Partnership Assurance Group plc

Interim Results Presentation 2013

29 August 2013

partnership

seeing retirement differently

Agenda

Introduction		**Steve Groves,** Chief Executive Officer
Financial Review		**David Richardson**, Chief Financial Officer
Business Outlook		**Steve Groves**, Chief Executive Officer
Q&A		

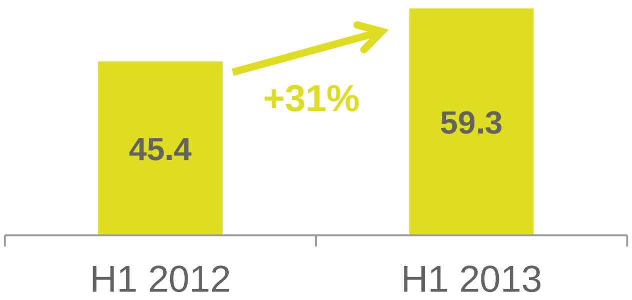
Introduction
Steve Groves, Chief Executive

H1 2013 Highlights

- Delivered a successful IPO
- H1 Retirement Sales of £601m, up 16% versus a market decline of 9%[1]
- Total New Business Premiums of £631m, up 12%
- H1 Operating Profit of £59.3m, up 31%
- Pricing discipline maintained: margins (pre-expenses) on target
- Strong capital position: 150% Economic Capital Ratio
- **On track to meet full year operating profit expectations**

Retirement Sales £m

Operating Profit £m



Successful first half performance with sales well ahead of the market

[1]Towers Watson Enhanced Annuity Survey, based on external enhanced annuity sales from 9 offices

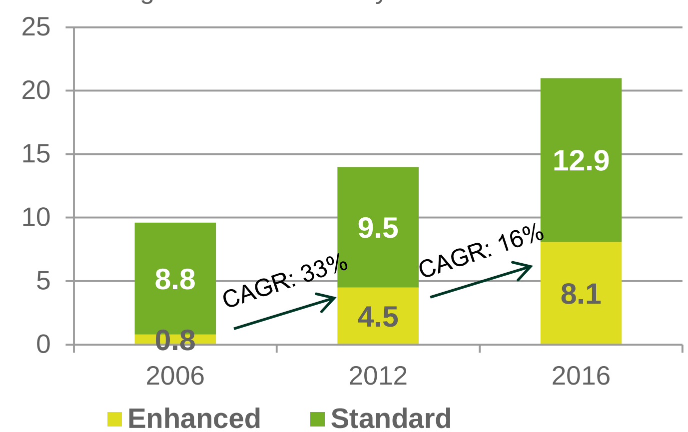
The At-Retirement Market

- Long term drivers of growth remain firmly in place
- Sales of enhanced annuities impacted by short term disruption in H1 2013
  - Gender Directive accelerated activity into Q4/12 ahead of implementation
    - Also boosted sales volumes in Q1/13 for Partnership
  - Impact of RDR on advised sales
    - Annuity sales process changed – charging structures taken a while to bed down
    - The more complex the sales process, the bigger the impact
- Lead indicators suggest return to normal market activity
  - Q3 quote activity to date in line with expected levels for this time of year
- ABI Code and FCA review of annuity pricing underpin long term growth drivers

Short term volatility:
Market sales of enhanced annuities (external) £m

Source: Towers Watson Enhanced Annuity Survey
(external enhanced annuity sales from 9 offices)

Long term growth:
Structural growth of UK Annuity Market £bn



Source: ABI data; Oliver Wyman research

partnership
seeing retirement differently

Financial Review
David Richardson, Chief Financial Officer

partnership
seeing retirement differently

Financial Highlights

NBOP fall due to higher planned expenses in H1 13 & fall in Care volumes

Strong outperformance against market

		H1 13	H1 12	Change (%)
SPE (£'m)	**New Business Premiums**	**631**	**565**	**+12%**
IFRS (£'m)	New Business Operating Profit	38.2	44.8	-15%
	In-force Operating Profit	18.0	(1.4)	NM
	Return on Surplus Assets	3.1	2.0	+55%
	Total Operating Profit	**59.3**	**45.4**	**+31%**
		30 Jun 13	**31 Dec 12**	
Capital (%)	Economic Capital Ratio	150%	151%*	
AUM (£'bn)	Total Assets Under Management	3.7	3.3	+13%

