2013 Full Year Results

19 March 2014

partnership

seeing retirement differently

Agenda

Introduction	Steve Groves, CEO
Financial Results	David Richardson, CFO
2014 and beyond	Steve Groves, CEO
Q & A	

Introduction

Summary performance in 2013

Outperformed in a disrupted market

- PA Sales down 3% at £1,229m
- NSA market down 18%

Focus on pricing discipline

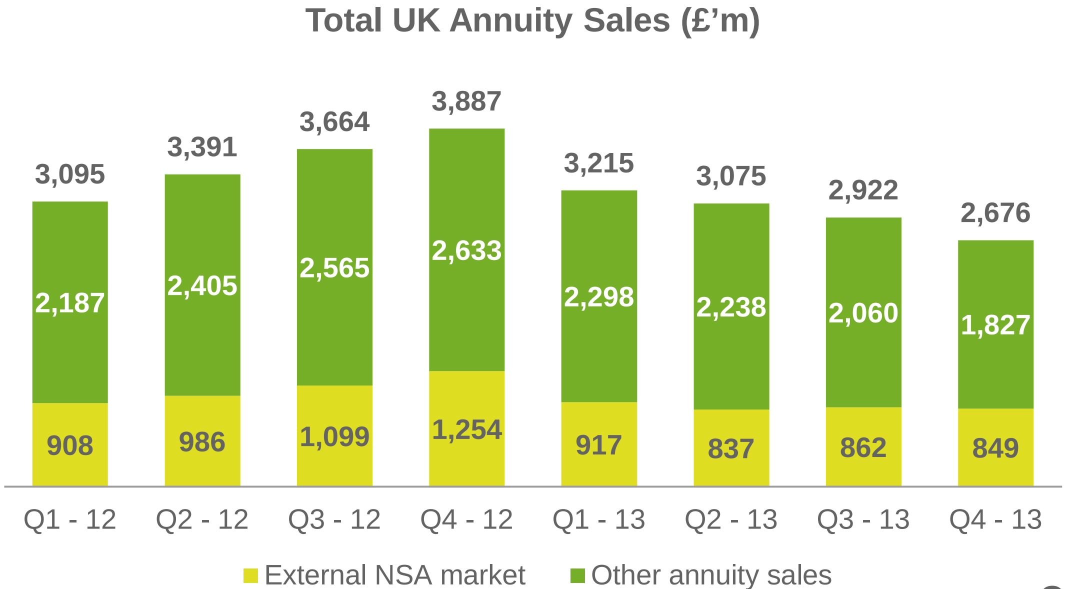
- Trade off between sales and profits

Continue to execute our strategy

- Leverage IP
- Expand customer access

- **Operating profits £131m, +17%**
- **New Business margin 7.0%**
- **Economic capital up to 159%**
- **Maiden dividend of 3.0pps**

The UK Annuity Market in 2013



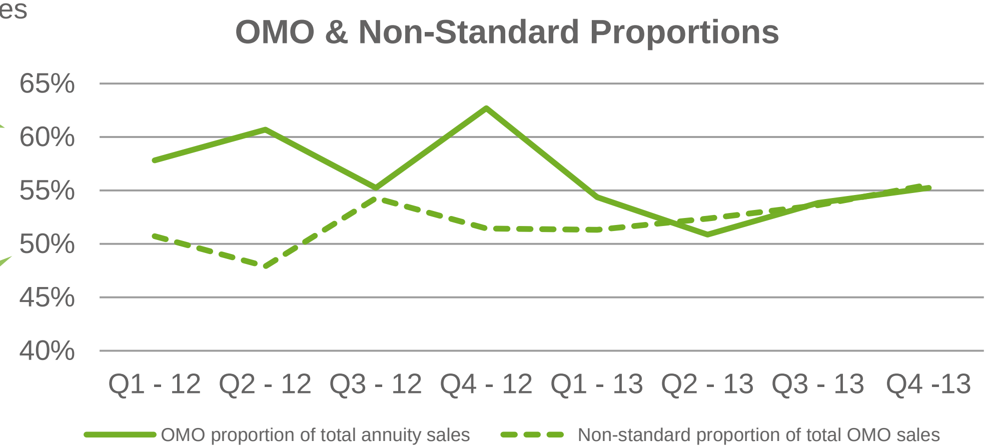
2013 total annuity sales down

2013 External Non-Standard annuity sales down **18%**

Market declined quarter on quarter in 2013

OMO proportion fell in H1 2013 but began to recover in H2: evidence that advice gap is being filled

