

2014 Half Year Results

14 August 2014



Agenda

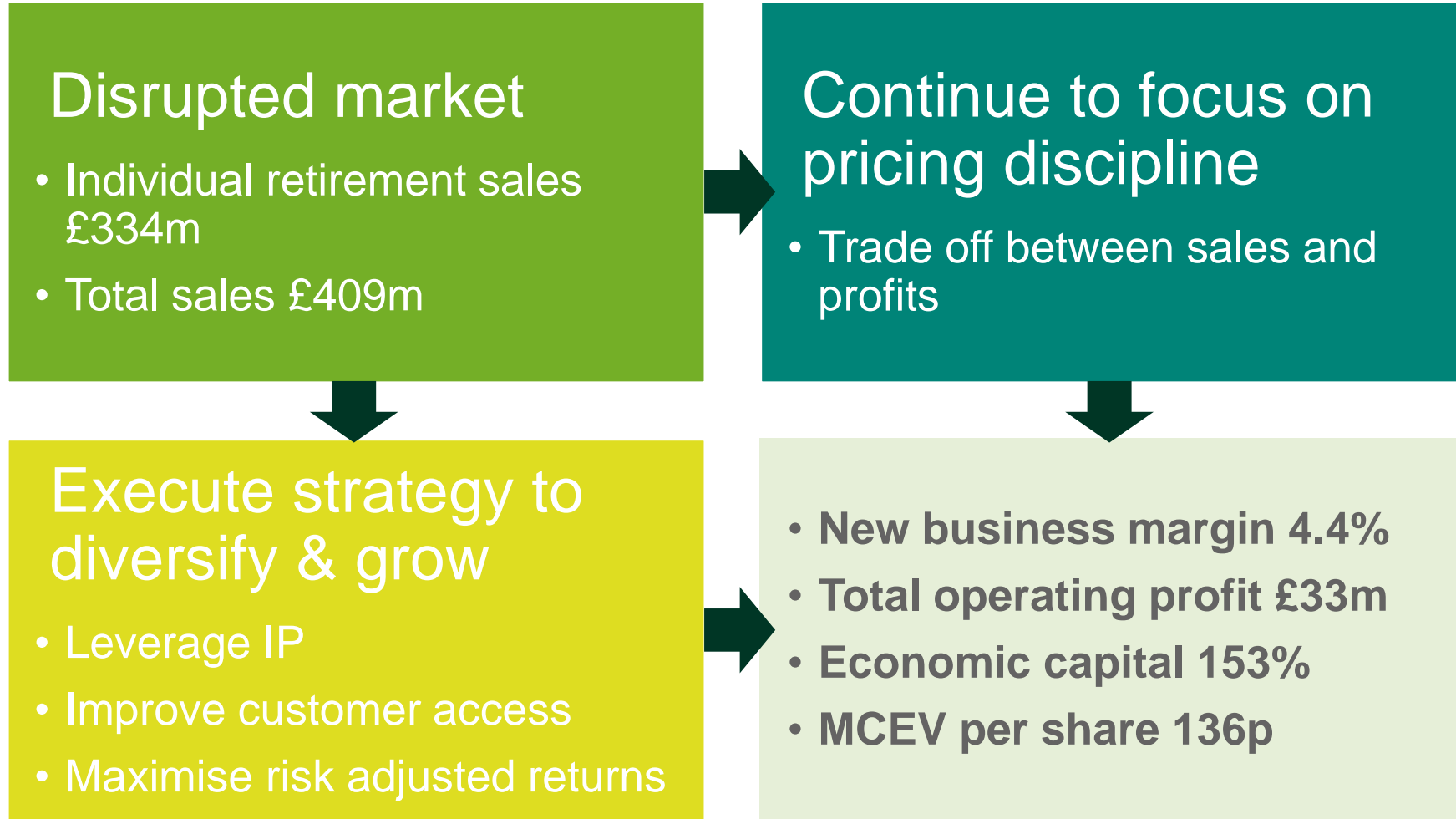
Introduction and business update	Steve Groves CEO	p2
Financial review	David Richardson CFO	p12
Outlook and Q&A	Steve Groves CEO	p24

