£000's
Deposits managed by the Group	**272,493**	330,012
Deposits held in trust	**241,699**	192,781
Total deposits received from reinsurers	**514,192**	522,793

30 MANAGEMENT OF INSURANCE AND FINANCIAL RISK

The Group issues contracts that accept insurance risk in return for a premium. In addition the Group is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance 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 insurance liabilities 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 organisations.

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 Partnership Assurance Board. The insurance liabilities are calculated using recognised actuarial methods with due regard to the actuarial principles set out in the Prudential Regulation Authority'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 reinsurance. Expense risk is managed through regular assessment of expenses incurred against budgets and overall impact on profitability of the insurance contracts.

30 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

(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 or lifestyle factors that are 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 reinsurance 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.

The Group monitors interest rate risk by calculating the mean duration and cash flow profile of the investment portfolio and the liabilities. The mean duration is an indicator of the sensitivity of the assets and insurance liabilities to changes in current interest rates but is not sufficient in isolation. The mean duration of the liabilities is determined by means of projecting expected cash flows from the contracts using best-estimates of mortality and voluntary terminations. No future discretionary supplemental benefits are assumed to accrue. The mean duration of the assets is calculated in a consistent manner. Any gap between the mean duration of the assets and the mean duration of the liabilities is minimised by means of buying and selling fixed interest securities of different durations or purchasing interest rate swap derivatives to alter the effective mean duration of the assets. Periodically the cash flow matching is reviewed and rebalanced.

At 31 December 2013, the mean duration of the assets was 7.5 years (2012: 7.7 years) measured with reference to a gross redemption yield and the mean duration of the liabilities was at 9.0 years (2012: 8.9 years) measured with reference to the valuation interest rate.

The Group has reinsurance arrangements in place which provide for fixed payments to the reinsurer over future periods. In assessing the fair value of this liability, the Directors have used a discount rate derived from current market yields earned on assets held to fund the future cash outflows, adjusted for the risk of default on those assets. No further adjustment to the discount rate to reflect any risk of the Group defaulting on those payments to the reinsurer was deemed appropriate.

(c) Credit risk

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:

- the issuer of corporate bonds;
- counterparties in derivative contracts;
- reinsurers in respect of their share of insurance liabilities; and
- 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 credit rating is derived from the Standard & Poor's, Moody and Fitch ratings for each individual stock, if two or more ratings are available the second highest rating is used otherwise the single available rating is used. The Group places limits on the exposure to bond issuers with different credit ratings. Credit default swaps are also used to manage exposure to single

30 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

issuers. 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.

At 31 December 2013, £0.5m of collateral (2012: £8.6m) had been pledged to the Group to mitigate the credit risk exposure associated with the derivative assets held at that time.

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 reinsurers' 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.

We seek to place new business with reinsurers with a minimum credit rating of "A".

For certain reinsurance treaties, the reinsurers share of annuity 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's, or an equivalent rating from another recognised rating agency.

	Credit rating					
At 31 December 2013	**AAA**	**AA**	**A**	**BBB**	**Below BBB/ Unrated**	**Total**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Financial investments	**601,351**	**257,263**	**1,170,898**	**1,033,628**	**10,824**	**3,073,964**
Derivative assets	**—**	**—**	**—**	**—**	**36,413**	**36,413**
Loans backed by mortgages	**—**	**—**	**—**	**—**	**840,066**	**840,066**
Reinsurance assets	**—**	**1,240,280**	**1,600,469**	**—**	**—**	**2,840,749**
Insurance and other receivables	**—**	**29**	**9,010**	**—**	**55,437**	**64,476**
Total	**601,351**	**1,497,572**	**2,780,377**	**1,033,628**	**942,740**	**6,855,668**

	Credit rating					
At 31 December 2012	**AAA**	**AA**	**A**	**BBB**	**Below BBB/ Unrated**	**Total**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Financial investments	621,927	220,684	1,036,267	759,049	8,070	2,645,997
Derivative assets	—	—	—	—	34,907	34,907
Loans backed by mortgages	—	—	—	—	478,097	478,097
Reinsurance assets	—	1,353,220	1,059,331	—	—	2,412,551
Insurance and other receivables	—	—	5,627	—	89,254	94,881
Total	621,927	1,573,904	2,101,225	759,049	610,328	5,666,433

30 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

The following table presents an aging analysis of financial assets by payment due status:

As at 31 December 2013	Not past due	Past due but not impaired: Less than 1 month	1–3 months	3–6 months	More than 6 months	Impaired	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Commodity Trade Finance	**6,350**	**—**	**742**	**3,732**	**—**	**—**	**10,824**
Loans secured by mortgages	**840,066**	**—**	**—**	**—**	**—**	**—**	**840,066**
Other financial assets	**6,008,985**	**—**	**—**	**—**	**—**	**—**	**6,008,985**

No other financial assets were past due at 31 December 2012.

(d) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Partnership Assurance Board sets limits on the minimum amount 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.

In accordance with PRA (formerly the FSA) regulations, the Group's assets are reviewed to ensure they are of sufficient amount and of an appropriate currency and term to ensure that the cash inflows from those assets will meet the expected cash outflows from the Group's insurance and other financial liabilities.

In the following table expected cash outflows for:

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

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

At 31 December 2013	Expected cash flows (undiscounted): less than one year	one to five years	five to ten years	more than ten years	Carrying value (discounted)
	£000's	£000's	£000's	£000's	£000's
Net insurance liabilities	**131,727**	**457,257**	**464,853**	**1,285,066**	**1,506,839**
Payables arising from reinsurance contracts	**1,831,083**	**735,336**	**792,792**	**1,934,163**	**2,169,109**
Derivative liabilities	**584**	**10,252**	**14,381**	**15,596**	**32,391**
Total	**1,963,394**	**1,202,845**	**1,272,026**	**3,234,825**	**3,708,339**

30 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

At 31 December 2012	Expected cash flows (undiscounted) less than one year	one to five years	five to ten years	more than ten years	Carrying value (discounted)
	£000's	£000's	£000's	£000's	£000's
Net insurance liabilities	109,715	368,737	354,809	969,614	1,310,747
Payables arising from reinsurance contracts	114,153	576,795	619,048	1,496,027	1,728,998
External borrowings	—	—	—	365,539	365,539
Derivative liabilities	8,406	27,856	5,142	11,971	49,767
Total	232,274	973,388	978,999	2,843,151	3,455,051

The maximum exposure to credit risk is equal to the balance sheet value of debt instruments/ derivatives.

(e) Property risk

Property risk is the risk that property values do not rise sufficiently to recover the full value of equity release loans made plus accrued interest. The initial loan value is restricted to a maximum "loan to value" ratio that limits the risk exposure for the Group.

Loans backed by mortgages represent little credit risk as the debt is ultimately repayable from the proceeds of the sale of the property on death of the policyholder or on their transfer to long-term care.

31 AVAILABLE CAPITAL RESOURCES

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. For the purposes of regulatory capital requirements, certain assets are restricted, or are inadmissible.

One subsidiary, Partnership Assurance 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, but as failure to cover the minimum capital requirement at this level has no consequence for the entity, or the Group, it is not a measure used to manage capital and hence is not disclosed in this note. The table below shows the available capital resources at the level of the EEA Parent Company as this is the number by which we assess the Group's capital adequacy. These capital requirements are determined in accordance with the PRA regulations and the EU directives, for insurance and other PRA 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.

As at 31 December	2013	2012
	£000's	£000's
Total equity of EEA Parent Company	**598,549**	457,703
Minority interest in equity for regulated business	**(66)**	—
Adjustments in respect of regulatory capital basis:		
Inadmissible intangible assets	**(16,401)**	(12,343)
Inadmissible goodwill	**(126,207)**	(126,207)
Inadmissible deferred tax asset	**(424)**	(158)
Equity and reserves related to non-regulated entities (excluded from regulatory capital calculation), adjusted for inadmissible assets already adjusted above	**13,031**	9,157
Total available capital resources (regulatory basis)	**468,483**	328,152
Group minimum capital requirement (regulatory basis)	**(191,630)**	(163,213)
Surplus over regulatory capital requirement	**276,853**	164,939

Movements in equity are shown in the consolidated statement of changes in equity.

31 AVAILABLE CAPITAL RESOURCES (Continued)

Throughout the year, each regulated subsidiary has maintained capital resources in excess of the minimum required by the PRA regulations and the EU directives.

32 REORGANISATION

As part of the "Global Offer" and admission of the Company to the London Stock Exchange on the 12 June 2013, the Group has undertaken certain reorganisation steps as detailed below.

Immediately prior to admission on 12 June 2013:

- the A and B loan notes, previously issued by PAG Finance Limited, a Group company, together with accrued but unpaid interest, were exchanged on a pound-for-pound basis for the allotment and issue of 69,212,294 ordinary shares in the Company which had a value of £266.5m (note 33);
- the C loan notes, previously issued by PAG Holdings Limited, together with accrued but unpaid interest, were exchanged on a pound-for-pound basis for the allotment and issue of 15,397,726 ordinary shares in the Company which had a value of £59.3m (note 33); and
- the A, B, and C ordinary shares in PAG Holdings Limited were exchanged for the allotment and issue of 282,358,446 ordinary shares in the Company. A merger reserve of £(24.5)m arose on consolidation as a result of this share exchange to maintain parity of the consolidated net assets of the Group before and after these share exchanges.

As a result of the above steps the Company obtained control of PAG Holdings Limited and its subsidiaries. The accounting treatment of this is set out in note 2. Also as a result of the above steps Cinven Funds, certain Directors, certain members of Senior Management and other individuals hold ordinary shares in each case in proportion to the value of the shareholder instruments in the Group held by them immediately prior to the reorganisation.

Pursuant to the Global Offer and following admission on 12 June 2013:

- the Company issued 32,467,532 new ordinary shares raising gross proceeds of £125.0m;
- £7.7m of these proceeds were used to repay in full the Vendor loan notes (VLN), together with accrued unpaid interest (note 23);
- the remainder of these proceeds were used in part to fund transaction costs, to repay the £70m external borrowing facility on 21 August 2013 (note 23) and for general corporate purposes; and
- the Company also issued 51,948 new ordinary shares to certain of the independent non-executive Directors and 12,025 new ordinary shares to the employee benefit trust raising £246,000.

The transaction costs relating to the Global Offer in the six months period to 30 June 2013 amounted to £19.6m. £4.0m of these costs are directly associated with the issue of new shares and have therefore been set-off against the share premium associated with those shares. £3.8m of these costs have been paid during the period to 30 June 2013.

33 SHARE CAPITAL

The Group has issued ordinary shares which are classified as equity. Incremental external costs that are directly attributable to the issue of the ordinary shares are recognised in equity, net of tax.

On 12 June 2013, immediately prior to admission on the London Stock Exchange, the Company acquired a 100% shareholding in PAG Holdings Limited, the top holding company of the Group at that point in time.

33 SHARE CAPITAL (Continued)

The allocated and issued share capital of PAG Holdings Limited and Partnership Assurance Group plc, the top holding companies of the Group as at 31 December 2012 and 31 December 2013 respectively are detailed below:

At 31 December 2012	Share capital	Share premium
	£000's	£000's
The authorised share capital of the Company is:		
"A" ordinary shares of £0.01 each	25	—
"B" ordinary shares of £0.01 each	3	—
"C" ordinary shares of £0.01 each	5	182
"D" ordinary shares of £1 each	3	—
Total	36	182

In the year to 31 December 2012:

- 2,834 ordinary D shares of PAG Holdings Limited of £1 each were issued at par for cash;
- the A, B and C ordinary shares of PAG Holdings Limited were converted into new A, B and C ordinary shares of £0.01 each and new deferred shares of £0.99 each;
- PAG Holdings Limited repurchased the deferred (DEF) shares of £0.99 each, for a total consideration of £1; and
- a capital redemption reserve of £3,296,860 was created on repurchase of the deferred shares.

As detailed in note 32, immediately prior to admission on 12 June 2013, all of the A, B and C ordinary shares in PAG Holdings Limited were transferred to the Company in exchange for the allotment and issue of ordinary shares in the Company of £0.10 each. This resulted in the creation of the Merger Reserve as a result of the Group electing to account for the acquisition of its 100% shareholding in PAG Holdings Limited as a Group reconstruction as described under the UK GAAP accounting standard, Financial Reporting Standard 6, "Acquisitions and Mergers" In addition, the capital redemption reserve was transferred to this Merger Reserve as part of the same transaction.

As at 31 December 2013	Number of shares	Share capital	Share premium
		£000's	£000's
The allotted and issued share capital of Partnership Assurance Group plc:			
On incorporation, ordinary shares of £1.00 each	**50,000**	**50**	**—**
On 12 June 2013:			
Shares subdivided into 500,000 ordinary shares of £0.10 each	**450,000**	**—**	**—**
Exchange of the A and B loan notes	**69,212,294**	**6,921**	**259,547**
Exchange of C loan notes	**15,397,726**	**1,540**	**57,742**
Share for share exchange of A, B and C ordinary shares in PAG Holdings Limited for ordinary shares in Partnership Assurance Group plc	**282,358,446**	**28,236**	**—**
New issue of shares as part of Global Offer	**32,467,532**	**3,247**	**121,752**
New ordinary shares issued to senior management	**51,948**	**5**	**195**
New ordinary shares issued to EBT	**12,025**	**1**	**45**
Share issue costs	**—**	**—**	**(4,032)**
As at 31 December 2013, ordinary shares of £0.10 each	**399,999,971**	**40,000**	**435,249**

The Company was incorporated on 26 February 2013 with an issued share capital of £50,000 divided into 50,000 ordinary shares of 100 pence each. On 12 June 2013, the 50,000 ordinary shares of 100 pence each were subdivided into 500,000 ordinary shares of 10 pence each. Immediately following the completion of

33 SHARE CAPITAL (Continued)

the Global Offer, and as a result of a number of steps undertaken prior to admission described in note 32, the issued share capital of the Company was increased to £39,999,997, comprising 399,999,971 ordinary shares of 10 pence each, all of which will be fully paid or credited as fully paid.

The ordinary share entitles the holder to dividends declared by the Board which are not cumulative. The ordinary share entitles the holder to one vote for every share held.

Shares held by the employee trust

Where an employee trust acquires shares in the Company or obtains rights to purchase its shares, the consideration paid (including attributable transaction costs, net of tax) is shown as a deduction from the owners' equity. Gains and losses on sales of shares held by the employee trust are charged or credited to the own shares account in equity.

As at 31 December	2013	2012
	£000's	£000's
Employee benefit trust	**(58)**	(33)

Prior to the Global Offer, the PAG Holdings Limited Employee Benefit trust, which was established in 2008, and is a discretionary employee benefit trust, held shares to satisfy awards granted to employees of the Group.

As part of the Group restructuring prior to the Global Offer, the shares in PAG Holdings Limited held by the EBT were exchanged for £283,000 of ordinary shares in Partnership Assurance Group plc. Following the admission of the Group onto the London Stock Exchange via a Premium Listing, £271,000 of these shares were sold to fund the vesting of the options under the Group's previous Employee Share Option Plan with the remainder of the shares transferred to a new employee benefit trust.

In addition, during the year, £46,000 of new shares were issued by the Company to the new employee benefit trust. The number of shares held by the new employee trust as at 31 December 2013 was 136,884 (31 December 2012: PAG Holdings Limited trust: 33,000).

34 OPERATING LEASE COMMITMENTS

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

As at 31 December	2013	2012
	£000's	£000's
Leases expiring not later than one year	**3,645**	2,859
Leases expiring between one and five years	**11,671**	10,489
Leases expiring in more than five years	**9,453**	13,246
Total lease commitments	**24,769**	26,594

35 RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

During the period, the Group entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into and balances outstanding at the end of each reporting date are detailed below.

(a) Financing transactions

Prior to the Group reorganisation in 2013 and as described in note 32, the Fourth Cinven Fund was the ultimate shareholder of the Group.

35 RELATED PARTY TRANSACTIONS (Continued)

The Group issued a number of loan notes to the Fourth Cinven Fund. These included the A, B and C loan notes. Details of these loan notes are described in note 12 and the outstanding balances at the end of each reporting period are disclosed in the table below:

As at 31 December	2013	2012
	£000's	£000's
A and B loan notes	—	232,702
C loan notes	—	53,978
Total	—	286,680

During the year, as described in note 32 above, the A, B and C loan were transferred on a pound-for-pound basis to the Company in exchange for the allotment and issue of ordinary shares in the Company.

The amounts accruing to the Fourth Cinven Funds in respect of these loan notes are detailed below:

As at 31 December	2013	2012
	£000's	£000's
Interest accrued on loan notes	**18,629**	29,640
Monitoring fee payments	**216**	450
Total	**18,845**	30,090

The monitoring fee payments up to February 2013 include fees for two of the Group's non-executive Directors who are also employees of Cinven Capital Management.

In addition, as part of the IPO, ordinary shares in the Company were issued to Cinven and Directors as explained in note 32.

(b) Remuneration of key management personnel

Key management personnel consist of the directors of the Company. The key management personnel changed during the year 2013 reflecting the Group reorganisation. The remuneration of the directors, who are the key management personnel of the Group, is set out below

As at 31 December	2013	2012
	£000's	£000's
Short-term employee benefits	**2,060**	2,129
Post-employment benefits	**55**	114
Share-based payments	**—**	—
Total	**2,115**	2,243

35 RELATED PARTY TRANSACTIONS (Continued)

(c) Directors' loans

A number of directors who are defined as key management personnel of the Company held loans during the period. The loans owed to/by the directors are detailed as follows

As at 31 December	2013	2012
	£000's	£000's
Amounts owed to directors:		
B loan notes	—	12,216
Vendor loan notes	—	878
Total	—	13,094
Amounts owed by directors:		
Loan advances	**289**	378
Total	**289**	378

The terms of the B and Vendor loan notes are detailed in note 32, and, as set out in that note, the loan notes were exchanged for ordinary shares in the Company as part of the IPO.

