

**Q3 Interim Management Statement
Thursday 16th October 2014**

Steve Groves – Chief Executive Officer

Good morning and thank you everybody for attending Partnership's Q3 Interim Management Statement call at short notice. I'm Steve Groves, CEO of Partnership, and I'm joined here today by David Richardson, our CFO, and Katherine Jones, our Director of Investor Relations. We'll be happy to answer your questions in a few minutes, but first I'd like to take you through the announcement we released this morning.

We have taken the decision to accelerate the release of our Q3 sales numbers this morning as a result of the ongoing disruption to our business, the wide range of market estimates and the difficulty the uncertain environment causes for the market in accurately forecasting our sales.

During Q3 we generated individual retirement annuity sales of £69m, £20m of care annuity sales and £1m of protection sales. Unsurprisingly we continue to see widespread disruption in our core individual retirement annuity market as a result of the recent budget.

At the time of the interim results we indicated results in Q3 were 50% of pre-Budget levels, and that the rate of conversion of these quotes into sales was also lower than pre-Budget levels, reflecting continuing disruption to advice across distribution networks and the deferral of decision making by customers.

The compound effect of lower quotes and conversion rates resulted in total sales of flow business in Q3 well below 50% of pre-Budget sales levels. At this stage there is no obvious catalyst for this behaviour to change prior to the new regulations being implemented next year, and it is possible that deferrals could increase further as we approach April 2015.

Our focus remains on diversifying our business model and positioning it for the new retirement market. We are working hard to develop new products which will meet customer demands in the new world, where we expect the polarisation of annuity and drawdown contracts to be much more blurred.

Our pipeline of potential defined benefit transactions is strong and growing but, as we have always said, completions remain lumpy as Q3 has demonstrated. However, we still expect completion of deals in the pipeline to take place during Q4 2014 and Q1 2015, as previously indicated.

At the half year we also updated you on the opportunities for international expansion. Our discussions with potential partners to deploy Partnership's unique Intellectual Property in the United States are progressing well. And we continue to work through the options to select a market entry approach.

In summary, I expect the market disruption to continue as new regulations are implemented; new products are developed; and advisors get to grips with the evolving retirement options available to customers.

I remain confident that by leveraging our core competencies, we will achieve our long-term goal of delivering a diversified, growth business over time.

Thank you for your attention ladies and gentlemen. I'd now like to move on to the question and answer session.

Question 1

Greig Paterson – KBW

As much as you can say, I suppose we're not really in the fourth quarter, I was wondering at the current run rate what the quote levels are: is it 40% below, 30% below, 20% below? And have you got any feel for where conversion rates are currently, so the latest information to help us with the fourth quarter? That's question one.

In terms of gross margins, i.e. the IFRS margins before costs, how have they progressed from second quarter to the third quarter and where are we now? So, just to get a feel for whether you're giving up margin or you're preserving it?

David Richardson

First of all, as you point out, it is very early in the fourth quarter, but so far activity levels we're seeing are very much aligned with the third quarter, both in terms of quotes and conversion levels. So, it's broadly in line with what we saw in the third quarter.

On gross margins yes, pre-expenses, we're seeing those standing up; we're employing the same pricing discipline we always employ in our business, which is to ensure that at the margin pre-expenses the business is capital generative and we're not chasing market share at the expense of margins.

Question 2

Andrew Crean – Autonomous

Is it possible to say, given the pipeline on BPA business, are we talking about potentially sales which are in line with historical quarters or is it a much bigger opportunity potentially?

Then secondly, could you talk a bit about the US entry in terms of costs and why you think it's a good idea to spend money on trying to enter another market when you're only paying a nominal dividend and your UK business is not self-funding at the moment after costs?

Steve Groves

I'll take the question on the US and then hand over to David to cover the bulk space.

I guess the answer to the question on the US is we spent a long time looking at the opportunity over there and we are comfortable that we can enter the US market and deliver a result which is very attractive in terms of return for shareholders, and the diversification and future growth that it allows, without committing very large amounts of capital to do so. So, we said at the time of the interims that we were currently working through the market entry methodology. We're still in that phase. We will update the market in due course. But we remain confident that when we come back to the market to set out exactly what we're planning to do it will be well received.

Andrew Crean

When is at that point? Is that with your Investor Day?

Steve Groves

We haven't committed to what that point is at this point in time.

David Richardson

On the DB opportunities, we've spent a lot of time in the last few months trying to develop a larger, higher quality and more diversified pipeline of opportunities. So, I think it's fair to say at this stage that we see a substantial pipeline of medically underwritten opportunities. But as we previously mentioned, and will continue I think to emphasise at this early stage of development, the actual timing of the completion of those transactions is uncertain quarter to quarter. But we are pleased and the size of the pipeline is significantly larger than it has been in previous quarters.

Question 3

Greig Paterson

I was actually looking at my dividends, I think they look a little high; just remind me what you said on dividend policy.

The other thing is we've had some further noise around regulation: we've had the death benefit post-retirement change, and we've also have this 25% tax-free lump sum, the ability to spread it or whatever. I was wondering if any of those are material for your business going forward, any of these recent announcements we've heard?

