

# Interim Results for Partnership Assurance Group plc

## For the six months ended 30 June 2013

29 August 2013

**STRONG PERFORMANCE FOR FIRST HALF OF 2013; ON TRACK TO DELIVER FULL YEAR OPERATING PROFIT IN LINE WITH EXPECTATIONS**

### Financial Highlights

- Total Operating Profit<sup>i</sup> £59.3m up 31% (HY 2012: £45.4m)
- Retirement new business premiums<sup>ii</sup> up 16% to £601m (HY 2012: £518m) significantly outperforming the market
- Total new business premiums<sup>ii</sup> up 12% to £631m (HY 2012: £565m)
- New Business Operating Profit<sup>iii</sup> £38.2m (HY 2012: £44.8m) reflecting budgeted investment in business for future growth
- Group IFRS Profit Before Tax £8.6m (HY 2012: £17.4m) reduced by planned one-off IPO expenses and increased interest expense (debt repaid in August 2013)
- Robust Economic Capital position with a coverage ratio of 150%

### Operational Highlights

- IPO completed in June 2013 with minimal disruption to the business
- Completed four defined benefit buy-in and buy-out transactions, totalling £12.5m new business sales
- Continued investment in automated underwriting engine
- Customer service excellence with FT Adviser 5 star on-line service award
- Recruitment in key functions of finance, pricing and compliance
- Acquisition in July 2013 of £207m block of equity release assets

Commenting on these results, Steve Groves, Group Chief Executive, said:

“Following our successful IPO in June 2013, I’m pleased to report a strong set of results. We have achieved profitable growth, significantly ahead of a market temporarily disrupted by the introduction of the Retail Distribution Review and the EU gender directive, whilst maintaining our pricing discipline. This has resulted in Total Operating Profits up 31% for the first half of 2013. I remain confident in the growth prospects for both the at-retirement and care annuity markets. We are on track to meet full year Total Operating Profit expectations.”

Notes:

- i. Total Operating Profit is the sum of New Business Operating Profit and In-force Operating Profit, together with the long-term expected return from investments held by the Group that are not required to back insurance liabilities (termed “surplus assets”).
- ii. New Business Premiums represent the value, measured as single premium equivalent (“SPE”), of new insurance contracts completed during the reporting period.
- iii. New Business Operating Profit is profit generated from new business completed in the period, calculated using assumptions applicable at the time the new business was written.

## **Enquiries**

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A presentation for analysts will take place at 10.30am today at Plaisterers Hall, One London Wall, London, EC2Y 5JU

A copy of this announcement, webcast of the presentation and the presentation slides will be available on Partnership's website [www.partnership-group.com](http://www.partnership-group.com)

## **Forward looking statements**

This announcement in relation to Partnership Assurance Group Plc and its subsidiaries (the 'Group') contains, and we may make other statements (verbal or otherwise) containing, forward-looking statements about the Group's current plans, goals and expectations relating to future financial conditions, performance, results, strategy and/or objectives.

Statements containing the words: 'believes', 'intends', 'expects', 'plans', 'seeks', 'targets', 'continues' and 'anticipates' or other words of similar meaning are forward-looking (although their absence does not mean that a statement is not forward-looking). Forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the Group's control. For example, certain insurance risk disclosures are dependent on the Group's choices about assumptions and models, which by their nature are estimates. As such, actual future gains and losses could differ materially from those that we have estimated.

Other factors which could cause actual results to differ materially from those estimated by forward-looking statements include but are not limited to: domestic and global economic and business conditions; asset prices; market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of governmental and/or regulatory authorities, including, for example, new government initiatives related to the provision of retirement benefits or the costs of social care and the effect of the European Union's "Solvency II" requirements on the Group's capital maintenance requirements; the impact of inflation and deflation; market competition; changes in assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, gender pricing and lapse rates); risks associated with arrangements with third parties, including joint ventures and distribution partners; inability of reinsurers to meet obligations or unavailability of reinsurance coverage; the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which the Group operates.

As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in the forward-looking statements within this announcement. The Group undertakes no obligation to update any of the forward-looking statements contained within this announcement or any other forward-looking statements it may make. Nothing in this announcement should be construed as a profit forecast.

# Chairman's Statement

Following the Company's listing on the London Stock Exchange on 12 June 2013, I am delighted to present the first Half-Year Report for the Group as a public, listed company.

Partnership's success is built on its proprietary medical and mortality data which it uses to deliver higher incomes to customers in their retirement, or security of funding for customers needing long term care. In times where household budgets continue to be stretched, the additional income and security that Partnership's products provide is a welcome boost for those entering retirement and long term care. The fundamental drivers of market growth and the opportunities for more customers to benefit from Partnership's expertise remain strong in the UK, and the management team continues to develop routes to access our core markets. For these reasons, I remain confident in the outlook for Partnership's continued growth.

I am delighted to welcome David Richardson, who joined the Group as Chief Financial Officer in February 2013 and who was appointed a director in May 2013 and Maria-Luisa Cassoni, Ian Cormack, Douglas Ferrans, and Dr Richard Ward who joined the Board in May 2013 as independent non-executive directors. They bring a wealth of experience which will complement the skills and experience of the existing directors, all of whom, including the former Chairman Dr Ian Owen, have agreed to continue to remain on the Board.

I am looking forward to continuing to build a strong and profitable business, delivering benefits to customers, shareholders and employees alike.

**Chris Gibson-Smith**  
Chairman

# Group Chief Executive's Report

## Introduction

The first half of 2013 has been an immensely busy period at Partnership. Preparations for our listing on the London Stock Exchange have necessarily taken a huge effort from the management team, and for the hard work and dedication to achieving this momentous next step in Partnership's journey, I would like to thank all those involved.

Despite the distraction that an IPO can bring, it is pleasing to note that the business has remained on track to deliver growth ahead of the market. Economic conditions have improved in the first half of the year, with strong performances in the equity markets, and more recently, increasing yields on fixed income securities, helping to improve the annuity rates insurers are able to offer. However, changes in the insurance regulatory environment that came into effect late in 2012 and in the first half of 2013 have resulted in some temporary disruption to the strong market growth we have experienced to date. Whilst we expected some short term disruption to the market from the introduction of gender neutral pricing and the Retail Distribution Review (RDR), we have only recently seen a return to normal market activity levels in the non-standard annuity (NSA) market. Government announcements on the provision for Social Care continue to lead to confusion over the actual level of government support for individuals, and this is also having an effect on the market for selling Immediate Needs Annuities (INAs). However, our lead indicators are now suggesting a return to normal activity.

## Performance Review

I am pleased to report total New Business Premiums of £631m for the 6 months ended 30 June 2013, an increase of 12% on the same period last year.

New Business Premiums for retirement annuities increased 16% to £601m, whilst care annuities reduced by 38% to £28m. The growth in retirement new business levels is particularly encouraging in the context of a temporary disruption in the NSA market in the first half of 2013, which saw a fall of 9% in total premiums sold through the open market.<sup>1</sup>

I believe this slowdown has been caused by two principal factors: the introduction of gender neutral pricing in December 2012 caused some acceleration of sales into the fourth quarter of 2012 that would typically have completed in the first quarter of 2013; and the implementation of changes for advisors under the RDR, which came into force on 1 January 2013, appears to have temporarily reduced advisor engagement with customers for the sale of annuities particularly in the more complex area of NSAs and INAs.

We have continued to invest in development of our Defined Benefit de-risking proposition in the first half of 2013, and we have now completed a number of buy-in and buy-out transactions, proving the benefits of our unique proposition for pensioners, trustees and sponsoring companies. As a new area of the market for Partnership, we continue to learn a significant amount, and see new opportunities, enabling us to further enhance our proposition.

The sale of annuities for funding long term care has fallen behind expectations in the first half of 2013. The impact of the outcome of RDR on advisors selling INAs has been more significant given the increased complexity of the advisory process, and this has led to a reduction in the level of activity in the first half of 2013. However, advisors do appear to be returning to the market with quote activity improving in recent months, though the conversion from quote to policy for INAs can be lengthy and unpredictable. As market commentators and financial advisors digest the implications of the government's proposed cap on the cost

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<sup>1</sup> Source: Towers Watson (TW) Enhanced Annuity Survey, Based on External Enhanced Annuity sales from nine offices

# Group Chief Executive's Report

of care set out in the Social Care Bill, the clarity surrounding the level of state provision and the benefits of passing the longevity risk to insurers should also increase activity in this market.

Total Operating Profit in the first half of 2013 was £59.3m, an increase of 31%. Within this overall result, we have delivered New Business Operating Profits of £38.2m, achieving a New Business Operating Margin of 6.0%. The fall in New Business Operating Margin compared to HY 2012 is a result of the expected increase in cost base flowing into the first half of 2013, following investment in the business in the second half of 2012. We expect to see further increases in the cost base in the second half of 2013 as a result of our new "plc" requirements. However we expect the New Business Operating Margin to increase, as new business gross margins are expected to grow more quickly than overheads.

Profits emerging from the in-force book in HY 2013 were £18.0m, and benefitted from economies of scale realised on in-force business. This was in part due to the transfer of the administration of a significant block of in-force annuities we 100% reinsured in 2012 onto our in-house administration platform. This was the primary driver behind a total positive contribution from assumption changes in HY 2013 of £10.6m, which we would not expect to repeat in the second half of the year.

We recorded an increase in return on surplus assets to £3.1m, reflecting the growth in surplus assets in the period.

The level of excess economic capital at 30 June 2013 was £141m, giving a capital coverage ratio of 150%, well in excess of our targeted minimum of 125% (under normal economic circumstances). The stress and scenario tests we perform, which reflect the actual risks borne by the Group, continue to show a robust capital position, demonstrating the close matching of assets and liabilities, efficient use of reinsurance, and monitoring of risk levels against our Board tolerances.

Further detail on the IFRS result and economic capital position is set out in the Business Review section below.

Assets under management have increased to £3.7bn, excluding £281m of assets that the Group manages on behalf of reinsurers under certain reinsurance arrangements. Our focus remains on seeking superior risk-adjusted yields and capital efficiency for the benefit of policyholders and shareholders. We continue to source equity release loans through a combination of newly originated loans and bulk purchases. Newly originated loans totalled £58m in HY 2013. We did not complete any bulk acquisitions in the first half of 2013. The level of equity release mortgage assets as a proportion of total assets under management at 30 June 2013 remained at 14%.

In June 2013, we issued our first loans, using shareholder assets, to facilitate Commodity Trade Finance, in line with our strategy of seeking to maximise risk-adjusted returns on shareholder capital. We continue to investigate other alternative assets that are in line with this strategy.

Following the capital re-organisation as part of the IPO, total Market Consistent Embedded Value (MCEV) as at 30 June 2013 was £463.8m, which compares to a pro-forma MCEV at 31 December 2012 of £416.6m. New business value generated in HY 2013 was £47.2m, gross of tax.

# Group Chief Executive's Report

## Operating review

Despite a significant focus from management on the preparations for Partnership's IPO in the first half of 2013, we continued to invest in the business, with 52 new positions created in the first half of the year, taking total staff numbers to 532 by 30 June 2013. We have secured important hires in the areas of finance, pricing and legal and compliance which will position the Company well for future profitable growth.

We also continued with major projects on infrastructure to support, in particular, our data platforms, and successfully deployed the first significant modules of our new SAS database. Our automated underwriting engine is continuing to deliver efficiency gains, in particular with respect to speed and accuracy, which has improved our customer experience. It has also improved the timeliness and granularity of information on new business quotes used to manage the business.

This investment in both human capital and technology enables the continued improvement in Partnership's Intellectual Property (IP), underpinning our core competitive advantage in the NSA market.

In line with our strategy of expanding and diversifying distribution, our tie-up with Virgin Money, which commenced during the first half, has now benefitted from the launch of marketing activity with Virgin customers. We are also in advanced stage of discussions with a major retailer to provide annuity fulfilment services.

The quality of our products and service continues to be recognised in the industry; we won the FT Adviser 5 star online service award for 2013, and were voted 'provider of the year' at the Tenet Group Annual Business Conference.