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

The amounts accruing to/from the directors in respect of these loan notes are detailed below:

As at 31 December	2013	2012
	£000's	£000's
Interest accrued on B and Vendor loan notes	**663**	1,421
Interest accrued on Directors' loan advances	**6**	—
Total	**669**	1,421

(d) Other related party transactions

During the year the Group entered into transactions with other entities controlled by Cinven Limited as set out below. All transactions were on a commercial basis.

As at 31 December	2013	2012
	£000's	£000's
Transaction expense (services received)	**558**	—
Total	**558**	—

(e) Ultimate controlling party

As at 31 December 2013 a majority of the Company's ordinary shares are held by the partnerships comprising the Fourth Cinven Funds (the "Cinven Funds"), being funds managed and advised by Cinven Limited, a company incorporated under the laws of England and Wales. Accordingly, the Directors consider the Company's ultimate controlling party to be Cinven Limited, the manager and adviser to the Cinven Funds.

36 EVENTS AFTER THE BALANCE SHEET DATE

Dividend

Subsequent to 31 December 2013, the directors proposed a final dividend for 2013 of 3.0 pence per ordinary share (2012: nil), amounting to £12.0m (2012: nil) in total. Subject to approval by shareholders at the AGM, the dividend will be paid on 30 May 2014 and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2014.

PART IV:
PARTNERSHIP ASSURANCE MARKET CONSISTENT EMBEDDED VALUE SUPPLEMENTARY INFORMATION

Independent Auditor's Review Report to the Directors of Partnership Assurance Group plc on the Market Consistent Embedded Value (MCEV) Supplementary Information

We have audited the Market Consistent Embedded Value supplementary information (the "MCEV supplementary information") of Partnership Assurance Group plc for the year ended 31 December 2015 which comprises the Group MCEV Analysis of Earnings, Covered Business Analysis of Movement in Embedded Value reconciliation of Group IFRS net assets to MCEV and the related notes 1 to 5. The financial reporting framework that has been applied in their preparation is the Market Consistent Embedded Value principles issued in June 2008 by the European CFO Forum and supplemented by an amendment to the MCEV principles issued by the same body in October 2009 (the "MCEV principles").

This report is made solely to the Company's directors in accordance with our engagement letter and solely for the purpose of expressing an opinion as to whether the MCEV supplementary information for the year ended 31 December 2015 has been properly prepared in accordance with the MCEV principles. Our audit work has been undertaken so that we might state to the Company's directors those matters we are required to state to them in an independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibility Statement in respect of the MCEV supplementary information, the directors are responsible for the preparation of the MCEV supplementary information. Our responsibility is to audit and express an opinion on the MCEV supplementary information in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice Board's Ethical Standards for Auditors.

Scope of the audit of the MCEV supplementary information

An audit involves obtaining evidence about the amounts and disclosures in the MCEV supplementary information sufficient to give reasonable assurance that the supplementary information is free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the supplementary information. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited MCEV supplementary information and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on the MCEV supplementary information

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

Other matter

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

Paul Stephenson BA FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

10 March 2016

MCEV FINANCIAL INFORMATION

Group MCEV analysis of Earnings (net of tax)

For the year ended 31 December 2015

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

Covered business Analysis of Movement in Embedded Value (net of tax)

For the year ended 31 December 2015

	Note	Year ended 31 December 2015 Free Surplus £000's	Required Capital £000's	VIF £000's	MCEV £000's	Year ended 31 December 2014 MCEV £000's
Opening MCEV		**30,834**	**418,238**	**108,460**	**557,532**	463,494
Opening adjustments		**—**	**—**	**—**	**—**	—
Adjusted opening MCEV		**30,834**	**418,238**	**108,460**	**557,532**	463,494
New business value	3	**(44,558)**	**52,485**	**21,961**	**29,888**	56,072
Expected existing business contribution (reference rate & in excess of reference rate)	3	**—**	**—**	**4,909**	**4,909**	4,106
Transfers from VIF and required capital to free surplus	3	**23,525**	**(10,667)**	**(10,003)**	**2,854**	3,469
Experience variances	3	**1,753**	**467**	**(609)**	**1,611**	(1,087)
Assumption changes		**40,460**	**(46,961)**	**2,754**	**(3,747)**	(481)
Other operating variances	3	**5,997**	**8,472**	**(3,917)**	**10,552**	24,423
Operating MCEV earnings		**27,177**	**3,795**	**15,094**	**46,067**	86,502
Economic variances	3	**(15,427)**	**(937)**	**(11,402)**	**(27,766)**	(3,994)
Other non-operating variances	3	**(26,581)**	**6,885**	**13,650**	**(6,046)**	(11,471)
Total MCEV earnings		**(14,831)**	**9,744**	**17,342**	**12,255**	71,038
Closing adjustments	3	**—**	**—**	**—**	**—**	23,000
Closing MCEV		**16,003**	**427,982**	**125,803**	**569,787**	557,532

Reconciliation of Group IFRS net assets to MCEV

As at 31 December 2015

	Year ended 31 December 2015			Year ended 31 December 2014		
	Covered Business Adjusted Net Worth	Non Covered Business Adjusted Net Worth	Group	Covered Business Adjusted Net Worth	Non Covered Business Adjusted Net Worth	Group
	£000's	£000's	£000's	£000's	£000's	£000's
Group Net Assets as reported under IFRS	**450,321**	**190,497**	**640,818**	458,961	145,729	604,690
Goodwill	**(1,332)**	**(124,875)**	**(126,207)**	(1,332)	(124,875)	(126,207)
Intangibles	**(1,000)**	**(2,100)**	**(3,100)**	(1,000)	(2,100)	(3,100)
Adjustments to IFRS	**(4,005)**	**—**	**(4,005)**	(7,557)	—	(7,557)
MCEV Net Worth	**443,984**	**63,522**	**507,506**	449,072	18,754	467,826
VIF	**125,803**	**—**	**125,803**	108,460	—	108,460
MCEV (net of taxation)	**569,787**	**63,522**	**633,309**	557,532	18,754	576,286

1. BASIS OF PREPARATION

The supplementary information which comprises the group MCEV analysis of earnings (net of tax), covered business analysis of movement in embedded value (net of tax), reconciliation of group IFRS net assets to MCEV and the related notes 1 to 5 has been prepared on a Market Consistent Embedded Value (MCEV) basis and results for non-covered business on the International Financial Reporting Standards (IFRS) basis.

The MCEV methodology adopted is in accordance with the MCEV Principles published by the CFO Forum in October 2009.

Covered business

The MCEV calculations cover all lines of insurance business within PLACL. No other group companies contain any covered business and the value of these companies has been included in the group MCEV at IFRS net asset value, less the value of goodwill and intangibles, to the extent that their recovery is supported by future profits.

The group MCEV includes the value of sub-ordinated debt, at the fair value, within covered business.

MCEV methodology

Overview

Under the MCEV methodology, profit is recognised as it is earned over the life of products defined within covered business. The total profit recognised over the lifetime of a policy is the same under MCEV and IFRS, but the timing of recognition is different.

Embedded value

The embedded value is the sum of the adjusted net worth of the group companies plus the value of in-force on the covered business, this being the present value of profits that will emerge over time.

The embedded value is calculated net of the impacts of reinsurance and allows for taxation based on current legislation and known future changes.

(i) Net worth

The net worth is the market value of the shareholders' funds and the shareholders' interest in the surplus held in the long-term business fund. This is the net assets on a regulatory basis for the life company and the IFRS net asset value for other group companies, less the value of goodwill and intangibles, to the extent that their recovery is supported by future profits.

The net worth is equal to the sum of the required capital and free surplus in the Group.

(ii) Required Capital

Required capital is the market value of assets attributed to the covered business in excess of assets required to back liabilities for covered business, and for which distribution to shareholders is restricted. The level of required capital is set equal to the higher of:

- The level of capital at which the regulator is empowered to take action;
- The capital requirement under the Group's Economic Capital framework; and
- The target capital level

This methodology reflects the level of capital considered by the directors to be appropriate to manage the business, and includes any additional shareholder funds not available for distribution. The same definition of required capital is used for both existing and new business.

The level of required capital is disclosed as the percentage of the EU minimum capital requirement (Capital Resources Requirement).

1. BASIS OF PREPARATION (Continued)

The free surplus is the market value of any assets allocated to, but not required to support, the in-force covered business at the valuation date.

(iii) Value of in-force covered business (VIF)

The value of in-force covered business consists of the following components:

- present value of future profits;
- time value of financial options and guarantees;
- frictional costs of required capital; and
- cost of residual non-hedgeable risk

(a) Present value of future profits (PVFP)

The PVFP is the present value of the distributable profits to shareholders arising from the in-force covered business projected on a best estimate basis. Distributable profits generally arise when they are released following actuarial valuations. These valuations are carried out in accordance with PRA statutory requirements designed to ensure and demonstrate solvency in long-term business funds. Future distributable profits will depend on experience in a number of areas such as investment return, mortality, lapse rates and administration costs. Releases to shareholders arising in future years from the in-force covered business and associated required capital can be projected using assumptions of future experience.

Future profits are projected using best estimate non-economic assumptions and market consistent economic assumptions. In principle, each cash flow is discounted at a rate that appropriately reflects the riskiness of that cash flow, so higher risk cash flows are discounted at higher rates. In practice, the PVFP is calculated using the 'certainty equivalent' approach, under which the reference rate is used for both the investment return and the discount rate. This approach ensures that asset cash flows are valued consistently with the market prices of assets without options and guarantees. Further information on the risk-free rates is in the following pages.

(b) Time value of financial options and guarantees (TVOG)

The PVFP calculation is based on a single (base) economic scenario; however, a single scenario cannot appropriately allow for the effect of certain asset features. If an option or guarantee affects shareholder cash flows in the base scenario, the impact is included in the PVFP and is referred to as the intrinsic value of the option guarantee; however, future investment returns are uncertain and the actual impact on shareholder profits may be higher or lower. The covered business does not contain any significant policyholder options or guarantees and therefore the TVOG is zero.

The assets backing the covered business include mortgages secured against individual domestic property (Equity release mortgages). The mortgages contain guarantees where if the value of the property is lower than the mortgage balance at the time of death or entry into a care home, then the lower of the property value and mortgage balance is repaid. The time value of this option and guarantee is allowed for in the asset valuation using closed form calculations.

(c) Frictional costs of required capital (FCoRC)

The additional costs to a shareholder of holding the assets backing required capital within an insurance company rather than directly in the market are called frictional costs. They are explicitly deducted from the PVFP. The additional costs allowed for are the taxation costs and any additional investment expenses on the assets backing the required capital. The level of required capital has been set out in the net worth section.

Frictional costs are calculated by projecting forwards the future levels of required capital. The projection of the required capital has been based on an approximate method assuming that the required capital is a constant proportion of the Long Term Insurance Capital Requirement. Tax on investment return and investment expenses are payable on the assets backing required capital, up until the point that they are released to shareholders.

1. BASIS OF PREPARATION (Continued)

(d) Cost of residual non-hedgeable risks (CoRNHR)

The cost of residual non-hedgeable risks (CoRNHR) covers risks not already allowed for in the time value of options and guarantees or the PVFP. The allowance includes the impact of both non-hedgeable financial and non-financial risks. The most significant risks not included in the PVFP are operational risks and equity release property risks.

Asymmetric risks allowed for in the PVFP are described earlier in the basis of preparation. No allowance has been made within the cost of non-hedgeable risk for symmetrical risks as these are diversifiable by investors. The CoRNHR includes an allowance for non-modelled non-hedgeable risks. For ease of comparison the CoRNHR is expressed as percentage cost of non-hedgeable capital.

New business

All annuity business is written on a single premium basis. Premium increments received following policy issue are excluded from the value of new business. Single and regular premium protection business is included in new business.

Point of sale economic and non-economic assumptions are used to value the new business. Any variances or changes in assumptions after the point of sale are recorded within the analysis of the MCEV earnings as operating experience variances or operating assumption changes.

Participating business

The Group does not contain any policies where the policyholders participate in the profits of the business.

2. ASSUMPTIONS

Reference rates

Reference rates are calculated using corporate bond, equity release and commercial mortgage liquidity premiums added to the swap curve. The liquidity premium on corporate bond assets is calculated by deducting an allowance for credit default, individually assessed for each bond based on credit rating, and comparing the resulting risk adjusted internal rate of return on the portfolio to the swap curve.

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

The commercial mortgage assets are valued using a mark to model approach that allows for the risk from change in tenant behaviour and property value, where relevant, with the liquidity premium calculated on a consistent basis.

For protection business, cash flows are assumed to be liquid and as such are discounted with no allowance for a liquidity premium.

The liquidity premiums used for the annuity in-force business are as follows:

	Liquidity premium
31 December 2015	**230 bps**
31 December 2014	211 bps

The liquidity premium on new business is determined using an approach consistent with that for the in-force business. For new business, the liquidity premium in excess of swaps is derived on a daily basis using the prevailing market conditions.

2. ASSUMPTIONS (Continued)

The weighted average liquidity premiums used for the new business MCEV calculations are as follows:

	Liquidity premium
31 December 2015	**262 bps**
31 December 2014	273 bps

Swap Rates

The swap curve is constructed from cash rates, future strips, and semi-annual swap rates sourced from a variety of counterparties and brokers with flat interpolation beyond 50 years.

The table below sets out the swap rates used for the MCEV valuations as at period end. These rates have been supplied by PLACL's investment manager.

	6 months	1 year	2 years	5 years	10 years	15 years	20 years
31 December 2015	**0.84%**	**0.84%**	**1.10%**	**1.60%**	**2.04%**	**2.22%**	**2.25%**
31 December 2014	0.74%	0.74%	0.93%	1.46%	1.87%	2.11%	2.24%

Operating earnings

For operating earnings, PLACL uses the risk adjusted yield on the asset portfolio backing liabilities in order to determine the total existing business contribution. This represents management's long-term expectations of total return on the portfolio.

The expected return has been calculated by reference to the internal rate of return on the backing assets less an appropriate risk margin.

Mortality rates

Assumed future mortality, morbidity and lapse rates have been derived from PLACL's historical experience data. The assumption is set as a best estimate of future experience. Improvements in annuitant longevity have been included in this best estimate.

Expenses

Maintenance expenses are based on the costs allocated or recharged to the PLACL in-force business. No credit for future productivity gains or economies of scale has been included in the MCEV.

Non-recurring expenses, associated with the covered business, are charged to the non-operating earnings in the year incurred and are excluded from the per policy maintenance expense assumptions. These amounted to £23.4m for the year to 31 December 2015 (31 December 2014: £16.3m).

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

Taxation

The current and future tax rates are corporation tax rates as published by HM Treasury and take into account both taxes enacted by legislation and those disclosed in budget announcements. The effective tax rate in PLACL is marginally greater larger than the corporation tax rate in 2015 because a tax reclaim of £0.3m in respect of research and development credits on prior years has increased the tax credit available on the loss. The effective tax rate for 2015 was 24.2% (31 December 2014: 13.4%).

For the purposes of modelling tax on future profits, a calendar assumption is set using a pro rata method based on months at each effective rate. This is implemented as prescribed by HMRC.

2. ASSUMPTIONS (Continued)

The blended corporation tax rates used were as follows:

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

Volatilities and correlations

Residential property and commercial property volatility are the only direct volatility inputs to the MCEV calculations. Residential property volatility is used in the evaluation of the "No Negative Equity Guarantee ("NNEG") on Equity release assets. As at 31 December 2015 the assumption was set to 12% (31 December 2014: 12%). Commercial property volatility is used to model property prices of properties backing commercial mortgage loans. As at 31 December 2015 the assumption was set to 11% (31 December 2014: 11%).

Correlations between the risks inherent in the business are used for the calculation of the CoRNHR total non-hedgeable risk capital. The correlations are consistent with the Group's Economic Capital assumptions which are based on historic correlations with adjustment for prudence as required.

Non-hedgeable risk

For the balance sheet and operating profit, a charge of 0.9% (31 December 2014: 0.9%) has been applied to the non-hedgeable capital required for a 1-in-200 year basis over the remaining lifetime of in-force business. The charge includes an allowance for all material non-hedgeable risks identified which are not already included in the PVFP calculation.

The capital levels used are consistent with those used in the Economic Capital calculation for those risks covered. Diversification benefits are included between non-hedgeable risks of the covered business. No diversification credit has been taken with hedgeable risks in the covered or non-covered business. The capital has been projected as running off over the remaining lifetime of the covered business in line with the capital resources requirement.

Frictional cost of required capital

The required capital has been set to be 184% of the capital resources requirement (31 December 2014: 190%). The required capital has been projected as running off over the remaining lifetime of the covered business in line with the capital resources requirement.

The total frictional cost allowance for investment expenses and tax on investment income earned on the required capital is 0.5% as at 31 December 2015 (31 December 2014: 0.5%).

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

Covered business

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

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

Other operating variances also include expected long-term return on excess assets (after tax) of £11.6m (£12.8m at 31 December 2014).

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

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

Non-covered business

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

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

The other movements in IFRS net equity have arisen as a result of the capital raise in September 2015 and an increase to the share based payment reserve which has increased to reflect the charge arising from the Group's non-cash employee benefits and reduced to where awards have crystallised in the year .

5. SENSITIVITIES

No future management actions are modelled following the change to the assumptions. The results are shown net of tax. The Required Capital has not been recalculated in each scenario and is modelled as a level percentage of the Capital Resources Requirement (CRR) (although the CRR will have increased or decreased as a result of any change in IFRS reserves and will impact on the FCoRC).