NSA OMO penetration showing steady progression



Source: ABI market data

Our strategy remains consistent

Leverage Intellectual property	• Major enhancement to longevity basis delivered during year • Continuous development of proprietary IP delivering improved pricing and risk selection
Increase Customer Access	• Improvements to automated underwriting system enabling greater access for web-based specialists • Development of DB scheme proposition to extend coverage
Improve shareholder returns	• Disciplined capital allocation and improved margin • Equity release bulk transactions of £287m at attractive risk adjusted yields • Continue to expand asset class universe

Financial performance

Financial highlights

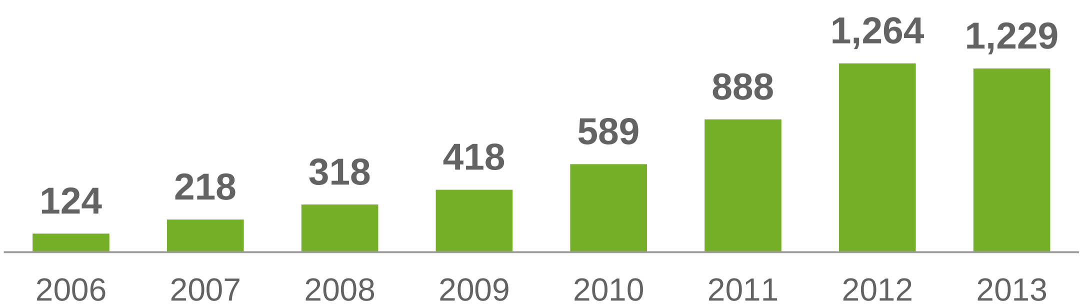
		2013	2012	Change (%)
SPE (£'m)	**New Business Premiums**	**1,229**	**1,265**	**-3%**
IFRS (£'m)	New Business Operating Profit	85.7	93.9	-9%
	In-force Operating Profit	34.3	14.3	+140%
	Return on Surplus Assets	11.4	4.0	+185%
	Total Operating Profit	**131.4**	**112.1**	**+17%**
	Proposed dividend (pence per share)	3.0	-	
		31 Dec 13	**31 Dec 12**	
Capital (%)	Economic Capital Ratio	159%	151%*	
AUM (£'bn)	Total Assets Under Management	4.1	3.3	+24%

* Pro-forma basis adjusting for capital raised as part of IPO

New Business Premiums

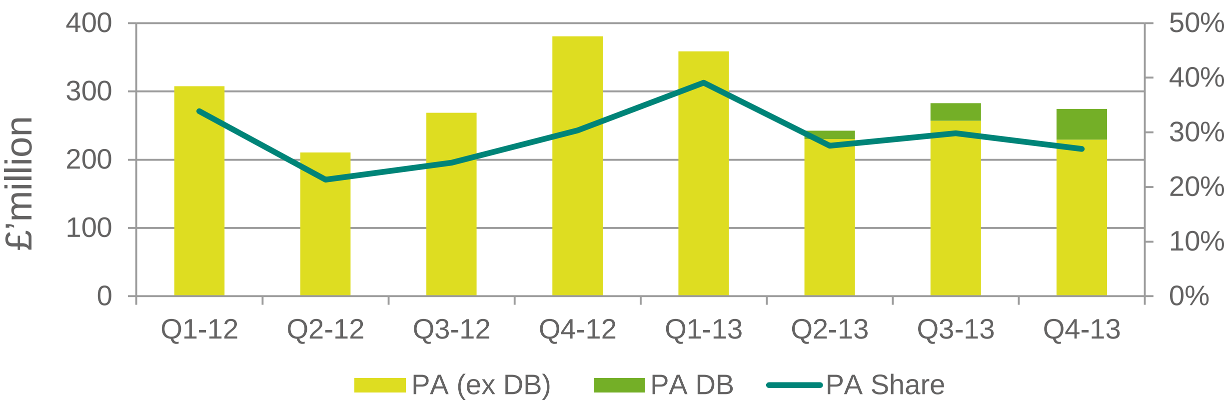
£'m	2013	2012	Change (%)
Retirement (ex. DB)	1,076	1,168	-8%
Retirement DB	84	-	n.m.
Total Retirement	**1,160**	**1,168**	**-1%**
Care	66	94	-30%
Protection	3	3	-
Total New Business	**1,229**	**1,265**	**-3%**