## Current trading and outlook

Whilst the Group's New Business Premiums have grown strongly, outperforming the NSA market in HY 2013, the decline in premiums written in the market in the first half of 2013 leads me to expect that the market for NSAs will not reach our medium term expectation of 16% growth in 2013. However, the core drivers of growth in the UK are firmly embedded, and I remain confident in Partnership's ability to capitalise on these opportunities. Each year more people are reaching retirement with their savings in a defined contribution pension scheme, and therefore in need of annuities to secure an income for their retirement. And as the population continues to grow older, more individuals require increasing levels of care and are seeking the financial security that an INA can bring.

As noted above, we have recently seen a return to expected quote activity levels in the NSA and care markets that we operate in. The lead time between quote activity and policy completion continues to impact New Business Premiums. However, we expect volumes in the second half of 2013 to be significantly ahead of HY 2013. Since 30 June 2013, we have completed a significant bulk Equity Release (ER) purchase, of a portfolio of mortgages of £207m, increasing the proportion of total investments that are Equity Release assets to around 20%. We also continue to make good progress in further developing our proposition for defined benefit schemes, with advanced discussions with a number of schemes. We anticipate strong new business volumes to develop from this opportunity over time.

As a result of these developments, and in light of the operating profit performance achieved in the first half of 2013, we remain on track to meet full year Total Operating Profit expectations.

**Steve Groves**  
Chief Executive Officer

# Group Strategy

The Group is a leading and fast-growing provider of non-standard and care annuities in the UK, offering better rates to individuals who suffer from shortened life expectancy by utilising an IP led, capital efficient business model which is net capital generative.

The Group's NSA products are priced using its proprietary medical and mortality data which has been collected over 18 years, as well as the experience, underwriting processes, method and system to interpret and apply such data (the 'Proprietary IP'). This data and the Group's ability to use it to price its products competitively and profitability represent the critical components of the Group's competitive advantage. The Group applies its Proprietary IP to estimate future mortality rates of individuals with reduced life expectancy compared to those of healthy individuals. With this information, the Group is able to estimate and price the effect of certain medical and lifestyle conditions upon an individual's life expectancy with greater accuracy than other annuity providers, standard and non-standard. This typically results in the Group being able to offer a higher annuity to customers with medical or lifestyle issues than a standard annuity provider can achieve.

The Group uses reinsurance to reduce its regulatory capital requirements, improve pricing competitiveness and improve the quality of its earnings by reducing the potential volatility of a significant component of its profits. In addition, because the Proprietary IP reduces the Group's reliance on its reinsurance partners for technical input, the Group is able to secure more attractive economic terms for its reinsurance arrangements than its competitors.

The Group's use of the Proprietary IP and reinsurance enables higher margins and a more capital efficient model than it would otherwise achieve. As a result, the Group expects to produce day-one EU IFRS profits and to be net capital generative on its new business.

The Group's products are typically sold to individuals via intermediaries. The Group has implemented a multi-channel distribution strategy and secured long-term agreements with its key partners which have supported its strong growth in recent years. The strength of the Group's distribution relationships and the willingness of networks to engage with it are testament to the strength of its commitment to offer a better deal for its customers.



# Business Review

## Overview

As part of the 'Global Offer' and Admission of Partnership Assurance Group plc to the London Stock Exchange on the 12 June 2013 the Group (the Company and its subsidiaries) has undertaken certain reorganisation steps.

In particular, immediately prior to Admission the Company became the holding company of the Group's previous holding company, PAG Holdings Limited (PAGH). Also, various loan notes in PAGH and its subsidiary PAG Finance Limited (PAGF) and the ordinary shares held in PAGH, together the "shareholder instruments" were exchanged for a number of ordinary shares in the Company that represented the value of these shareholder instruments.

As a consequence of this reorganisation the consolidated results presented in respect of 2012 and up until 11 June 2013 represent the performance of PAGH and its subsidiaries. Post 12 June 2013 the consolidated results represent the combined position and performance of the Group. Further detail on the reorganisation is provided in Note 1: Activities of business and legal structure of the Company, Note 2: Basis of preparation and Notes 10 and 11 of the IFRS Financial Statements.

In the first half of 2013, overall the Group has performed in line with expectations. Sales of Retirement annuities are ahead of the same period in 2012, despite a temporary disruption to the NSA market due to gender neutral legislation and the introduction of RDR. Market activity levels have recently returned to expected levels. Sales of care annuities have been weaker than planned but management believe that our market leading position has been maintained. Quote levels for Care are also showing signs of returning to expected levels though the conversion from quote to policy for INAs can be lengthy and unpredictable.

The Directors believe that demand for its annuity products will continue to increase as a result of favourable demographic trends, the continued move from defined benefit to defined contribution pension schemes, the significant pension funding gap that exists in the UK and the general pension contribution growth combined with investment returns on accumulated pension assets. The Group is well placed to capitalise on these trends for the benefit of shareholders and future policyholders.

# Business Review

## Key performance indicators (KPIs)

The Board monitors the Group's performance by regularly reviewing the following metrics, which it considers to be the Group's KPIs.

### New Business Premiums

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**£631.4m**

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HY 2012: £565.4m

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New Business Premiums represents the value, measured as single premium equivalent (SPE), of new insurance contracts completed during the reporting period.

The Group operates in three target markets - Retirement, Care and Protection.

	Half year ended 30 June 2013	Half year ended 30 June 2012	
	£'m	£'m	
Retirement	601.5	518.3	+16.0%
Care	28.1	45.5	- 38.2%
Protection	1.8	1.6	+12.7%
<b>Total SPE</b>	<b>631.4</b>	<b>565.4</b>	<b>+11.6%</b>

New Business Premiums amounted to £631.4m for the 6 months ended 30 June 2013 (HY 2012: £565.4m). The increase in New Business Premiums relative to the same period in 2012 was primarily the result of increased Retirement sales despite the disruption created by RDR regulation in the financial adviser community and the impact of imposing gender neutral pricing for annuities, which the Directors believe has caused a disruption to the NSA market in the first half of 2013. New Business Premiums for Care were £28.1m, down 38% on HY 2012, as volumes fell due to RDR and uncertainty amongst customers as to the impact of the potential "cap" on care funding for individuals announced by the UK Government as part of the Care Bill proposals. The Directors remain of the view that the INA products sold by the Group continue to be a valuable solution for those entering long term care, and that the impact of the proposals set out in the Care Bill will not depress demand for INAs over the longer term.

### Total Operating Profit

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**£59.3m**

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HY 2012: £45.4m

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Total Operating Profit is the sum of New Business Operating Profit and In-force Operating Profit, together with the long-term expected return from investments held by the Group that are not required to back insurance liabilities ("surplus assets").

Total Operating Profit is the core measure of the Group's performance as it combines the impact of new business and in-force business. This measure excludes the impact of short term investment variances in its asset portfolio, and non-recurring expenditure. The Group's "buy and maintain plus" investment strategy means that the majority of its investments should be held to maturity, thereby ensuring that the value of any investment variances, in aggregate and over the life of any of the investments, should be immaterial and not distort

# Business Review

the Group's underlying financial performance, positively or negatively, in any single year. Non-recurring expenditure, including the results of non-core operations and interest on borrowings, are also excluded from the measure of Total Operating Profit.

Total Operating Profit in the period to 30 June 2013 of £59.3m was 31% higher than the £45.4m reported for the period to 30 June 2012. The results include underlying In-force Operating Profit, in line with expectations, and a benefit in HY 2013 from economies of scale achieved on in-force business. This was in part driven by transferring a block of annuities to our administration platform in June 2013 as anticipated when we agreed to reinsure this book in 2012.

## New Business Operating Profit

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**£38.2m**

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HY 2012: £44.8m

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New Business Operating Profit represents profit generated from new business completed in the period, calculated using actuarial assumptions applicable at the time the new business was written, utilising a discount rate based upon expected investment yields from the assets (e.g. cash, gilts, corporate bonds and loans secured by Equity Release mortgages) used to generate the annuity quotation, net of expenses allocated against new business.

Despite the growth in New Business Premiums of 12%, the New Business Operating Profit has fallen from HY 2012 due to the investment in the Group's infrastructure made in the second half of 2012 in preparation for the next phase of growth, which has increased the base overheads for the Group.

New Business Operating Margin is the ratio of New Business Operating Profit to New Business Premiums. It was 6% in HY 2013, slightly below expectations due to lower than expected new business volumes.

## Economic Capital Surplus<sup>2</sup>

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**£141m (Coverage Ratio: 150%)**

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31 Dec 2012: £104m<sup>3</sup> (Coverage Ratio: 141%)

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Economic Capital Surplus represents the surplus capital of the Group in excess of the Group's assessment of the level of capital that would be required for the Group to withstand the impact of an event that is commensurate with a level of severity of a 1 in 200 year event.

The Economic Capital Surplus as at 30 June 2013 of £141m was up £37m from £104m as at 31 December 2012, primarily as a result of £26m net additional capital raised as part of the IPO.

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<sup>2</sup> Not subject to review by Deloitte LLP

<sup>3</sup> Calculated at PLACL level

# Business Review

## IFRS results

The Group is primarily managed against IFRS profitability targets given the high-growth in new business and reinsurance-enabled capital efficient model leading to the day-one IFRS profits on new business written.

### IFRS Profit

	Half year ended 30 June 2013 £'000	Half year ended 30 June 2012 £'000	
New Business Operating Profit	38,162	44,759	-14.7%
In-force Operating Profit/(Loss)	17,966	(1,398)	-
Long-term expected return on surplus assets	3,136	2,025	+54.9%
<b>Total Operating Profit</b>	<b>59,264</b>	<b>45,386</b>	<b>+30.5%</b>
Investment variances	3,158	(12,611)	
Non-recurring expenditure	(28,517)	(840)	
Other losses	(664)	(346)	
Interest on borrowings	(24,679)	(14,142)	
<b>IFRS Profit before tax</b>	<b>8,562</b>	<b>17,447</b>	<b>-50.9%</b>
Income tax charge	(5,214)	(4,714)	
<b>IFRS Profit</b>	<b>3,348</b>	<b>12,733</b>	<b>-73.7%</b>

### Total Operating Profit

Total Operating Profit in the period to 30 June 2013 of £59.3m was up £13.9m from the £45.4m reported for the period to 30 June 2012 driven by the increase in In-force Operating Profit as explained below.

#### *New Business Operating Profit*

New Business Operating Profit has decreased 14.7% from £44.8m in HY 2012 to £38.2m in HY 2013. This decrease was primarily as a result of the increased cost base following investment in the Group's personnel and infrastructure, and investment in distribution arrangements, that commenced in H2 2012. This investment in the business is necessary to prepare the Group for future growth. New Business Operating Profit was also impacted by the reduction in Care sales compared to the first half of 2012. The combination of these factors resulted in a decline in the New Business Operating Margin to 6.0% for HY 2013.

#### *In-force Operating Profit*

In-force Operating Profit amounted to £18.0m for the 6 months ended 30 June 2013 compared to a loss of £1.4m for HY 2012. The result in HY 2013 included a £10.6m benefit from assumption changes, primarily driven by economies of scale achieved during the period. Underlying profits emerging from the in-force book were in line with expectations and reflect the growth of the in-force book as a whole.

#### *Long-term expected return on surplus assets*

Long-term expected return on surplus assets for the period to 30 June 2013 was up by £1.1m to £3.1m compared to the same period in 2012 predominantly as a result of an increase in surplus funds. This was partly offset by the impact of a lower yield as a higher proportion of the surplus assets were held in cash in the 6 months ended 30 June 2013 compared to the comparable period in 2012.

### IFRS Profit Before Tax

IFRS profit before tax for the six months to 30 June 2013 amounted to £8.6m compared to £17.4m for HY 2012. This fall is primarily due to non-recurring expenditure of £28.5m

# Business Review

principally in respect of the Company's IPO and listing on the London Stock Exchange and £10.5m of additional interest charge in the period resulting from the financing taken out in the second half of 2012 as set out below.

## *Investment variances*

Investment variances reflect the difference between actual performance on investment assets over the reporting period and the investment yield allowed for in the calculation of liabilities at the start of the reporting period, new business written during the reporting period and the long-term assumed return on surplus assets. Also included in investment variance is the impact of changes in the best-estimate credit default allowance made against the Group's invested assets. The positive investment variance in the period reflects an increase in risk-free yields and a narrowing spread between risk-free yields and the yields achieved on the Group's corporate bonds over the first half of 2013. The variance also reflects a loss from the additional yield expected on Equity Release bulk acquisitions, and used in new business annuity pricing (and therefore New Business Operating Profit), but not achieved in the first-half of 2013.