Economies of scale from in-force business

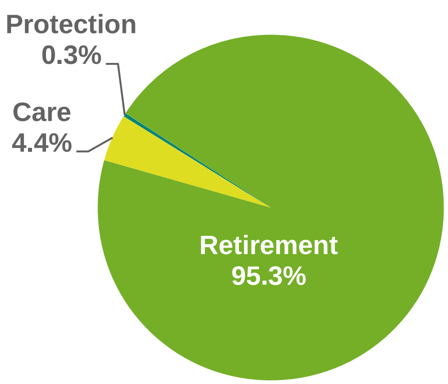
Robust capital position

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

New Business Premiums

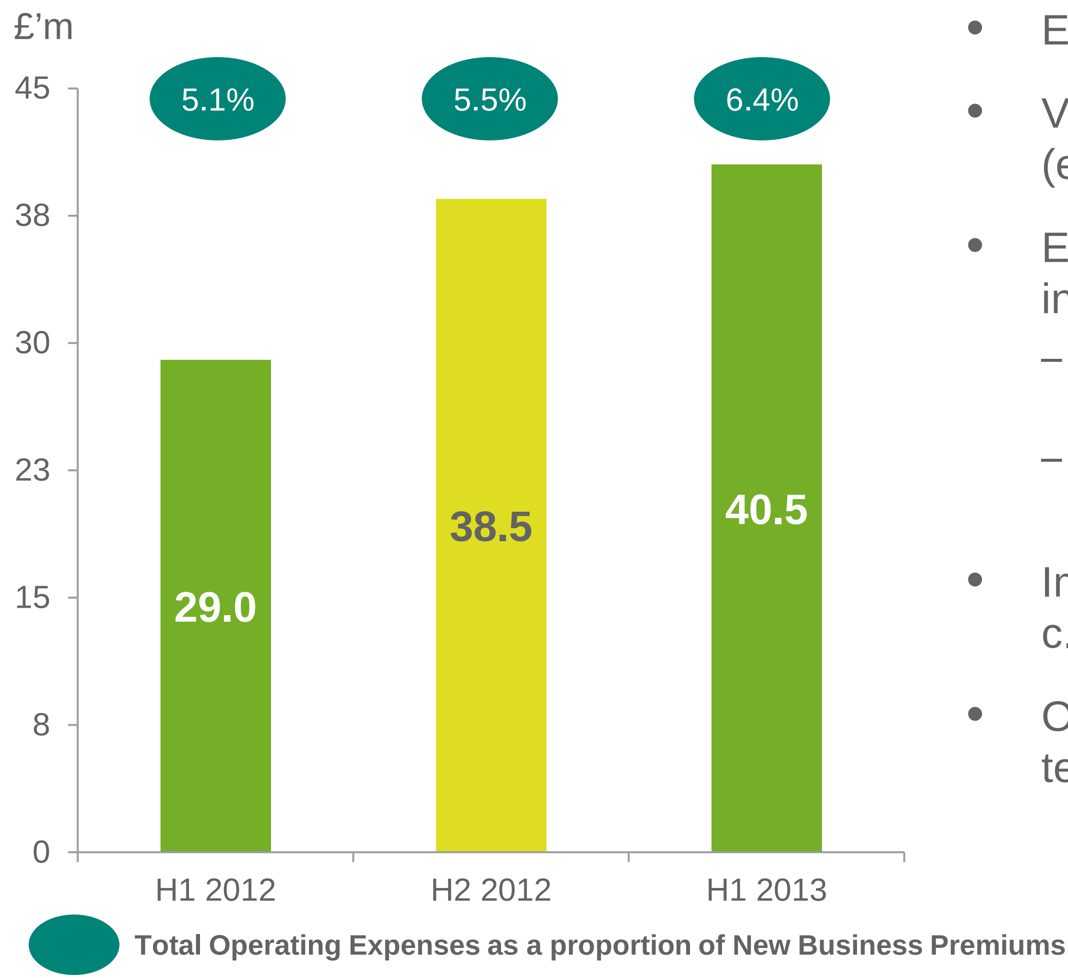
£m	H1 13	H1 12	Change (%)
Retirement	601.5	518.3	+16%
Care	28.1	45.5	-38%
Protection	1.8	1.6	+13%
Total	**631.4**	**565.4**	**+12%**