Partnership's total New Business Premiums £'m



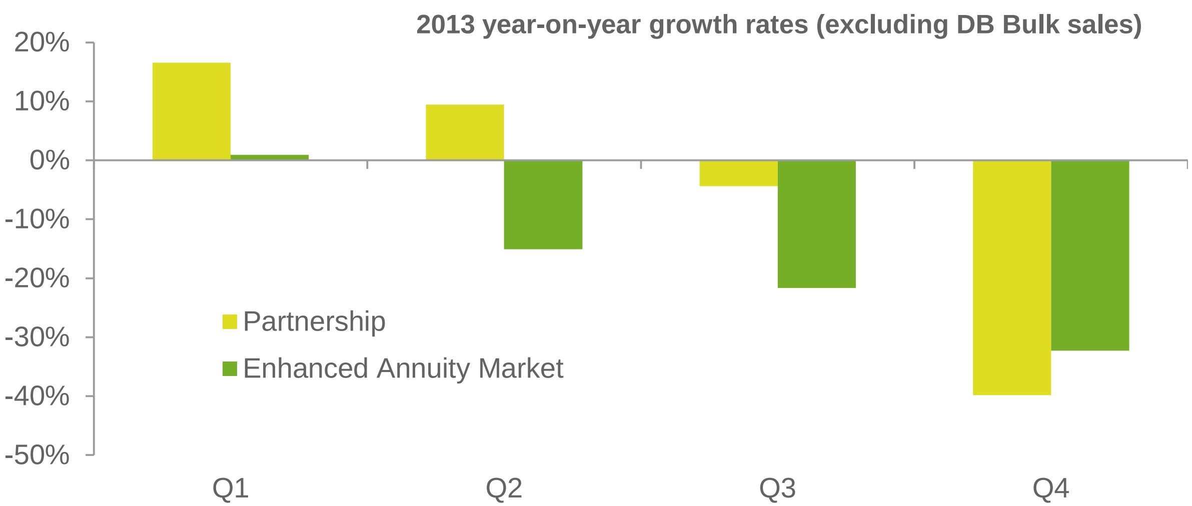
- Total retirement sales flat year on year
  - 2012 comparative significantly boosted by regulatory change
  - Established market leading position in underwritten DB de-risking market
- Care premiums down 30%
  - Improvement since half year
  - Market remains slow

Retirement Annuity premiums



Share of external NSA market over 2013 **31%** (2012: 27%)

Partnership's share (excluding bulk DB) unusually high in Q1 2013, but Q2-Q4 normalised