## *Non-recurring expenditure*

Non-recurring expenditure of £28.5m for the period to 30 June 2013 (30 June 2012: £0.8m) includes:

- £15.6m in respect of expenses in connection with the Group's restructuring and IPO (30 June 2012: nil);
- £9.8m charge in respect of the Group's staff share option plan which vested in full as a result of the IPO (30 June 2012: nil); and
- £3.1m of costs relating to regulatory projects (Solvency II) and re-engineering of financial processes (30 June 2012: £0.8m).

## *Other losses*

Other losses relate to sundry income and costs arising in the distribution subsidiaries of the Group and holding company expenses.

## *Interest on borrowings*

Interest on borrowings is £10.5m higher than the amount for the comparative six month period to 30 June 2012 as a result of higher financing costs. This is due to the additional £50m loan notes issued to the Fourth Cinven Fund and a £70m bank loan obtained, both occurring in the second half of 2012. The loan notes were converted into equity as part of the IPO and related group restructuring. The £70m bank loan was repaid on 21 August 2013 using proceeds from the IPO.

## **IFRS Profit**

IFRS profit for the six months to 30 June 2013 amounted to £3.3m compared to £12.7m for HY 2012.

## *Income tax charge*

The income tax charge increased to £5.2m in HY 2013 from £4.7m for the comparative period last year. The Group effective tax rate for the half year ended 30 June 2013 is higher than the average UK corporation tax rate as a large proportion of the non-recurring expenditure relating to the IPO and Global Offer is disallowed for tax purposes.

# Business Review

## New Business Premiums and Gross premiums written

	Half year ended 30 June 2013 £'000	Half year ended 30 June 2012 £'000	
<b>New Business Premiums - SPE</b>	<b>631,387</b>	<b>565,359</b>	<b>+11.7%</b>
Adjustment in respect of regular premium business	(66)	132	
Premiums received in respect of ER longevity insurance	-	1,022	
Premiums arising from change to contract terms in 2012	(45,399)	-	
Re-insurance premiums received	43	-	
<b>Gross premiums written</b>	<b>585,965</b>	<b>566,513</b>	<b>+3.4%</b>

Total New Business Premiums are £631.4m for the 6 months ended 30 June 2013, an increase of 11.7% on the same period last year. The increase in New Business Premiums relative to the same period in 2012 was primarily as a result of increased Retirement New Business Premiums of 16.0% which was partly offset by a 38.2% decrease in Care New Business Premiums from £45.5m in HY 2012 to £28.1m in HY 2013. New Business Operating Profit is determined by New Business Premiums completed during the period, rather than gross premiums written.

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 (the point of "policy completion"). The Group continues to record New Business Premiums when a policy completes, and as such, the timing of recognition of New Business Premiums is consistent between HY 2012 and HY 2013. Further detail of the impact of the change in contract terms on gross premiums written is included in Note 4 to the IFRS financial statements.

Gross premiums written have increased by 3.4% to £586.0m. The smaller increase in gross premiums written reflects the changes to contract terms introduced in November 2012 which has resulted in New Business Premiums of £45.4m being recognised as gross premiums written in an earlier accounting period.

# Business Review

## Capital Management

The Group is managed on an Economic Capital basis, with a target to maintain minimum cover of 125% of Economic Capital requirements in normal circumstances. The Group's Economic Capital requirements are calibrated to provide sufficient capital to withstand a shock equal to a 1 in 200 year event, consistent with the regulatory Pillar 2 capital requirements. Capital is monitored and managed both at a Group and PLACL entity level.

The Group also monitors its regulatory Pillar 1 (IGD) position to ensure appropriate level of capitalisation with respect to regulatory requirements and the Board's risk appetite.

The Group's Economic Capital and IGD capital ratios as at 30 June 2013 are strong. The Economic Capital and IGD capital positions as at 30 June 2013 are calculated at the Group's top holding company, PAG plc.

	Economic Capital		IGD <sup>4</sup>	
	Half year ended 30 June 2013	Year ended 31 December 2012 <sup>5</sup>	Half year ended 30 June 2013	Year ended 31 December 2012
	£'m	£'m	£'m	£'m
Total Capital Available	425	356	412	328
Capital Required	284	252	183	163
Excess Surplus	141	104	229	165
<b>Coverage Ratio (%)</b>	<b>150%</b>	<b>141%</b>	<b>225%</b>	<b>201%</b>

Excess Capital surplus on both an Economic Capital and IGD basis showed an improvement from the position as at 31 December 2012. The key drivers for these are as follows:

- additional capital raised during the IPO;
- expense efficiencies relating to the growing in-force book; and
- positive investment performance.

## Stress and scenario testing

The Group undertakes stress and scenario tests to ensure the robustness of the Economic Capital solvency position, having regard to the material financial and non-financial risks undertaken by the Group. The most material risks to the level of capital adequacy on an economic basis arise from the Group's investment in assets with credit risk exposure, residential property risk exposure, and longevity risk. Other risks are either not material or are appropriately hedged to leave minimal exposure for the Group.

<sup>4</sup> The IGD has been calculated at the EEA Group Parent level i.e. the "hard test" being Partnership Holdings Limited at 31 December 2012 and Partnership Assurance Group plc at 30 June 2013

<sup>5</sup> Calculated at PLACL level

# Business Review

The impact of the stress and scenario tests for the most material risks are set out below:

	<b>Economic Capital Ratio Sensitivities</b>
	Half year ended 30 June 2013
Base coverage ratio	150%
Credit spread widening:	
100 bps	148%
200 bps	145%
Euro zone crisis	142%
Lehman crisis	135%
Longevity - 5% deterioration	143%
Property - 10% price fall	141%

Economic Capital Coverage Ratio remains robust under the above stress scenarios with a significant buffer maintained above Economic Capital requirements. These stress and scenario tests also demonstrate that the Economic Capital resources are able to withstand extreme credit spread widening.

## **Solvency II**

The implications of Solvency II and preparations for the application of its requirements remain an important consideration for the Group. The Group is monitoring the ongoing debate in Europe in respect of the regulations. The Group is progressing planning and implementation of Solvency II although implementation is not expected before 2016.



# Business Review

## MCEV results

The Group is not managed on an embedded value basis as IFRS profitability is considered to be the best metric to capture the growth and profitability of the Group's new business. The Group has a relatively small VIF on its in-force book, as the majority of profits on business written arise immediately under existing IFRS requirements.

MCEV results for the six months period to 30 June 2013 for the covered business are shown in the table below. Covered business represents the PLACL legal entity which holds all the long-term insurance business within the Group.

	Half year ended 30 June 2013	Half year ended 30 June 2012	Year ended 31 December 2012
	£'000	£'000	£'000
Covered Gross Operating MCEV earnings	60,857	56,817	147,150
Covered Gross Non-operating MCEV earnings	(9,497)	(11,843)	(7,164)
<b>Closing Group MCEV</b>	<b>463,794</b>	<b>(35,179)</b>	<b>9,890</b>

Gross Operating MCEV earnings in HY 2013 were driven by new business value. In addition, there was a benefit from achieved expense efficiencies. Experience variances for the six months to 30 June 2013 were immaterial.

The Gross Non-operating MCEV loss has arisen due to negative economic variances driven by an increase in interest rates over the period and non-recurring costs in respect of the Group's expenditure on regulatory projects.

In addition to the covered business MCEV earnings above, the increase in the closing group MCEV is a direct result of the Global Offer, the IPO and certain internal reorganisations steps undertaken in the lead to these transactions as detailed in Note 4 to the MCEV financial statements.

## Dividend policy

The Board intends to adopt a progressive dividend policy. As it arises, surplus capital released from the in-force portfolio should enable an accelerated dividend growth rate. Dividend payments will be made on an approximate one-third and two-third split for interim and final dividends respectively.

The Board intends to commence dividend payments with a dividend in respect of the second half of 2013, which will represent a final dividend for 2013, payable in the first half of 2014. The initial dividend payment in respect of 2013 is expected to be set at a level consistent with the Company's strategy of future growth.

# Risk Management and Internal Control

Partnership's risk management strategy is designed to continue maximising risk-adjusted returns to shareholders as the business grows, subject to remaining within clearly defined and prudent risk parameters.

The Board has overall responsibility for the management of the Group's business risks. Partnership has a risk management framework in place comprising formal committees, a suite of formal policies, risk assessment processes and risk review functions. The framework is based on the concept of "three lines of defence" with first-line operating functions, second-line control functions and third-line review functions, including internal audit, designed to monitor and control total exposure to different risks within agreed risk tolerance and appetite levels.

Partnership maintains a consistent Group-wide process for the timely identification and assessment of the risks to which it is exposed. The risk assessment process extends to all activities including the evaluation of new and changed business activities and the management of outsourced environments. Risks are identified and assessed against Partnership's business objectives and risk appetite. All risks are assessed with and without the mitigating effect of existing controls. If existing controls do not reduce the risk to an acceptable level then additional management and operational procedures are identified and implemented. Clear criteria exist for the escalation of new or changed risks and the ongoing status of key risks is reported each quarter through the consolidated key risk profile.

## **Principal risks and uncertainties**

The principal risks and uncertainties faced by the Group are summarised in the table below:

# Risk Management and Internal Control

Category	Description	Mitigating factors
<b>Insurance risk</b>	<p><b>Underwriting, pricing and reserving</b></p> <p>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.</p> <p>The accurate pricing of non-standard annuity and equity release mortgages 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.</p> <p>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.</p> <p>Reserving risk is the risk that the reserves have been calculated incorrectly, or the assumptions used in the calculations are inappropriate.</p>	<p>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 array of medical conditions.</p> <p>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.</p> <p>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 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.</p>
	<p><b>Specific insurance risk</b></p> <p>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.</p>	<p>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 re-insurance. Expense risk is managed through regular assessment and quarterly reforecasting of expenses incurred against budgets.</p>

# Risk Management and Internal Control

Category	Description	Mitigating factors
	<p><b>Concentration risk</b></p> <p>The Group writes annuity contracts for the provision of retirement income or care fees, and protection insurance contracts, primarily for individuals in the UK with one or more medical conditions that is likely to reduce their overall life expectancy. The Group's insurance risk is therefore concentrated on longevity and mortality risk.</p>	<p>The Group manages this risk through the use of external reinsurance arrangements.</p>
<p><b>Investment risk</b></p>	<p><b>Interest rate risk</b></p> <p>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.</p> <p>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).</p>	<p>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.</p>
	<p><b>Market credit risk</b></p> <p>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.</p>	<p>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.</p>

# Risk Management and Internal Control

Category	Description	Mitigating factors
	<p><b>Property risk</b></p> <p>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.</p>	<p>The Group ensures that the purchase prices of loan assets reflect a prudent assessment of future property price growth. The total loan value is restricted to a maximum “loan to value ratio” that limits the risk exposure for the Group. The Group seeks to avoid excess concentration of property holdings in any geographical area.</p> <p>In addition, certain of the Group’s property funding arrangements include ability for the Group to offset losses arising on individual properties against profits arising on other properties within the same pool of properties the Group has lent against, which further reduces the overall exposure to property price risk for those pools of properties.</p>
<p><b>Liquidity risk</b></p>	<p>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.</p>	<p>The Group’s ALM framework ensures that cash flows are sufficient to meet both long- and short-term liabilities.</p> <p>In current and expected market conditions and operating environments, cash flows from new business considerably exceed the obligations to existing policyholders. In addition, 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.</p>
<p><b>Counterparty credit risk</b></p>	<p>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 credit risk exposure arises from the inability of the reinsurers to meet their claim payment obligations.</p>	<p>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.</p> <p>In addition, the Group’s reinsurance policy is to seek to choose companies with a minimum ‘A’ credit rating.</p>

# Risk Management and Internal Control

Category	Description	Mitigating factors
<b>Distribution Risk</b>	Distribution risk arises from adverse changes in the Group's competitive landscape or its relationships with intermediaries.	<p>The Group derives competitive advantage from its proprietary underwriting intellectual property which it considers to be unique in the non-standard annuity and Care market. It is the Group's strategy to continue to innovate and introduce new products and propositions that leverage this intellectual property to protect its competitive position.</p> <p>The Group maintains a multi-channel distribution strategy in order to diversify and reduce concentration risk and has secured long-term agreements with its key distribution partners.</p>
<b>Operational risk</b>	Operational risk arises from inadequate or failed internal processes, people and systems or from external events.	The Group maintains a suite of risk management tools to help manage its operational risks including facilitated risk and control self-assessments, risk event management and loss reporting. Underlying and informing the operation of these tools is a framework of formal policies and controls which govern the management and oversight of the risks faced by the Group. These include business continuity and disaster recovery arrangements. Operational risk is overseen by the Executive Operational Risk Committee.