Introduction and business update

Steve Groves



Summary performance H1 2014



Market context

Significant disruption and ongoing uncertainty

Customer reaction	Quote activity	Latest trends
<ul style="list-style-type: none">• Significant disruption while market in limbo and awaiting confirmation of new regulations – Draft Pension Bill released on 6th August• Guaranteed income for life still attractive for many but feedback indicates some customers are deferring decision regarding retirement income• Propensity to defer could increase further as implementation date approaches	<ul style="list-style-type: none">• Activity levels since the Budget widely reported to be down by around 50% across the industry• Partnership quote levels in June and July below 50% of same period last year• Research suggests majority of the decrease is a result of customers deferring long term decision• No material difference in impact across pot sizes	<ul style="list-style-type: none">• Of cases in pipeline at time of the Budget, over 77% have decided to continue with annuity purchase• Conversion rate of quotes post Budget is down, with indications customers maintaining flexibility in period of uncertainty

Impact of Budget changes on Partnership



Uncertainty has driven deferral and this could increase in the run up to April 2015



Flexibility likely to mean fewer people will buy an annuity



Partnership's share of addressable market potentially significantly increased by more retirees being encouraged to shop around through impartial guidance process at retirement



Long term structural drivers behind growth of DC pension market remain intact



New regulations create opportunity to develop new products



Other products and business lines unaffected



Short term
disruption

More clarity
expected post
April 2015

Long term
opportunity
remains

Partnership reaction

Targeted actions to deliver diversified business model

Individual annuities	<ul style="list-style-type: none">• Adjusted the expense base• Continue to work with Government as pension reforms implemented• Increase flexibility of the contract when new rules implemented• Continue to support advisors
Defined benefit de-risking	<ul style="list-style-type: none">• Strengthened and extended proposition to target significant potential market• Focus on making medical underwriting the “norm” for target schemes
Care and Protection	<ul style="list-style-type: none">• Not impacted by the Budget proposals• Potential to develop further
New products	<ul style="list-style-type: none">• Focus to remain on leveraging IP• Alternative contract structures to meet customer needs• Enhanced Choice Annuity launched within 8 weeks of Budget
International	<ul style="list-style-type: none">• Opportunity to leverage unique dataset in US• Currently selecting market entry model

Individual annuities

Guidance key to future shape of market

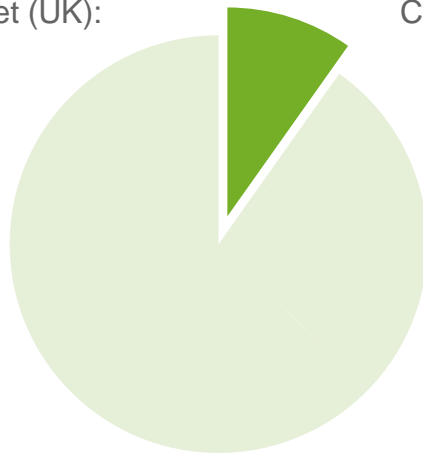
7

- Detail on guidance emerging since the Budget gives grounds for cautious optimism
 - Recognition of need for strong impartial guidance
 - More individuals shopping around
 - Chancellor acknowledges “Annuities will remain the right product for some” and “Those who want the security of an annuity will still be able to purchase one.”
 - Flexibility in annuities should allow product appeal to be broadened
 - DB to DC should extend universe of customers
 - Government proposals for “Freedom and choice in pensions” and draft Pensions Tax Bill creates environment to innovate
- Still early and significant amount of detail yet to be developed

DB de-risking proposition strengthened and extended

Core target market ⁽¹⁾

Total DB market (UK):
£1.8tn



Core target market:
smaller pension
plans
(up to £100m)
totalling £180bn

- £180bn of DB scheme liabilities within core target market where IP is most effective
- 208 deals, totalling £3.2bn, completed in 2013 within core target market
- Only 3% of 2013 deals were medically underwritten