PA outperformed market in Q1 to Q3

Returns failed to meet Partnership's criteria at times during Q4

Source: ABI market data; Partnership sales

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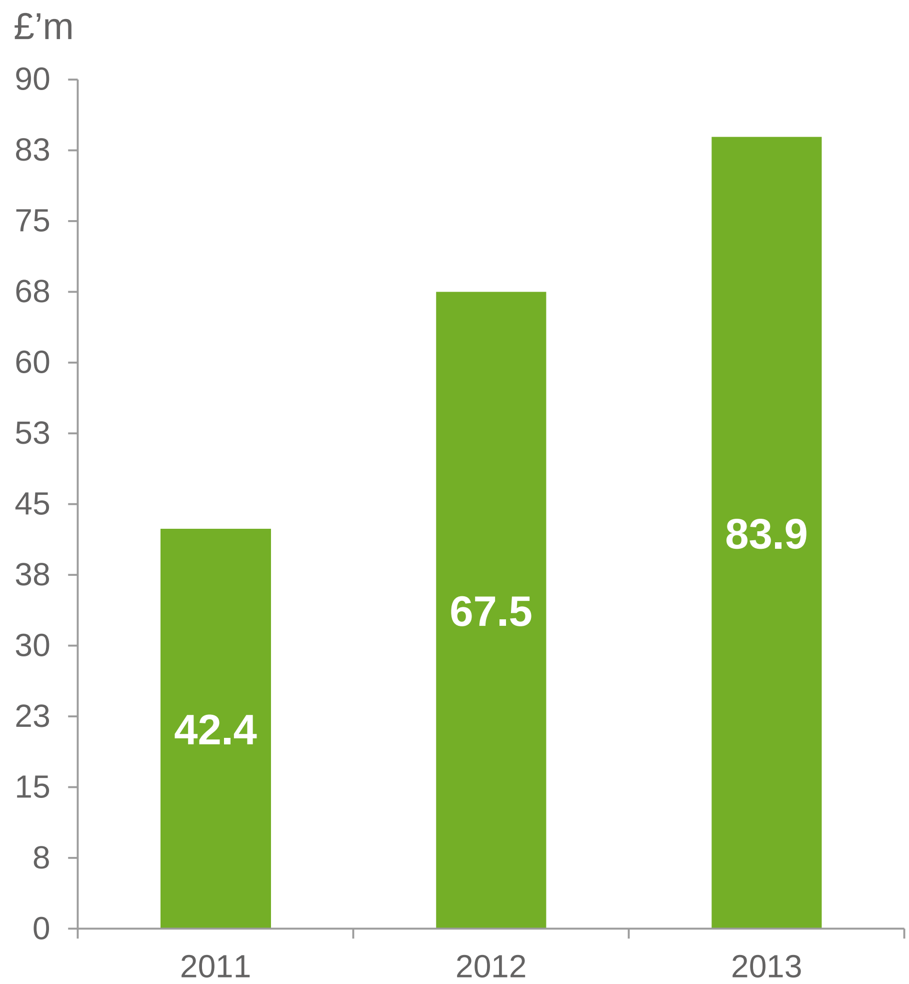
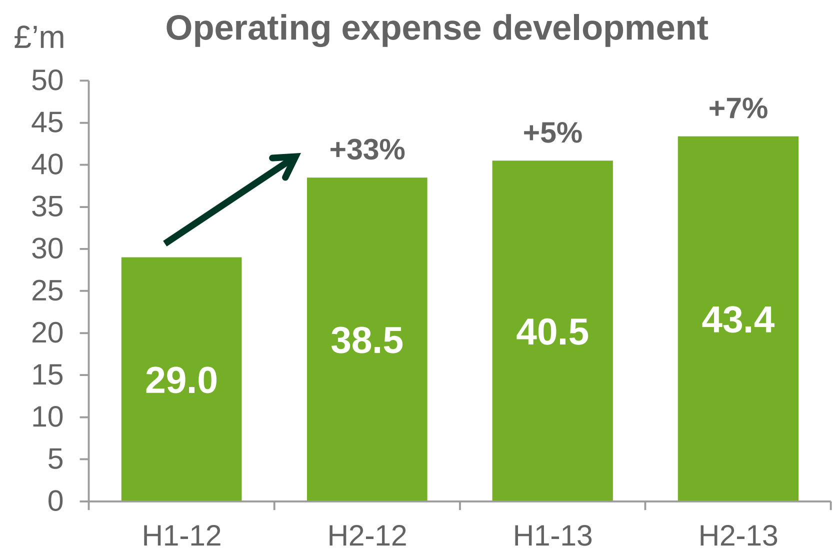
Care Annuity premiums

Total Operating Expenses[1]