# Risk Management and Internal Control

Category	Description	Mitigating factors
<b>Regulatory, legal and political environment risk</b>	<p>Regulatory, legal and political environment risk arises where changes in regulation or legislation may result in a detrimental effect on the Group's strategy and profitability.</p>	<p>The Group's strategic planning process sets a medium term strategy based on a clear understanding of the regulatory, legal and political risks inherent in the markets in which it operates. This is informed by active and constructive engagement with policymakers and regulators both directly and indirectly through trade associations.</p> <p>Our planning and response capability is supported by continued monitoring of the regulatory, legal and political landscape.</p> <p>Solvency II represents a regulatory risk for all European insurers due to the remaining uncertainty around the final rules and the timing of their introduction. The Group is continuing its preparations to adopt the Solvency II regime when introduced and maintains, in parallel, an evaluation of its available actions to mitigate any potentially adverse effects of the final rules.</p>

All of these risks remain relevant and applicable for the remainder of 2013.

## Directors' Responsibilities Statement

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Each of the Directors of the Company confirms that to the best of their knowledge:

- (a) the condensed set of financial statements has been prepared in accordance with IAS 34: *Interim financial reporting* as adopted by the European Union;
- (b) the interim management report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7, namely important events that have occurred during the period and their impact on the condensed set of financial statements, as well as a description of the principal risks and uncertainties faced by the Company and the undertakings included in the condensed consolidated financial statements taken as a whole for the remaining six months of the financial year; and
- (c) the interim management report includes a fair review of material related party transactions and any material changes in the related party transactions described in the last annual report as required by Disclosure and Transparency Rule 4.2.8.

By order of the Board

Steve Groves  
Chief Executive Officer  
London  
28 August 2013

David Richardson  
Chief Financial Officer

Note:

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.



## **Independent review report to Partnership Assurance Group plc**

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We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2013 which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated statement of financial position, the condensed consolidated cash flow statement and the related notes 1 to 17. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review 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 review work, for this report, or for the conclusions we have formed.

### **Directors' responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

### **Our responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of the interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
28 August 2013  
London,  
United Kingdom

# IFRS FINANCIAL INFORMATION

## Condensed consolidated statement of comprehensive Income

For the half year ended 30 June 2013

		Half year ended 30 June 2013	Half year ended 30 June 2012	Year ended 31 December 2012
	Note	£000's	£000's	£000's
Gross premiums written	4	585,965	566,513	1,468,008
Outward reinsurance premiums	5	(366,567)	(219,315)	(554,620)
Net insurance premiums earned before restructure of reinsurance treaty		219,398	347,198	913,388
Reinsurance premium related to restructure of treaty		-	-	(495,803)
Net premiums earned		219,398	347,198	417,585
Net investment income	5	31,606	55,970	290,738
Share of results of joint venture accounted for using the equity method		(10)	(85)	(40)
Other income		122	193	180
<b>Total income</b>		<b>251,116</b>	<b>403,276</b>	<b>708,463</b>
Gross claims paid		(163,103)	(126,567)	(273,655)
Reinsurers share of claims paid		107,413	90,479	188,462
Recovery related to recapture of reinsurance treaty		-	-	99,748
		(55,690)	(36,088)	14,555
Change in insurance liabilities:				
Gross amount		(282,365)	(521,341)	(1,564,761)
Reinsurers' share not related to restructure and recapture		202,879	233,266	663,452
Reinsurers' share related to restructure and recapture		-	-	396,213
		(79,486)	(288,075)	(505,096)
Acquisition costs		(7,810)	(14,177)	(34,566)
Investment expenses and charges		(5,908)	(3,513)	(8,178)
Interest on subordinated debt		-	(328)	(496)
Interest on external borrowings		(24,680)	(13,815)	(33,976)
Other operating expenses	5	(68,980)	(29,833)	(73,227)
		(107,378)	(61,666)	(150,443)
<b>Total claims and expenses</b>		<b>(242,554)</b>	<b>(385,829)</b>	<b>(640,984)</b>
<b>Profit from continuing operations before tax</b>		<b>8,562</b>	<b>17,447</b>	<b>67,479</b>
Income tax charge from continuing operations	6	(5,214)	(4,714)	(17,245)
<b>Profit for the year from continuing operations</b>		<b>3,348</b>	<b>12,733</b>	<b>50,234</b>
Loss for the year from discontinued operations		-	-	(28)
<b>Profit for the period</b>		<b>3,348</b>	<b>12,733</b>	<b>50,206</b>
<b>Profit attributable to:</b>				
- Owners of the Parent		3,361	12,726	50,193
- Non-controlling interest		(13)	7	13
		<b>3,348</b>	<b>12,733</b>	<b>50,206</b>
<b>Basic earnings per ordinary share</b>	8	<b>£0.01</b>	<b>£0.05</b>	<b>£0.18</b>
<b>Diluted earnings per ordinary share</b>	8	<b>£0.01</b>	<b>£0.05</b>	<b>£0.18</b>

## Condensed consolidated statement of changes in equity

For the half year ended 30 June 2013

	Note	Attributable to Owners of the Parent								Total
		Share Capital	Share Premium	Capital Redemption Reserve	Merger Reserve	Shares held by employee benefit trust	Retained profit	Total	Non-controlling interests	
		£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
Profit for the period		-	-	-	-	-	12,726	12,726	7	12,733
<b>At 30 June 2012</b>		<b>3,330</b>	<b>182</b>	<b>-</b>	<b>-</b>	<b>(33)</b>	<b>39,934</b>	<b>43,413</b>	<b>(28)</b>	<b>43,385</b>
At 1 January 2012		3,330	182	-	-	(33)	27,208	30,687	(35)	30,652
Shares issued/ (bought back) for cash		(3,294)	-	3,297	-	-	-	3	-	3
Share-based payments	9	-	-	-	-	-	1,500	1,500	-	1,500
Profit for the year		-	-	-	-	-	50,193	50,193	13	50,206
<b>At 31 December 2012</b>		<b>36</b>	<b>182</b>	<b>3,297</b>	<b>-</b>	<b>(33)</b>	<b>78,901</b>	<b>82,383</b>	<b>(22)</b>	<b>82,361</b>
At 1 January 2013		36	182	3,297	-	(33)	78,901	82,383	(22)	82,361
PAGH shares exchanged for ordinary shares	10	28,250	(182)	(3,297)	(24,521)	(250)	-	-	-	-
Loan Notes exchanged for ordinary shares	10	8,462	317,288	-	-	-	-	325,750	-	325,750
Shares issued for cash	10	3,252	121,993	-	-	(46)	-	125,199	-	125,199
Share issue costs	10	-	(4,032)	-	-	-	-	(4,032)	-	(4,032)
Share-based payments	9	-	-	-	-	271	8,330	8,601	-	8,601
Profit for the period		-	-	-	-	-	3,361	3,361	(13)	3,348
<b>At 30 June 2013</b>		<b>40,000</b>	<b>435,249</b>	<b>-</b>	<b>(24,521)</b>	<b>(58)</b>	<b>90,592</b>	<b>541,262</b>	<b>(35)</b>	<b>541,227</b>

# Condensed consolidated statement of financial position

As at 30 June 2013

	Note	Half year ended 30 June 2013	Year ended 31 December 2012
		£000's	£000's
<b>Assets</b>			
Property, plant and equipment		3,467	3,688
Goodwill		126,207	126,207
Other intangible assets		12,863	12,343
Financial assets	13	3,509,898	3,159,001
Investment in joint venture accounted using the equity method		358	368
Reinsurance assets		2,615,431	2,412,551
Insurance and other receivables		61,712	94,881
Prepayments and accrued income		72,461	63,123
Deferred tax assets		123	158
Cash and cash equivalents		242,673	166,273
<b>Total assets</b>		<b>6,645,193</b>	<b>6,038,593</b>
<b>Equity</b>			
Share capital	10	40,000	36
Share premium	10	435,249	182
Capital redemption reserve		-	3,297
Merger reserve	11	(24,521)	-
Shares held by Employee Benefit Trust		(58)	(33)
Retained profit		90,592	78,901
<b>Total equity attributable to owners of the Parent</b>		<b>541,262</b>	<b>82,383</b>
Non-controlling interest		(35)	(22)
<b>Total equity</b>		<b>541,227</b>	<b>82,361</b>
<b>Liabilities</b>			
Insurance liabilities		4,005,663	3,723,298
Insurance and other payables		42,644	62,948
Financial liabilities	13	1,971,060	1,778,765
External borrowings	12	70,072	380,367
Corporation and other tax liabilities		14,527	10,854
<b>Total liabilities</b>		<b>6,103,966</b>	<b>5,956,232</b>
<b>Total equity and liabilities</b>		<b>6,645,193</b>	<b>6,038,593</b>

## Condensed consolidated cash flow statement

For the half year ended 30 June 2013

		Half year ended 30 June 2013	Half year ended 30 June 2012	Year ended 31 December 2012
	Note	£000's	£000's	£000's
<b>Cash (used in)/from operations</b>	<b>16</b>	(24,197)	17,974	46,171
Corporation tax paid		(7,670)	(7,027)	(17,074)
<b>Net cash (used in)/from operating activities</b>		<b>(31,867)</b>	<b>10,947</b>	<b>29,097</b>
Cash flows from investing activities:				
Purchase of property, plant and equipment		(617)	(1,106)	(3,058)
Purchase of other intangible assets		(3,386)	(1,409)	(7,385)
<b>Net cash used in investing activities</b>		<b>(4,003)</b>	<b>(2,515)</b>	<b>(10,443)</b>
Cash flows from financing activities				
Proceeds from issuance of share capital	11	121,496	-	3
Repayment of subordinated debt		-	-	(16,000)
Repayment of loan notes	12	(7,656)	-	-
Proceeds from issuance of loan notes	12	-	-	50,000
Proceeds from issuance of bank loan	12	-	-	68,075
Interest on subordinated debt		-	(328)	(496)
Interest payable on external borrowings		(1,570)	-	(829)
<b>Net cash used in financing activities</b>		<b>112,270</b>	<b>(328)</b>	<b>100,753</b>
<b>Net increase in cash and cash equivalents</b>		<b>76,400</b>	<b>8,104</b>	<b>119,407</b>
Cash and cash equivalents at beginning of period		166,273	46,866	46,866
<b>Cash and cash equivalents at end of period</b>		<b>242,673</b>	<b>54,970</b>	<b>166,273</b>

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.

# Notes to the condensed consolidated financial statements for the period ended 30 June 2013

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## 1. Activities of business and legal structure of the Company

Partnership Assurance Group (PAG) 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 Sackville House, 143-149 Fenchurch Street, London EC3M 6BN.

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.

During the period to 30 June 2013, prior to Admission, the Company acquired a 100% shareholding in Partnership Assurance Group Holdings (PAGH) 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 £125 million through its admission via a Premium Listing on the London Stock Exchange, (collectively, the “Global Offer”). Details of these transactions are detailed in note 11.

## 2. Basis of preparation

These condensed financial statements comprise the interim financial statements of the Company and the entities controlled by the Company (its “subsidiaries”, collectively referred to as “the Group”) made up to 30 June 2013. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed 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.

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

These are the first consolidated financial statements of the Group and are prepared in accordance with International Financial Reporting Standards adopted for use in the European Union. These condensed financial statements included in this half-yearly financial report have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*, as adopted by the European Union. The significant accounting policies applied by the Group are set out in the following paragraphs. The Group has applied all IFRS standards and interpretations adopted by the EU effective for the period ending 31 December 2013. These condensed interim financial statements have been reviewed by Deloitte LLP and include their review opinion.