- Focus on increasing proportion of DB deals which are medically underwritten
 - Ensure advisors understand proposition
 - Sponsor and trustee awareness increased through live deals
 - New entrants support acceleration of medically underwritten trend
- Proposition extended and strengthened in H1 14
 - EBC relationships strengthened and broadened
 - Further options to deploy IP
 - Scalable infrastructure developing
- Strong and growing pipeline, up 50% in the last 3 months, but timing of deals uncertain and lumpy at this early stage of market development

Source: (1) PPF purple book 2013

Increased opportunity for product development

- ✓ Customer need to manage longevity risk through highly uncertain future lifetime has not changed
- ✓ New regulations expected to allow flexibility to develop new products within currently polarised spectrum of annuity vs drawdown
- ✓ Applicability of IP and ability to innovate rapidly demonstrated through launch of Enhanced Choice Annuity within 8 weeks of Budget
- ✓ Targeted investment in our underwriting and product development expertise to ensure capability maintained
- ✗ New regulations unlikely to apply before April 2015
- ✗ Customer and advisor behaviour likely to lag change in new rules and regulations

International opportunity identified and being progressed



- Significant opportunity identified in US
- Unique IP underpins proposition
- Dedicated management team, experienced in international business development

- Phase 1: Research
 - Complete
 - IP evaluated, results indicate validity of dataset for US opportunity
- Phase 2: Selection of market entry model
 - Progressing
 - In discussions with potential partners
 - No regulatory roadblocks identified
- Phase 3: Implementation
 - Yet to start
 - Timing remains uncertain

Dividend action taken in light of market uncertainty

- 2013 final dividend set pre-Budget and paid on 30 May
- Capital position remains strong
- Prudent to maintain financial flexibility given market uncertainty and desire to accelerate opportunities identified to deliver growth and diversify the business
- The Board recognises the importance of regular dividends to shareholders, but given the current uncertainty, has declared an interim dividend of 0.5p per share
- The Board will next consider dividends at the time of 2014 full year results in March 2015

Financial review

David Richardson

12



Financial highlights

	H1 14	H1 13	FY13
Total new business premiums ⁽¹⁾ (£m)	409	631	1,229
New business operating profit (£m)	18	38	86
<i>New business margin⁽²⁾</i>	<i>4.4%</i>	<i>6.0%</i>	<i>7.0%</i>
Total operating profit (£m)	33	59	131
Economic capital ratio	153%	150%	159%
MCEV per share	136p	116p	130p
Assets under management (£bn)	4.4	3.7	4.1

Notes: (1) New business premiums on an SPE basis; (2) Calculated as new business operating profit as a percentage of new business premiums