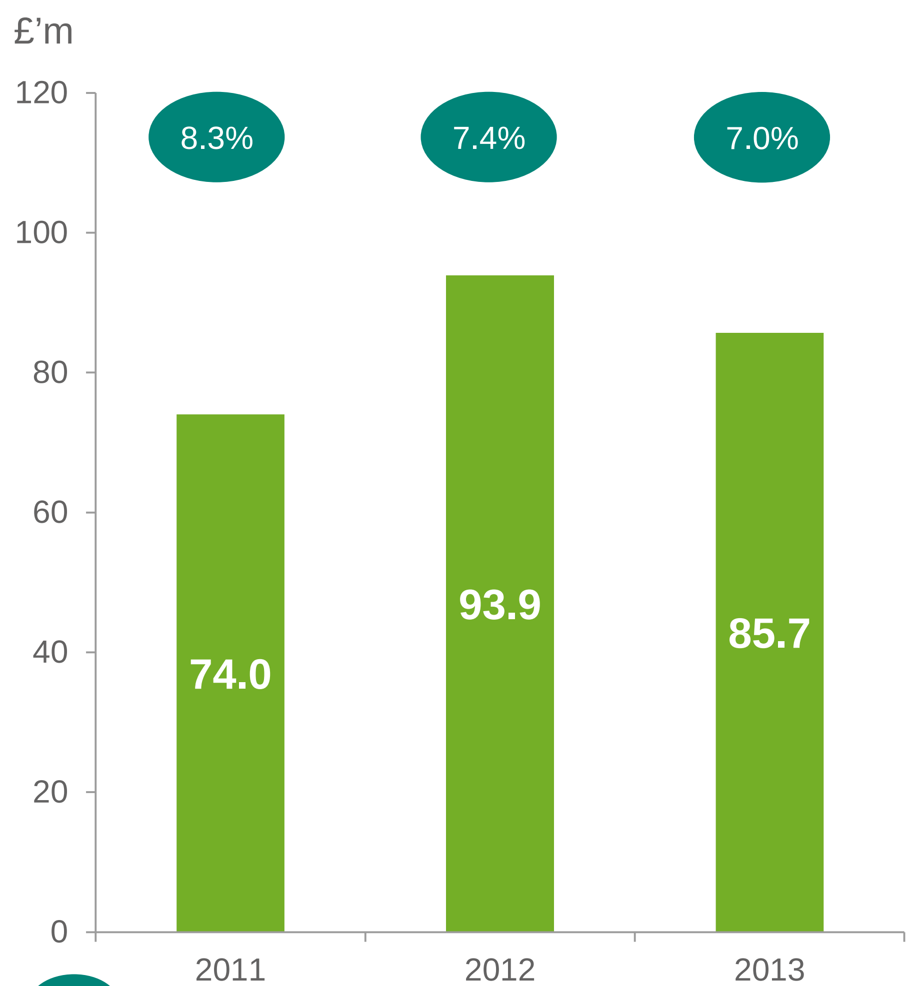


- Disciplined management of expense base
- Full annualised impact of Plc costs to come through in 2014 (c. £4m additional)
- Operating leverage set to return in 2015 and beyond



[1] Operating expenses exclude non-recurring expenditure

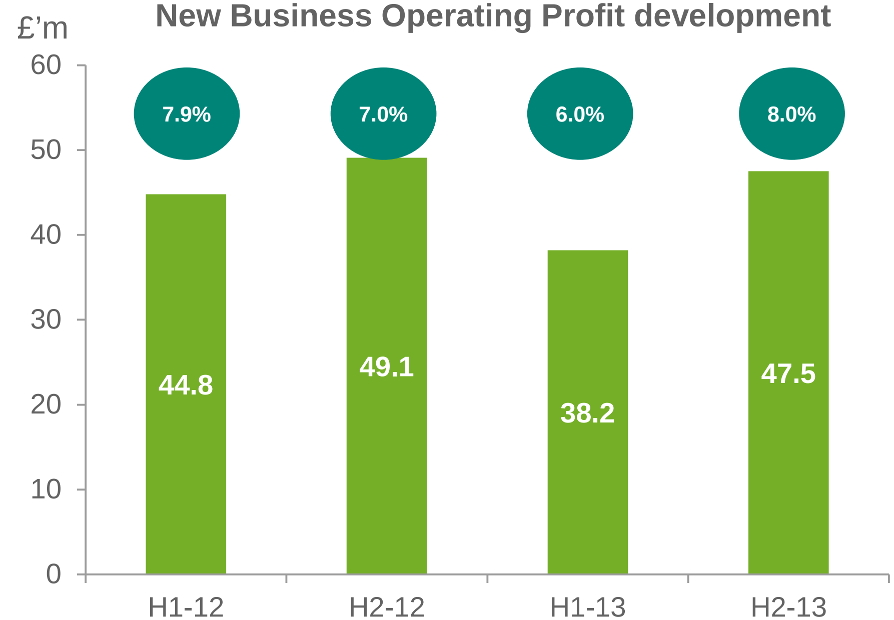
New Business Operating Profit



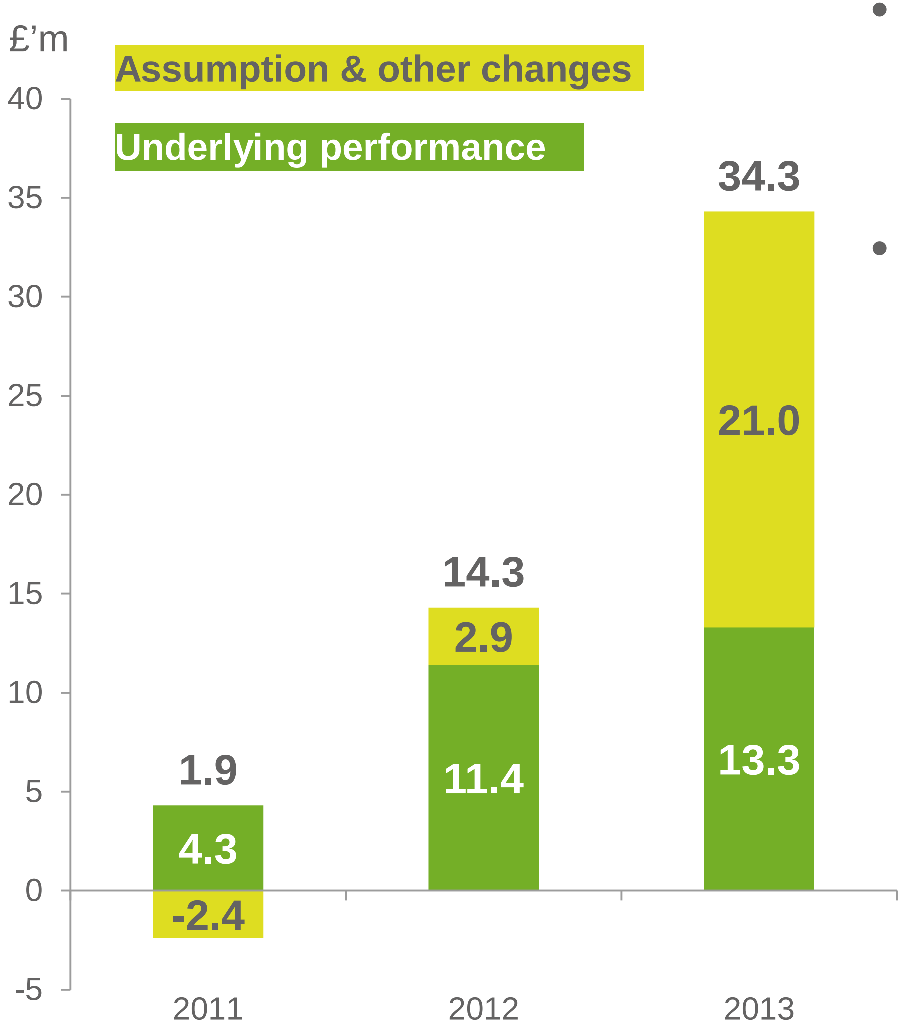
New Business Operating Profit as a proportion of New Business Premiums