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 financial statements no transitional disclosures are necessary.

The Group in its current structure was formed on 12 June 2013 when PAG plc acquired PAGH from the Cinven funds, certain Directors, certain members of Senior Management and other individuals. Whilst legally PAG plc is the acquirer and PAGH 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 PAG plc are owned by virtue of holdings

that had existed in PAGH before they were swapped for share holdings in PAG plc. Given this, for the purposes of IFRS 3, PAGH is treated as the accounting acquirer and PAG plc as the accounting acquiree. At the point of the acquisition, PAG plc 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 Policies, 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 PAG plc were the holding company of PAGH 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, PAGH 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 "auditors") reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and by virtue of the PAGH 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. After making enquiries, the Directors have a reasonable expectation that the Group as a whole have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the half year financial statements. In assessing whether the going concern basis is appropriate, the Directors have considered the information contained in the financial statements, the latest business plan profit forecasts and estimated forecast solvency of Partnership Life Assurance Company Limited (PLACL), the main regulated subsidiary of the Group. These forecasts have been subject to sensitivity tests and the Directors are satisfied that the Group and Company have adequate resources to continue in operational existence for the foreseeable future.

### **3. Significant accounting policies**

#### **Insurance contracts**

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

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

#### **Premiums**

Premiums are recognised in the accounting period in which an insurance contract is commenced, 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.

## **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 within the total claims and expenses line in the Consolidated Statement of Comprehensive Income 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.

## **Insurance liabilities**

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 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.

## **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.

## **Acquisition costs**

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

## **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.

### **Investment income & expenses**

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

Expenses and charges are included on an accruals basis.

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

### **Share-based payments**

#### *Equity-settled transactions*

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. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 9. 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 subsequent reporting periods, 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.

### **Ordinary share capital**

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

### **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.

### **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.

### **Property, plant & 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	20%
Office Refit	20% to 50%

### **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 reviewed 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.

### **Other intangible assets**

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

### **Impairment of tangible and intangible assets excluding goodwill**

The carrying amounts of tangible and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable and at least at each balance sheet date. An impairment loss is recognised in the 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, to which the asset belongs.

### **Development costs and intangible assets**

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. Computer software development costs with a definite useful life are amortised using the straight line method over 3 years. These assets are tested for impairment annually.

## **Investments 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.

## **Financial instruments**

The Group classifies its financial investments, loans secured by mortgages, derivative financial instruments and other financial liabilities 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 used as the Group's strategy is to manage its financial instruments 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.

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 re-measured 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.

### **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.

### **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 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.

### **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 re-measured 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.

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

### **Subordinated debt**

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

### **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.

## **Derecognition of financial liabilities**

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.

## **Taxation**

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.

## **Operating segments**

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.

## **Adoption of new and revised standards**

- a) Below is a list of new standards and changes to existing standards that have been issued by the International Accounting Standards Board (IASB) which are effective 1 January 2013, which are relevant to the Group's operations:

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. The adoption of this amendment has not affected the amount reported, or the disclosure and presentation of information in this document but may impact the accounting for future transactions and arrangements.

Amendments to IFRS 7 '*Offsetting Financial Assets and Financial Liabilities*' – the amendments to IFRS 7 require disclosure about rights to set-off financial instruments and related arrangements. The disclosures would provide users with information that is useful in evaluating

the effect of netting arrangements on the Group's financial position. These disclosures are as set out in note 13.

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 retrospectively. 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, some of which have been incorporated in the revisions to IAS 34, requiring disclosure in the interim condensed financial statements. These disclosures are as set out in note 13.

Amendments to IAS 34 '*Interim Financial Reporting*' – this amendment clarifies the requirements in IAS 34 relating to segmental information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 "Operating Segments". The adoption of this amendment has not affected the amount reported, or the disclosure and presentation of information in this document but may impact the accounting for future transactions and arrangements.

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

<b>Standard/ Interpretation</b>	<b>Content/ amendment</b>	<b>Applicable for financial periods beginning on or after</b>
IAS 27	Separate financial statements	1 January 2014
IAS 28	Associates and joint ventures	1 January 2014
IFRS 10	Consolidated financial statements	1 January 2014
IFRS 11	Joint arrangements	1 January 2014
IFRS 12	Disclosures of interests in other entities	1 January 2014

#### **4. Segmental analysis**

The segmental disclosures required under IFRS are based on operating segments that 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. Information is provided to the chief operating decision makers in the Group, being 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*'.

Further, New Business revenue is also reported to the chief operating decision makers of the Group. 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 profit measure used by the Group 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. 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/ (loss) 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 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

	Half year ended 30 June 2013	Half year ended 30 June 2012	Year ended 31 December 2012
Cash	0.5%	0.5%	0.5%
Gilts	3.0%	3.0%	3.0%
Corporate Bonds	4.5%	4.5%	4.5%

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

	Half year ended 30 June 2013	Half year ended 30 June 2012	Year ended 31 December 2012
	£000's	£000's	£000's
New business operating profit	38,162	44,759	93,871
In-force operating profit/ (loss)	17,966	(1,398)	14,263
Long-term expected return on surplus assets	3,136	2,025	3,997
<b>Operating profit</b>	<b>59,264</b>	<b>45,386</b>	<b>112,131</b>
Investment variances	3,158	(12,611)	(3,289)
Non-recurring expenditure	(28,517)	(840)	(5,735)
Other losses	(664)	(346)	(1,156)
Interest on borrowings	(24,679)	(14,142)	(34,472)
<b>Profit from continuing operations before tax</b>	<b>8,562</b>	<b>17,447</b>	<b>67,479</b>

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.

The non-recurring expenditure primarily related to:

- £15.6m of expenses in respect of the Group's restructuring and initial public offering ("IPO") (see note 11) (30 June 2012: nil, 31 December 2012: £2.2m);

- £8.4m of expenses related to the Group's staff share option plan which vested in full as a result of the IPO (see note 9) (30 June 2012: nil, 31 December 2012: £1.5m);
- £1.4m of employer's national insurance costs associated with the vesting of the Employee Share Option Plan (ESOP) (30 June 2012: nil, 31 December 2012: nil); and
- £3.1m related to the Group's expenditure on regulatory projects, such as the necessary system and process developments required to comply with the proposed Solvency II capital regime (30 June 2012: £0.8m: 31 December 2012: £2.0m).

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

#### b) Segmental analysis of new business revenue by target market

	Half year ended 30 June 2013	Half year ended 30 June 2012	Year ended 31 December 2012
<b>Single Premium Equivalent:</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Retirement	601,493	518,322	1,167,537
Care	28,097	45,442	94,362
Protection	1,797	1,595	2,738
	<b>631,387</b>	<b>565,359</b>	<b>1,264,637</b>

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

	Half year ended 30 June 2013	Half year ended 30 June 2012	Year ended 31 December 2012
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
<b>Total Single Premium Equivalent</b>	631,387	565,359	1,264,637
Adjustment in respect of regular premium business	(66)	132	-
Premiums received in respect of Equity Release longevity insurance	-	1,022	2,522
Premiums arising from change to contract terms in 2012	(45,399)	-	109,580
Re-insurance premiums received	43	-	91,269
<b>Gross premiums written</b>	<b>585,965</b>	<b>566,513</b>	<b>1,468,008</b>

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 the premium was recognised in the second half of 2012 that would otherwise have been recognised in the first half of 2013 and £64.2m of premium was recognised in the first half of 2013 that would otherwise have been recognised after 30 June 2013. Therefore the overall impact is a £45.4m decrease in the gross written premium in the first half of 2013.

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



	Half year ended 30 June 2013	Half year ended 30 June 2012	Year ended 31 December 2012
	£000's	£000's	£000's
Retirement annuity	556,094	519,343	1,277,117
Care annuity	28,165	45,443	94,508
Protection life assurance	1,663	1,727	3,433
Other	43	-	92,950
<b>Total gross premiums written</b>	<b>585,965</b>	<b>566,513</b>	<b>1,468,008</b>

## 5. Results for the period

As described in Note 4c above, the change to contract terms resulted in a reduction in gross written premiums by £45.4m in the first half of 2013 than it would otherwise have been if these changes had not been made.

Outward reinsurance premium increased due to a significant reinsurance treaty being restructured from a longevity swap treaty to a quota-share treaty during 2012 and also due to an increase in gross premiums written for reinsured business. The restructure results in a change of similar magnitude in reinsurers' share of insurance liabilities to reflect that an increased share of claims paid will be recovered from reinsurers over the life of the policies covered.

The regulatory changes introduced by the Retail Distribution Review in December 2012 have prompted an increase in adviser fees paid directly by policyholders to their financial advisors and a reduction in commission paid by the Group and reported in acquisition costs.

Net investment income comprises of £33.9m of interest receivable, £4.9m of unrealised gains and £7.2m of realised losses. The comparable amounts for the period to 30 June 2012 were £23.4m of interest receivable, £23.0m of unrealised gains and £9.5m of realised gains respectively.

Other operating expenses includes £28.5m of non-recurring expenditure (30 June 2012: £0.8m, 31 December 2012: £5.7m) which is detailed in note 4a above.

On 21 August 2012, £50m of additional loan notes were issued to the Fourth Cinven Fund, the ultimate parent company of the Group at that point in time. In addition, a £70m bank loan was also taken out and a subordinated bank loan with a principal of £16m was repaid. These additional borrowings have contributed to an increase in the interest incurred in the first half of 2013 as compared to the first half of 2012. On 12 June 2013, the £50m loan notes were converted into ordinary shares in the Company (see note 11). The £70m bank loan was repaid in August 2013 (see note 17).

## 6. Income tax charge

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% (30 June 2012: 24.5%, 31 December 2012: 24.5%), as follows:

	Half year ended 30 June 2013	Half year ended 30 June 2012		Year ended 31 December 2012	
	Continuing £000's	Discontinued £000's	Continuing £000's	Discontinued £000's	Continuing £000's
Current taxation:					
Tax charge for the period	5,155	-	4,584	-	17,555
Adjustment in respect of prior periods	24	-	-	-	(299)
	5,179	-	4,584	-	17,256
Deferred taxation:					
Tax charge/(credit) for the period	35	-	130	-	(11)
<b>Net taxation charge</b>	<b>5,214</b>	<b>-</b>	<b>4,714</b>	<b>-</b>	<b>17,245</b>

The Group effective tax rate for the half year ended 30 June 2013 is higher than the average UK corporation tax rate as a large proportion of the non-recurring expenditure relating to the IPO and Global Offer is disallowed for tax purposes.

	Half year ended 30 June 2013	Year ended 31 December 2012
	£000's	£000's
Unutilised tax losses	21,401	21,410
Unrecognised deferred tax assets	4,498	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 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 unutilised tax losses relate to certain group entities and are only available to offset against taxable profits in those entities. No deferred tax asset is recognised for any of these losses because the Group does not expect to be able to utilise them.

## 7. Dividends

No dividends were paid during the six months ended 30 June 2013 (30 June 2012: nil, 31 December 2012: nil).

## 8. Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

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:

	Half year ended 30 June 2013	Half year ended 30 June 2012	Year ended 31 December 2012
	£000's	£000's	£000's
Profit for the year	3,348	12,733	50,206
Less non controlling interests	13	(7)	(13)
Profit attributable to equity holders of the parent	3,361	12,726	50,193
Effect of dilutive potential ordinary shares:			
Share options	-	-	-
Diluted profit attributable to equity holders of the parent	3,361	12,726	50,193

All of PAGH's A, B and C shares (see note 11) were exchanged for PAG 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 PAGH shares had occurred at the beginning of the comparative period.

	Half year ended 30 June 2013	Half year ended 30 June 2012	Year ended 31 December 2012
	No.	No.	No.
Basic weighted average number of shares	291,523,583	279,527,196	279,527,196
Effect of dilutive potential ordinary shares:			
Share options	2,446,592	2,232,605	2,133,025
Diluted weighted average number of shares	293,970,175	281,759,801	281,660,221

The options granted by the PAGH 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 9, 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.