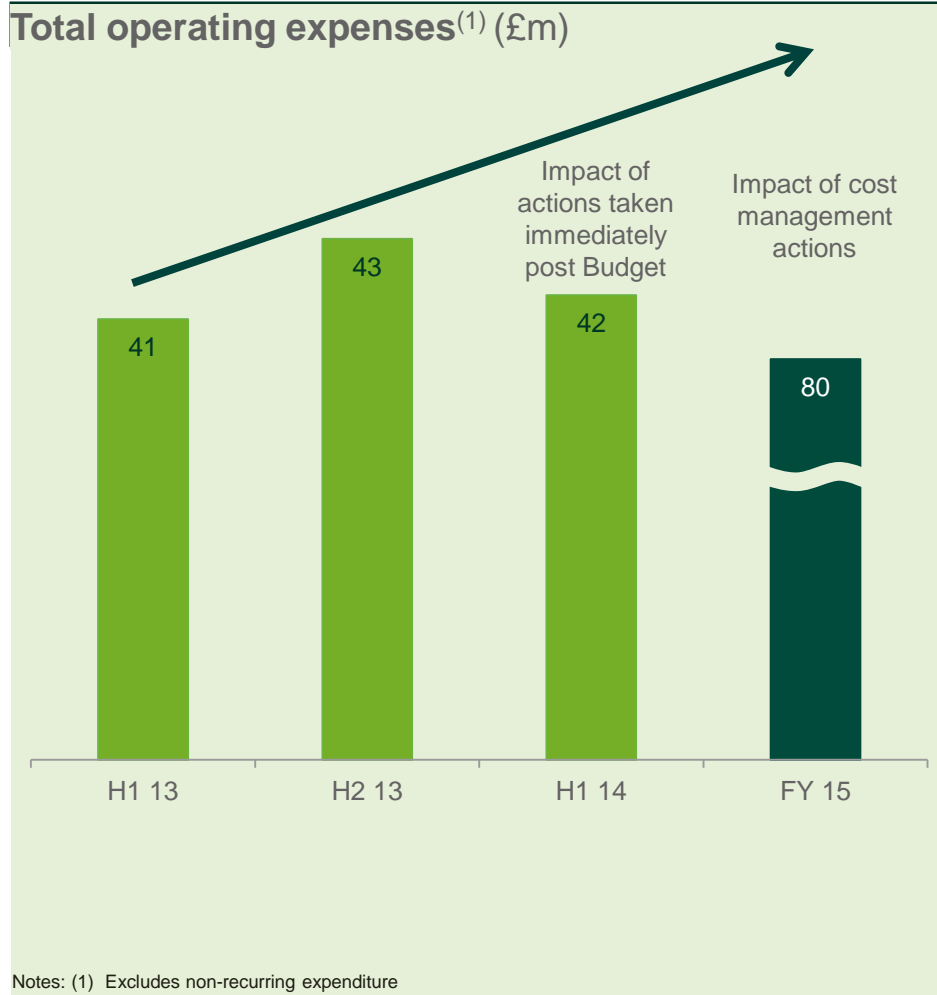
New business premiums

£m	H1 14	H1 13	FY13
Retirement			
Individual annuities ⁽¹⁾	334	590	1,076
DB bulk annuities	37	11	84
Total retirement	371	601	1,160
Care	36	28	66
Protection	2	2	3
Total new business	409	631	1,229

- H1 14 individual annuity sales
 - Q1 14 sales £200m
 - Q2 14 sales £135m, includes 77% conversion of pre-Budget pipeline sales
 - Since end June, run rate of sales below 50% of Q1 14
 - Risk of deferrals increasing as implementation nears
- Strengthened DB proposition delivering growing high quality pipeline of de-risking deals but completions more likely to be weighted towards Q4 14 or Q1 15 than Q3 14
- Care annuities market beginning to show signs of recovery post RDR
 - H1 sales of £36m up 29% on H1 13

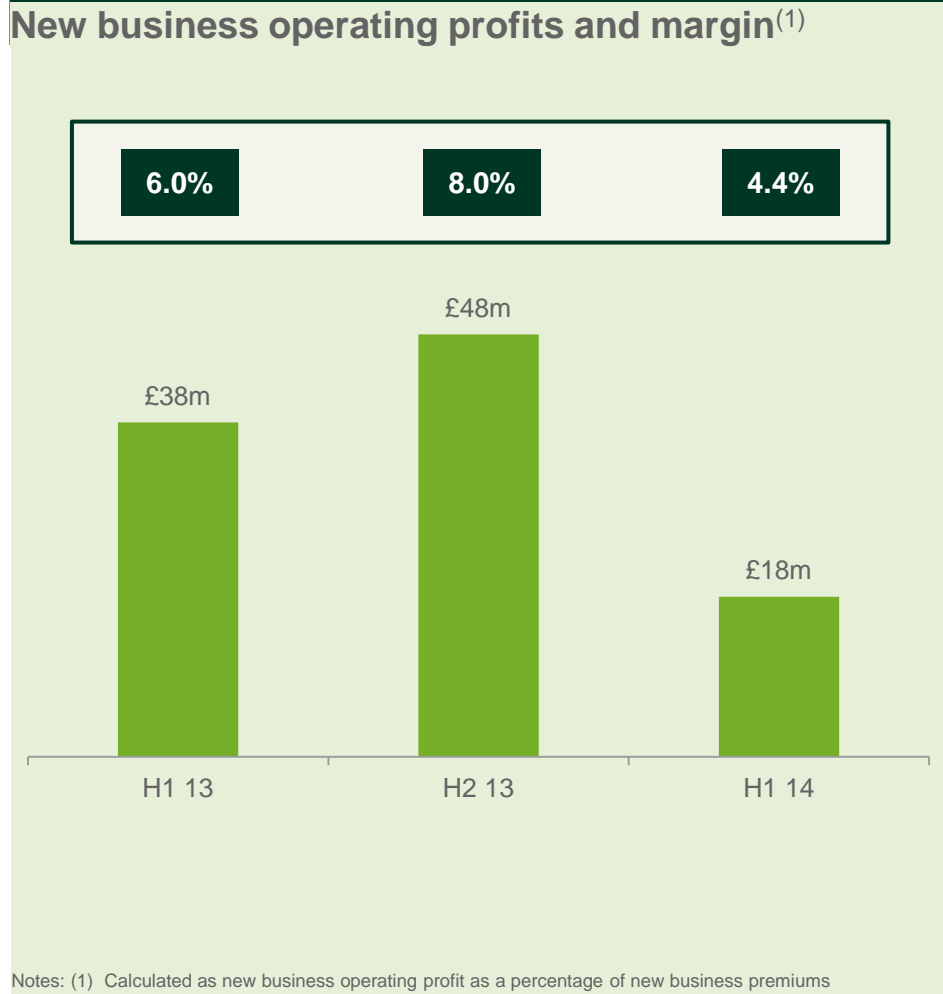
Notes: (1) Quarterly and half year totals of SPE subject to rounding