5. SENSITIVITIES (Continued)

The sensitivity of the embedded value and the value of new business to changes in economic and non-economic assumptions is as follows:

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

31 December 2014 Sensitivity	In-force Impact on MCEV	In-force Change in MCEV	New business Impact on MCEV	New business Change in MCEV
	£'000's	%	£'000's	%
Embedded Value (Base)	557,532		56,072	
Interest rate environment +100 bps	(25,447)	(5%)	n/a	n/a
Interest rate environment −100 bps	26,177	5%	n/a	n/a
Swaption implied volatilities + 25%	—	0%	n/a	n/a
Property volatilities +25%	(39,445)	(7%)	(5,339)	(10%)
Property Values −10%	(29,763)	(5%)	n/a	n/a
Lapses −10% (including equity release)	4,771	1%	n/a	n/a
Mortality −5% (annuities)	(21,603)	(4%)	(1,825)	(3%)
Expenses −10%	6,663	1%	180	0%
Mortality improvements +0.25% (best estimate only)	(11,254)	(2%)	(1,747)	(3%)
Decrease in liquidity premium 25 bps	(79,212)	(14%)	(12,595)	(22%)
Required capital set to be 100% of CRR	10,995	2%	2,927	5%

Notes to the sensitivities:

- Interest rate environment +/−100 bps—this sensitivity is modelled as a 100bp change to the yield on each asset. The sensitivity allows for the resulting change in asset value and the change in liability value that follows from the change in risk adjusted internal rate of return on the portfolio. In the −100bp sensitivity the reference rate has a floor of 0%.
- No sensitivity to swaption implied volatilities has been shown as swaption volatilities are not used in any part of the MCEV calculation for PLACL.
- 25% increase in property volatility—this sensitivity allows for the change in equity release asset value as a result of the change in the cost of the "No Negative Equity Guarantee", and for the change in commercial mortgage asset value. The sensitivity also allows for the corresponding change in liabilities as a result of the yield change.
- 10% fall in property values—this sensitivity allows for the change in asset value arising from an immediate fall of 10% in property prices. The property sensitivity represents a 10% decrease in carrying value, equivalent to a 35% fall from current market value. For equity release assets this increases the cost of the "No Negative Equity Guarantee". For commercial mortgages this increases

5. SENSITIVITIES (Continued)

the probability of default on the loan. The sensitivity also allows for the corresponding change in liabilities as a result of the yield change.

- 10% proportionate change in lapses (e.g. base lapse rate of 5% becomes 90% * 5%)—equity release repayment rates are also adjusted, the IFRS reserves are changed in this scenario as a result of changing yields on equity release mortgages.
- 5% decrease in base mortality—this sensitivity is modelled for the annuity business only. Remaining products are not material. This is modelled as a change in the best estimate mortality level and the prudent margins remain unchanged.
- 10% decrease in maintenance expenses—modelled as a 10% change in the expense reserve. There is no change to expense inflation and no change to valuation interest rates.
- Mortality improvements +0.25%—this sensitivity is modelled as an additional 0.25% improvement in each future year within the best estimate basis. Prudent margins are unchanged.
- 25bps decrease in liquidity premiums—this sensitivity is modelled as a 25bp parallel shift in the reference rates used for annuity business.
- The required capital sensitivity is modelled by reducing capital from 184% to 100% of the capital resource requirement. This has no impact on net worth and increases the VIF as a result of lower frictional costs of capital.
- Interest rate and property value sensitivities are not modelled for new business as the group actively reviews its pricing, and in the event of a sudden movement in asset values the pricing of new business would be changed.

Independent Auditor's Review Report to the Directors of Partnership Assurance Group Plc on the Consolidated Partnership Group Market Consistent Embedded Value (MCEV) Supplementary Information

We have audited the consolidated Group market consistent embedded value supplementary information (the "**MCEV supplementary information**") of Partnership Assurance Group plc for the year ended 31 December 2014 which comprises the Group MCEV Analysis of Earnings, Covered Business Analysis of Movement in Embedded Value, reconciliation of Group IFRS net assets to MCEV and the related notes 1 to 5. The financial reporting framework that has been applied in their preparation is the market consistent embedded value principles issued in June 2008 by the European CFO Forum and supplemented by an amendment to the MCEV principles issued by the same body in October 2009 (the "MCEV principles").

We have reported separately on the statutory Group financial statements of Partnership Assurance Group plc for the year ended 31 December 2014. The information contained in the MCEV supplementary information should be read in conjunction with the Group financial statements prepared on an IFRS basis.

This report is made solely to the Company's directors in accordance with our engagement letter and solely for the purpose of expressing an opinion as to whether the MCEV supplementary information for the year ended 31 December 2014 has been properly prepared in accordance with the MCEV principles. Our audit work has been undertaken so that we might state to the Company's Directors those matters we are required to state to them in an independent auditor's report and for no other purpose. To the fullest extent permitted by law, we will not accept or assume responsibility to anyone other than the Company, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors' and Auditor

As explained more fully in the Directors' Responsibility Statement in respect of the MCEV supplementary information, the Directors are responsible for the preparation of the MCEV supplementary information. Our responsibility is to audit and express an opinion on the MCEV supplementary information in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

Scope of the Audit of the MCEV Supplementary Information

An audit involves obtaining evidence about the amounts and disclosures in the MCEV supplementary information sufficient to give reasonable assurance that the supplementary information is free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the supplementary information. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion

In our opinion, the MCEV supplementary information for the year ended 31 December 2014 has been properly prepared in accordance with the MCEV principles using the methodology and assumptions set out in notes 1 and 2.

Partnership Assurance Stephenson BA ACA
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

2 March 2015

Group MCEV Analysis of Earnings (net of tax)

For the year ended 31 December 2014

	Note	Year ended 31 December 2014 Covered business MCEV	Non-covered business IFRS	Total Group MCEV	Year ended 31 December 2013 Total Group MCEV
		£000's	£000's	£000's	£000's
Opening Group MCEV		**463,494**	**56,139**	**519,633**	9,890
Operating MCEV earnings	3	**86,502**	**—**	**86,502**	107,236
Non-operating MCEV earnings	3	**(15,464)**	**(1,607)**	**(17,071)**	(54,225)
Total MCEV earnings		**71,038**	**(1,607)**	**69,431**	53,011
Other movements in IFRS net equity	4	**—**	**1,222**	**1,222**	456,732
Capital and dividend flows	3	**23,000**	**(37,000)**	**(14,000)**	—
Closing Group MCEV		**557,532**	**18,754**	**576,286**	519,633

Covered Business Analysis of Movement in Embedded Value (net of tax)

For the year ended 31 December 2014

		Year ended 31 December 2014				Year ended 31 December 2013
	Note	Free surplus	Required capital	VIF	MCEV	MCEV
		£000's	£000's	£000's	£000's	£000's
Opening MCEV		**58,840**	**354,330**	**50,324**	**463,494**	383,600
New business value	3	**(41,879)**	**72,299**	**25,652**	**56,072**	81,094
Expected existing business contribution (reference rate & in excess of reference rate)	3	—	—	4,106	4,106	2,800
Transfers from VIF and required capital to free surplus	3	**27,044**	**(17,263)**	**(6,313)**	**3,469**	5,226
Experience variances	3	**(770)**	**—**	**(317)**	**(1,087)**	(301)
Assumption changes		**4,171**	**(6,529)**	**1,877**	**(481)**	9,799
Other operating variances	3	**15,081**	**(8,196)**	**17,537**	**24,423**	8,618
Operating MCEV earnings		**3,647**	**40,311**	**42,542**	**86,502**	107,236
Economic variances	3	**(41,297)**	**22,856**	**14,447**	**(3,994)**	1,734
Other non-operating variances	3	**(13,357)**	**739**	**1,147**	**(11,471)**	(4,076)
Total MCEV earnings		**(51,007)**	**63,906**	**58,136**	**71,037**	104,894
Capital and dividend flows	3	**23,000**	**—**	**—**	**23,000**	(25,000)
Closing MCEV		**30,833**	**418,236**	**108,460**	**557,531**	463,494

Reconciliation of Group IFRS Net Assets to MCEV

As at 31 December 2014

	Year ended 31 December 2014			**Year ended 31 December 2013**		
	Covered business adjusted net worth	**Non-covered business adjusted net worth**	**Group**	**Covered business adjusted net worth**	**Non-covered business adjusted net worth**	**Group**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Group Net Assets as reported under IFRS	**458,959**	**145,729**	**604,688**	415,501	183,114	598,615
Goodwill	**(1,332)**	**(124,875)**	**(126,207)**	(1,332)	(124,875)	(126,207)
Intangibles	**(1,000)**	**(2,100)**	**(3,100)**	(1,000)	(2,100)	(3,100)
Adjustments to IFRS	**(7,555)**	**—**	**(7,555)**	—	—	—
MCEV Net Worth	**449,071**	**18,754**	**475,381**	413,169	56,139	469,308
VIF	**108,460**	**—**	**108,460**	50,325	—	50,325
MCEV (net of taxation)	**557,357**	**18,754**	**576,286**	463,494	56,139	519,633

Notes to the MCEV Financial Statements
for the period ended 31 December 2014

1 BASIS OF PREPARATION

The supplementary information which comprises the Group MCEV analysis of earnings (net of tax), covered business analysis of movement in embedded value (net of tax), reconciliation of Group IFRS net assets to MCEV and the related notes 1 to 5 has been prepared on a Market Consistent Embedded Value (MCEV) basis and results for non-covered business on the International Financial Reporting Standards (IFRS) basis.

The MCEV methodology adopted is in accordance with the MCEV Principles published by the CFO Forum in October 2009.

Covered business

The MCEV calculations cover all lines of insurance business within PLACL. No other Group companies contain any covered business and the value of these companies has been included in the Group MCEV at IFRS net asset value, less the value of goodwill and intangibles, to the extent that their recovery is supported by future profits.

Group financing

The Group MCEV includes the value of external debt, at the outstanding face value, within the net worth of Group companies outside of PLACL. The Group has been debt free during 2014 and does not make use of any financial reinsurance.

MCEV methodology

Overview

Under the MCEV methodology, profit is recognised as it is earned over the life of products defined within covered business. The total profit recognised over the lifetime of a policy is the same under MCEV and IFRS, but the timing of recognition is different.

Embedded value

The embedded value is the sum of the adjusted net worth of the Group companies plus the value of in-force on the covered business, this being the present value of profits that will emerge over time.

The embedded value is calculated net of the impacts of reinsurance and allows for taxation based on current legislation and known future changes.

(i) Net worth The net worth is the market value of the shareholders' funds and the shareholders' interest in the surplus held in the long-term business fund. This is the net assets on a regulatory basis for the life company and the IFRS net asset value for other Group companies, less the value of goodwill and intangibles, to the extent that their recovery is supported by future profits.

    The net worth is equal to the sum of the required capital and free surplus in the Group.

(ii) Required capital Required capital is the market value of assets attributed to the covered business in excess of assets required to back liabilities for covered business, and for which distribution to shareholders is restricted. The level of required capital is set equal to the higher of:

    - The level of capital at which the regulator is empowered to take action;
    - The capital requirement under the Group's Economic Capital framework; and
    - The target capital level.

    This methodology reflects the level of capital considered by the Directors to be appropriate to manage the business, and includes any additional shareholder funds not available for distribution. The same definition of required capital is used for both existing and new business.

1 BASIS OF PREPARATION (Continued)

The level of required capital is disclosed as the percentage of the EU minimum capital requirement (Capital Resources Requirement).

The free surplus is the market value of any assets allocated to, but not required to support, the in-force covered business at the valuation date.

(iii) Value of in-force covered business (VIF)

The value of in-force covered business consists of the following components:

- Present value of future profits;
- Time value of financial options and guarantees;
- Frictional costs of required capital; and
- Cost of residual non-hedgeable risk.

(a) ***Present value of future profits (PVFP)***

The PVFP is the present value of the distributable profits to shareholders arising from the in-force covered business projected on a best estimate basis. Distributable profits generally arise when they are released following actuarial valuations. These valuations are carried out in accordance with PRA statutory requirements designed to ensure and demonstrate solvency in long-term business funds. Future distributable profits will depend on experience in a number of areas such as investment return, mortality, lapse rates and administration costs. Releases to shareholders arising in future years from the in-force covered business and associated required capital can be projected using assumptions of future experience.

Future profits are projected using best estimate non-economic assumptions and market consistent economic assumptions. In principle, each cash flow is discounted at a rate that appropriately reflects the riskiness of that cash flow, so higher risk cash flows are discounted at higher rates. In practice, the PVFP is calculated using the "certainty equivalent" approach, under which the reference rate is used for both the investment return and the discount rate. This approach ensures that asset cash flows are valued consistently with the market prices of assets without options and guarantees. Further information on the risk-free rates is in the following pages.

(b) ***Time value of financial options and guarantees (TVOG)***

The PVFP calculation is based on a single (base) economic scenario; however, a single scenario cannot appropriately allow for the effect of certain asset features. If an option or guarantee affects shareholder cash flows in the base scenario, the impact is included in the PVFP and is referred to as the intrinsic value of the option guarantee; however, future investment returns are uncertain and the actual impact on shareholder profits may be higher or lower. The covered business does not contain any significant policyholder options or guarantees and therefore the TVOG is zero.

The assets backing the covered business include mortgages secured against individual domestic property (loans secured by residential mortgages). The mortgages contain guarantees where if the value of the property is lower than the mortgage balance at the time of death or entry into a care home, then the lower of the property value and mortgage balance is repaid. The time value of this option and guarantee is allowed for in the asset valuation using closed form calculations.

(c) ***Frictional costs of required capital (FCoRC)***

The additional costs to a shareholder of holding the assets backing required capital within an insurance company rather than directly in the market are called frictional costs. They are explicitly deducted from the PVFP. The additional costs allowed for are the taxation costs and any additional investment expenses on the assets backing the required capital. The level of required capital has been set out in the net worth section.

1 BASIS OF PREPARATION (Continued)

Frictional costs are calculated by projecting forwards the future levels of required capital. The projection of the required capital has been based on an approximate method assuming that the required capital is a constant proportion of the Long Term Insurance Capital Requirement. Tax on investment return and investment expenses are payable on the assets backing required capital, up until the point that they are released to shareholders.

(d) ***Cost of residual non-hedgeable risks (CoRNHR)***

The cost of residual non-hedgeable risks (CoRNHR) covers risks not already allowed for in the time value of options and guarantees or the PVFP. The allowance includes the impact of both non-hedgeable financial and non-financial risks. The most significant risks not included in the PVFP are operational risks and equity release property risks.

Asymmetric risks allowed for in the PVFP are described earlier in the basis of preparation. No allowance has been made within the cost of non-hedgeable risk for symmetrical risks as these are diversifiable by investors. The CoRNHR includes an allowance for non-modelled non-hedgeable risks. For ease of comparison the CoRNHR is expressed as percentage cost of non-hedgeable capital.

New business

All annuity business is written on a single premium basis. Premium increments received following policy issue are excluded from the value of new business. Single and regular premium protection business is included in new business.

Point of sale economic and non-economic assumptions are used to value the new business. Any variances or changes in assumptions after the point of sale are recorded within the analysis of the MCEV earnings as operating experience variances or operating assumption changes.

Participating business

The Group does not contain any policies where the policyholders participate in the profits of the business.

2 ASSUMPTIONS

Reference rates

Reference rates are calculated by adding the liquidity premium of corporate bonds, loans secured by residential mortgages and loans secured by commercial mortgages liquidity premiums to the swap curve. The liquidity premium on corporate bond assets is calculated by deducting an allowance for credit default, individually assessed for each bond based on credit rating, and comparing the resulting risk adjusted internal rate of return on the portfolio to the swap curve.

Loans secured by residential mortgages are valued using a mark to model approach that allows for the cost of the NNEG, where relevant, with the liquidity premium calculated on a consistent basis.

Loans secured by commercial mortgages are valued using a mark to model approach that allows for the risk from change in tenant behaviour and property value, where relevant, with the liquidity premium calculated on a consistent basis.

For protection business, cash flows are assumed to be liquid and as such are discounted with no allowance for a liquidity premium. The liquidity premiums used for the annuity in-force business are as follows:

	Liquidity premium
Wednesday, December 31, 2014	**211 bps**
Tuesday, December 31, 2013	180 bps

2 ASSUMPTIONS (Continued)

The liquidity premium on new business is determined using an approach consistent with that for the in-force business. For new business, the liquidity premium in excess of swaps is derived on a daily basis using the prevailing market conditions.

The weighted average liquidity premiums used for the new business MCEV calculations are as follows:

	Liquidity premium
Wednesday, December 31, 2014	**273 bps**
Tuesday, December 31, 2013	216 bps

Swap Rates

The swap curve is constructed from cash rates, future strips, and semi-annual swap rates sourced from a variety of counterparties and brokers with flat interpolation beyond 50 years.

The table below sets out the swap rates used for the MCEV valuations as at period end. These rates have been supplied by PLACL's investment manager.

	6 months	1 year	2 years	5 years	10 years	15 years	20 years
Wednesday, December 31, 2014	**0.74%**	**0.74%**	**0.93%**	**1.46%**	**1.87%**	**2.11%**	**2.24%**
Tuesday, December 31, 2013	0.71%	0.71%	1.03%	2.17%	3.10%	3.47%	3.57%

Operating earnings

For operating earnings, PLACL uses the risk adjusted yield on the asset portfolio backing liabilities in order to determine the total existing business contribution. This represents management's long-term expectations of total return on the portfolio.

The expected return has been calculated by reference to the internal rate of return on the backing assets less an appropriate risk margin.

Mortality rates

Assumed future mortality, morbidity and lapse rates have been derived from PLACL's historical experience data. The assumption is set as a best estimate of future experience. Improvements in annuitant longevity have been included in this best estimate.

Expenses

Maintenance expenses are based on the costs allocated or recharged to the PLACL in-force business. No credit for future productivity gains or economies of scale has been included in the MCEV.

