

Partnership Holdings Limited

Interim statement for the 6 months to 30 June 2012





Highlights

The first 6 months of 2012 has been another period of strong sales growth for Partnership, with the ABI data confirming Partnership as one of the largest providers of enhanced/impaired retirement annuities in the UK, and the 3rd largest provider of all Open Market retirement annuity sales, as measured by premium income. Trading is on track to meet our targets for 2012.

All figures quoted in this statement are based upon unaudited management accounts.

Highlights for H1 2012 include

- Total SPE¹ in H1 2012 of £563m (H1 2011: £396m)
 - an increase of 42%
- One of the largest providers of enhanced/impaired retirement annuities in the UK and 3rd largest provider of all retirement annuities sold in the open market², with total SPE of £518m (H1 2011: £348m)
- Care annuity SPE of £45m in line with H1 2011, despite some market disruption
- New Equity Release loans made of £36m (H1 2011: £23m) - an increase of 56%
- Total bond investments under management of £2.2bn and a further £350m of equity release mortgage loans
- Robust capital position, with capital at 150% of the FSA's required minimum level
- Total full time employees of 385 - a creation of 47 new jobs in the 6 months to June 2012
- Successfully engaged in the first major Total Pension Income Exchange (TPIE) exercise, alongside a major Employee Benefit Consultant, to bring enhanced retirement benefits to members of a significant occupational pension scheme, using our unique PA Lite underwriting process
- Improved the Partnership Equity Release product to provide even higher Loan To Value options for certain customer profiles

We continue to win plaudits from the industry and in April we were named the "Number 1 provider for service" by the IFA network SimplyBiz.

We take our role in the community seriously and have chosen to support a charity, Dogs for the Disabled, providing financial and other support for their work in training dogs that offer freedom and independence to children and adults with physical disabilities and children with autism.

We also were able to provide financial support to four local sportsmen and women from the Surrey area, to help them during their training for the Olympics and Paralympics.

¹ Single Premium Equivalent, or SPE, is a standard industry measure that shows premium equivalence between a single premium product (such as a pension annuity) and a regular premium product (such as a protection policy). SPE is calculated on 1 x Single Premium + 10 x Annual Regular Premium.

² Based on ABI data provided for Q1 and Q2 2012.

Corporate Strategy and Activity in H1 2012

Partnership's strategy continues to be to leverage our unique data set and intellectual property to bring innovative financial products to as wide a customer base as possible. Examples of this strategy in operation include: our role, in conjunction with distribution partners, in developing the market leading TPIE solution to those receiving occupational pensions; our enhancement of the Partnership equity release mortgage to provide greater benefits to customers with impaired lives; and our continued development of information provision and customer education in the long term care market.

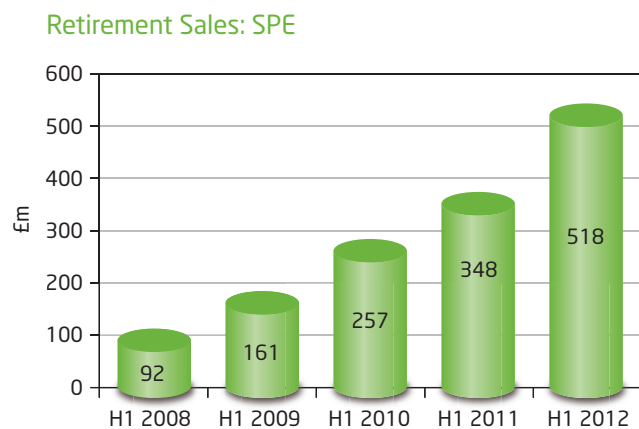
However, activity at Partnership during the first half of 2012 has also been heavily focussed on ensuring the necessary developments to comply with a raft of regulatory and legal changes taking effect in the coming months and years. Partnership, along with the rest of the insurance industry, has had to make system, process and product changes to comply with the requirements of, amongst other things:

- Changes in advisor remuneration coming into effect in January 2013, as part of the FSA's Retail Distribution Review
- Changes in the underwriting and pricing of our products as a result of the EU Gender Directive, which takes effect in December 2012
- Changes in how we allocate and manage our capital base that will be driven by the new EU wide capital regime for insurers, known as "Solvency II"

We are pleased to report good progress on the necessary developments to comply with all of these new requirements, but along with many of our industry peers, we remain concerned at the lack of detail surrounding a number of key aspects of the Solvency II capital regime that are preventing us finalising some aspects of the developments needed. Notwithstanding this uncertainty, we continue to work to a timetable for delivery of an appropriate capital model for the end of 2013.

Retirement Products

SPE in the first half of 2012 has increased to £518m, a rise of 49% against H1 2011, continuing the strong growth we have seen in Retirement sales since 2008. As a result, Partnership's share of the non-standard annuity market in the UK has increased to 33%³, making Partnership one of the largest providers of enhanced/impaired annuities in the UK.



The continued growth in sales reflects the execution of our distribution strategy and, in particular, our continued efforts to expand our distribution footprint. The total "at retirement" market increased in Q1 2012, and there continues to be a shift within this market towards customers seeking an open market quotation, which is driving further growth in the enhanced/ impaired annuity segment of the market.

We are well positioned with all the significant centres of distribution, which, combined with an increasing awareness across the whole advisor community of the benefits of our product range, continues to propel Partnership's sales. Quote volumes increased by over 40% compared to H1 2011, with the number of IFA firms using Partnership for retirement quotes increasing by c. 35%.