- Maintained pricing discipline
  - Ongoing development of IP to sustain this
- H2 margin 8% compared to 6% in H1
  - Targeted risk selection enabled by IP
  - Yield benefit from attractive ER investments

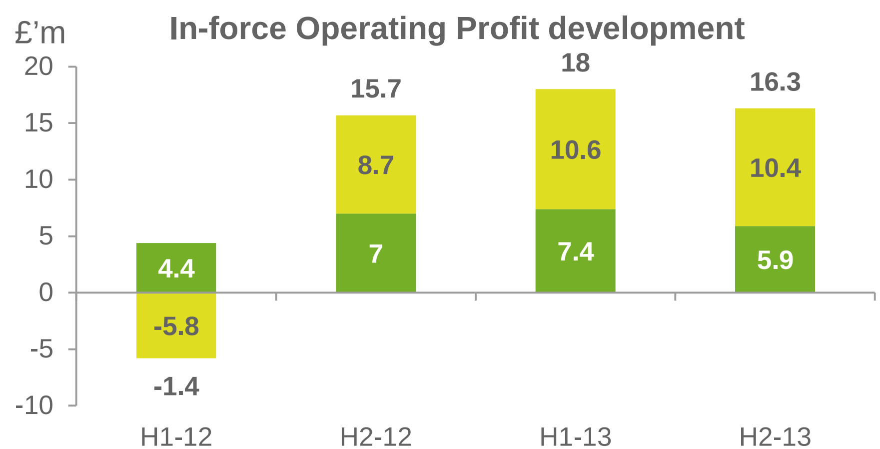
New Business Operating Profit development



In-Force Operating Profit



- Underlying performance[1] as expected
  - No significant experience variances
  - Narrowing credit spreads reduced underlying profit in H2
- Remainder of in-force driven by realised expense savings:
  - transfer of re-insured block onto in-house admin system
  - passed ratchet point in TPA agreement
  - new custodian agreement



[1] Underlying performance represents planned surplus emerging and experience variance against best estimate assumptions.