Non-recurring expenses, associated with the covered business, are charged to the non-operating earnings in the year incurred and are excluded from the per policy maintenance expense assumptions. These amounted to £16.4m for the year to 31 December 2014 (31 December 2013: £5.2m).

Best estimate expense inflation applied as at 31 December 2014 was 4.5% p.a. (31 December 2013: 4.8%).

Taxation

The current and future tax rates are corporation tax rates as published by HM Treasury and take into account both taxes enacted by legislation and those disclosed in budget announcements. The effective tax rate in PLACL is lower than the corporation tax rate in 2014 due to a £1.9m research and development tax reclaim on prior years. All significant external debt, which had previously produced interest costs that were used to reduce the effective tax rate in PLACL, was repaid in 2013. The effective tax rate for 2014 was 13.4% (31 December 2013: 17.1%).

2 ASSUMPTIONS (Continued)

For the purposes of modelling tax on future profits, a calendar assumption is set using a pro rata method based on months at each effective rate. This is implemented as prescribed by HMRC.

The blended corporation tax rates used were as follows:

	Year ended 31 December	
	2014	**2013**
2014	**21.50%**	21.50%
2015	**20.25%**	20.25%
2016+	**20.00%**	20.00%

Volatilities and correlations

Residential property and commercial property volatilities are the only direct volatility inputs to the MCEV calculations. Residential property volatility is used in the evaluation of the NNEG on loans secured by residential mortgages. As at 31 December 2014 the assumption was set to 12% (31 December 2013: 12%). Commercial property volatility is used to model property prices of properties backing commercial mortgage loans. As at 31 December 2014 the assumption was set to 11%.

Correlations between the risks inherent in the business are used for the calculation of the CoRNHR total non-hedgeable risk capital.

The correlations are consistent with the Group's Economic Capital assumptions which are based on historic correlations with adjustment for prudence as required.

Non-hedgeable risk

For the balance sheet and operating profit, a charge of 0.9% (31 December 2013: 1.2%) has been applied to the non-hedgeable capital required for a 1-in-200 year basis over the remaining lifetime of in-force business. The charge includes an allowance for all material non-hedgeable risks identified which are not already included in the PVFP calculation.

The capital levels used are consistent with those used in the Economic Capital calculation for those risks covered. Diversification benefits are included between non-hedgeable risks of the covered business. No diversification credit has been taken with hedgeable risks in the covered or non-covered business. The capital has been projected as running off over the remaining lifetime of the covered business in line with the capital resources requirement.

Frictional cost of required capital

The required capital has been set to be 190% of the capital resources requirement (31 December 2013: 185%). The required capital has been projected as running off over the remaining lifetime of the covered business in line with the capital resources requirement.

The total frictional cost allowance for investment expenses and tax on investment income earned on the required capital is 0.5% as at 31 December 2014 (31 December 2013: 1.1%).

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

Covered business

The key driver of the reduction in MCEV earnings in respect of new business written over the year was the lower business volumes in 2014 compared to 2013.

The total expected existing business contribution has increased in the period as a result of continued growth in the portfolio. Experience variances in the period are negligible in aggregate.

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

Assumption changes includes the net impact of basis changes in 2014 including a complete review of our longevity basis. The overall impact of the basis review was small.

During the period the methodology for the calculation of frictional cost of capital has been reassessed to more accurately reflect the assets backing required capital, resulting in a one-off increase in MCEV of £10.1m that has been included in other operating variances.

Other operating variances include expected long-term return on excess assets of £12.8m (£9.5m at 31 December 2013).

An adjustment to the provision for tax in the calculation of required capital has contributed to the movement in the allocation of required capital and free surplus in other non-operating variances but does not result in an overall change to MCEV.

Economic variances on MCEV predominantly relate to a reduction in risk-free rates over the period. The reduction in net worth was partially offset by the increase in VIF due to economic variances.

Non-operating variance is predominantly related to exceptional expenses incurred over 2014. £23.0m of capital was injected from non-covered business into covered business in 2014.

Non-covered business

The £37.0m dividend and capital flows are due to the payment of the 2013 final dividend (£12.0m) and the 2014 interim dividend (£2.0m) and the £23.0m capital injection into covered business.

Most of the £1.6m non-operating MCEV losses in the period have arisen due to an increased effective tax rate on non-covered business. The research and development claim on prior years, that prompted a credit to the covered business, produced a smaller deferred tax charge on non-covered business.

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

The other movements in IFRS net equity have arisen as the share-based payment reserve has been increased to reflect the charge arising from the Group's non-cash employee benefits.

5 SENSITIVITIES

No future management actions are modelled following the change to the assumptions. The results are shown net of tax. The Required Capital has not been recalculated in each scenario and is modelled as a level percentage of the Capital Resources Requirement (CRR) (although the CRR will have increased or decreased as a result of any change in IFRS reserves and will impact on the FCoRC).

5 SENSITIVITIES (Continued)

The sensitivity of the embedded value and the value of new business to changes in economic and non-economic assumptions is as follows:

31 December 2014 Sensitivity	In-force Impact on MCEV	In-force Change in MCEW	New Business Impact on MCEV	New Business Change in MCEV
	£000's	%	£000's	%
Embedded Value (Base)	557,532		56,072	
Interest rate environment +100 bps	(5,714)	(1)%	n/a	n/a
Interest rate environment −100 bps	828	0%	n/a	n/a
Swaption implied volatilities +25%	—	0%	n/a	n/a
Property volatilities +25%	(23,055)	(4)%	(1,166)	(2)%
Property Values −10%	(29,763)	(5)%	n/a	n/a
Lapses −10% (including equity release)	4,771	1%	n/a	n/a
Mortality −5% (annuities)	(21,603)	(4)%	(1,825)	(3)%
Expenses −10%	6,663	1%	180	0%
Mortality improvements +0.25% (best estimate only)	(11,254)	(2)%	(1,747)	(3)%
Decrease in liquidity premium 25 bps	(79,212)	(14)%	(12,595)	(22)%
Required capital set to be 100% of CRR	10,995	2%	2,927	5%

31 December 2013 Sensitivity	In-force Impact on MCEV	In-force Change in MCEW	New Business Impact on MCEV	New Business Change in MCEV
	£000's	%	£000's	%
Embedded Value (Base)	463,494		81.094	
Interest rate environment +100 bps	760	0%	n/a	n/a
Interest rate environment −100 bps	(4,802)	(1)%	n/a	n/a
Swaption implied volatilities +25%	n/a	n/a	n/a	n/a
Property volatilities +25%	(23,601)	(5)%	(4,100)	(5)%
Property Values −10%	(17,364)	(4)%	n/a	n/a
Lapses −10% (including equity release)	1,861	0%	n/a	n/a
Mortality −5% (annuities)	(16,892)	(4)%	(3,179)	(4)%
Expenses −10%	5,842	1%	1,322	2%
Mortality improvements +0.25% (best estimate only)	(7,149)	(2)%	(1,986)	(2)%
Decrease in liquidity premium 25 bps	(60,529)	(13)%	(17,363)	(22)%
Required capital set to be 100% of CRR	16,813	4%	6,466	8%

Notes to the sensitivities:

- Interest rate environment +/−100 bps—this sensitivity is modelled as a 100bp change to the yield on each asset. The sensitivity allows for the resulting change in asset value and the change in liability value that follows from the change in risk adjusted internal rate of return on the portfolio. In the −100bp sensitivity the reference rate has a floor of 0%.
- No sensitivity to swaption implied volatilities has been shown as swaption volatilities are not used in any part of the MCEV calculation for PLACL.
- 25% increase in property volatility—this sensitivity allows for the change in the value of loans secured by residential mortgages as a result of the change in the cost of the NNEG, and for the change in the value of loans secured by commercial mortgages. The sensitivity also allows for the corresponding change in liabilities as a result of the yield change.
- 10% fall in property values—this sensitivity allows for the change in asset value arising from an immediate fall of 10% in property prices. The property sensitivity represents a 10% decrease in carrying value, equivalent to a 35% fall from current market value. For loans secured by residential mortgages this increases the cost of the NNEG. For loans secured by commercial mortgages this

5 SENSITIVITIES (Continued)

increases the probability of default on the loan. The sensitivity also allows for the corresponding change in liabilities as a result of the yield change.

- 10% proportionate change in lapses (e.g. base lapse rate of 5% becomes 90% * 5%)—equity release repayment rates are also adjusted, the IFRS reserves are changed in this scenario as a result of changing yields on loans secured by residential mortgages.
- 5% decrease in base mortality—this sensitivity is modelled for the annuity business only. Remaining products are not material. This is modelled as a change in the best estimate mortality level and the prudent margins remain unchanged.
- 10% decrease in maintenance expenses—modelled as a 10% change in the expense reserve. There is no change to expense inflation and no change to valuation interest rates.
- Mortality improvements +0.25%—this sensitivity is modelled as an additional 0.25% improvement in each future year within the best estimate basis. Prudent margins are unchanged.
- 25bps decrease in liquidity premiums—this sensitivity is modelled as a 25bp parallel shift in the reference rates used for annuity business.
- The required capital sensitivity is modelled by reducing capital from 190% to 100% of the capital resource requirement. This has no impact on net worth and increases the VIF as a result of lower frictional costs of capital.
- Interest rate and property value sensitivities are not modelled for new business as the Group actively reviews its pricing, and in the event of a sudden movement in asset values the pricing of new business would be changed.

RECONCILIATION OF PARTNERSHIP ASSURANCE FINANCIAL INFORMATION ON THE BASIS OF ACCOUNTING POLICIES OF JUST RETIREMENT

Part A: Report on a financial information reconciliation in accordance with the Listing Rules

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14 March 2016

Dear Sirs

Just Retirement Group plc (the "Company"): proposed acquisition of Partnership Assurance Group plc (the "Target")

We report on the reconciliation of net profit for each of the years in the three-year period ended 31 December 2015 and of the Total equity as at 31 December 2013, 31 December 2014 and 31 December 2015, together the "**Financial Information**", as previously reported in the financial statements of the Target prepared under International Financial Reporting Standards, showing the adjustments necessary to restate it on the basis of the Company's accounting policies used in preparing the Company's last annual financial statements (the "**Reconciliation**"), set out in Part V of the Class 1 circular of the Company dated 14 March 2016. This report is required by Listing Rule 13.5.27R(2)(a) of the United Kingdom Listing Authority and is given for the purpose of complying with that Listing Rule and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company (the "**Directors**") to prepare the Reconciliation in accordance with Listing Rule 13.5.27R(2)(a).

It is our responsibility to form an opinion, as required by Listing Rules 13.5.27R2(a), as to whether:

(a) the Reconciliation has been properly compiled on the basis stated; and

(b) the adjustments are appropriate for the purpose of presenting the Financial Information (as adjusted) on a basis consistent in all material respects with the Company's accounting policies,

and to report that opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to the ordinary shareholders of the Company as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R(6), consenting to its inclusion in the circular.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial statements used in the compilation of the Reconciliation, nor do we accept responsibility for such reports or opinions beyond that owed to those to who those reports or opinions were addressed at the date of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying Financial Information, consisted primarily of checking whether the unadjusted Financial Information of the Target has been accurately extracted from an appropriate source, assessing whether all adjustments necessary for the purpose of presenting the Financial Information on a basis consistent in all material respects with the Company's accounting policies have been made, examination of evidence supporting the adjustments in the Reconciliation and checking the arithmetical accuracy of the calculations within the Reconciliation.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Reconciliation has been properly compiled on the basis stated and that the adjustments are appropriate for the purpose of presenting the Financial Information (as adjusted) on a basis consistent in all material respects with the Company's accounting policies.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted outside the United Kingdom, including the United States of America and accordingly should not be relied upon as if it has been carried out in accordance with those standards and practices.

Opinion

In our opinion:

(a) the Reconciliation has been properly compiled on the basis stated; and

(b) the adjustments are appropriate for the purpose of presenting the Financial Information (as adjusted) on a basis consistent in all material respects with the Company's accounting policies.

Yours faithfully

Deloitte LLP
Chartered Accountants

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Part B: GAAP reconciliation

Unaudited reconciliation of Partnership Assurance's net profit for the years ended 31 December 2015, 2014 and 2013

	Note	Year to 31 Dec 2015	Year to 31 Dec 2014	Year to 31 Dec 2013
		£m	£m	£m
Net (loss)/ profit after tax as previously reported by Partnership Assurance under Partnership Assurance's accounting policies		**(14.1)**	**18.9**	**59.4**
Accounting Policy Adjustments:	(a)			
Gross premiums written		(25.1)	30.7	69.3
Change in insurance liabilities (Gross amount)		25.1	(30.7)	(69.3)
Net (loss)/ profit after tax under Just Retirement's accounting policies		**(14.1)**	**18.9**	**59.4**

Unaudited reconciliation of Partnership Assurance's Total equity as at 31 December 2015, 31 December 2014 and 31 December 2013

	Note	31 Dec 2015	31 Dec 2014	31 Dec 2013
		£m	£m	£m
Total equity as previously reported by Partnership Assurance under Partnership Assurance's accounting policies		**640.8**	**604.7**	**598.5**
Accounting Policy Adjustments:	(a)			
Debtors arising out of insurance contracts		(25.1)	30.7	69.3
Long Term Business Provision		25.1	(30.7)	(69.3)
Total equity under Just Retirement's accounting policies		**640.8**	**604.7**	**598.5**

Note (a)

The adjustments to net profit and total equity arise due to differences in the revenue recognition accounting policies for Gross Premiums Written between Just Retirement Group plc and Partnership Assurance.

Partnership Assurance's accounting policy notes that "Premiums are written at the point an insurance policy comes into force", whereas Just Retirement Group plc's accounting policy is "Premium revenue in respect of single premium insurance contracts is accounted for when the premiums are received".

In 2012 Partnership Assurance changed the terms of its offer to potential policyholders such that the insurance contract came into force at the point the policyholder accepted the insurer's terms. Pre-2012 the legal terms of Partnership Assurance's underlying insurance contracts were consistent with those of Just Retirement Group plc.

The identified difference between the two accounting policies results in the earlier recognition of premiums in the financial statements of Partnership Assurance compared to Just Retirement Group plc, as the point at which the policyholder accepts the insurer's terms occurs before premiums are received.

There is no overall impact on Net profit or Total equity because Partnership Assurance makes a corresponding adjustment to the Long Term Business Provision which means that no profit is recognised on these contracts until the premiums are received, which is in line with the point in time at which Just Retirement Group plc recognises profits on its contracts.

Sources of information:

The adjustments shown in the tables above have been extracted from the Partnership Assurance financial statements for the years ended 31 December 2013 (note 1c to the IFRS financial statements), 31 December 2014 (note 1c to the IFRS financial statements) and 31 December 2015 (note 1c to the IFRS financial statements).

PART VI:
UNAUDITED *PRO FORMA* FINANCIAL INFORMATION OF THE COMBINED GROUP

The unaudited *pro forma* income statement, *pro forma* statement of net assets, *pro forma* EEV balance sheet and the related notes thereto set out in Section A, Section B and Section D of this Part VI (*Unaudited pro forma financial information of the Combined Group*) (together, the "**Unaudited *pro forma* Financial Information**") have been prepared on the basis of the notes set out below to illustrate the effect of the Proposed Merger on the income statement of the Just Retirement Group as if it had taken place on 1 January 2015, and on the net assets and EEV balance sheet of the Just Retirement Group as if it had taken place on 31 December 2015.

The Unaudited *pro forma* Financial Information has been prepared in accordance with Annex II of the Prospectus Directive Regulation and in a manner consistent with the accounting policies adopted by the Just Retirement Group in preparing its consolidated financial statements for the period ended 31 December 2015.

The Unaudited *pro forma* Financial Information has been prepared for illustrative purposes only and because of its nature, addresses a hypothetical situation and, therefore, does not represent the Just Retirement Group's, the Partnership Assurance Group's or the Combined Group's actual financial position or results. It does not purport to represent what the Combined Group's financial position or results of operations actually would have been if the Proposed Merger had been completed on the dates indicated, nor does it purport to represent the results of operations for any future period or financial position at any future date.

The Unaudited *pro forma* Financial Information does not constitute financial statements within the meaning of Section 434 of the Companies Act. Prospective investors should read the whole of this Circular and not rely solely on the summarised financial information contained in this Part VI (*Unaudited pro forma financial information of the Combined Group*). KPMG LLP's reports on the Unaudited *pro forma* Financial Information are set out in Section C and Section E of this Part VI (*Unaudited pro forma financial information of the Combined Group*).

SECTION A: UNAUDITED *PRO FORMA* INCOME STATEMENT

All figures stated in £ millions	Just Retirement Group for the year ended 30 June 2015	Partnership Assurance Group for the year ended 31 December 2015	Adjustments: Adjustments to align accounting policies	Adjustments: Proposed Merger adjustments	Pro forma
	(Note 1)	(Note 2)	(Note 3)	(Note 4 to 6)	
Revenue					
Gross written premium	1,099.0	651.4	(25.1)	—	1,725.3
Reinsurance premiums ceded	(122.9)	(217.6)	—	—	(340.5)
Reinsurance recapture	950.9	—	—	—	950.9
Net premium revenue	1,927.0	433.8	(25.1)	—	2,335.7
Net investment income	635.2	51.3	—	—	686.5
Other operating income	5.1	0.2	—	—	5.3
Total revenue	2,567.3	485.3	(25.1)	—	3,027.5
Expenses					
Gross claims paid	(498.6)	(413.1)	—	—	(911.7)
Reinsurers' share of claims paid	248.1	263.5	—	—	511.6
Net claims paid	(250.5)	(149.6)	—	—	(400.1)
Change in insurance liabilities					
Gross amount	(956.7)	(193.7)	25.1	—	(1,125.3)
Reinsurers' share	(188.3)	(42.0)	—	—	(230.3)
Reinsurance capture	(950.9)	—	—	—	(950.9)
	(2,095.9)	(235.7)	25.1	—	(2,306.5)
Change in investment contract liabilities	(3.5)	—	—	—	(3.5)
Acquisition costs	(18.5)	(3.1)	—	—	(21.6)
Other operating expenses	(127.6)	(91.2)	—	(14.9)	(233.7)
Investment expenses and charges	—	(14.8)	—	—	(14.8)
Finance costs	(100.9)	(7.3)	—	—	(108.2)
Total claims and expenses	(2,596.9)	(501.8)	25.1	(14.9)	(3,088.5)
(Loss) / Profit before tax	(29.6)	(16.4)	—	(14.9)	(60.9)
Income tax	4.8	2.3	—	3.1	(10.2)
(Loss) / profit for the period	**(24.8)**	**(14.1)**	**—**	**(11.8)**	**(50.7)**

(1) The figures for Just Retirement Group have been extracted, without material adjustment, from Just Retirement's Annual Report & Accounts 2015.