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. Share-based payments

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

	Half year ended 30 June 2013	Half year ended 30 June 2012	Year ended 31 December 2012
	£000's	£000's	£000's
Expense arising from equity-settled share based payment transactions			
Employee Share Option Plan (ESOP)	8,378	-	1,500
Long Term Incentive Plan (LTIP)	38	-	-
Deferred Share Bonus Plan (DSBP)	177	-	-
Share Incentive Plan (SIP)	8	-	-
	8,601	-	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 PAGH, 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 30 June 2013 is £8.4m (£6.1m net of tax) (30 June 2012: nil, 31 December: £1.5m).

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 PAGH EBT (see note 10 below).

There are no outstanding options under the ESOP as at 30 June 2013.

Following admission, the Group has implemented the following employee share-based plans:

### ii) Long Term Incentive Plan (LTIP)

The Group has 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 per cent 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 ending 31 December 2012 by 33.1 per cent, 10 per cent of the 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 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 per cent of the LTIP award will occur for median performance and the maximum 50 per cent at upper quartile performance or above, with straight line vesting in between these points.

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 awarded and the expense charge is recognised over the course of the vesting period.

At 30 June 2013 there were 1,248,636 awards in issue and a charge of £38,000 has been recognised in the Consolidated Statement of Comprehensive Income with a corresponding increase in equity in the Consolidated Statement of Financial Position.

### **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 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.

The share element of this bonus awards are accounted for as equity-settled schemes. The fair value of this award is 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 vesting period.

A charge of £177,000 has been recognised in the Consolidated Statement of Comprehensive Income in respect of these schemes for the six month period to 30 June 2013 with a corresponding increase in equity in the Consolidated Statement of Financial Position.

### **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 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.

A charge of £8,000 has been recognised in the Consolidated Statement of Comprehensive Income in respect of this scheme for the six month period to 30 June 2013 with a corresponding increase in equity in the Consolidated Statement of Financial Position.

#### 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 £250 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.

As the scheme was not in place at 30 June 2013, no amount has been recognised in these financial statements in respect of this scheme.

### 10. Share capital

On 12 June 2013, immediately prior to admission on the London Stock Exchange, the Company acquired a 100% shareholding in PAGH, the top holding company of the Group at that point in time.

The allocated and issued share capital of PAGH and PAG plc, the top holding companies of the Group as at 31 December 2012 and 30 June 2013 respectively are detailed below:

	At 31 December 2012	
	Share capital £000's	Share premium £000's
<b>The allotted and issued share capital of the PAGH is:</b>		
'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	-
	<b>36</b>	<b>182</b>

In the year to 31 December 2012,

- 2,834 ordinary D shares of PAGH of £1 each were issued at par for cash;
- the A, B and C ordinary shares of PAGH were converted into new A, B and C ordinary shares of £0.01 each and new deferred shares of £0.99 each;
- PAGH 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 11, immediately prior to admission on 12 June 2013, all of the A, B and C ordinary shares in PAGH 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 PAGH as a group reconstruction as described under the UK GAAP accounting standard, Financial Reporting Standard 6, 'Acquisitions and Mergers' (note 2). In addition, the Capital Redemption Reserve was transferred to this Merger Reserve as part of the same transaction.

	At 30 June 2013		
	No of shares	Share Capital	Share Premium
		£'000s	£'000s
<b>The allotted and issued share capital of PAG plc:</b>			
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 PAGH for ordinary shares in PAG 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)
<b>As at 30 June 2013, ordinary shares of £0.10 each</b>	<b>399,999,971</b>	<b>40,000</b>	<b>435,249</b>

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 the Global Offer, and as a result of a number of steps undertaken prior to admission described in note 11 below, 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 PAGH/PAG plc employee trusts

	Half year ended 30 June 2013	Year ended 31 December 2012
	£000's	£000's
Shares held by the employee trust - PAGH trust	-	33
New employee benefit trust	58	-

Prior to the Global Offer, the PAGH Employee Benefit trust ("PAGH 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 PAGH held by the EBT were exchanged for £283,000 of ordinary shares in PAG 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 period to 30 June 2013, £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 30 June 2013 was 136,884 (31 December 2012: PAGH trust: 33,000).

## 11. Group Reorganisation and Global Offer

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 (“PAGF”), 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 12);
- the C loan notes, previously issued by PAGH, 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 12); and
- the A, B, and C ordinary shares in PAGH 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 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 12);
- 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 17) 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 6 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.

## 12. External borrowings

	Half year ended 30 June 2013	Year ended 31 December 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
Due in less than one year		
Bank loan	70,000	-
Less capitalised debt issuance costs on bank loan	(274)	-
Interest payable on bank loan	346	-
	<b>70,072</b>	<b>380,367</b>

The external borrowings due in more than five years comprise the following:

- A and B Loan notes totalling £151,667,000 were issued by PAGF, a Group company, to the Fourth Cinven Fund and other third parties on 5 August 2008. The interest rate on these notes is 12% per annum and is payable at 6 monthly intervals starting on 30 June 2009 at the discretion of the Group. In the event that interest payments are not made, the amounts due accrue 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. During the period to 30 June 2013, prior to admission, the A and B loan notes, together with accrued but unpaid interest, were transferred on a pound-for-pound basis to the Company in exchange for the allotment and issue of 69,212,294 ordinary Shares in the Company which had a value of £266.5m.
- On 21 August 2012, C Loan notes totalling £50.0m were issued by the Group to the Fourth Cinven Funds. The interest rate is fixed at 22% per annum and is payable at 6 monthly intervals starting 30 June 2013. In the event that interest payments are not made, the amounts due begin to accrue interest at the same rate from the date payment was due. During the period to 30 June 2013, the C loan notes together with accrued but unpaid interest, were transferred on a pound-for-pound basis to the Company in exchange for the allotment and issue of 15,397,726 ordinary Shares in the Company which had a value of £59.3m.
- Vendor loan notes totalling £5.0m 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 is fixed at 9% per annum and is payable at 6 monthly intervals starting 30 June 2009. In the event that interest payments are not made, the amounts due begin to accrue interest at the same rate from the date payment was due. During the period to 30 June 2013, the loan notes and interest payable amounting to £7.7m on VLN were settled in full out of the proceeds of the Global Offer.

The external borrowings due in less than one year comprise the following:

- A bank loan of £70m was taken out on 21 August 2012. The bank loan carries a fixed interest rate at LIBOR plus 4% per annum. Debt issuance costs of £1,925,000 were capitalised, of which £1,491,000 was amortised in the period to 30 June 2013 (30 June 2012: nil, 31 December 2012: £160,000). On 21 August 2013, the Group repaid this loan in full (note 17).

The Group hedges its exposure to LIBOR, using an interest rate swap, whereby LIBOR payments are swapped for a fixed interest payment of 0.7% per annum for 2 years from the date the loan was taken. Interest is payable at 3 monthly instalments, in advance, starting 21 November 2012. Effective 21 June 2013, this interest rate swap arrangement was terminated.

### **13. Financial instruments - fair value disclosures**

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);



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 30 June 2013 and 31 December 2012.

	Level 1 £000's	Level 2 £000's	Level 3 £000's	Total £000's
<b>At 30 June 2013</b>				
Financial investments (a)	2,964,894	-	4,126	2,969,020
Loans secured by mortgages (b)	-	-	512,406	512,406
Derivative assets (c)	-	28,472	-	28,472
<b>Total financial assets held at fair value</b>	<b>2,964,894</b>	<b>28,472</b>	<b>516,532</b>	<b>3,509,898</b>
Payable arising from reinsurance contracts (d)	-	-	1,932,084	1,932,084
Derivative liabilities (c)	-	38,976	-	38,976
<b>Total financial liabilities held at fair value</b>	<b>-</b>	<b>38,976</b>	<b>1,932,084</b>	<b>1,971,060</b>
<b>At 31 December 2012</b>				
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
<b>Total financial assets held at fair value</b>	<b>2,645,997</b>	<b>34,907</b>	<b>478,097</b>	<b>3,159,001</b>
Payable arising from reinsurance contracts (d)	-	-	1,728,998	1,728,998
Derivative liabilities (c)	-	49,767	-	49,767
<b>Total financial liabilities held at fair value</b>	<b>-</b>	<b>49,767</b>	<b>1,728,998</b>	<b>1,778,765</b>

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 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 30 June 2013.

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

	Payables arising out of reinsurance contracts £000's	Commodity Trade Finance Loans £000's	Loans secured by mortgages £000's
At 1 January 2013	(1,728,998)	-	478,097
Loans (received)/ advanced	(366,567)	4,007	58,184
Total (losses)/ gains in Consolidated Statement of Comprehensive Income excluding reinsurance restructure	(105,588)	119	(35,818)
Redemptions made/ (received)	306,401	-	(9,736)
(Interest payable accrued)/ interest receivable accrued	(37,332)	-	21,679
<b>At 30 June 2013</b>	<b>(1,932,084)</b>	<b>4,126</b>	<b>512,406</b>

	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
<b>At 31 December 2012</b>	<b>(1,728,998)</b>	<b>-</b>	<b>478,097</b>

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 30 June 2013 are £105.6m, £118.3m and (£14.1m) respectively (31 December 2012: (£40.2m), nil and £27.2m respectively). These unrealised gains and losses are included within net investment income in the Consolidated Statement of Comprehensive Income.

### 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 30 June 2013 and 31 December 2012, 100% of the values provided were based on quoted market prices that are observable for the asset or liability.

The fair value of the commodity trade finance ("CTF") loans is valued at the principal amount borrowed plus accrued interest from the date of acquisition. 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.

**Interest rate:** The interest rate used in deriving the fair value of the CTF loans as at 30 June 2013 was 9.1% 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 estimates, it is the discount rate and no-negative equity guarantee assumptions that are considered to impact the fair value significantly.

**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 30 June 2013 was 6.27% (31 December 2012: 5.89%).

**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 30 June 2013 were 5.5% (31 December 2012: 5.5%) and 13% (31 December 2012: 13% respectively). The over-valuation assumption used as at 30 June 2013 was 19% (31 December 2012: 17%). The value of the no-negative equity guarantee as at 30 June 2013 was £30.3m (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 30 June 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 historic Libor rates, an applicable zero coupon interest rate swap curve to derive future cashflows ('forward curve') and an applicable zero coupon interest rate swap curve to discount future cashflows ('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 historic 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 30 June 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.

**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 30 June 2013 for Retirement and Care was 4.95% and 1.97% respectively (31 December 2012: 4.53% and 2.45% respectively).

#### 14. Contingencies and commitments

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

	Half year ended 30 June 2013	Year ended 31 December 2012
	£000's	£000's
Leases expiring not later than one year	2,950	2,859
Leases expiring between one and five years	8,419	10,489
Leases expiring in more than five years	18,963	13,246
	<b>30,332</b>	<b>26,594</b>

#### 15. 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 11, the Fourth Cinven Fund was the ultimate shareholder of the Group.

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 above and the outstanding balances at the end of each reporting period are disclosed in the table below:

	Half year ended 30 June 2013	Year ended 31 December 2012
	£000's	£000's
A and B Loan notes	-	232,702
C Loan notes	-	53,978
	-	<b>286,680</b>

During the period to 30 June 2013, as described in note 12 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:

	Half year ended 30 June 2013	Half year ended 30 June 2012	Year ended 31 December 2012
	£000's	£000's	£000's
Interest accrued on loan notes	18,629	12,388	29,640
Monitoring fee payments	216	225	450
	<b>18,845</b>	<b>12,613</b>	<b>30,090</b>

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.