Operating expenses



- H1 14 operating expenses contained through actions taken immediately post Budget
 - Recruitment freeze
 - Removal of contractors
 - CFO approval for all capital spend
 - More than offsetting full impact of Plc costs (£4m) and natural inflation
- Cost management plan identified further savings
 - Actions reflect anticipated impact on individual annuities, offset by targeted investment to leverage IP
 - £21m savings identified versus 2015 planned cost base
 - Targeting £80m operating expenses in 2015
- H2 14 operating expenses expected to be marginally lower than H1 14
- Over 90% of operating expenses allocated to new business, reflecting activity and level of resource required to support in-force vs. new business

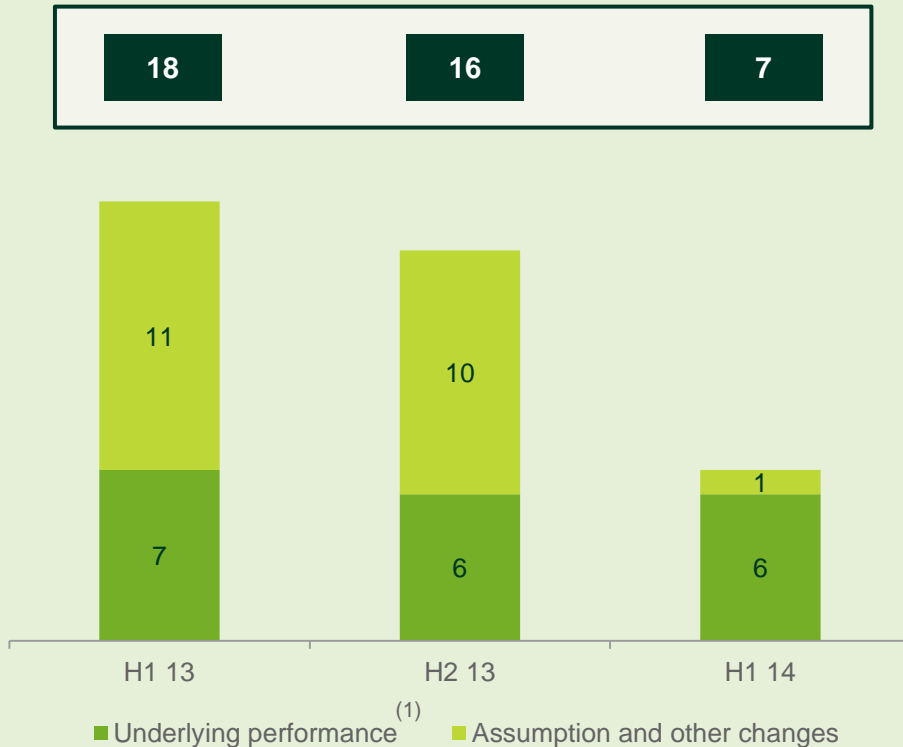
New business operating profits



- New business margins pre-expenses maintained, reflecting strong pricing discipline
- H1 14 new business operating profit and margin reflects lower level of sales
- FY new business margin highly dependent on level of sales in H2, but expected to be lower than H1