(2) The figures for Partnership Assurance Group have been extracted, without material adjustment, from Partnership Assurance's Audited Results 2015.

(3) This column reflects the effect of the material differences between Partnership Assurance's accounting policies and the accounting policies applied by the Company.

(4) An adjustment £14.9 million charge within "Other operating expenses" represents an estimate of Just Retirement's transaction costs (inclusive of VAT) since 1 July 2015.

(5) An adjustment of £3.1 million credit within the line item "Income tax" represents a current tax credit on tax-deductible transaction costs as described in Note 4 above, based on the average UK corporation tax rate of 20.75 per cent. for the year ended 30 June 2015

(6) As described in Note 5 to the unaudited *pro forma* statement of net assets, a fair valuation exercise will be undertaken on completion of the Proposed Merger. No account has been taken of the amortisation of any items subject to fair value acquisition accounting adjustments with a finite useful life on the basis that the actual rate of amortisation will not be known until completion of the Proposed Merger.

In preparing the unaudited *pro forma* income statement no account has been taken of the trading activity of Just Retirement Group since 30 June 2015 and of Partnership Assurance Group since 31 December 2015. All of the adjustments described in Note 3 to Note 6 of the unaudited *pro forma* income statement will have a continuing impact with exception of the adjustments in relation to the estimated transaction costs, as described in Note 4 and Note 5 above.

SECTION B: UNAUDITED *PRO FORMA* STATEMENT OF NET ASSETS

All figures stated in £ millions	Just Retirement Group as at 31 December 2015	Partnership Assurance Group as at 31 December 2015	Adjustments to align accounting policies	Proposed Merger adjustments	Pro forma
	(Note 1)	(Note 2)	(Note 4)	(Note 5 to 6)	
Assets					
Intangible assets (Note 3)	73.1	138.4	—	27.7	239.2
Equipment	10.1	9.3	—	—	19.4
Financial investments	9,542.5	4,886.6	—	—	14,429.1
Reinsurance assets	2,546.8	3,204.1	—	—	5,750.9
Deferred tax assets	3.6	0.9	—	—	4.5
Current tax assets	20.7	—	—	—	20.7
Prepayments and accrued income	131.2	3.5	—	—	134.7
Insurance and other receivables	2.0	90.4	(25.1)	—	67.3
Investment in JVs and associates	—	0.3	—	—	0.3
Cash and cash equivalents	21.9	453.0	—	—	474.9
Total assets	**12,351.9**	**8,786.5**	**(25.1)**	**27.7**	**21,141.0**
Total equity	**921.5**	**640.8**	**—**	**27.7**	**1,590.0**
Liabilities					
Insurance liabilities	8,214.6	5,424.8	(25.1)	—	13,614.3
Investment contract liabilities	211.9	—	—	—	211.9
Loans and borrowings	98.1	107.3	—	—	205.4
Other financial liabilities	2,718.5	2,561.3	—	—	5,279.8
Deferred tax liabilities	25.1	0.9	—	—	26.0
Other provisions	1.5	—	—	—	1.5
Current tax liabilities	14.5	4.0	—	—	18.5
Accruals and deferred income	22.7	—	—	—	22.7
Insurance and other payables	123.5	47.4	—	—	170.9
Total liabilities	**11,430.4**	**8,145.7**	**(25.1)**	**—**	**19,551.0**
Total equity and liabilities	**12,351.9**	**8,786.5**	**(25.1)**	**27.7**	**21,141.0**

(1) The figures for Just Retirement Group have been extracted, without material adjustment, from Just Retirement's Interim Results 2016.

(2) The figures for Partnership Assurance Group have been extracted, without material adjustment, from Partnership Assurance's Audited Results 2015.

(3) The Balance Sheet format for both the Company and Partnership Assurance have been abridged. Intangible assets comprises goodwill and other intangible assets.

(4) This column reflects the effect of the material differences between Partnership Assurance's accounting policies and the accounting policies applied by the Company.

(5) Under IFRS acquisition accounting it is necessary to fair value the consideration paid and all of the assets and liabilities of the acquired business. In the context of the Proposed Merger a significant part of that adjustment will be for fair valuation of the projected cash flows attaching to the Partnership Assurance Group's in-force life assurance contracts which will not be undertaken until completion of the Proposed Merger.

In the *pro forma* statement of net assets no adjustments have been made to the fair values of the individual net assets of the Partnership Assurance Group to reflect any remeasurement to fair value which may arise on the Proposed Merger as this exercise will not be undertaken until after the completion of the Proposed Merger.

Note 6 below shows the derivation of indicative goodwill and other intangible assets adjustment, which is based on the difference between the total consideration and Partnership Assurance Group's net assets.

(6) The goodwill and other intangible assets adjustment arising on the basis described in Note 6 above has been calculated as follows:

	£m
Total consideration	668.5
Less: Value of the Partnership Assurance Group net assets	(640.8)
Goodwill and other intangible assets	27.7

Based on the Closing Price of Just Retirement Shares of 199 pence on 10 August 2015 (being the last practicable date prior to the date of the Firm Offer Announcement) and the Exchange Ratio of 0.834 Partnership Assurance Shares for each New Just Retirement Share, the Proposed Merger represents an indicative value of 166 pence per Partnership Assurance Share and values the entire issued and to be issued ordinary share capital of Partnership Assurance at approximately £668.5 million.

In preparing the unaudited *pro forma* statement of net assets, no account has been taken of the trading activity of Just Retirement Group since 31 December 2015 and of Partnership Assurance Group since 31 December 2015.

SECTION C: ACCOUNTANT'S REPORT ON THE UNAUDITED *PRO FORMA* INCOME STATEMENT AND *PRO FORMA* STATEMENT OF NET ASSETS

The Directors
Just Retirement Group plc
Vale House
Roebuck Close
Bancroft Road
Reigate, Surrey
RH2 7RU

14 March 2016

Ladies and Gentlemen

Just Retirement Group plc

We report on the *pro forma* financial information (the '*Pro forma* financial information') set out in Section A and Section B of Part VI (*Unaudited pro forma financial information of the Combined Group*) of the Class 1 circular dated 14 March 2016, which has been prepared on the basis described in the notes to the *Pro forma* financial information, for illustrative purposes only, to provide information about how the acquisition of Partnership Assurance by Just Retirement might have affected the financial information presented on the basis of the accounting policies adopted by Just Retirement in preparing the financial statements for the period ended 31 December 2015. This report is required by paragraph 13.3.3R of the Listing Rules of the Financial Conduct Authority and is given for the purpose of complying with those paragraphs and for no other purpose.

Responsibilities

It is the responsibility of the directors of Just Retirement to prepare the *Pro forma* financial information in accordance with paragraph 13.3.3R of the Listing Rules of the Financial Conduct Authority.

It is our responsibility to form an opinion, as required by paragraph 7 of Annex II of the Prospectus Directive Regulation, as to the proper compilation of the *Pro forma* financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the *Pro forma* financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have as a result of the inclusion of this report in the Class 1 circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R(6), consenting to its inclusion in the Class 1 circular.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the *Pro forma* financial information with the directors of Just Retirement.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the *Pro forma* financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of Just Retirement.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the *Pro forma* financial information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of Just Retirement.

Yours faithfully

KPMG LLP

SECTION D: UNAUDITED *PRO FORMA* EEV BALANCE SHEET

Unaudited *pro forma* EEV balance sheet

All figures stated in £ millions

	Just Retirement Group for the year ended 31 December 2015	Partnership Assurance Group for the year ended 31 December 2015	Pro forma
	(Note 1)	(Note 2)	
EEV Balance Sheet	1,143.8	633.3	1,777.1

(1) The figures for the Just Retirement Group have been extracted, without material adjustment, from the EEV Supplementary Financial Statements contained within Just Retirement's Interim Results 2016.

(2) The figures for the Partnership Assurance Group have been extracted, without material adjustment, from the MCEV Supplementary Information contained within Partnership Assurance's Audited Results 2015.

In preparing the unaudited *pro forma* statement of net assets, no account has been taken of the trading activity of the Just Retirement Group since 31 December 2015 and of Partnership Assurance Group since 31 December 2015.

SECTION E: ACCOUNTANT'S REPORT ON THE UNAUDITED *PRO FORMA* EEV BALANCE SHEET

The Directors
Just Retirement Group plc
Vale House
Roebuck Close
Bancroft Road
Reigate, Surrey
RH2 7RU

14 March 2016

Ladies and Gentlemen

Just Retirement Group plc

We report on the European Embedded Value ('EEV') *pro forma* information (the '*EEV pro forma financial information*') set out in Part VI (*Unaudited pro forma financial information of the Combined Group*) of the Class 1 circular dated 14 March 2016, which has been prepared on the basis described in the notes to the EEV *pro forma* financial information, for illustrative purposes only, to provide information about how the acquisition of Partnership Assurance by Just Retirement might have affected the EEV supplementary financial information presented on the basis of the Just Retirement's accounting policy for European Embedded Value ('EEV Accounting Policy') which follows the EEV Principles issued in May 2004 by the CFO Forum of European Insurance Companies and expanded by the Additional Guidance on EEV Disclosures issued in October 2005 'the EEV Principles'. This report is required by paragraph 13.3.3R of the Listing Rules of the Financial Conduct Authority and is given for the purpose of complying with those paragraphs and for no other purpose.

Responsibilities

It is the responsibility of the directors of Just Retirement to prepare the EEV *pro forma* financial information in accordance with paragraph 13.3.3R of the Listing Rules of the Financial Conduct Authority.

It is our responsibility to form an opinion, as required by paragraph 7 of Annex II of the Prospectus Directive Regulation, as to the proper compilation of the EEV *pro forma* financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the EEV *pro forma* financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have as a result of the inclusion of this report in the Class 1 circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R(6), consenting to its inclusion in the combined Class 1 circular.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the EEV *pro forma* financial information with the directors of Just Retirement.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the EEV *pro forma* financial information has been properly compiled on the basis stated and that such basis is consistent with the EEV Accounting Policy.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the EEV *pro forma* financial information has been properly compiled on the basis stated; and
- such basis is consistent with the EEV Accounting Policy of Just Retirement.

Yours faithfully

KPMG LLP

PART VII:
QUANTIFIED FINANCIAL BENEFITS STATEMENT

The Firm Offer Announcement included statements of estimated cost savings and synergies arising from the Proposed Merger (the "**Quantified Financial Benefits Statement**") which are repeated and described further in paragraph 3 of Part I (*Letter from the Chairman of Just Retirement*) of this Circular.

A copy of the Quantified Financial Benefits Statement is set out below:

"The Just Retirement Board expects the Proposed Merger to result in pre-tax cost savings of at least £40 million per annum. These synergies are expected to be implemented following completion of the Proposed Merger with the full run-rate being achieved in 2018 (the third year following completion), assuming the Conditions to completion of the Proposed Merger are satisfied, and are expected to require one-off integration costs of approximately £60 million over two years.

The cost savings represent approximately one third of the combined addressable cost base and are expected to be derived from the following key areas:

- *approximately one third from the streamlining of sales and pricing functions through the removal of duplicate quotes, sales and pricing activity for annuities and DB de-risking;*
- *approximately one third from the removal of duplicated corporate functions within the Combined Group;*
- *approximately one quarter from the removal of overlapping IT systems and associated costs as well as from the streamlining of customer services and operations functions; and*
- *the balance from the reduction in office space utilised by the Combined Group.*

The identified synergies will accrue as a direct result of the Proposed Merger and would not be achieved on a standalone basis."

In addition to the targeted cost savings, the Just Retirement Board believes there is the potential for additional financial benefits to be achieved over time.

These synergy estimates consider only costs and exclude any potential benefits from increasing operational gearing, improved commercial terms with business partners or access to financial markets.

Further information on the bases of belief supporting the Quantified Financial Benefits Statement, including the principal assumptions and sources of information, is set out below.

Bases of Belief

In determining the quantum and timing of expected cost savings and integration costs, the following steps have been undertaken:

- a Synergy Development Team, which comprises senior strategy and financial personnel from both Just Retirement and Partnership Assurance, has worked collaboratively to develop synergy estimates based on:
  - publicly available information (e.g. report and accounts, regulatory returns, IPO prospectuses); and
  - a series of face to face meetings between key management, supported by financial and legal advisers, with verbal Q&A and prepared Q&A lists.

  Key individuals involved in the Synergy Development Team are listed in the Appendix VI of the Firm Offer Announcement. The process and meetings have been open and co-operative although commercially sensitive material was not discussed or shared (e.g. pricing; underwriting);
- the cost bases of both organisations have been mapped to identify areas of overlap and duplication and where benefits of scale would enable removal of costs from the combined base;
- where possible, data assumptions have been linked back to public sources;
- the Just Retirement Directors have identified a synergy number based on their understanding of data provided by both Just Retirement and Partnership Assurance, as well as public information; and

- the cost savings set out in this announcement are additional to the cost savings announced by Just Retirement and Partnership Assurance respectively in 2014 in response to the 2014 Pensions freedoms budget, which are assumed to have been saved in determining the combined cost base.

Reports and confirmations

On 11 August 2015, KPMG, as reporting accountants to Just Retirement, provided a report under Rule 28.1(a) of the Code.

On 11 August 2015, Barclays, as lead financial adviser to Just Retirement, and Fenchurch, as financial adviser to Just Retirement, provided a joint report for the purposes of the Code.

Copies of these reports were included in Appendix V to the Firm Offer Announcement.

As required by Rule 27.2(d)(ii) of the Code, the Just Retirement Directors confirm that there have been no material changes to the Quantified Financial Benefits Statement.

As required by Rule 27.2(d)(ii) of the Code, each of KPMG, Barclays and Fenchurch, confirms that their respective reports produced in connection with the Quantified Financial Benefits Statement continue to apply.

Important Notes

1. The statements of estimated cost savings and synergies relate to future actions and circumstances which, by their nature, involve risks, uncertainties and contingencies. As a result, the cost savings and synergies referred to may not be achieved, or may be achieved later or sooner than estimated, or those achieved could be materially different from those estimated. No statement in the Quantified Financial Benefits Statement, or this Circular generally, should be construed as a profit forecast or interpreted to mean that the Combined Group's earnings in the full first full year following the Proposed Merger, or in any subsequent period, would necessarily match or be greater than or be less than those of Just Retirement and/or Partnership Assurance for the relevant preceding financial period or any other period.
2. Due to the scale of the Combined Group, there may be additional changes to the Combined Group's operations. As a result, and given the fact that the changes relate to the future, the resulting cost savings may be materially greater or less than those estimated.
3. The expected synergies will accrue as a direct result of the success of the Proposed Merger and would not be achieved on a standalone basis.
4. The expected one-off integration costs of approximately £60 million exclude transaction costs in relation to the Proposed Merger and non-cash costs.
5. In arriving at the Quantified Financial Benefits Statement, the Board of Just Retirement has assumed that:
   (a) there will be no significant impact on the underlying operations of either business;
   (b) there will be no material change to macroeconomic, political or legal conditions in the markets or regions in which in the Combined Group operates which will materially impact on the implementation of or costs to achieve the proposed cost savings; and
   (c) there will be no material change in exchange rates.

PART VIII:
INFORMATION ON THE SOLVENCY II CAPITAL POSITION OF JUST RETIREMENT AND PARTNERSHIP ASSURANCE

SECTION A: INFORMATION ON THE SOLVENCY II CAPITAL POSITION OF JUST RETIREMENT

The Solvency II capital position of the Just Retirement Group at 31 December 2015, produced on the basis of the full internal model approved by the PRA on 5 December 2015, was:

Capital resources	£m
Total eligible own funds to meet the consolidated group solvency capital requirement	1,076
Solvency capital requirement	811
Excess capital resources	265
Capital ratio	133%

Solvency II sensitivities	£m
Excess capital resources	265
+100bps rise in interest rates	72
+10% early redemption	7
−40% equity markets	0
+100bps credit spreads	(26)
−5% property values	(56)
−100bps fall in interest rates(1)	(59)
+5% longevity	(105)

(1) Assumes transitionals are recalculated.

SECTION B: INFORMATION ON THE SOLVENCY II CAPITAL POSITION OF PARTNERSHIP ASSURANCE

The Solvency II capital position of the Partnership Assurance Group, produced on a standard formula basis at 31 December 2015 was:

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

Breakdown of SII Capital Resources	**£m**
Tier 1	479
Tier 2	101
Tier 3	5
Total	**585**

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

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

Reconciliation of Economic Capital Surplus to Solvency II Surplus	**£m**
EC Surplus	444
Own fund’s differences	(218)
Required capital differences	(48)
Solvency II surplus	178

(1) Assumes transitionals are recalculated.