## b) Remuneration of key management personnel

Key management personnel consist of the directors of the Company. The key management personnel changed during the period to 30 June 2013 reflecting the group reorganisation. The remuneration of the Directors, who are the key management personnel of the Group, is set out below:

	Half year ended 30 June 2013	Half year ended 30 June 2012	Year ended 31 December 2012
	£000's	£000's	£000's
Short-term employee benefits	1,139	447	2,129
Post-employment benefits	47	44	114
	<b>1,186</b>	<b>491</b>	<b>2,243</b>

## 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:

	Half year ended 30 June 2013	Year ended 31 December 2012
	£000's	£000's
Amounts owed to Directors:		
B loan notes	-	12,216
Vendor loan notes	-	878
	-	<b>13,094</b>
Amounts owed by Directors:		
Loan advances	289	378
	<b>289</b>	<b>378</b>

The terms of the B and Vendor loan notes are detailed in note 12. 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:

	Half year ended 30 June 2013	Half year ended 30 June 2012	Year ended 31 December 2012
	£000's	£000's	£000's
Interest accrued on B and Vendor loan notes	663	686	1,421
Interest accrued on Directors' loan advances	8	-	-
	<b>671</b>	<b>686</b>	<b>1,421</b>

## 16. Note to the cash flow statement

	Half year ended 30 June 2013	Half year ended 30 June 2012	Year ended 31 December 2012
	£000's	£000's	£000's
<b>Profit before income tax including discontinued operations</b>	8,562	17,447	67,451
Non-cash movements in profit before income tax			
Fair value (gains)/ losses and (interest accrued) on financial assets	43,504	(112,473)	(360,606)
Fair value (gains)/ losses and interest accrued on financial liabilities	(82,280)	66,024	97,758
Depreciation of property, plant and equipment	838	450	1,037
Amortisation of intangible assets	2,866	600	1,263
Interest accrued on subordinated debt	-	328	496
Share of loss of joint venture accounted using the equity method	10	85	40
Share-based payment charge	8,601	-	1,500
Amortisation of subordinated debt issuance costs	-	-	75
Amortisation of capitalised loan note debt issuance costs	2,519	48	97
Amortisation of capitalised bank loan debt issuance costs	1,490	-	160
Interest accrued on loan notes	19,125	11,149	32,519
Interest accrued on bank loan	1,545	-	1,199
Net (investment) in financial assets	(394,401)	(303,748)	(1,048,017)
Net receipt of financial liabilities	274,575	79,084	837,424
(Increase) in reinsurance assets	(202,880)	(233,265)	(1,059,665)
Decrease/ (increase) in insurance and other receivables excluding Corporation Tax	33,169	(1,175)	(83,727)
Increase in prepayments and accrued income	(9,338)	(13,780)	(26,897)
Increase in insurance liabilities	282,365	521,342	1,564,761
(Decrease) in insurance and other payables	(20,632)	(14,795)	18,138
Increase in other taxes and social security payables	6,165	653	1,165
<b>Cash (used in)/ from operations</b>	<b>(24,197)</b>	<b>17,974</b>	<b>46,171</b>

## 17. Post balance sheet events

### i) Corporate tax rate

The Finance Act 2013 received Royal Assent in July 2013. The most significant impact on the Group in this regard is the revision to corporate tax rates. Finance Act 2013 included a further tax rate reduction to 21% effective from 1 April 2014 and to 20% effective from 1 April 2015. The impact to the Group's net assets of this reduction is estimated to be negligible.

### ii) Equity Release purchase

On 16 July 2013, the Group completed a significant equity release bulk deal purchase with a face value of £207m.

**iii) Repayment of the Group's external £70m Lloyds facility**

On 21 August 2013, the Group repaid in full its £70m external loan facility with Lloyds Banking Group. The loan was initially taken out on 21 August 2012 and carried a fixed interest rate at LIBOR plus 4% per annum.

**iv) 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 £250 per month over a three or five year period. The amount of ordinary shares of PAG plc over which the option is granted has been determined at grant date to reflect the amount that each employee has agreed to save under the Share Save contract. A total of 508,261 shares have been granted under this scheme at an option price of 357 pence per share.

## **Statement of Directors' Responsibilities in respect of the Market Consistent Embedded Value ('MCEV') basis**

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The MCEV methodology adopted by the Group is in accordance with the CFO Forum MCEV principles (© Stitching CFO Forum foundation 2008) published in October 2009. When compliance with the MCEV Principles is stated, those principles require the Directors to prepare supplementary information in accordance with the methodology contained in the MCEV Principles and to disclose and explain any non-compliance in the guidance included in the MCEV Principles.

In preparing the MCEV supplementary information, the Directors have:

- determined assumptions on a realistic basis, having regard to past, current and expected future experience and to relevant external data, and then applied them consistently;
- made estimates that are reasonable and consistent;
- provided additional disclosure when compliance with the specific requirements of the MCEV principles is insufficient to enable users to understand the impact of particular transactions, other events and conditions and the Group's financial position and financial performance; and
- described the basis on which business that is non-covered has been included in the supplementary information, including any material departures from the accounting framework applicable to the Group condensed consolidated IFRS financial statements.

By order of the Board

Steve Groves  
Chief Executive Officer  
London  
28 August 2013

David Richardson  
Chief Financial Officer

Note:

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.



# **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**

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We have been engaged by the Company to review the Consolidated Partnership Group Market Consistent Embedded Value supplementary information (MCEV supplementary information) in the half-year financial report for the six months ended 30 June 2013 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 6. We have read the other information contained in the half-year financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the MCEV supplementary information.

We have reported separately on the condensed financial statements of Partnership Assurance Group plc for the six months ended 30 June 2013. The information contained in the MCEV supplementary information should be read in conjunction with the condensed set of financial statements prepared on an IFRS basis. This information is described within the Partnership Assurance Group plc condensed set of financial statements in the half-year financial report as having been reviewed.

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 anything has come to our attention that causes us to believe that the MCEV supplementary information for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with 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.

Our 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 review 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's Directors, for our review work, for this report, or for the conclusions we have formed.

## **Directors' responsibilities**

The MCEV supplementary information is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the MCEV supplementary information in accordance with 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.

## **Our responsibility**

Our responsibility in relation to the MCEV supplementary information is to express to the Company a conclusion on the MCEV supplementary information based on our review.

## **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the MCEV supplementary information for the six months ended 30 June 2013 has not been properly prepared in accordance with the MCEV principles using the methodology and assumptions set out in notes 1 and 2.

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London,  
United Kingdom  
28 August 2013

## MCEV FINANCIAL INFORMATION

### Group MCEV analysis of Earnings (net of tax)

For the half year ended 30 June 2013

	Note	Half year ended 30 June 2013			Half year ended 30 June 2012	Year ended 31 December 2012
		Covered business MCEV	Non covered business IFRS	Total Group MCEV	Total Group MCEV	Total Group MCEV
		£000's	£000's	£000's	£000's	£000's
<b>Opening Group MCEV</b>		383,600	(373,710)	<b>9,890</b>	(58,554)	(58,554)
Opening adjustments		-	-	-	-	-
<b>Adjusted opening Group MCEV</b>		383,600	(373,710)	<b>9,890</b>	(58,554)	(58,554)
Operating MCEV earnings	3	54,028	-	<b>54,028</b>	47,196	120,433
Non-operating MCEV earnings	3	(5,280)	(50,363)	<b>(55,643)</b>	(23,502)	(40,562)
<b>Total MCEV earnings</b>		48,748	(50,363)	<b>(1,616)</b>	23,694	79,871
Other movements in IFRS net equity	4	-	455,519	<b>455,519</b>	-	-
Closing adjustments		-	-	-	(319)	(11,427)
<b>Closing Group MCEV</b>		<b>432,348</b>	<b>31,446</b>	<b>463,794</b>	<b>(35,179)</b>	<b>9,890</b>

## Covered business Analysis of Movement in Embedded Value (net of tax)

For the half year ended 30 June 2013

	Half year ended 30 June 2013				Half year ended 30 June 2012	Year ended 31 December 2012	
	Note	VIF £000's	Required capital £000's	Free surplus £000's	MCEV £000's	MCEV £000's	MCEV £000's
<b>Opening MCEV</b>		56,814	287,078	39,708	<b>383,600</b>	166,273	166,273
Opening adjustments		-	-	-	-	-	-
<b>Adjusted opening MCEV</b>		56,814	287,078	39,708	<b>383,600</b>	166,273	166,273
New business value	3	6,177	52,365	(17,508)	<b>41,034</b>	45,099	94,800
Expected existing business contribution (reference rate)	3	1,312	-	-	<b>1,312</b>	1,209	3,504
Transfers from VIF and required capital to free surplus		(3,589)	(7,836)	13,961	<b>2,536</b>	1,506	2,306
Experience variances	3	(1,035)	7	625	<b>(403)</b>	(690)	(178)
Assumption changes	3	(3,873)	(4,676)	15,069	<b>6,520</b>	(383)	(599)
Other operating variances	3	851	(38)	2,216	<b>3,029</b>	455	20,570
<b>Operating MCEV earnings</b>		<b>(157)</b>	<b>39,822</b>	<b>14,363</b>	<b>54,028</b>	<b>47,196</b>	<b>120,403</b>
Economic variances	3	(7,384)	13,306	(10,895)	<b>(4,973)</b>	(9,572)	(4,551)
Other non-operating variances	3	2,566	-	(2,873)	<b>(307)</b>	334	784
<b>Total MCEV earnings</b>		<b>(4,974)</b>	<b>53,128</b>	<b>595</b>	<b>48,748</b>	<b>37,958</b>	<b>116,636</b>
Closing adjustments		-	-	-	-	-	100,691
<b>Closing MCEV</b>		<b>51,840</b>	<b>340,206</b>	<b>40,303</b>	<b>432,348</b>	<b>204,231</b>	<b>383,600</b>

## Reconciliation of Group IFRS net assets to MCEV

As at 30 June 2013

	Half year ended 30 June 2013			Year ended 31 December 2012		
	Covered Business Adjusted Net Worth £000's	Non Covered Business Adjusted Net Worth £000's	Group £000's	Covered Business Adjusted Net Worth £000's	Non Covered Business Adjusted Net Worth £000's	Group £000's
<b>Group Net Assets as reported under IFRS</b>	<b>382,841</b>	<b>158,421</b>	<b>541,262</b>	<b>329,118</b>	<b>(246,735)</b>	<b>82,383</b>
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)
<b>MCEV Net Worth</b>	<b>380,509</b>	<b>31,446</b>	<b>411,955</b>	<b>326,786</b>	<b>(373,710)</b>	<b>(46,924)</b>
VIF	51,839	-	51,839	56,814	-	56,814
<b>MCEV (net of taxation)</b>	<b>432,348</b>	<b>31,446</b>	<b>463,794</b>	<b>383,600</b>	<b>(373,710)</b>	<b>9,890</b>

# Notes to the MCEV financial statements for the period ended 30 June 2013

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## 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 6 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 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.

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 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.

#### **d) Cost of residual non-hedgeable risks (CoNHR)**

The cost of residual non-hedgeable risks (CoNHR) 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 CoNHR includes an allowance for non-modelled non-hedgeable risks. For ease of comparison the CoNHR 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 and equity release 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.

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:

	<u>Liquidity premium</u>
30-Jun-13	205 bps
30-Jun-12	308 bps
31-Dec-12	217 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.

The weighted average liquidity premiums used for the new business MCEV calculations are as follows:



	<u>Liquidity premium</u>
30-Jun-13	187 bps
30-Jun-12	302 bps
31-Dec-12	270 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.

	<u>Swap curves</u>						
	<u>6 months</u>	<u>1 year</u>	<u>2 years</u>	<u>5 years</u>	<u>10 years</u>	<u>15 years</u>	<u>20 years</u>
30-Jun-13	0.67%	0.67%	0.80%	1.57%	2.64%	3.13%	3.37%
30-Jun-12	1.06%	1.06%	0.98%	1.26%	2.16%	2.67%	2.96%
31-Dec-12	0.67%	0.67%	0.71%	1.02%	1.92%	2.57%	2.57%

## 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.

Exceptional 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 amounted to £3.1m for the 6 month period to 30 June 2013 (30 June 2012: £0.8m, 31 December 2012: £2.4m in relation to Solvency II).

Best estimate expense inflation as at 30 June 2013 was 4.7% p.a. (30 June 2012: 4.5%, 31 December 2012: 4.3%)

## Taxation

The current and future tax rates are those corporation tax rates as published by HM Treasury and take into account both taxes enacted by legislation and those disclosed in budget announcements. Tax losses in Group companies, resulting mainly from accrued interest on debt, are fully relieved to PLACL resulting in a reduction in the effective tax rate. The effective tax rate for the 6 months to 30 June 2013 was 8.4% (30 June 2012: 14.4%, 31 December 2012: 16.2%).

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 corporation tax rates used were as follows:

	Blended corporation tax rate		
	Half Year ended 30 June 2013	Half Year ended 30 June 2012	Year ended 31 December 2012
2011	26.50%	26.50%	26.50%
2012	24.50%	24.50%	24.50%
2013	23.25%	23.25%	23.25%
2014	21.50%	22.25%	21.50%
2015	20.25%	22.00%	21.00%
2016+	20.00%	22.00%	21.00%

### Volatilities and correlations

Residential property volatility is the only direct volatility input to the MCEV calculations and is used in the evaluation of the “No Negative Equity Guarantee (“NNEG”) on Equity release assets. As at 30 June 2013 the assumption was set to 12% (30 June 2012: 12%, 31 December 2012: 12%).