In-force operating profits

In-force operating profits (£m)

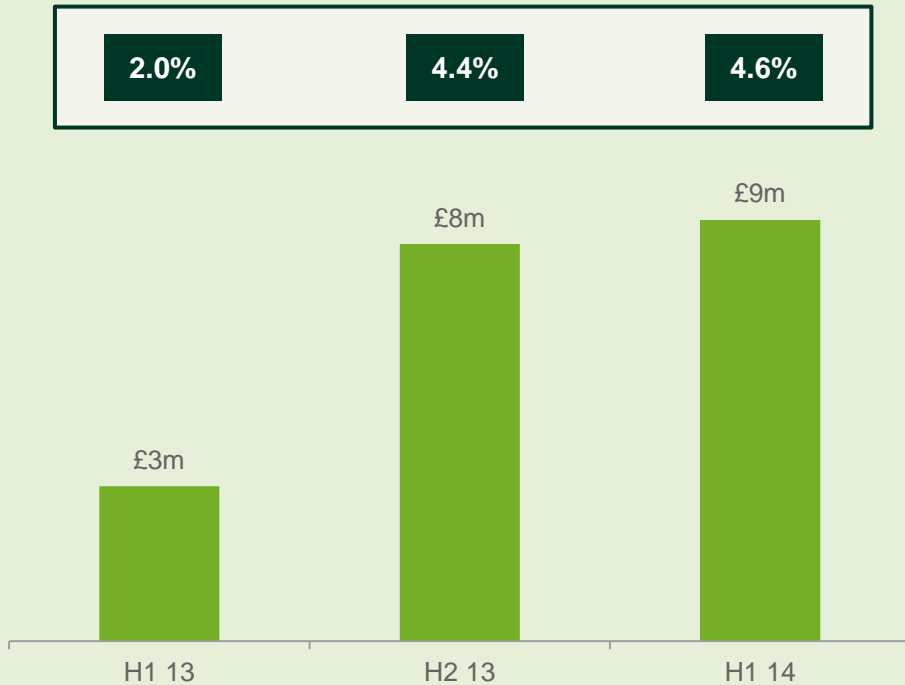


Notes: (1) Represents surplus emergence and non-economic experience variances against best estimate assumptions

- H1 14 underlying performance broadly as expected, reflecting growth of in-force book
 - Reduction on H1 13 following decrease in credit spreads
 - Experience in-line with expectations
- 2013 in-force operating profits enhanced by non-recurring expense savings
 - Transfer of re-insured block onto in-house admin system
 - Passed ratchet point in TPA agreement
 - New custodian agreement
- No significant items in H1 14 assumption and other changes

Return on surplus assets

Return and yield⁽¹⁾ on surplus assets



Notes: (1) Annualised yield

- H1 14 yield of 4.6% broadly in line with H2 13
 - Higher than expected yield in H1 14 as surplus equity release assets allocated more slowly to new business post Budget
- Yield expected to revert to 3% over time as equity release assets utilised

Profit components below operating profit

£m	H1 14	H1 13	FY13
Total operating profit	33	59	131
Investment variances	(9)	3	9
Other non-recurring expenditure	(10)	(29)	(32)
IFRS PBIT⁽¹⁾	15	33	108
Interest expense	0	(25)	(25)
IFRS PBT⁽¹⁾	15	9	83

- H1 14 investment variances
 - Impact of reduction in risk-free rates partially offset by tightening credit spreads
- H1 14 other non-recurring expenditure
 - £6m impairment of IT sales infrastructure, post Budget
 - £1m provision taken against cost management actions
 - £2m Solvency II related costs
- £5m non-recurring costs expected to be incurred over 2014 and 2015 to support new initiatives and product development