PART IX:
ADDITIONAL INFORMATION

1. Responsibility

Just Retirement and the Just Retirement Directors, whose names appear in Part I (*Letter from the Chairman of Just Retirement*), accept responsibility for the information contained in this Circular. To the best of the knowledge and belief of Just Retirement and the Just Retirement Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Information incorporated by reference

The following sections of the Prospectus (which is available at www.justretirementgroup.com) are incorporated by reference into this Circular:

Information	Sections of the Prospectus incorporated by reference into this Circular	Page number(s)
Information on Just Retirement		
Incorporation	Part 16, paragraph 2	242
Directors' and Proposed Directors' terms of employment	Part 16, paragraph 7	253–263
Material contracts and other offer-related arrangements of Just Retirement	Part 16, paragraph 11	274–286
Information on Partnership Assurance		
Material contracts of Partnership Assurance	Part 16, paragraph 12	286–287

3. Share Capital

(a) The Just Retirement Shares are in registered form and capable of being held in uncertificated form. The ISIN for the Just Retirement Shares is GB00BCRX1J15 and the SEDOL number for the Just Retirement Shares is BCRX1J1. No temporary documents of title will be issued. It is expected that definitive share certificates will be posted to those Partnership Assurance Shareholders who have requested the issue of New Just Retirement Shares in certificated form within 14 days of the Effective Date.

(b) The Company does not have in issue any securities not representing share capital and there are no outstanding debentures, convertible securities, exchangeable securities or securities with warrants issued or proposed to be issued by the Company.

(c) As at 11 March 2016 (being the Last Practicable Date), the issued share capital of the Company is 564,397,402 Just Retirement Shares. The Company held no treasury shares.

4. Interests in Just Retirement Shares

(a) The following table sets out the interests in the share capital of the Company of the Just Retirement Directors, the Proposed Directors and Senior Management (including beneficial interests or interests of a person connected with a Just Retirement Director or a member of Senior Management), (1) as at 11 March 2016 (being the Last Practicable Date); and (2) immediately following Admission, based on the assumptions that the holdings of the following persons in the Company or Partnership Assurance (as relevant) as at 11 March 2016 (being the Last Practicable Date) do not change, 369,893,501 New Just Retirement Shares are issued in connection with the Proposed Merger and that no other issues of

Just Retirement Shares or Partnership Assurance Shares occur between the Last Practicable Date and Admission:

Director / Proposed Director / Member of Senior Management	As at the Last Practicable Date[1] Number of Just Retirement Shares	As at the Last Practicable Date[1] Percentage of Just Retirement's issued share capital	Immediately following Admission Number of JRP Group Shares	Immediately following Admission Percentage of JRP Group plc's issued share capital
Kate Avery	50,080	0.009	50,080	0.005
Christopher Berryman	2,115,048	0.375	2,115,048	0.226
Rodney Cook	2,772,165	0.491	2,772,165	0.297
Tom Cross Brown	725,000	0.128	725,000	0.078
Michael Deakin	22,536	0.004	22,536	0.002
Shayne Deighton	1,167,486	0.207	1,167,486	0.125
Alex Duncan	125,176	0.022	125,176	0.013
James Fraser	0	—	0	—
Steve Kyle	1,639,465	0.290	1,639,465	0.175
David Cooper	1,304,899	0.231	1,304,899	0.140
Hugh McKee	15,037	0.003	15,037	0.002
Steve Melcher	39,439	0.007	39,439	0.004
Keith Nicholson	29,775	0.005	29,775	0.003
Anne Ridge	168,348	0.030	168,348	0.018
Simon Thomas	1,056,786	0.187	1,056,786	0.113
Paul Turner	0	—	0	—
Chris Gibson-Smith	0	—	582,788	0.062
David Richardson	0	—	358,172	0.038
Paul Bishop	0	—	0	—
Peter Catterall	0	—	0	—
Ian Cormack	0	—	10,831	0.001
Clare Spottiswoode	0	—	0	—

Note:

(1) The interests of the Executive Directors and members of Senior Management do not include rights to acquire Just Retirement Shares that have been awarded to such persons under the LTIP, DSBP or SAYE but do include any Just Retirement Shares held through the SIP.

(b) Details of awards under the Just Retirement Employee Share Plans (including where applicable, adjustments made to the outstanding awards following the completion of the Just Retirement Placing and Open Offer) held by the Directors and members of the Senior Management as at 11 March 2016 (being the Last Practicable Date) are set out below:

Director/Member of Senior Management	Plan	Number of Just Retirement Shares over which options granted	Exercise price (if any)	Vesting date
Kate Avery	—	—	—	—
Christopher Berryman	LTIP (2013)	129,173	Nil	15 Nov 2016
	LTIP (2014)	209,396	Nil	25 Sept 2017
	LTIP (2015)	179,549	Nil	6 Nov 2018
	DSBP (2014)	47,070	Nil	25 Sept 2017
	DSBP (2015)	59,067	Nil	6 Nov 2018
	SAYE	15,038	£1.1969	1 June 2017
Rodney Cook	LTIP (2013)	503,218	Nil	15 Nov 2016
	LTIP (2014)	815,737	Nil	25 Sept 2017
	LTIP (2015)	706,025	Nil	6 Nov 2018
	DSBP (2014)	130,000	Nil	25 Sept 2017
	DSBP (2015)	157,023	Nil	6 Nov 2018
	SAYE	15,038	£1.1969	1 June 2017
Tom Cross Brown	—	—	—	—
Michael Deakin	—	—	—	—
Shayne Deighton	LTIP (2013)	222,405	Nil	15 Nov 2016
	LTIP (2014)	360,526	Nil	25 Sept 2017
	LTIP (2015)	310,407	Nil	6 Nov 2018
	DSBP (2014)	68,543	Nil	25 Sept 2017
	DSBP (2015)	88,207	Nil	6 Nov 2018
	SAYE	25,064	£1.1969	1 June 2019
Alex Duncan	LTIP (2013)	146,023	Nil	15 Nov 2016
	LTIP (2014)	236,708	Nil	25 Sept 2017
	LTIP (2015)	202,373	Nil	6 Nov 2018
	DSBP (2014)	34,414	Nil	25 Sept 2017
	DSBP (2015)	44,060	Nil	6 Nov 2018
	SAYE	15,038	£1.1969	1 June 2017
James Fraser	—	—	—	—
Steve Kyle	LTIP (2013)	103,900	Nil	15 Nov 2016
	LTIP (2014)	168,427	Nil	25 Sept 2017
	LTIP (2015)	144,552	Nil	6 Nov 2018
	DSBP (2014)	27,877	Nil	25 Sept 2017
	DSBP (2015)	32,320	Nil	6 Nov 2018
	SAYE	15,038	£1.1969	1 June 2017
David Cooper	LTIP (2013)	129,173	Nil	15 Nov 2016
	LTIP (2014)	209,396	Nil	25 Sept 2017
	LTIP (2015)	182,592	Nil	6 Nov 2018
	DSBP (2014)	48,475	Nil	25 Sept 2017
	DSBP (2015)	61,477	Nil	6 Nov 2018
	SAYE	25,064	£1.1969	1 June 2019
Hugh McKee	LTIP (2014)	209,396	Nil	25 Sept 2017
	LTIP (2015)	178,788	Nil	6 Nov 2018
	DSBP (2015)	58,825	Nil	6 Nov 2018
	SAYE	23,693	£1.2661	1 June 2020
Steve Melcher	—	—	—	—
Keith Nicholson	—	—	—	—
Anne Ridge	LTIP (2013)	95,476	Nil	15 Nov 2016
	LTIP (2014)	103,179	Nil	25 Sept 2017
	LTIP (2015)	132,379	Nil	6 Nov 2018
	DSBP (2014)	22,848	Nil	25 Sept 2017
	DSBP (2015)	28,511	Nil	6 Nov 2018
	SAYE	15,038	£1.1969	1 June 2017

Director/Member of Senior Management	Plan	Number of Just Retirement Shares over which options granted	Exercise price (if any)	Vesting date
Simon Thomas	LTIP (2013)	222,405	Nil	15 Nov 2016
	LTIP (2014)	360,526	Nil	25 Sept 2017
	LTIP (2015)	310,407	Nil	6 Nov 2018
	DSBP (2014)	73,583	Nil	25 Sept 2017
	DSBP (2015)	85,267	Nil	6 Nov 2018
	SAYE	15,038	£1.1969	1 June 2017
Paul Turner	LTIP (2014)	200,291	Nil	25 Sept 2017
	LTIP (2015)	174,984	Nil	6 Nov 2018
	DSBP (2015)	50,856	Nil	6 Nov 2018

(c) Insofar as it is known to the Company, the following persons are, or will be at Admission, interested directly or indirectly in three per cent. or more of the voting rights in respect of the issued ordinary share capital of the Company or JRP Group plc (as applicable), based on the assumptions that the holdings of the following persons in the Company or Partnership Assurance (as relevant) as at 11 March 2016 (being the Last Practicable Date) do not change, 369,893,501 New Just Retirement Shares are issued in connection with the Proposed Merger and that no other issues of Just Retirement Shares or Partnership Assurance Shares occur between the Last Practicable Date and Admission:

	As at the Last Practicable Date(1)		Immediately following Admission	
Name	Number of Just Retirement Shares	Percentage of Just Retirement's issued share capital	Number of JRP Group Shares	Percentage of JRP Group plc's issued share capital
Avallux	273,057,001	48.38	273,057,001	29.23
Schroders plc(1)	32,042,792	5.68	32,042,792	3.43
Kames Capital plc(1)	25,063,589	4.44	25,063,589	2.68
Cinven Funds	0	—	182,479,326	19.53

Note:

(1) Disregarding any existing shareholding in Partnership Assurance.

(d) Save as disclosed above, the Just Retirement Directors are not aware of any person who is or will be interested directly or indirectly in three per cent. or more of the existing issued share capital of the Company or the issued share capital of the Company following Admission.

(e) As at 11 March 2016 (being the Last Practicable Date), the Company was owned or controlled by Avallux, which held 273,057,001 Just Retirement Shares (48.4 per cent. of the voting rights attached to the issued share capital of the Company). Immediately following Admission it is expected that Avallux will hold approximately 29.2 per cent. of the voting rights attached to the issued share capital of JRP Group plc. The Company and Avallux entered into the Avallux Relationship Agreement on 12 November 2013 which regulates the ongoing relationship between them, and which is intended to ensure that the Just Retirement Group is capable of carrying on its business independently of Avallux, that transactions and relationships with Avallux (including any transactions and relationships with any member of the Just Retirement Group) are at arm's length and on normal commercial terms, and that the goodwill, reputation and commercial interests of the Company are maintained. The Just Retirement Directors believe that the terms of the Avallux Relationship Agreement enable the Just Retirement Group to carry on its business independently of Avallux and/or its associates and will ensure that all transactions and relationships between members of the Just Retirement Group, on the one hand, and Avallux and/or its associates, on the other hand, are, and will be, on arm's length terms and on a normal commercial basis.

(f) Save as disclosed above, as at 11 March 2016 (being the Last Practicable Date), the Company was not aware of any other person or persons who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company, nor is it aware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.

(g) The Company's share capital consists of one class of ordinary shares with equal voting rights (subject to the Articles). None of the Company's major shareholders has or will have different voting rights attached to the shares they hold in the Company.

5. Material Contracts

(a) *Material contracts of the Just Retirement Group*

Subject to paragraph 5(c) of this Part IX (*Additional Information*), Paragraph 11 of Part 16 (*Additional Information*) of the Prospectus contains a summary of:

(i) each material contract (other than contracts entered into in the ordinary course of business) to which Just Retirement or another member of the Just Retirement Group is a party, for the two years immediately preceding publication of this Circular; and

(ii) any other contract (not being a contract entered into the ordinary course of business) entered into by any member of the Just Retirement Group which contains any provision under which any member of the Just Retirement Group has any obligation or entitlement which is material to the Just Retirement Group as at the date of this Circular.

(b) *Material contracts of the Partnership Assurance Group*

Subject to paragraph 5(d) of this Part IX (*Additional Information*), paragraph 12 of Part 16 (*Additional Information*) of the Prospectus contains a summary of:

(i) each material contract (other than contracts entered into in the ordinary course of business) to which Partnership Assurance or another member of the Partnership Assurance Group is a party, for the two years immediately preceding publication of this Circular; and

(ii) any other contract (not being a contract entered into the ordinary course of business) entered into by any member of the Partnership Assurance Group which contains any provision under which any member of the Partnership Assurance Group has any obligation or entitlement which is material to the Partnership Assurance Group as at the date of this Circular.

(c) *Circular Sponsor Agreement*

The Company and Barclays entered into a Circular Sponsor Agreement dated 5 November 2015 and as amended and restated on 14 March 2016, pursuant to which Barclays agreed to act as sponsor to the Company in connection with the publication of this Circular.

The Company has given certain customary representations, warranties and undertakings to Barclays including, *inter alia*, warranties in relation to the business of the Company and the Combined Group, compliance by the Company and the Combined Group with all applicable laws and regulations of the United Kingdom and all relevant foreign countries, the accounting records of the Company, the accuracy of the information contained in this Circular and the accuracy of information publicly disclosed by the Company prior to the date of the Circular Sponsor Agreement. The Company has also agreed to indemnify and hold harmless Barclays (and each of its affiliates, subsidiaries and all directors, officers, employees, advisers and agents of such affiliates and subsidiaries) for any losses or claims that are suffered or incurred by it or which arise in connection with the Proposed Merger or the Circular Sponsor Agreement.

In addition, Barclays may at any time prior to Admission and by notice to the Company terminate the Circular Sponsor Agreement in certain circumstances, including, but not limited to, where the Company has, in the good faith opinion of Barclays, materially breached any of its obligations under the Circular Sponsor Agreement, or where any of the warranties on the part of the Company if repeated at any time prior to Admission would be untrue, inaccurate or misleading and which, in the good faith opinion of Barclays, would cause Barclays to be unable to fulfil its sponsor obligations to the FCA.

(d) *Placing, Option and Subscription and Transfer Agreements*

On 25 September 2015, Partnership Assurance entered into a placing agreement (the "**Partnership Assurance Placing Agreement**") with J.P. Morgan Cazenove and Morgan Stanley (together, the "**Banks**"), pursuant to which Partnership Assurance appointed the Banks as joint bookrunners in connection with the placing of 39,995,997 new Ordinary Shares (the "**Placing Shares**"), representing approximately 9.99 per cent. of the then existing issued share capital of Partnership Assurance (the "**Partnership Assurance Placing**").

Under the Partnership Assurance Placing Agreement, each of the Banks agreed severally to use its reasonable endeavours to procure placees for the Placing Shares in such number and at such price as may be agreed between Partnership Assurance and the Banks. To the extent that placees were not procured for the Placing Shares, or in the event of any default by any placee in taking up the Placing Shares allocated to it, the Banks severally agreed to take up such Placing Shares in their agreed proportions at an agreed backstop price. Following an accelerated bookbuilding process on 25 September 2015, 39,995,997 new Ordinary Shares, representing approximately 9.99 per cent. of the then existing issued share capital of Partnership Assurance, were placed by the Banks at a price of 135 pence per Placing Share, raising gross proceeds of approximately £54 million.

In consideration of their services provided under the Partnership Assurance Placing Agreement, Partnership Assurance agreed to pay the Banks a base commission of 1.5 per cent. of the amount equal to the product of the placing price of 135 pence and the aggregate number of Placing Shares (excluding any shares issued to Cinven in the Placing) together with any VAT chargeable thereon and an additional commission, at Partnership Assurance's sole and absolute discretion, of 0.5 per cent. of the amount equal to the product of the placing price of 135 pence and the aggregate number of Placing Shares (excluding any shares issued to Cinven in the Placing) together with any VAT chargeable thereon. In addition, Partnership Assurance agreed to pay the Banks' out-of-pocket expenses incurred for the purpose of or in connection with the Placing.

Partnership Assurance has given certain customary representations, warranties and undertakings to the Banks in the Partnership Assurance Placing Agreement including, *inter alia*, warranties in relation to the business of Partnership Assurance, compliance by Partnership Assurance with all applicable laws and regulations of the United Kingdom and all relevant foreign countries, the accounting records of Partnership Assurance, the accuracy of the information publicly disclosed by Partnership Assurance prior to the date of the Partnership Assurance Placing Agreement. Partnership Assurance has also agreed to indemnify and hold harmless each Bank (and each of its affiliates, subsidiaries and all directors, officers, employees, advisers and agents of such affiliates and subsidiaries) for any losses or claims that are suffered or incurred by it or which arise in connection with admission, the Placing or otherwise in connection with the Partnership Assurance Placing Agreement.

In addition, Partnership Assurance agreed that it will not, from the date of the Partnership Assurance Placing Agreement to the date falling 180 days from admission of the Placing Shares to the premium listing segment of the Official List of the UKLA and to trading on the Main Market of the London Stock Exchange, without the prior written consent of the Banks, directly or indirectly, issue, allot, offer, sell, contract to sell, lend, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, deposit into any depositary receipt facility or otherwise transfer or dispose of any Partnership Assurance Shares or any securities convertible into or exercisable or exchangeable for Partnership Assurance Shares or file any registration statement under the United States Securities Act of 1933, as amended with respect to any of the foregoing (or publicly announce the same) or enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of Partnership Assurance Shares, whether any such swap or transaction described above is to be settled by delivery of Partnership Assurance Shares or such other securities, in cash or otherwise except:

(i) the issue of Partnership Assurance Shares pursuant to the Placing;

(ii) issuances of Partnership Assurance Shares pursuant to the conversion or exchange of convertible or exchangeable securities or the exercise of warrants or options, in each case outstanding on the date of the Placing Agreement and disclosed in any document published or made available pursuant to its obligations under the Disclosure and Transparency Rules, the Listing Rules or the Prospectus Rules; and

(iii) as may be required otherwise in connection with the Merger.