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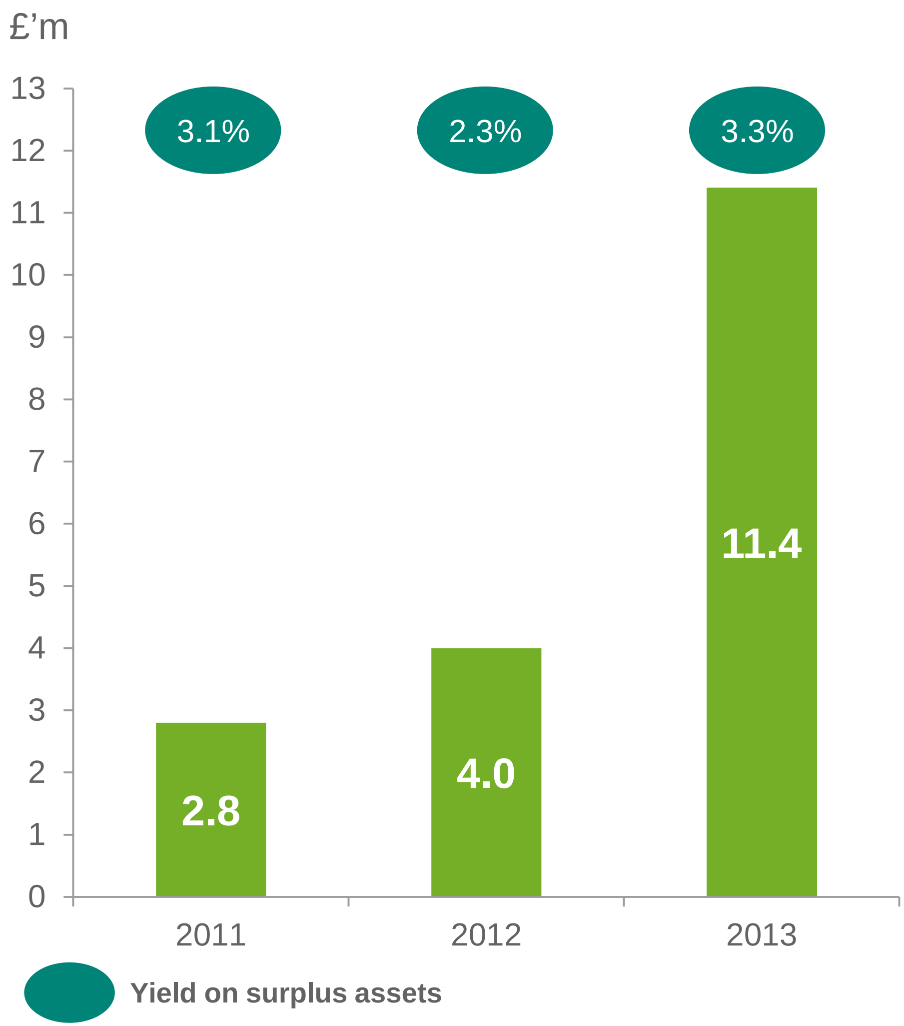
Return On Surplus Assets



- Return has grown as a result of growth in level of surplus assets and higher yield
  - 2013 surplus assets on average approximately double the value in 2012
  - Surplus cash largely invested in gilts and credit, attracting higher yield
- Expect yield to stabilise at c. 3% in 2014

Profit components below Operating Profit

£'m	2013	2012	Change (%)	
Operating Profit	**131.4**	**112.1**	**17.2%**	
Investment Variance	8.7	(3.3)		• Narrowing spreads on corporate bonds resulted in positive variance
Other Items	(32.0)	(6.9)		• Primarily relate to expenses associated with IPO • Investment in systems and process, including to support Solvency II compliance, continues
PBIT	**108.1**	**101.9**	**7.3%**	
Interest Expense	(25.4)	(34.4)		• All debt paid down in August 2013 post IPO
IFRS PBT	**82.7**	**67.5**	**24.1%**	

Capital position

£'m	31 Dec 13	31 Dec 12[1]
Economic Capital:		
Available	467	381
Required	294	252
Surplus	173	129
Coverage Ratio	**159%**	**151%**
IGD:		
Available	469	352
Required	193	163
Surplus	276	189
Coverage Ratio	**243%**	**216%**

Economic Capital Ratio Sensitivities

Year ended 31 December 2013	**159%**
▪ Credit spread widening:	
➢ 100 bps	**157%**
➢ 200 bps	**153%**
➢ Eurozone crisis	**151%**
➢ Lehman crisis	**145%**
▪ Longevity - 5% deterioration	**152%**
▪ Property - 10% price fall from carrying value (equivalent to 30% fall from current market price)	**151%**

Sensitivities demonstrate continued robust capital position

[1] 31 December 2012 capital position is pro-forma, reflecting the benefit of additional capital raised during the IPO.

Dividends

- The Board has adopted a progressive dividend policy
- Recommended final dividend for 2013 of 3.0 pence per share
- Approximately 1/3 : 2/3 split for interim and final dividends

Summary

Outperformed in a disrupted market	• Market share gains in Q1-Q3 • Lead the development of the emerging underwritten DB market • Partnership retirement sales in 2013 broadly flat, compared to 18% fall in external NSA market
Focus on pricing discipline and return on capital	• Ongoing IP advantage allows selection of better margin business • Controlling expenses • Deploying operational spare capacity to maximise in-force profits and prepare for future growth
Current trading	• Subdued start to retirement annuity market in 2014 • Expect total Q1 sales to be lower than Q4 2013 • Focus continues to be on segments of the market offering the best returns • Underwritten DB activity is encouraging