Premium Split (SPE) H1 2013



- Retirement premiums up 16%
  - Sales growth ahead of market
  - Completed four buy-in/out DB transactions
- Care premiums down 38%
  - RDR and Government “cap” proposals impacted sales
  - Improving outlook for quote activity in H2 but lead times are typically 6 months
- Total new business premiums up 12%

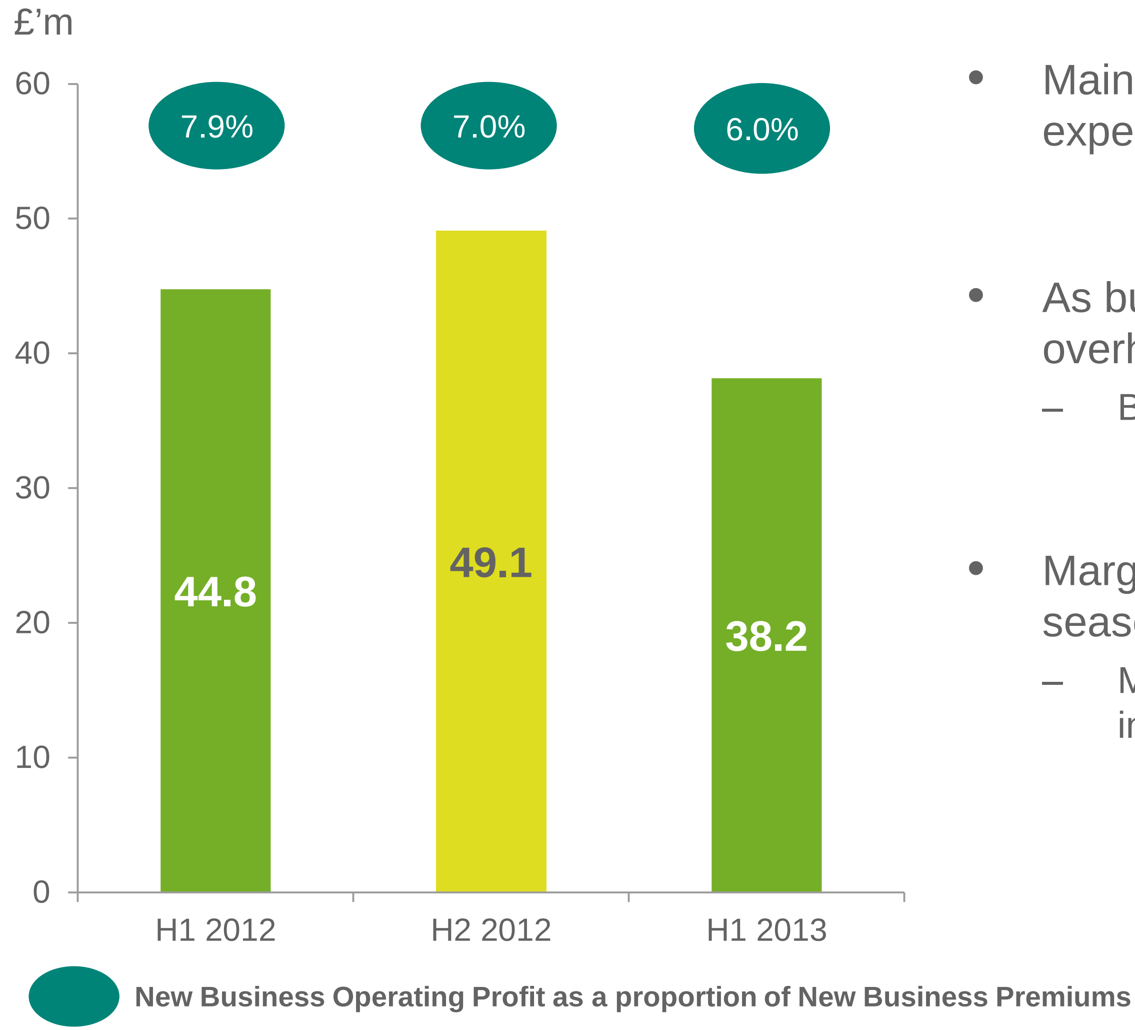
Total Operating Expenses[1]