Correlations between the risks inherent in the business are used for the calculation of the CoNHR 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 1.2% (30 June 2012: 1.0%, 31 December 2012: 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 186% of the capital resources requirement (30 June 2012: 120%, 31 December 2012: 176%). 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 1.1% as at 30 June 2013 (30 June 2012: 1.3%, 31 December 2012: 1.1%).

## 3. Commentary on the analysis of movement in embedded value (net of tax)

### Covered business

The key driver of MCEV earnings was the value of new business written over the period.

Even though new business volumes have grown by 12%, the new business value has fallen compared to first half of 2012, primarily due to an increase in the Group’s expense base resulting from investment in the business in the second half of 2012 and first half of 2013.

Expected existing business contribution increased in the period as a result of the continued growth in the portfolio which was partially offset by a reduction in the opening expected returns on the portfolio.

Experience variances in the period are negligible in aggregate and there were no significant individual components.

The changes in assumptions relate predominantly to expense assumption changes due to a reduction in per policy expenses and mortality assumption changes.

Other operating variances largely consist of expected long-term return on excess assets.

The negative economic variance is immaterial in the context of the investment portfolio and is largely driven by an increase in interest rates over the period.

Non-operating variance in free surplus consists of exceptional expenses in respect of the Group's expenditure on regulatory projects, such as the necessary system and process developments required to comply with the proposed Solvency II capital regime. The VIF impact represents benefit of the reduction of corporation tax changes to 20% effective from 1 April 2015.

### **Non-covered business**

The non-operating MCEV loss principally comprises transaction costs relating to the IPO and Global Offer and interest payable on loan notes and bank borrowings.

## **4. Commentary on the movements in IFRS net equity (net of tax)**

The other movements in IFRS net equity are predominantly as a direct result of the "Global Offer", the admission of the Company to the London Stock Exchange on the 12 June 2013 and certain internal reorganisation steps undertaken in the lead up to these transactions. These have resulted in an increase in the net worth of £455.5m.

Immediately prior to admission on 12 June 2013:

- the A and B loan notes, previously held by PAG Finance Limited ("PAGF"), 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 resulting in an increase of net worth of £266.5m; and
- the C loan notes, previously held by PAGH, 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 resulting in an increase in net worth of £59.3m.

Pursuant to the Global Offer and following admission on 12 June 2013:

- the Company issued 32,467,532 new ordinary shares raising £125.0m; and
- the Company issued 51,948 new ordinary shares to senior management and 12,025 new ordinary shares to the employee benefit trust raising £246,000.

£4.0m of transactions costs relating to the Global Offer in the 6 months period to 30 June 2013 are directly associated with the issue of new shares and have therefore been set off against share premium associated with those shares resulting in a reduction in net worth by that amount. In addition, following admission on the London Stock Exchange, the awards under the ESOP vested in full and were exercised immediately. This resulted in an increase in net worth of £8.5m as a result the utilisation of the share based payment reserves.

## 5. Covered business analysis of movement in gross of tax embedded value

Covered business is the PLACL legal entity which holds all the long-term insurance business within the Group. The analysis of movement for covered business is shown in the table below. All earnings are shown on a gross of tax basis with attributed tax shown separately.

	Half year ended 30 June 2013			Half year ended 30 June 2012	Year ended 31 December 2012	
	VIF £000's	Required capital £000's	Free surplus £000's	MCEV £000's	MCEV £000's	MCEV £000's
<b>Opening MCEV (net of tax)</b>	<b>56,814</b>	<b>287,078</b>	<b>39,708</b>	<b>383,600</b>	<b>166,273</b>	<b>166,273</b>
Tax adjustments	21,711	-	-	21,711	15,451	15,451
<b>Adjusted opening MCEV (gross of tax)</b>	<b>78,525</b>	<b>287,078</b>	<b>39,708</b>	<b>405,311</b>	<b>181,724</b>	<b>181,724</b>
New business value	9,105	52,365	(14,309)	<b>47,161</b>	54,449	116,657
Expected existing business contribution (reference rate)	1,818	-	-	<b>1,818</b>	1,688	4,504
Transfers from VIF and required capital to free surplus	(3,919)	(7,836)	14,523	<b>2,768</b>	1,693	2,741
Experience variances	(1,290)	7	683	<b>(600)</b>	(818)	(278)
Assumption changes	(4,988)	(4,676)	16,023	<b>6,359</b>	(795)	(927)
Other operating variances	973	(38)	2,416	<b>3,351</b>	600	24,453
<b>Operating MCEV earnings</b>	<b>1,699</b>	<b>39,822</b>	<b>19,336</b>	<b>60,857</b>	<b>56,817</b>	<b>147,150</b>
Economic variances	(8,991)	13,306	(10,673)	<b>(6,358)</b>	(10,675)	(4,250)
Other non-operating variances	-	-	(3,139)	<b>(3,139)</b>	(1,168)	(2,914)
<b>Total MCEV earnings</b>	<b>(7,292)</b>	<b>53,128</b>	<b>5,524</b>	<b>51,360</b>	<b>44,974</b>	<b>139,986</b>
Closing adjustments	-	-	-	-	-	100,691
<b>Closing MCEV before tax</b>	<b>71,233</b>	<b>340,206</b>	<b>45,232</b>	<b>456,671</b>	<b>226,698</b>	<b>422,401</b>
<b>Tax</b>	<b>(19,394)</b>	<b>-</b>	<b>(4,929)</b>	<b>(24,323)</b>	<b>(22,467)</b>	<b>(38,801)</b>
<b>Closing MCEV after tax</b>	<b>51,839</b>	<b>340,206</b>	<b>40,303</b>	<b>432,348</b>	<b>204,231</b>	<b>383,600</b>

## 6. 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).

The sensitivity of the embedded value and the value of new business to changes in economic and non-economic assumptions is as follows:

	In force		New business	
	Impact on MCEV	Change in MCEV	Impact on MCEV	Change in MCEV
<b>30 June 2013 Sensitivity</b>	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>%</b>
<b>Embedded Value (Base)</b>	<b>432,348</b>	<b>-</b>	<b>41,034</b>	
Interest rate environment +100 bps	(9,096)	-2%	n/a	n/a
Interest rate environment -100 bps	9,431	2%	n/a	n/a
Swaption implied volatilities + 25%	n/a	n/a	n/a	n/a
Property volatilities +25%	(19,073)	-4%	(1,800)	-4%
Property Values -10%	(11,175)	-3%	n/a	n/a
Lapses -10% (including equity release)	2,390	1%	n/a	n/a
Mortality -5% (annuities)	(17,998)	-4%	(1,744)	-4%
Expenses -10%	6,575	2%	679	2%
Mortality improvements +0.25%	(7,090)	-2%	(960)	-2%
Decrease in liquidity premium 25 bps	(54,854)	-13%	(8,494)	-21%
Required capital set to be 100% of CRR	15,821	4%	2,899	7%

	In force		New business	
	Impact on MCEV	Change in MCEV	Impact on MCEV	Change in MCEV
<b>31 December 2012 Sensitivity</b>	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>%</b>
<b>Embedded Value (Base)</b>	<b>383,600</b>		<b>94,800</b>	
Interest rate environment +100 bps	(7,287)	-2%	n/a	n/a
Interest rate environment -100 bps	7,091	2%	n/a	n/a
Swaption implied volatilities + 25%	n/a	n/a	n/a	n/a
Property volatilities +25%	(14,469)	-4%	(4,200)	-4%
Property Values -10%	(8,241)	-2%	0	0%
Lapses -10% (including equity release)	2,026	1%	0	0%
Mortality -5% (annuities)	(11,419)	-3%	(3,043)	-3%
Expenses -10%	5,629	1%	1,190	1%
Mortality improvements +0.25%	(5,121)	-1%	(1,685)	-2%
Decrease in liquidity premium 25 bps	(47,649)	-12%	(16,113)	-17%
Required capital set to be 100% of CRR	12,755	3%	3,190	3%

#### 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 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, thereby increasing the cost of the “No Negative Equity Guarantee” and the change in liabilities as a result of the consequent change in yield on the equity release asset.

- 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. This equates to an increase in best estimate credit defaults of 34bps per annum for corporate bond holdings.
- The required capital sensitivity is modelled by reducing capital from 186% to 100% of the capital resource requirement. This has no impact on net worth and reduces 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.

# Glossary

“Act”	The Companies Act 2006, as amended
“Admission”	the admission of the Ordinary Shares to the premium listing segment of the Official List and to trading on the London Stock Exchange’s main market for listed securities
“Board”	the board of directors of the Company
“Company”	Partnership Assurance Group plc
“CRR”	capital resources requirement
“DB”	defined benefit pension scheme
“DC”	defined contribution pension scheme
“Directors”	the Executive Directors and the Non-executive Directors of PAG plc
“Economic Capital Coverage Ratio”	the ratio of economic capital surplus over economic capital requirements
“Economic Capital Surplus”	surplus capital of the Group in excess of an assessment of the level of capital that would be required for the Group to withstand the impact of an event that is commensurate with a level of severity of a 1 in 200 year event.
“EEA”	the European Economic Area
“EU”	the European Union
“EU IFRS”	International Financial Reporting Standards, as adopted by the European Union
“FCA”	the Financial Conduct Authority
“Global Offer”	the issue of New Ordinary Shares by the Company and the sale of Existing Ordinary Shares by the Selling Shareholders to institutional investors in the United Kingdom and elsewhere
“Group”	Partnership Assurance Group plc and its subsidiaries and subsidiary undertakings from time to time
“GWP”	gross written premium or gross premiums written, the line item on the Group’s consolidated income statement which reflects the revenue recognised in respect of premiums paid for its policies
“IGD surplus capital resources”	The IGD surplus capital resources is defined by the FCA in the Insurance Groups Directive. It is calculated as the surplus of the available capital resources over the capital resources requirement. It excludes the surplus capital held within the long-term funds.
“INA”	immediate needs annuity, otherwise known as a care annuity, which is designed to provide income for life to fund care costs in return for a one-off premium and is designed for adults requiring immediate financial support with their long-term care costs
“In-force Operating Profit”	profit 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 defaults on investments, expense levels

# Glossary

(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 in 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.

“IPO”	Initial public offering
“Listing Rules”	the listing rules of the FCA made under section 74(4) of the Financial Services and Markets Act (2000)
“Longevity risk”	the risk that an individual will live longer than expected
“Long-term expected return on surplus assets”	the long-term, risk adjusted, expected return on investments 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
“mortality risk”	the risk that an individual will not live as long as expected
“New Business Operating Margin”	the ratio of New Business Operating Profit to New Business Premiums
“New Business Operating Profit”	profit generated from new business completed in the period, calculated using actuarial assumptions applicable at the time the new business was written, utilising a discount rate based upon expected investment yields on investment assets (e.g. cash, gilts, corporate bonds and loans secured by equity release mortgages) used to generate the annuity quotation, net of expenses allocated against new business
“New Business Premiums”	New Business Premiums represent the value, measured as single premium equivalent (“SPE”), of new insurance contracts completed during the reporting period.
“NSA”	annuities which offer individuals with lifestyle or medical factors which are expected to result in shorter life expectancy with superior annuity rates
“Official list”	the Official List of the FCA
“PAGF”	PAG Finance Limited
“PAGH”	PAG Holdings Limited
“PLACL”	Partnership Life Assurance Company Limited
“PRA”	the Prudential Regulation Authority
“RDR”	Retail Distribution Review
Surplus assets”	investments held by the Group that are not required to back insurance liabilities
“SPE”	single premium equivalent, which is calculated as total single premiums plus 10 times annual regular premiums; an industry accepted measure of revenue
“Total Operating Profit”	Total Operating Profit is the sum of New Business Operating



# Glossary

Profit and In-force Operating Profit, together with the long-term expected return from investments held by the Group that are not required to back insurance liabilities (termed “surplus assets”).

“VIF”

“Value of In-Force” represents the current value of future profits expected to emerge from the in-force insurance liabilities