Steve Groves

What we've said on dividend is obviously we announced a cut in the dividend at the time of the interims and we have said that we will review it at the time of the finals. And really that reflects the ongoing uncertainty in the market.

In terms of the noise on regulation, I don't think we've seen any substantial announcements in terms of new policy. What I would say is the way they are being announcement, the frequency of the announcements, and the quality of the announcements does have a disruptive effect on the market. So, when an announcement comes out that is incomplete what advisors do is they do nothing until there is clarity on what the actual announcement was saying. So, I don't think anything that has been announced is a material addition to what was announced at the time of the Budget in terms of what it means for the future of the annuity market and the future of the insurance market for the accumulation product. However, clearly unexpected and incomplete announcements do cause a hiatus in the advice market until there is greater clarity.

Question 4

Barrie Cornes – Panmure Gordon

In the last few months there's been a lot of talk about people wanting a guaranteed basic income for the rest of their life. Have you any idea roughly what sort of level that income would be for a normal person?

Secondly, in terms of BPA business, are you only looking at medically underwritten BPAs, or might you actually stray into more traditional pricing of BPA business? That I guess leads on to a follow on in terms of whether or not you might consider underwriting standard lives as well as non-standard lives.

Steve Groves

I'll pick up the first question and let David cover off the BPA space.

We've done quite a lot of work since the Budget looking at guaranteed basic income requirements of customers. I think the first thing to say is that what every customer considers to be absolutely essential is hugely variable. Some customers include two holidays a year in the guaranteed sort of essential basics; others are much more focused on paying the utility bills and the food bills.

In terms of average levels of income that we've seen backing that research you're typically looking at customers wanting another £4,000 or £5,000 of income over and above the state pension. And when you translate that back at typical annuity rates you're seeing it's probably implying £40,000 to £50,000 of premium going on. But there is a huge range depending on what people are categorising as must-haves.

David Richardson

On the BPA space question: our focus has been overwhelmingly on trying to develop the medically underwritten DB market because that's where we feel we've got a sustainable competitive advantage. At times that means we actually seek to participate in traditional processes selectively to try and persuade the trustees and advisors they may get a better outcome by converting that into a medically underwritten process. So it's a slightly nuanced answer, but the overall emphasis is very much weighed towards the medically underwritten opportunities.

Then extending that question, as you were, into the individual retail space: we are seeing, and we think this will continue to be the case, that the distinction between what you might call non-standard and standard annuities will just blur over time. And what you're seeing is increasingly refined assessment of the risk space and all the characteristics of lives. And I think we, along with others, are participating and actually very welcoming of that development. So, what you'll probably see is you're not just seeing a single standard price going forward, but a whole spectrum going from the very, very healthy lives up to the most impaired lives.

Question 5

Xinmei Wang – Morgan Stanley

In light of the new sales figures and figures going forward, can you talk a little bit about how you're thinking about operating expenses and how that impacts the new business margin please?

David Richardson

First of all talking about our expense space more generally, the exercise we undertook in the summer to take cost action was to manage our business through this period of uncertainty, and we did consider a wide range of potential outcomes in doing that. So, we're confident that we've taken the appropriate cost action.

In terms of then financially how that flows through into the numbers our starting point, as I mentioned earlier, is to seek to maintain our gross margins pre-expenses and to date we've been successful doing that by maintaining our pricing discipline.

However, clearly, as you have lower volumes and a given level of overheads, those lower volumes are going to make a lower contribution towards covering those overheads, so we would expect to see our new business margins being squeezed during this period of reduced activity, before recovering when the market comes back on track.

Question 6

Alan Devlin – Barclays Capital

First of all on the new business deals, can you tell us in the declining sales how much is due to the volume being down i.e. people completely deferring, or are some people just buying smaller annuities already, so if they've got £100,000 pot they only spend £50,000 on an annuity and then defer the other £50,000 to draw down?

Then second question: is there any difference in behaviour in people that maybe have significantly impaired lives versus the lifestyle of normal lives i.e. if somebody has got three years to live presumably they don't want to defer for a year because it's a third of their potential lifetime? Thanks.

Steve Groves

I guess in terms of what we're seeing in the market broadly speaking people are either annuitizing or deferring. We're not seeing a lot of fund splitting going on. We broadly think if people have the financial means and their advisor is telling them it makes sense to wait until April and they are waiting until April. And either they don't have the financial means to wait until April, in which case then the advisor is getting into advice and is placing them into annuity. So, at the moment we're not seeing large amounts of splitting of funds happening.

In terms of pattern across the customer profiles, be it premium, be it levels of impairment, actually I think the answer to the first question probably drives the answer to the second question: it appears to be people who have advisors advising them to defer and they have the means to defer then they're deferring; and where they're don't they're not.

So, I think it's more whether people can afford to defer that's driving the deferral piece rather than any other factor. We're certainly not seeing any evidence that what we would classify as our impaired business is any less robust than any other part of our business.

I guess at that point we will close the call. Thanks for your attendance at short notice today everybody.