- Expenses developing as expected
- Vast majority allocated to new business (excluding non-recurring expenditure)
- Expenses for H1 2013 reflect continuation of investment made in second half 2012
  - Staff costs reflecting increased investment for future growth
  - Investment in marketing & distribution agreements
- Impact on overheads from Plc requirements c. £5 m per annum to emerge in second half
- Operating leverage expected over medium term (2015 and beyond)

[1] Operating expenses exclude non-recurring expenditure

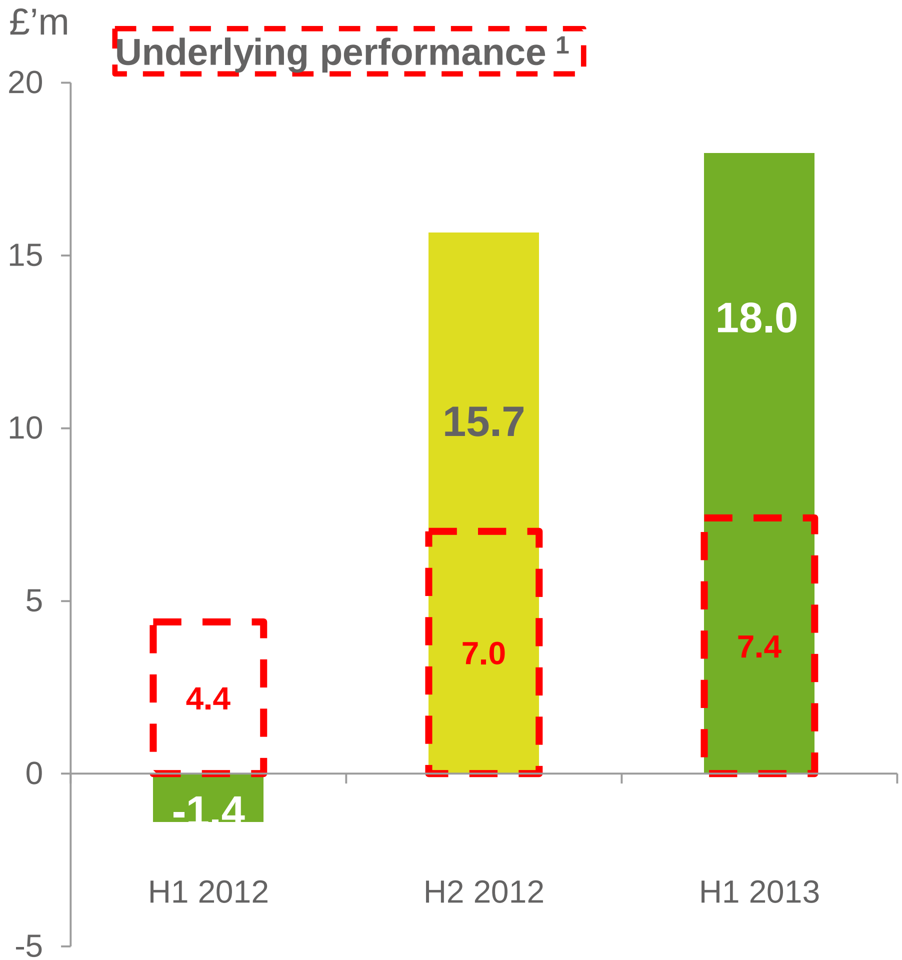
New Business Operating Profit



- Maintained pricing discipline – margins pre-expenses in line with expectations
- As budgeted, margin impacted by increased overheads in H2 2012 and 2013
  – Business geared up for new phase of growth
- Margin of 6% for H1 2013 also impacted by seasonality of sales
  – Margin expected to increase in H2 as volumes increase