Notes (1): IFRS PBIT and IFRS PBT totals subject to rounding

Robust capital position

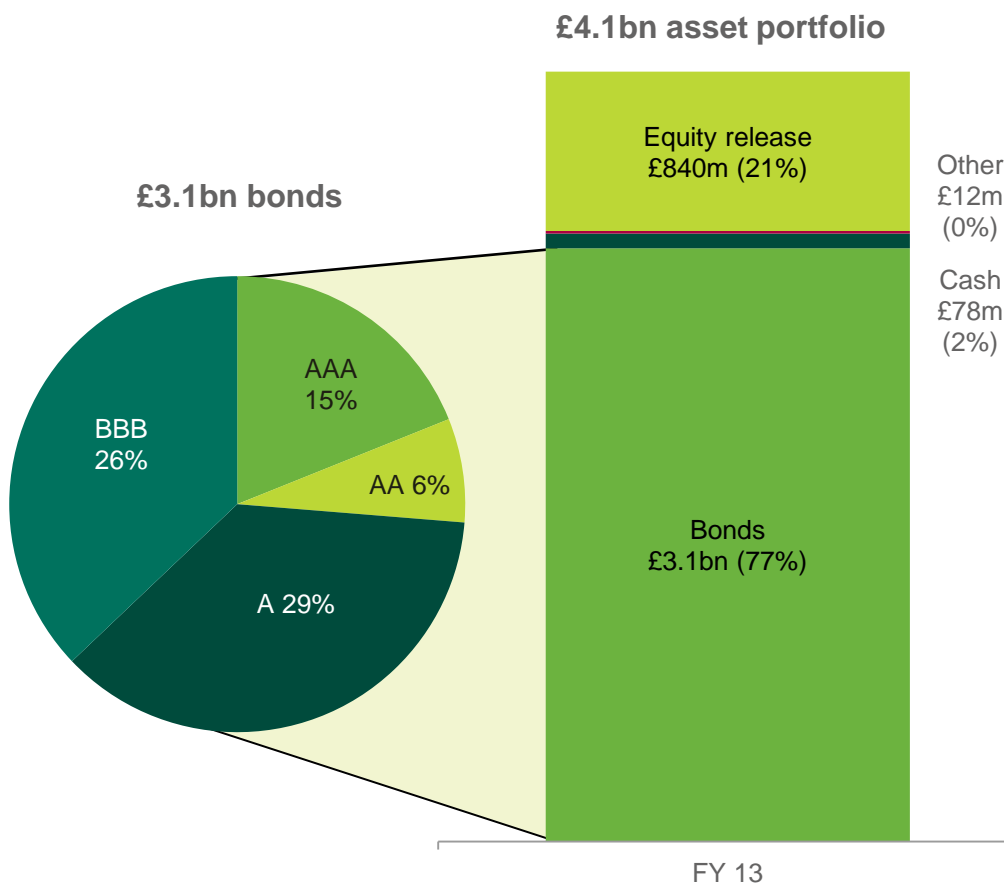
£m	H1 14	H1 13	FY13
Economic Capital			
Available	492	425	467
Required	322	284	294
Surplus	170	141	173
Coverage ratio	153%	150%	159%
IGD			
Available	470	412	469
Required	207	183	193
Surplus	263	229	276
Coverage ratio	227%	225%	243%

Economic Capital Ratio Sensitivities	
Coverage ratio at H1 14	153%
Coverage ratio following market stresses:	
▪ Credit spread widening	
➤ +100 bps	147%
➤ +200 bps	139%
➤ Eurozone crisis ⁽¹⁾	134%
➤ Lehman crisis ⁽¹⁾	131%
▪ Longevity: 5% deterioration	142%
▪ Property: 10% decrease in carrying value (equivalent to 32% fall from current mkt value)	140%

Notes: (1) Eurozone and Lehman crisis scenarios have been modelled by applying the credit spreads of 7 October 2011 and 5 December 2008, respectively