2014 and beyond

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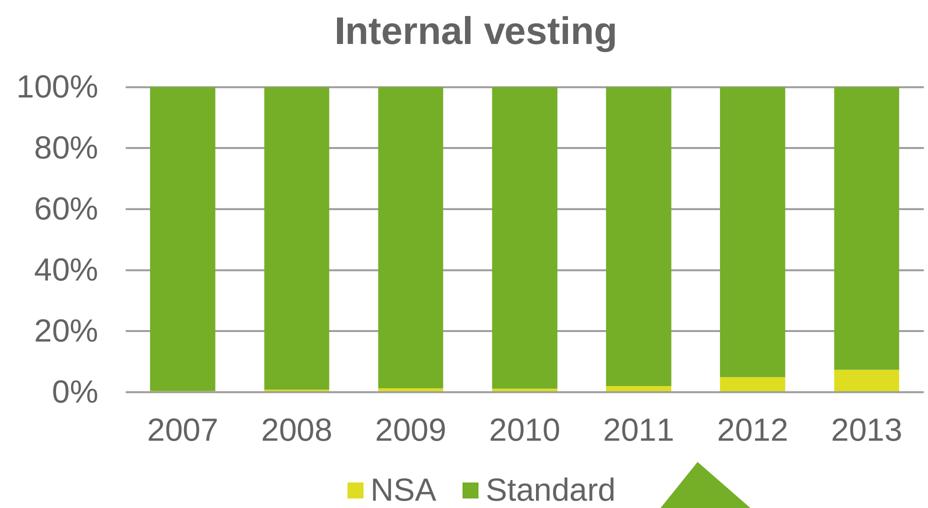
Delivering our strategy in 2014

Leverage Intellectual Property	• Expanding the underwritten DB proposition • Developing international options
Increase Customer Access	• FCA annuity review a positive development
Improve Shareholder Returns	• Maintaining pricing discipline • New asset classes

Well positioned to capitalise on market recovery

Retirement market: FCA's thematic review

- Annuity market not working for some consumers
- Virtually no market whatsoever for people with smaller pension pots
- Significant barriers preventing consumers from shopping around
- For enhanced annuitants, 91% could be better off by an average of 8.3%
- Results of the study show that all annuities sold to existing customers are expected to be more profitable to insurers than those sold in the open market



- Penetration of NSAs for internal vesting remains below 10% in 2013
- Penetration in the external market is >50%
- Opportunity for Partnership to benefit those not shopping around is significant

- Source: ABI data

Retirement market: strong growth prospects

Near term

- Challenging start to 2014
- Predicting the market in the short term is difficult
  - in recent weeks, there are signs that market activity has been improving
  - but it is too early to confirm that this will translate into higher sales in Q2
- Regulatory backdrop improving
  - the disruption from Gender and RDR receding
  - FCA thematic review a positive step
- Underwritten DB de-risking opportunity an additional source of future growth

Medium term

- All drivers remain in place
  - **switch from DB to DC**
  - **increasing average DC pension funds**
  - **ageing population**
  - **regulatory drive for shopping around**
  - **political drive for increased pension savings**

Our superior IP, disciplined approach to pricing and risk selection, and investment in our operations position Partnership well to capture a share of the growth to come

Q & A

Appendix

Market Consistent Embedded Value

£'m	2013	2012
MCEV Earnings Gross of Tax		
New Business	100.5	116.7
In-force	9.5	7.2
Experience Variances	(0.4)	(0.3)
Assumption Change	11.1	(0.9)
Other Operating	9.9	24.5
Operating MCEV Earnings	**130.6**	**147.2**
Non-Operating	(2.7)	(7.2)
MCEV Earnings (covered business)	**127.9**	**140.0**

	31 Dec 13	31 Dec 12[1]
Total MCEV	**519.6**	**416.6**

[1] 31 Dec 12 MCEV balance shown is pro-forma, allowing for impact of IPO

- New Business earnings 8.2% of premiums, up from 7.5% at the half year (2012: 9.2%)
- Earnings from in-force book reflect increased size of in-force book, offset by a reduction in the opening expected returns
- Experience variances are not material, with no significant variances at individual component level
- The positive assumption change results from the realised expense savings on the in-force book
- Other operating earnings primarily relate to earnings on surplus assets
  - 2012 earnings increased by impact of re-insurance recapture and inwards re-insurance of a material block of annuities from a third party
- Non-operating earnings made up of:
  - Economic variances
  - Non-recurring expenditure

Asset position at 31 December