partnership
seeing retirement differently

In-Force Operating Profit

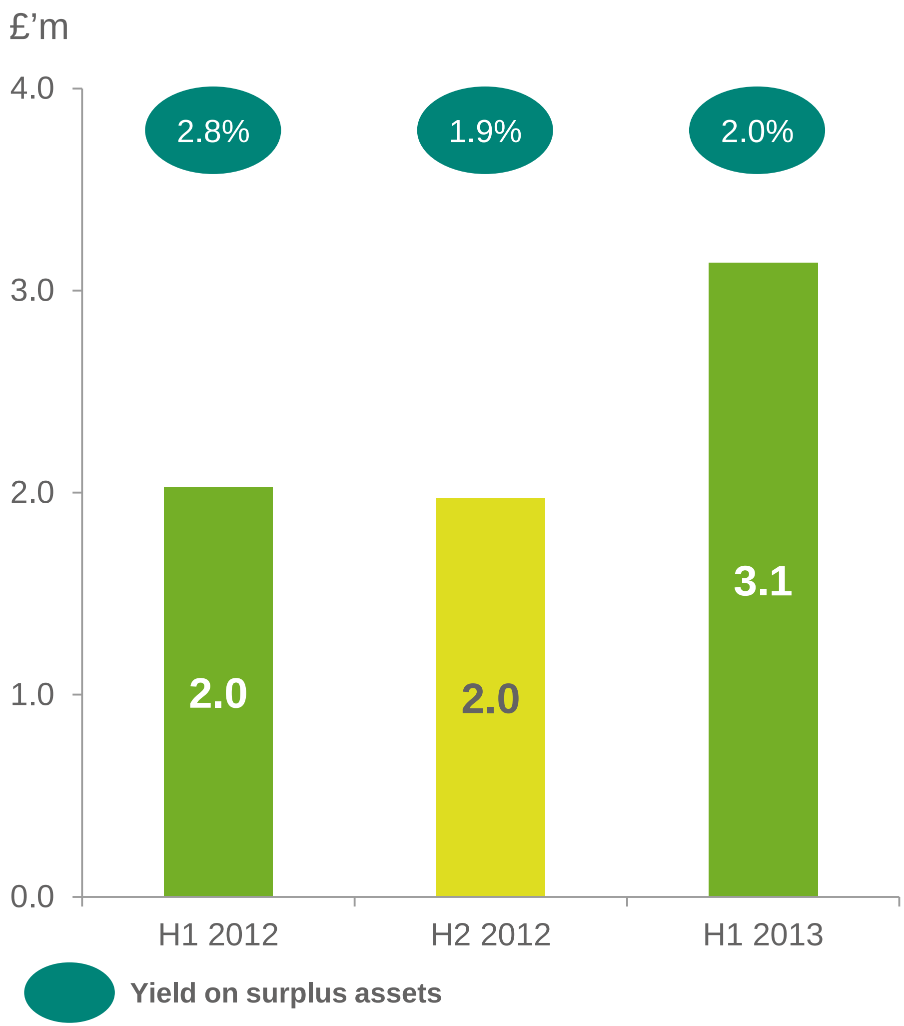


- Underlying performance[1] as expected reflecting growth in in-force book
- Contribution from assumption changes in H1 2013 was c. £11m
  - Not expected to be repeated in H2
  - Primarily driven by economies of scale on in-force business
  - Included benefit from transfer of a significant block of annuities in H1

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

partnership
seeing retirement differently

Return On Surplus Assets



- Return has grown in line with assets
- Commodity Trade Finance investment commenced during Q2 2013
- Investment of surplus cash will improve yield in H2 2013

partnership
seeing retirement differently

Profit Components Below Operating Profit

£'m	H1 13	H1 12	Change (%)	
Operating Profit	**59.3**	**45.4**	**+31%**	
Investment Variance	3.1	(12.6)		• Small positive result reflects narrowing spreads & increase in risk free rates • Impacted by timing of bulk Equity Release transactions
Other Items	(29.1)	(1.1)		• IPO expenses, including vesting of existing share options triggered by IPO (£25.4m) • Spend on re-engineering financial processes to support Solvency II and data requirements
PBIT	**33.3**	**31.5**	**+6%**	
Interest Expense	(24.7)	(14.1)		• Reflects increased loans & debt on balance sheet post capital injection in Q3 2012 • Debt fully converted to equity/repaid post IPO
IFRS PBT	**8.6**	**17.5**	**-51%**	

partnership
seeing retirement differently

Capital Position

£'m	30 Jun 13	31 Dec 12[1]
Economic Capital:		
Available	425	381
Required	284	252
Surplus	141	129
Coverage Ratio	**150%**	**151%**
IGD:		
Available	412	352
Required	183	163
Surplus	229	189
Coverage Ratio	**225%**	**216%**