In addition, pursuant to an option agreement and a subscription and transfer agreement each dated 25 September 2015 between Partnership Assurance, J.P. Morgan Securities plc and Paul (Capital) Jersey Limited (a company incorporated in Jersey, "**JerseyCo**")), Partnership Assurance and J.P. Morgan Securities plc each subscribed for ordinary shares in JerseyCo. Following the completion of the Placing, J.P. Morgan Securities plc applied monies received from placees (after deduction of relevant commissions and expenses) to subscribe for redeemable preference shares in JerseyCo. Partnership Assurance allotted and issued the Placing Shares to the placees in consideration of J.P. Morgan Securities plc transferring their holdings of redeemable preference shares and ordinary shares in JerseyCo to Partnership Assurance.

6. **No significant change**

(a) ***Just Retirement***

There has been no significant change in the financial or trading position of the Just Retirement Group since 31 December 2015, being the end of the period for which the Just Retirement Group's last unaudited interim financial statements were published.

(b) ***Partnership Assurance***

There has been no significant change in the financial or trading position of the Partnership Assurance Group since 31 December 2015, being the end of the period for which the Partnership Assurance Group's last audited financial statements were published.

7. **Working Capital**

In the opinion of the Company, the working capital available to the Combined Group is sufficient for its present requirements, that is for at least the next 12 months following the date of this Circular.

8. **Related party transactions and other arrangements**

Save as disclosed in the related party note to the financial statements of the Just Retirement Group for the financial years ended 30 June 2013, 30 June 2014 and 30 June 2015 and the six months ended 31 December 2015, the Just Retirement Group has not entered into any related party transactions during the financial years ended 30 June 2013, 30 June 2014 and 30 June 2015 and during the period up to the date of this Circular.

9. **Litigation**

There are no governmental, legal or arbitration proceedings (including such proceedings which are pending or threatened of which the Company is aware) during the 12 months preceding the date of this Circular, which may have, or have had a significant effect on the Company's and/or the Just Retirement Group's financial position or profitability.

There are no governmental, legal or arbitration proceedings (including such proceedings which are pending or threatened of which the Company is aware) during the 12 months preceding the date of this Circular, which may have, or have had a significant effect on Partnership Assurance's and/or the Partnership Assurance Group's financial position or profitability.

10. **Consents**

Barclays has given and has not withdrawn its written consent to the inclusion of references to its name in this Circular and its confirmation in paragraph 3 of Part I (*Letter from the Chairman of Just Retirement*) and Part VII (*Quantified Financial Benefits Statement*), in each case, in the form and context in which they appear.

Deutsche Bank has given and has not withdrawn its written consent to the inclusion of references to its name in this Circular in the form and context in which they appear.

Nomura has given and has not withdrawn its written consent to the inclusion of references to its name in this Circular in the form and context in which they appear.

Fenchurch has given and has not withdrawn its written consent to the inclusion of references to its name in this Circular and its confirmation in paragraph 3 of Part I (*Letter from the Chairman of Just Retirement*) and Part VII (*Quantified Financial Benefits Statement*), in each case in the form and context in which they appear.

KPMG has given and has not withdrawn its written consent to the inclusion in this Circular of its reports set out in Part VI (*Unaudited pro forma financial information of the Combined Group*) and references to its name in paragraph 3 of Part I (*Letter from the Chairman of Just Retirement*) and Part VII (*Quantified Financial Benefits Statement*), in each case, in the form and context in which they appear.

Deloitte has given and has not withdrawn its written consent to the inclusion in this Circular of its report on the reconciliation of Partnership Assurance's financial information on the basis of the accounting policies of Just Retirement set out in Part A of Part V (*Reconciliation of Partnership Assurance Financial*

Information on the Basis of Accounting Policies of Just Retirement) in the form and context in which it appears.

Evercore has given and has not withdrawn its written consent to the inclusion of references to its name in this Circular in the form and context in which they appear.

11. **Documents Available for Inspection**

Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of 12 months following Admission at the offices of Clifford Chance LLP at 10 Upper Bank St, London E14 5JJ:

(a) the Articles of Association of the Company;

(b) the Prospectus;

(c) the Supplementary Prospectus;

(d) the Scheme Document;

(e) this Circular;

(f) the Form of Proxy;

(g) the Firm Offer Announcement;

(h) the irrevocable undertakings referred to in paragraph 5 of Part I (*Letter from the Chairman of Just Retirement*);

(i) Just Retirement's Interim Results 2016;

(j) Just Retirement's Annual Report & Accounts 2015;

(k) Just Retirement's Annual Report & Accounts 2014;

(l) the consolidated financial statement of Partnership Assurance for the years ended 31 December 2015, 31 December 2014 and 31 December 2013;

(m) the independent auditors' reports to the members of Partnership Assurance in respect of the consolidated financial statements of Partnership Assurance for the years ended 31 December 2015, 31 December 2014 and 31 December 2013;

(n) the report of Deloitte LLP set out in Part V (*Reconciliation of Partnership Assurance Financial Information on the Basis of Accounting Policies of Just Retirement*) of the Circular in connection with the reconciliation of historical financial information of Partnership Assurance Group plc on the basis of the accounting policies of the Just Retirement Group;

(o) Just Retirement's IPO Prospectus; and

(p) the consent letters referred to in paragraph 10 of this Part VIII (*Additional Information*).

Dated: 14 March 2016.

PART X: DEFINITIONS

The following definitions apply throughout this Circular unless the context requires otherwise:

"**2014 Budget**"	the Budget speech given by the UK Chancellor of the Exchequer to the UK Parliament on 19 March 2014
"**Admission**"	admission of the New Just Retirement Shares to the Official List with a premium listing and to trading on the London Stock Exchange's main market for listed securities.
"**Avallux**"	Avallux S.à r.l., an entity wholly owned by limited partnerships and other entities which together constitute the Permira IV Fund.
"**Avallux Relationship Agreement**"	the relationship agreement entered into between the Company and Avallux on 12 November 2013
"**Barclays**"	Barclays Bank PLC, acting through its Investment Bank
"**Board**"	the board of directors of a company
"**Business Day**"	a day (other than a Saturday, Sunday, public or bank holiday) on which banks are generally open for business in London
"**Capital Raise**"	the Just Retirement Placing and Open Offer and the Partnership Assurance Placing, further details of which are provided at paragraph 6 of Part I (*Letter from the Chairman of Just Retirement*) of this Circular
"**Cinven**"	Cinven Limited
"**Cinven Entities**"	Cinven and the Cinven Funds
"**Cinven Funds**"	Fourth Cinven Fund (No.1) Limited Partnership, Fourth Cinven Fund (No.2) Limited Partnership, Fourth Cinven Fund (No.3—VCOC) Limited Partnership, Fourth Cinven Fund (No.4) Limited Partnership, Fourth Cinven Fund FCPR, Fourth Cinven Fund (UBTI) Limited Partnership, Fourth Cinven Fund Co-Investment Partnership and Fourth Cinven (MACIF) Limited Partnership
"**Cinven Relationship Agreement**"	the relationship agreement entered into between Just Retirement, the Cinven Funds and Cinven Limited on 11 August 2015
"**Circular Sponsor Agreement**"	the sponsor agreement entered into between Just Retirement and Barclays on 5 November 2015 and amended and restated on 14 March 2016 in connection with the publication of this Circular
"**clearances**"	all consents, approvals, clearances, permissions, waivers and/or filings that are necessary in order to satisfy the Conditions and all consents, approvals, clearances, permissions, waivers and/or filings that are necessary and all waiting periods that may need to have expired, from or under the laws or practices applied by any regulatory authority in connection with the implementation of the Proposed Merger
"**Closing Price**"	the closing middle market price on a particular trading day as derived from the Daily Official List
"**CMA**"	Competition and Markets Authority of the UK
"**CMA Pre-Condition**"	the pre-condition relating to the CMA clearance, as set out in Appendix I to the Firm Offer Announcement

“**Code**”	the City Code on Takeovers and Mergers
“**Combined Group**”	the combined group following the Proposed Merger, comprising the Just Retirement Group and the Partnership Assurance Group
“**Companies Act**”	the Companies Act 2006, as amended from time to time
“**Company**”	Just Retirement Group plc, registered in England and Wales with registered number 8568957, whose registered office is at Vale House, Roebuck Close, Bancroft Road, Reigate, Surrey, RH2 7RU, United Kingdom
“**Conditions**”	the conditions of the Proposed Merger as set out in Appendix II to the Firm Offer Announcement
“**Confidentiality and Joint Defence Agreement**”	the confidentiality and joint defence agreement dated 26 June 2015 between Just Retirement, Partnership Assurance, Clifford Chance LLP and Freshfield Bruckhaus Deringer LLP
“**Co-operation Agreement**”	the agreement dated 11 August 2015 between Just Retirement and Partnership Assurance and relating, among other things, to the implementation of the Proposed Merger
“**Court**”	the High Court of Justice in England and Wales
“**Court Sanction Date**”	the date of the Scheme Court Hearing at which the Court is asked to sanction the Scheme
“**CREST**”	the system for the paperless settlement of trades in securities and the holding of uncertificated securities, operated by Euroclear in accordance with the CREST Regulations
“**CREST Manual**”	the CREST manual consisting of the CREST reference manual; CREST international manual; CREST central counterparty service manual; CREST rules; CCSS operations manual and CREST glossary of terms, available at https://www.euroclear.com
“**CREST Proxy Instruction**”	a properly authenticated CREST message appointing and instructing a proxy to attend and vote in place of a Just Retirement Shareholder at the Just Retirement General Meeting and containing the information required to be contained in the CREST Manual
“**CREST Regulations**”	the Uncertificated Securities Regulations 2001 (SI 2001/3755), as amended
“**Deutsche Bank**”	Deutsche Bank AG, acting through its London branch
“**Disclosure and Transparency Rules**”	the Disclosure and Transparency Rules of the FCA in its capacity as the UKLA under FSMA and contained in the UKLA’s publication of the same name
“**DSBP**”	the share bonus plan of the Company or Partnership Assurance, as the context requires
“**EBT**”	the Employee Benefit Trust of the Company or Partnership Assurance, as the context requires
“**EEA**”	the European Economic Area
“**EEV**”	European Embedded Value

"**Effective**"	in the context of the Proposed Merger: (i) if the Proposed Merger is implemented by way of the Scheme, the Scheme having become effective pursuant to its terms; or (ii) if the Proposed Merger is implemented by way of the Takeover Offer, the Takeover Offer having been declared or having become unconditional in all respects in accordance with the requirements of the Code
"**Effective Date**"	the date on which: (a) the Scheme becomes Effective in accordance with its terms; or (b) if Just Retirement elects to implement the Proposed Merger by way of a Takeover Offer, the date the Proposed Merger becomes or is declared unconditional in all respects
"**EPS**"	earnings per share
"**Equiniti**"	Equiniti Limited
"**Evercore**"	Evercore Partners International LLP
"**EU**" or "**European Union**"	the European Union
"**Euroclear**"	Euroclear UK & Ireland Limited
"**Exchange Ratio**"	0.834 New Just Retirement Shares for each Partnership Assurance Share held
"**Executive Directors**"	the executive Directors of the Company
"**FCA**" or "**Financial Conduct Authority**"	the UK Financial Conduct Authority, or its successor from time to time
"**Fenchurch**"	Fenchurch Advisory Partners LLP
"**Firm Offer Announcement**"	the joint announcement made by Just Retirement and Partnership Assurance dated 11 August 2015 in relation to the Proposed Merger pursuant to Rule 2.7 of the Code
"**Form of Proxy**"	the form of proxy enclosed with this Circular, for use by Just Retirement Shareholders in connection with the Just Retirement General Meeting
"**FSA**"	the Financial Services Authority
"**FSMA**"	the Financial Services and Markets Act 2000 (as amended)
"**Good Leaver**"	a participant's employment with the Combined Group terminating by reason of: (i) redundancy; (ii) death; (iii) ill health, injury or disability evidenced to the satisfaction of the JRP Group Board; (iv) any other reason as determined by the JRP Group Board in its sole discretion
"**HMRC**"	HM Revenue & Customs
"**HM Treasury**"	Her Majesty's Treasury, which is the United Kingdom government department responsible for developing and executing the British government's public finance policy and economic policy
"**IFRS**"	International Financial Reporting Standards as adopted by the EU
"**Insurance Groups Directive**"	the Directive on the Supplementary Supervision of Insurance Companies in an Insurance Group (1998/78/EC)

"**IPO**"	initial public offering
"**IT**"	information technology
"**JRP Group Board**"	the board of directors of JRP Group plc collectively
"**JRP Group Shareholders**"	following completion of the Proposed Merger, holders of JRP Group Shares from time to time
"**JRP Group Shares**"	the ordinary shares, of 10 pence each, in the share capital of JRP Group plc
"**Just Retirement**"	Just Retirement Group plc, registered in England and Wales with registered number 8568957, whose registered office is at Vale House, Roebuck Close, Bancroft Road, Reigate, Surrey, RH2 7RU, United Kingdom
"**Just Retirement's Annual Report & Accounts 2014**"	the annual report and audited financial statements of Just Retirement for the year ended 30 June 2014
"**Just Retirement's Annual Report & Accounts 2015**"	the annual report and audited financial statements of Just Retirement for the year ended 30 June 2015
"**Just Retirement's Interim Results 2016**"	the unaudited financial statements of Just Retirement for the six months ended 31 December 2015
"**Just Retirement's IPO Prospectus**"	Just Retirement's IPO prospectus dated 12 November 2013
"**Just Retirement Board**"	the board of directors of Just Retirement
"**Just Retirement Directors**"	the directors whose names are set out on page 4 of this Circular
"**Just Retirement Employee Share Plans**"	the Just Retirement LTIP, the Just Retirement DSBP and the Just Retirement SAYE
"**Just Retirement General Meeting**"	the general meeting of Just Retirement to be held at 10.00 a.m. on 30 March 2016 at Reigate Town Hall, Castlefield Road, Reigate, Surrey RH2 0SH (and any adjournment thereof) for the purposes of considering and, if thought fit, approving each of the resolutions as set out in the notice of general meeting at the end of this Circular
"**Just Retirement Group**"	Just Retirement and each of its consolidated subsidiaries and subsidiary undertakings
"**Just Retirement Placing and Open Offer**"	the placing and open offer of 63,525,672 Just Retirement Shares completed by Just Retirement on 16 October 2015, further details of which are provided at paragraph 6 of Part I (*Letter from the Chairman of Just Retirement*) of this Circular
"**Just Retirement Resolutions**"	the ordinary resolutions to be proposed at the Just Retirement General Meeting in connection with the Proposed Merger, including, *inter alia*, resolutions to (i) approve the Proposed Merger and (ii) authorise the issuance of the New Just Retirement Shares
"**Just Retirement Shareholders**"	holders of Just Retirement Shares, from time to time
"**Just Retirement Shares**"	the ordinary shares, of 10 pence each, in the share capital of Just Retirement
"**KPMG**"	KPMG LLP

"**Last Practicable Date**"	11 March 2016, being the last practicable date prior to the date of this Circular
"**Listing Rules**"	the listing rules and regulations made by the FCA under Part VI of FSMA, and contained in the UKLA's publication of the same name (as amended from time to time)
"**Lock-up Agreement**"	the lock-up agreement dated 11 August 2015 between Barclays, Avallux and the Cinven Funds
"**London Stock Exchange**"	London Stock Exchange plc
"**Long Stop Date**"	30 April 2016 or such later date as Just Retirement and Partnership Assurance may agree, with the Panel's consent and the Court may approve (if such consent and/or approval is required)
"**LTIP**"	the long-term incentive plan of the Company or Partnership Assurance, as the context requires
"**New Just Retirement Shares**"	the new ordinary Just Retirement Shares proposed to be issued to Partnership Assurance Shareholders in connection with the Proposed Merger
"**Nomura**"	Nomura International plc
"**Official List**"	the Official List of the FCA
"**PAFS**"	Pension Annuity Friendly Society
"**Panel**"	the Panel on Takeovers and Mergers
"**Partnership Assurance**"	Partnership Assurance Group plc, registered in England and Wales with registered number 08419490, whose registered office is at 5th Floor, 110 Bishopsgate, London, EC2N 4AY, United Kingdom
"**Partnership Assurance's Annual Report & Accounts 2013**"	the annual report and audited financial statements of Partnership Assurance for the year ended 31 December 2013
"**Partnership Assurance's Annual Report & Accounts 2014**"	the annual report and audited financial statements of Partnership Assurance for the year ended 31 December 2014
"**Partnership Assurance's Audited Results 2015**"	the audited financial statements of Partnership Assurance for the year ended 31 December 2015
"**Partnership Assurance Board**"	the board of directors of Partnership Assurance
"**Partnership Assurance Court Meeting**"	the meeting or meetings of the Scheme Shareholders as may be convened pursuant to an order of the Court under section 896 of the Companies Act for the purposes of considering and, if thought fit, approving the Scheme (with or without amendment approved or imposed by the Court and agreed to by Just Retirement and Partnership Assurance) including any adjournment, postponement or reconvention of any such meeting, notice of which shall be contained in the Scheme Document
"**Partnership Assurance Directors**"	the directors of Partnership Assurance, and "**Partnership Assurance Director**" means any one of them as required by the context