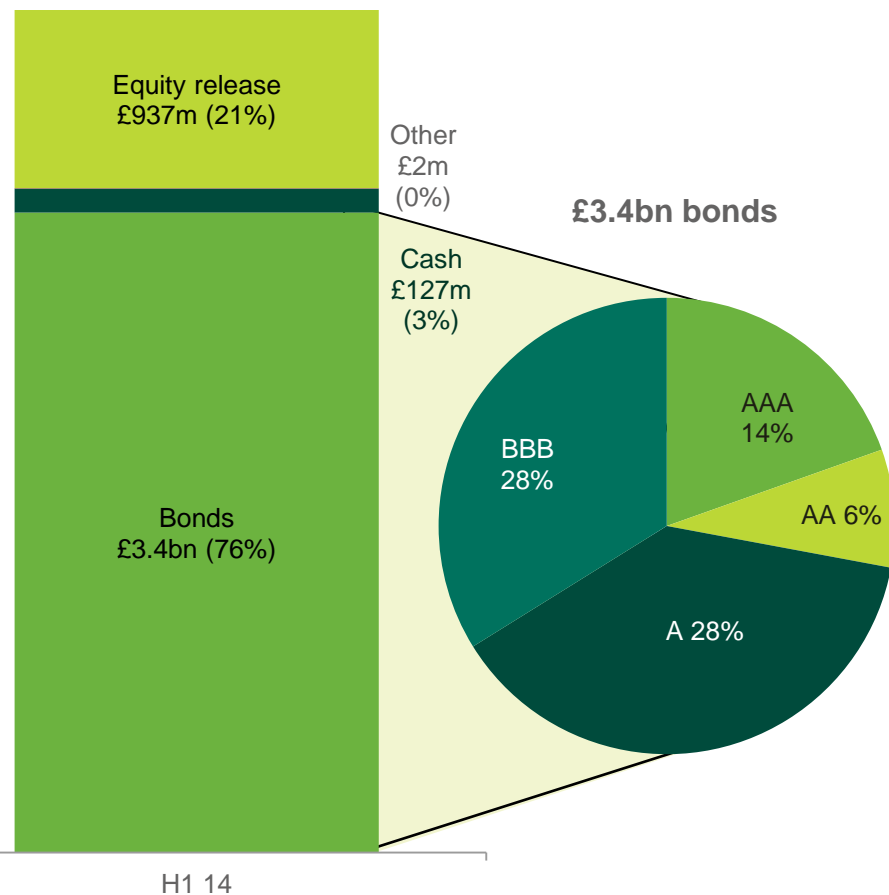
Conservative asset portfolio driven by focus on efficient ALM

Asset portfolio at FY13⁽¹⁾



Asset portfolio at H1 14⁽¹⁾

£4.4bn asset portfolio



Notes: (1) All percentages relate to total portfolio, totals subject to rounding

MCEV per share increased to 136p

	H1 14
Opening MCEV per share	130p
Opening MCEV (£m)	520
New business value	18
Expected return on existing business	2
Transfers to free surplus	2
Experience variances and assumption changes	2
Other operating variances	18
Economic variances	3
Other non-operating variances ⁽¹⁾	(7)
Closing adjustments	(12)
Closing MCEV⁽²⁾ (£m)	545
Closing MCEV per share	136p

- Other operating variances include
 - Return on excess assets £7m
 - Refinements to methodology for calculation of frictional cost of capital £10m
- Other non-operating variances include
 - Non-recurring expenses £8m
- Closing adjustment is 2013 final dividend

Notes: (1) Includes other movements in IFRS net equity; (2) Total subject to rounding

Financial summary

- Sales down following disruption to market from Budget
- Pricing discipline maintained
- DB pipeline strong and growing, but sales lumpy
- Costs action taken to protect new business margins
- Capital position robust

Outlook and Q&A

Steve Groves

24



Post Budget strategy focused on core competences

Leverage IP

- Environment post Budget challenging, but opportunity to leverage core competencies to refine and develop new products
- DB proposition strengthened and extended
- New rules allow greater flexibility in product development
- Investigation of international opportunities progressing well

Improve customer access

- Strength of existing distribution network means Partnership is well positioned to bring new products to market
- Focus on developing EBC relationships to support development of DB proposition

Maximise risk-adjusted returns

- Pricing discipline maintained
- Cost management actions taken in light of market uncertainty
- Investment management focused on improving risk-adjusted returns

Market disruption has caused significant short term uncertainty

Targeted strategy remains focused on leveraging core competencies

Long term focus on delivering diversified, growth business

Q&A



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