Economic Capital Ratio Sensitivities

Half year ended 30 June 2013	150%
▪ Credit spread widening:	
➢ 100 bps	148%
➢ 200 bps	145%
➢ Eurozone crisis	142%
➢ Lehman crisis	135%
▪ Longevity - 5% deterioration	143%
▪ Property - 10% price fall	141%

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.

partnership
seeing retirement differently

Key Takeaways & Financial Outlook

Sales growth ahead of market	• Retirement sales performance strong – outperformed market • RDR, Gender Directive and government Care “cap” confusion resulted in temporary sales headwind • Long term drivers remain in place – medium term expectations of +16% annual growth for NSA market remain
Strong Operating Profit growth & Robust capital position	• Increase in operating costs to equip business for future growth • In-force book growth and efficiency gains • Economic capital ratio remains strong and resilient to shocks • Debt free since 21 August 2013
Activity levels rising	• Quote activity returning to normal • Pipeline of DB schemes is strong – though timing uncertain
Outlook for full year	• Operating profit on-track to meet expectations for full year • H2 New Business Premiums expected to be significantly higher than H1, but full year volumes will be impacted by RDR disruption • New Business margin expected to improve in H2 • On track to declare dividend payment at FY preliminary results

Business Outlook
Steve Groves, Chief Executive

Delivery Against IPO Story

Partnership is different, delivering high growth, capital efficiency and low risk cash generation to investors

Investment Criteria	Partnership – Investment case	H1 2013 Delivery
Growth Profile	✓ Structurally high-growth market ✓ Growing share of growing market	➢ Fundamental drivers remain sound, despite short term volatility from regulatory change ➢ Strong outperformance versus market
Competitive Dynamics	✓ 18 years of IP creates strong competitive advantage ✓ Fewer market participants with full product offering	➢ Pricing discipline and strong sales demonstrate competitive advantage; new entrants focus on low enhancements/lifestyle ➢ Continue to develop IP
Distribution	✓ Exclusive/ enhanced distribution services agreements ✓ Strategy designed for RDR	➢ RDR impacting advised market – Partnership positioning on restricted panels a positive ➢ Virgin Money launched annuity service provided by Partnership & advanced discussions with a major retailer
Product	✓ Shorter tail ✓ No lapse risk	➢ Product focus remains
Cashflow Profile	✓ Positive on Day 1: IFRS most applicable ✓ Capital provided by customer	➢ Pricing discipline maintained in H1 2013
Balance Sheet	✓ Capital efficient ✓ Risk transferred; small back book	➢ Economic capital position remains comfortably ahead of Board targets

partnership
seeing retirement differently

Executing Partnership's Strategy in H2

Continue to leverage Partnership's Proprietary IP to optimise its benefits for customers

- Auto underwriting extended
- Ongoing investment in IP development

Improve access for customers to the benefits of non-standard annuities

- Defined Benefit market
- New distribution partnerships

Maximise risk adjusted returns on capital to shareholders

- Equity Release
- Commodity Trade Finance
- Investigating other asset classes

Summary & Outlook

- Strong H1 financial result
- Retirement sales outperform market significantly
- H2 volumes expected to be significantly ahead of H1
- Medium term market outlook remains positive – fundamental drivers of growth not changed

Successful first half 2013
On track to meet full year operating profit expectations

Questions

Appendix

partnership
seeing retirement differently

Market Consistent Embedded Value

£'m	H1 13	H1 12
MCEV Earnings Gross of Tax		
New Business	47.2	54.4
In-force	4.6	3.4
Experience Variances	(0.6)	(0.8)
Assumption Change	6.4	(0.8)
Other Operating	3.3	0.6
Operating MCEV Earnings	**60.9**	**56.8**
Non-Operating	(9.5)	(11.8)
Total MCEV Earnings	**51.4**	**45.0**

	30 Jun 13	31 Dec 12
Total MCEV	**463.8**	**9.9**

- Value of New Business £47.2m
  - 7.5% of new premiums (9.6% H1 2012)
- Operating earnings of £61m generated
- Immaterial experience variances
- Realised economies of scale led to assumption change benefit
- MCEV balance at 30/6 impacted by capital structure change on IPO

partnership
seeing retirement differently