Our corporate team also continue to develop new corporate partnerships to allow our enhanced income products to benefit customers that may not otherwise enter the open market. We are particularly pleased to report that during H1 2012, we completed the first major "Total Pension Income Exchange" (TPIE) exercise, working with a major Employee Benefit Consultant, to secure enhanced retirement incomes for a large proportion of retired members of a major company pension scheme. The completion of this TPIE resulted in a number of benefits for members, employers and trustees and we expect TPIEs to provide a material new market for Partnership.

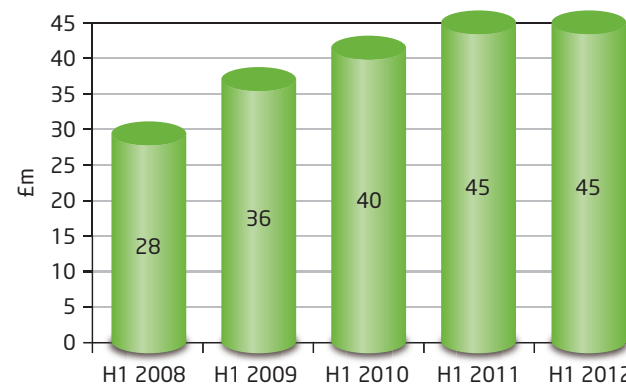
³Based on Q1 2012 data supplied by the ABI.

Care Products

Despite the disruption to the care funding market arising from the Dilnot commission (and the subsequent government White Paper issued in April), and from the closure of NHFA (the UK's largest adviser and distributor of long term care funding products), SPE for the product was in line with that achieved in H1 2011, at £45m. Our strategy for the Immediate Needs Annuity funding solution is to continue to promote the benefits of the product, increase consumer awareness and work with those organisations, such as Local Authorities, who are often the first port of call for those with relatives moving into long term care. We continue to develop the PayingforCare website and are particularly pleased at the recognition this service has received from those in the long term care industry.

Whilst overall SPE for our care product has remained flat year on year, we consider this a good result given the market background. Our distribution focus has been on widening the appeal of the product, through increasing consumer awareness, but also through promotion of the product's benefits through the advisor community. Providing advice for funding the costs of long term care requires specialist knowledge, and so we are pleased to note that we have increased the number of unique quoting IFAs by 10% compared to the same period in 2011, with an average of 265 different IFAs seeking INA quotes in the first 6 months of 2012.

Care Sales: SPE





Care products Continued

As noted above, our work on increasing awareness for the end customer is a major focus for us. PayingforCare continues to be expanded with more news and expert advice, and continues to receive praise from those in the long term care industry. Baroness Greengross⁴, commented: "As self-funders for care and support increase in numbers this impartial, comprehensive and consumer friendly website has filled a massive information gap", and Peter Hay⁵ notes: "Such sites provide a valuable link to enable citizens to not only source information about paying for care but also to engage and receive expert and impartial advice specific to their care fees needs."

We have worked extensively with a number of local authorities to improve their information provision, as these are often the first port of call for those having to navigate the complexities of finding suitable care for their loved ones, and importantly, knowing how to pay for it. We have worked with Suffolk, Nottinghamshire, Buckinghamshire, Norfolk and Essex county councils, to name but a few.

⁴Chief Executive, International Longevity Centre.

⁵2011-2012 President of the Association of Directors of Adult Social Services (ADASS).



Equity Release Products

Our Equity Release products are focussed on the needs of a specific sector of the market, as we are able to utilise our knowledge of longevity to provide higher loan values for those with shortened life expectancy. We have funded a significant proportion of new loans made by More 2 Life, a specialist provider of equity release loans, as well as distributing our own Partnership equity release loan product. These loans form part of our overall investment strategy, which is designed to diversify risk by spreading our investments across a number investment categories. In the first half of 2012, we advanced new Equity Release loans of £36m (H1 2011: £23m), an increase of 56%.



Corporate Responsibility

Our business is centred on providing better financial outcomes for those with shortened life expectancy, as we are able to use our unique data and expertise to benefit our end customers. We recognise that financial security is just as important as increased income for those customers and, as we grow, we continue to invest in our systems and processes to manage risk, and provide that peace of mind for our customers.

We also recognise that, as the company increases in size, our role both as an employer and more generally within the communities we operate, is also very important. At 30 June 2012, we employed in excess of 380 full time equivalent staff members (a 14% increase in full time equivalent staff since the end of 2011), and continue to employ new people across a wide range of disciplines. We perform regular staff surveys to assess staff satisfaction levels and identify areas where we can improve.

During 2012 we have decided to support the charity Dogs for the Disabled. This charity performs fantastic work in training dogs to work with adults and children with disabilities to enrich their lives and provide them with a greater level of independence. We are providing ongoing financial contributions, as well as opportunities for staff to contribute their time to help in the charity work.

We are also very proud to have been able to support local sporting talent from around the Redhill area, where one of our offices is based. After considering a number of applicants, we selected four local sports men and women and have provided them with financial support throughout their training. We were delighted to see one, James Tindall, selected to represent Team GB in the men's hockey team at the Olympics, and another, Sophia Warner, to represent Team GB in athletics during the Paralympics.



Outlook

Following another strong performance in the first half of the year, we are on-track to meet our corporate objectives for 2012. The forward looking indicators for both the at-retirement and long term care market remain very positive, and we continue to see tremendous growth opportunities in the UK market over the medium and long term. This does not mean that we do not see opportunities elsewhere, and we have begun to consider the application of our expertise in markets beyond the UK borders, although these plans are currently at an early stage of development.