

14 May 2014

## **Partnership Assurance Group plc ('Partnership')**

### **Q1 Interim Management Statement**

Partnership today announces its Interim Management Statement for the period from 1 January 2014 to 13 May 2014, including sales for the three months ended 31 March 2014.

#### **Q1 2014 new business sales and margins**

- New business premiums<sup>(1)</sup> of £254 million, including:
  - £200 million of individual annuities (Q1 2013: £357 million), with the reduction since prior year reflecting the impact of gender neutral pricing and the Retail Distribution Review ('RDR') and the unusually high market share which Partnership achieved in Q1 2013. Minimal impact on Q1 sales as a result of the Budget
  - £34 million of underwritten Defined Benefit ('DB') bulk annuity sales, demonstrating further development of Partnership's market-leading capability in the underwritten DB market (Q1 2013: £2 million)
  - Care annuities and Protection sales unaffected by the Budget proposals at £20 million and £1 million, respectively (Q1 2013: £15 million and £1 million, respectively)

#### **Current trading**

- The Budget has caused significant disruption within Partnership's core market as the industry, advisers and customers digest the implications of the announced pension changes. However, the guaranteed income provided by an annuity was valued by customers prior to the Budget, and it continues to be attractive for many customers
- Of the cases in the pipeline<sup>(2)</sup> at the time of the Budget, after further discussion with their adviser, over 70% of individuals have so far decided to continue with their annuity purchase from Partnership
- Average daily individual annuity quote levels (the most relevant indicator of potential future sales) in the 8 weeks since the Budget remained at approximately 50% of the level seen in the month prior to the Budget
- Partnership has taken immediate action to manage its cost base in the short term, including freezing recruitment, removing contractors where possible and requiring CFO approval for all capital spend. The scalable expense base provides flexibility and can be varied further over time if required to fit the business model and strategy, when the longer term impact of the Budget proposals becomes clear
- While the individual annuity market is disrupted, the new business margin is likely to be reduced by lower levels of new business making a smaller contribution to overheads
- Risk selection and pricing discipline continue to be prioritised over market share growth
- There is no indication that sales of DB, Care annuities or Protection have been impacted by the Budget proposals

## **Financial and capital position**

- There have been no material changes to the Group's financial position during the first quarter
- Estimated economic capital position remains robust at £169 million (FY13: £173 million) with coverage of 154% at 31 March 2014 (FY13: 159%)

## **Outlook**

- Although we have continued to see meaningful levels of quote volumes for individual annuities, it is too early to predict the eventual impact of the Budget on Partnership's individual annuity sales. For example, at this stage, it is unclear how the prospect of many more people shopping around following the introduction of free financial guidance at the point of retirement will offset the impact of a lower proportion of the overall market choosing to annuitise
- Partnership is focused on new product development and innovation in light of the increased flexibility afforded by the Budget announcement. For example, on 12 May, Partnership launched the "Enhanced Choice Annuity", a new enhanced annuity, which provides consumers not only with immediate access to a guaranteed income for life and their tax-free lump sum, but offers them the choice of continuing to benefit from that security or of 'cashing in' their annuity should they have a better option available to them in 12 months' time
- Encouraging pipeline of DB deals suggests growing traction in a potentially material market, although the timing of deal completions continues to be difficult to accurately predict
- Sales of Care annuities and Protection expected to be unaffected by the Budget proposals

## **Steve Groves, Chief Executive Officer, commented:**

"Since the Budget, we have seen quote volumes at approximately 50% of the pre-Budget level, indicating that annuities continue to represent an attractive retirement income option for many customers.

"Partnership's commitment to doing the best for its customers and meeting their retirement income needs has not altered, nor has our customers' need to manage their retirement assets through a highly uncertain future lifetime. The Budget has provided us with more flexibility to innovate, whilst continuing to give our customers the financial security they desire in their retirement. The new "Enhanced Choice Annuity", launched on 12 May, which provides customers with the opportunity to receive a guaranteed income for life but also gives them the option to surrender their policy within the first 12 months, if they wish, is just one example of the ways in which we are using our unique dataset, innovation expertise and agility to help customers in this evolving market.

"I am pleased to report the growing strength of our Defined Benefit proposition, which delivered new business sales of £34 million during Q1. Although the timing and size of future DB deals will be difficult to accurately predict, our market-leading experience and track record in medical underwriting and our relationships with Employee Benefit Consultants who advise Scheme

trustees, mean we are well positioned to bring the benefits of medical underwriting to this potentially material nascent market.

“It is still early days in the post-Budget world, but I am encouraged by the recognition by customers and advisers that the guaranteed income for life provided by our annuities, which typically pay an annuity rate of 6 - 7%, continues to be attractive. This, together with our promising pipeline of medically underwritten DB transactions, and our ability to utilise our unique intellectual property to develop new products to meet evolving customer preferences, allows the Board to be confident that Partnership is able to face the challenges ahead and capitalise on the opportunities presented by this changing market.”

### New business sales by quarter<sup>(3)</sup> (£m)

3 months to:	31-Mar-14	31-Dec-13	30-Sep-13	30-Jun-13	31-Mar-13
<b>Retirement</b>					
Individual annuities <sup>(1)</sup>	200	226	260	233	357
DB bulk annuities	34	49	23	10	2
<b>Total retirement</b>	<b>234</b>	<b>275</b>	<b>283</b>	<b>243</b>	<b>359</b>
Care	20	21	17	13	15
Protection	1	1	1	1	1
<b>Total new business</b>	<b>254</b>	<b>297</b>	<b>300</b>	<b>257</b>	<b>374</b>

### Notes:

- (1) New business sales are Single Premium Equivalent sales completed in the period. These are recorded when funds have been received from the policyholder
- (2) Cases in the pipeline relate to customers who have accepted a quote from Partnership but from whom we are yet to receive funds
- (3) Subject to rounding

### Enquiries

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### Further information

A copy of this announcement is available on Partnership's website [www.partnership-group.com](http://www.partnership-group.com)

A conference call for analysts and investors will take place at 9am (UK time) today.

The dial in number is +44 (0) 20 3059 8125  
Please quote “Partnership” to access the call.

Access to the audiocast, with the facility to ask questions, will also be available via our website.  
A replay will be made available on the website.

The financial information contained in this announcement has not been audited or reviewed by the Group’s auditors.

### **Financial calendar**

22 May 2014	Annual General Meeting (11.30 a.m.)
30 May 2014	Final dividend payment date for the year to 31 December 2013
14 August 2014	2014 Interim Results
12 November 2014	2014 Q3 Interim Management Statement

### **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.