"**Partnership Assurance Employee Share Plans**"	the Partnership Assurance LTIP, the Partnership Assurance DSBP and the Partnership Assurance SAYE
"**Partnership Assurance General Meeting**"	the general meeting of Partnership Assurance Shareholders to be convened in connection with the Scheme to consider and if thought fit pass, *inter alia*, the Special Resolution, including any adjournment thereof
"**Partnership Assurance Group**"	Partnership Assurance and its subsidiary undertakings and associated undertakings and, where the context permits, each of them
"**Partnership Assurance Meetings**"	the Partnership Assurance Court Meeting and the Partnership Assurance General Meeting
"**Partnership Assurance Placing**"	the placing of 39,995,997 Partnership Assurance Shares completed by Partnership Assurance on 29 September 2015, further details of which are provided at paragraph 6 of Part I (*Letter from the Chairman of Just Retirement*) of this Circular
"**Partnership Assurance Shares**"	the ordinary shares of 10 pence each in the capital of Partnership Assurance
"**Partnership Assurance Shareholders**"	holders of Partnership Assurance Shares from time to time
"**pence**", "**pounds sterling**", "**sterling**", "**£**" or "**p**"	the lawful currency of the United Kingdom
"**Pension Reforms**"	the UK Government's pension reforms, implemented in April 2015
"**PLACL**"	Partnership Assurance Life Assurance Company Limited
"**PRA**" or "**Prudential Regulation Authority**"	the UK Prudential Regulation Authority or its successor from time to time
"**Prospectus**"	the prospectus dated 28 September 2015 prepared in connection with the Proposed Merger and the Just Retirement Placing and Open Offer
"**Prospectus Directive Regulation**"	the Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements
"**Prospectus Rules**"	the prospectus rules and regulations made by the FCA under Part IV of the Financial Services and Markets Act 2000 (as amended), and contained in the UKLA's publication of the same name (as amended from time to time)
"**Proposed Directors**"	the proposed directors who will join the Just Retirement Board following completion of the Proposed Merger, whose names are listed under the heading "Proposed Directors" on page 4 of this Circular
"**Proposed Merger**"	the proposed acquisition of the entire issued and to be issued share capital of Partnership Assurance by Just Retirement to be effected by the Scheme (or by the Takeover Offer under certain circumstances described in this announcement)

“**Quantified Financial Benefits Statement**”	as defined in Part VII of this Circular
“**Registrar of Companies**”	the Registrar of Companies in England and Wales
“**Registrars**”	Equiniti Limited
“**Regulatory Information Service**”	any channel recognised as a channel for the dissemination of regulatory information by listed companies as defined in the Listing Rules
“**Restricted Jurisdiction**”	any jurisdiction where local laws or regulations may result in a significant risk of civil, regulatory or criminal exposure if information concerning the Proposed Merger is sent or made available to Partnership Assurance Shareholders in that jurisdiction (in accordance with Rule 30.3 of the Code)
“**SAYE**”	the Save as You Earn Share Option Plan of the Company or Partnership Assurance, as the context requires
“**Scheme**”	the proposed scheme of arrangement under Part 26 of the Companies Act between Partnership Assurance and Partnership Assurance Shareholders to implement the Proposed Merger
“**Scheme Court Hearing**”	the hearing by the Court to sanction the Scheme and to authorise the re-registration of Partnership Assurance as a private company under section 651 of the Companies Act
“**Scheme Court Order**”	the order of the Court sanctioning the Scheme under section 899 of the Companies Act
“**Scheme Document**”	the document dispatched to Partnership Assurance Shareholders on 5 November 2015 setting out the terms and conditions of the Proposed Merger including the particulars required by section 897 of the Companies Act
“**Scheme Record Time**”	6.00 p.m. on the date of the Scheme Court Hearing
“**Scheme Shareholders**”	holders of Scheme Shares
“**Scheme Shares**”	(a) Partnership Assurance Shares in issue at the date of the Scheme Document; (b) any Partnership Assurance Shares issued after the date of the Scheme Document and prior to the Voting Record Time; and (c) any Partnership Assurance Shares issued at or after the Voting Record Time and before the Scheme Record Time in respect of which the original or any subsequent holders thereof are, or shall have agreed in writing to be, bound by the Scheme, in each case, save for any Partnership Assurance Shares legally or beneficially held by any member of the Just Retirement Group
“**SEC**”	the US Securities and Exchange Commission
“**Sell-down Agreement**”	the sell-down agreement dated 11 August 2015 between Avallux and the Cinven Funds
“**Senior Management**”	those members of the management bodies of the Company and its subsidiaries who are relevant to establishing that the Company has the appropriate expertise and experience for the management of its business for the purposes of item 14.1 of Annex I of the Prospectus Rules

"**SIP**"	share incentive plan of the Company or Partnership Assurance, as the context requires
"**Solvency II**"	the Solvency II Directive and any additional measures adopted to give effect to the Solvency II Directive (for the avoidance of doubt, whether implemented by way of a regulation, a directive or otherwise)
"**Solvency II Directive**"	Directive 2009/138/EC of the European Union of 25 November 2008 on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) and which must be transposed by Member States of the European Economic Area pursuant to Article 309 of Directive 2009/138/EC
"**Special Resolution**"	the special resolution to be proposed by Partnership Assurance at the Partnership Assurance General Meeting in connection with, amongst other things, the approval of the Scheme, the amendment of Partnership Assurance's articles of association and such other matters as may be necessary to implement the Scheme and the delisting of the Partnership Assurance Shares
"**Standard & Poor's**"	Standard & Poor's Credit Market Services Europe Limited
"**subsidiary undertaking**", "**subsidiary**", "**associated undertaking**" and "**undertaking**"	shall have the meaning given by the Companies Act (but for these purposes ignoring paragraph 20(1)(b) of Schedule 4A to the Companies Act)
"**Supplementary Prospectus**"	the supplementary prospectus dated 14 March 2016 prepared in connection with the Proposed Merger
"**Synergy Development Team**"	a team comprised of senior strategy and financial personnel from both Just Retirement and Partnership Assurance to assess the potential synergies available
"**Takeover Offer**"	should the Proposed Merger be implemented by way of a takeover offer as defined in Chapter 3 of Part 28 of the Companies Act, the takeover offer to be made by or on behalf of Just Retirement to acquire the entire issued and to be issued share capital of Partnership Assurance and, where the context admits, any subsequent revision, variation, extension or renewal of such offer
"**third party**"	a central bank, government or governmental, quasi-governmental, supranational, statutory, regulatory, professional, environmental, administrative, fiscal or investigative body, court, trade agency, association, institution, environmental body, employee representative body or any other body or person whatsoever in any jurisdiction or authority
"**treasury**" or "**treasury shares**"	shares held as Treasury shares as provided for in section 724 of the Companies Act
"**UK**" or "**United Kingdom**"	the United Kingdom of Great Britain and Northern Ireland
"**UK Corporate Governance Code**"	UK Corporate Governance Code published by the Financial Reporting Council in September 2014, as amended from time to time
"**UKLA**"	the Financial Conduct Authority acting in its capacity as the competent authority for listing under Part VI of FSMA
"**UK-US IGA**"	intergovernmental agreement entered into between the UK and the United States to improve tax compliance, dated 12 September 2012

"**Unaudited *pro forma* Financial Information**"	the unaudited *pro forma* income statement, *pro forma* statement of net assets and the related notes thereto set out in Section A and Section B of Part VI (*Unaudited pro forma financial information of the Combined Group*) of this Circular
"**US**" or "**United States**"	the United States of America, its possessions and territories, all areas subject to its jurisdiction or any subdivision thereof, any State of the United States and the District of Columbia
"**US Securities Act**"	the US Securities Act of 1993, as amended
"**Voting Record Time**"	6.00 p.m. on the date which is two Business Days prior to the date of the Partnership Assurance Meetings or any adjournment thereof (as the case may be)

All times referred to are London (UK) time unless otherwise stated.

All references to legislation in this Circular are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof.

Words importing the singular shall include the plural and *vice versa*, and words importing the masculine gender shall include the feminine or neutral gender.

NOTICE OF GENERAL MEETING

JUST RETIREMENT GROUP PLC

(Incorporated under the Companies Act 2006 and registered in England and Wales with Registered No. 08568957)

NOTICE OF GENERAL MEETING

Notice is hereby given that a general meeting of Just Retirement Group plc (the "**Company**") will be held at 10.00 a.m. on 30 March 2016 at Reigate Town Hall, Castlefield Road, Reigate, Surrey RH2 0SH (the "**General Meeting**") to consider and, if thought fit, pass the following resolutions. Resolutions 1 and 2 will be proposed as ordinary resolutions and Resolution 3 will be proposed as a special resolution.

Ordinary resolutions

THAT:

1. the acquisition by the Company of the entire issued and to be issued ordinary share capital of Partnership Assurance Group plc ("**Partnership Assurance**") (the "**Proposed Merger**"), to be effected pursuant to a scheme of arrangement of Partnership Assurance (the "**Scheme**") under Part 26 of the Companies Act 2006 (the "**Act**") or a takeover offer (the "**Takeover Offer**") made by or on behalf of the Company for the entire issued and to be issued share capital of Partnership Assurance, substantially on the terms and subject to the conditions set out in the circular to shareholders of the Company dated 14 March 2016 outlining the Proposed Merger, the prospectus prepared by the Company dated 28 September 2015 and the supplementary prospectus prepared by the Company dated 14 March 2016 in connection with Admission (as defined below), be and is hereby approved and the directors of the Company (the "**Directors**") (or any duly authorised committee thereof) be and are hereby authorised to: (i) take all such steps as may be necessary or desirable in connection with, and to implement, the Proposed Merger; and (ii) agree such modifications, variations, revisions, waivers or amendments to the terms and conditions of the Proposed Merger (provided that any such modifications, variations, revisions, waivers or amendments are not a material change to the terms of the Proposed Merger for the purposes of Listing Rule 10.5.2) and to any documents and arrangements relating thereto, as they may in their absolute discretion think fit; and

2. subject to and conditional upon the Scheme becoming effective (save for any conditions relating to: (a) the UK Listing Authority having acknowledged to the Company or its agent (and such acknowledgment not having been withdrawn) that the application for the admission of the new ordinary shares of 10 pence each in the capital of the Company to be issued in connection with the Proposed Merger (including, for the avoidance of doubt, shares of the Company to be allotted in accordance with certain amendments to be made to the articles of association of Partnership Assurance in connection with the Proposed Merger) (the "**New Just Retirement Shares**") to the Official List of the UK Listing Authority with a premium listing has been approved and (after satisfaction of any conditions to which such approval is expressed to be subject (the "**Listing Conditions**")) will become effective as soon as a dealing notice has been issued by the Financial Conduct Authority and any Listing Conditions have been satisfied; and (b) the London Stock Exchange plc having acknowledged to the Company or its agent (and such acknowledgment not having been withdrawn) that the New Just Retirement Shares will be admitted to trading on the main market of the London Stock Exchange plc ("**Admission**")), or, as the case may be, the Takeover Offer becoming or being declared wholly unconditional (save for Admission), the Directors be and are hereby generally and unconditionally authorised pursuant to section 551 of the Act (in addition, to the extent unutilised, to the authority granted to the Directors at the Company's annual general meeting held on 23 November 2015, which remains in full force and effect) to exercise all the powers of the Company to allot the New Just Retirement Shares and to grant rights to subscribe for or to convert any securities into shares in the Company, credited as fully paid, with authority to deal with fractional entitlements arising out of such allotment as they think fit and to take all such other steps as they may in their absolute discretion deem necessary, expedient or appropriate to implement such allotment, in connection with the Proposed Merger (including, for the avoidance of doubt, allotment of New Just Retirement Shares in accordance with certain amendments to be made to the articles of association of

Partnership Assurance in connection with the Proposed Merger) up to an aggregate nominal amount of £36,989,350.10 and which authority shall expire on the Long Stop Date (as defined in the Circular) (unless previously revoked, renewed, varied or extended by the Company in general meeting), save that the Company may before such expiry make an offer or enter into an agreement which would or might require shares to be allotted, or rights to subscribe for or to convert securities into shares to be granted, after such expiry and the Directors may allot shares or grant such rights in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

Special resolution

THAT

3. subject to and conditional upon the Scheme becoming effective or, as the case may be, the Takeover Offer becoming or being declared wholly unconditional, the Company's name be changed from Just Retirement Group plc to JRP Group plc.

Registered Office:
Vale House
Roebuck Close
Bancroft Road
Reigate
Surrey RH2 7RU
Registered in England number 08568957

By Order of the Board

Martin Smith

Group Company Secretary

14 March 2016

NOTES TO NOTICE OF GENERAL MEETING

1. A shareholder entitled to attend and vote at the General Meeting may appoint another person(s) (who need not be a shareholder of the Company) to exercise all or any of their rights to attend, speak and vote at the meeting. A shareholder can appoint more than one proxy in relation to the General Meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder.

2. A proxy does not need to be a shareholder of the Company but must attend the General Meeting to represent you. Your proxy could be the Chairman, another Director of the Company or another person who has agreed to attend and represent you. Your proxy must vote as you instruct and must attend the General Meeting for your vote to be counted. Details of how to appoint the Chairman of the Company or another person as your proxy, using the Form of Proxy enclosed with this Notice of General Meeting, are set out in the notes to the Form of Proxy. The valid appointment of a proxy does not prevent you from attending the General Meeting and voting in person.

3. A shareholder who wishes to appoint a proxy should complete the Form of Proxy which accompanies this Notice of General Meeting and which includes full details of how to appoint a proxy. If you do not have a Form of Proxy and believe that you should have one, please contact Equiniti's helpline on 0371 384 2787 (+44 121 415 7047 if calling from overseas), lines are open between 8.30 a.m. and 5.30 p.m. Monday to Friday (excluding public holidays). As an alternative to completing a hard copy Form of Proxy, proxies may be appointed electronically in accordance with note 5 below.

4. A copy of this Notice has been sent for information only to persons who have been nominated by a shareholder to enjoy information rights under section 146 of the Act (a "**Nominated Person**"). The rights to appoint a proxy cannot be exercised by a Nominated Person; they can only be exercised by a shareholder. However, a Nominated Person may have a right under an agreement with the shareholder by whom they were nominated to be appointed as a proxy for the General Meeting. If a Nominated Person does not have such a right or does not wish to exercise it, they may have a right under such an agreement to give instructions to the shareholder as to the exercise of voting rights.

5. In order to be valid, a proxy appointment must be returned (together with any authority under which it is executed or a copy of the authority certified in ink by a bank, a stockbroker or a solicitor) by one of the following methods:

   - online at www.sharevote.co.uk where full instructions on the procedure are given. The Voting ID, Task ID and Shareholder Reference Number printed on the Form of Proxy will be required to use this electronic proxy appointment system. Alternatively, shareholders who have already registered with Equiniti Registrars' online portfolio service, Shareview, can appoint their proxy electronically by logging on to their portfolio at www.shareview.co.uk and clicking on the link to vote;

   - in hard copy form by post, by courier or by hand to Equiniti at the address shown on the Form of Proxy;

   - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out in note 8 below.

   The appointment of a proxy in each case must formally be received by the Company's registrar by no later than 10.00 a.m. on 24 March 2016 (or, in the case of an adjournment, not later than 48 hours (excluding non-working days) before the time fixed for the holding of the adjourned meeting).

6. To change your proxy instructions you may return a new proxy appointment using the methods set out above. Where you have appointed a proxy using the hard copy Form of Proxy and would like to change the instructions using another hard copy Form of Proxy, please contact Equiniti at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. The deadline for receipt of proxy appointments (see note 5 above) also applies in relation to amended instructions. Any attempt to terminate or amend a proxy appointment received after the relevant deadline will be disregarded. Where two or more valid separate appointments of proxy are received in respect of the same share in respect of the same meeting, the one which is last sent shall be treated as replacing and revoking the other or others. If the Company is unable to determine which is last sent, the one which is last received shall be so treated. If the Company is unable to determine either which is last sent or which is last received, none of them shall be treated as valid in respect of the relevant share(s).

7. Only persons entered on the register of shareholders of the Company at 6.00 p.m. on 24 March 2016 (or, in the case of an adjournment, not later than 48 hours (excluding non-working days) before the time fixed for the holding of the adjourned meeting) shall be entitled to attend and vote at the General Meeting or adjourned meeting. Changes to entries on the register after this time shall be disregarded in determining the rights of persons to attend or vote (and the number of votes they may cast) at the General Meeting or adjourned meeting.

8. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual on the Euroclear website (www.euroclear.com). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("**Euroclear**") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID number RA19) by 10.00 a.m. on 24 March 2016 (the latest time for receipt of proxy appointments specified in this Notice of General Meeting or, in the case of an adjournment, not later than 48 hours (excluding non-working days) before the time fixed for holding the adjourned meeting). For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in regulation 35(5) (a) of the Uncertificated Securities Regulations 2001.

9. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

10. Voting on all resolutions will be conducted by way of a poll rather than a show of hands. This is a more transparent method of voting as shareholders' votes are to be counted according to the number of shares held. As soon as practicable following the General Meeting, the results of the voting at the meeting and the numbers of proxy votes cast for and against and the number of votes actively withheld in respect of each of the resolutions will be announced via a Regulatory Information Service and also placed on the Company's website: www.justretirementgroup.com on the "Investors" page.

11. A shareholder of the Company which is a corporation may authorise a person or persons to act as its representative(s) at the General Meeting. In accordance with the provisions of the Act, each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual shareholder of the Company, provided that they do not do so in relation to the same shares.

12. Under section 319A of the Act, the Company must answer any question relating to the business being dealt with at the General Meeting which is put by a shareholder attending that meeting, except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered or if to do so would interfere unduly with the preparation for the General Meeting or involve the disclosure of confidential information or if the answer has already been given on a website in the form of an answer to a question.

13. As at 11 March 2016 (being the latest practicable date prior to the publication of this Notice of General Meeting), the Company's issued share capital consisted of 564,397,402 ordinary shares, carrying one vote each. As the Company does not hold any shares in treasury, the total voting rights in the Company as at 11 March 2016 were 564,397,402.

14. A copy of this Notice of General Meeting, and any other information required by section 311A of the Act, will be available on the Company's website: www.justretirementgroup.com on the "Investors" page.

15. You may not use any electronic address provided in this Notice of General Meeting to communicate with the Company for any purposes other than those expressly stated.

16. If you have any special needs or require wheelchair access to the General Meeting venue, please contact Manjula Patel at manjula.patel@justretirement.com in advance of the meeting.

Merrill Corporation Ltd, London
15ZCP78601