



Building for the future

Investor day

26 November 2014



Agenda

1	Introduction	Steve Groves CEO	p2
2	Business model update	Steve Groves	p3
3	Changes in the longevity landscape	Richard Willets Director of Longevity	p10
4	Distribution	Andrew Megson MD Retirement	p31
5	Defined benefit proposition	Costas Yiasoumi Director of DB	p39
6	International	Mark Dearsley MD International	p51
7	Current trading, costs and balance sheet	David Richardson CFO	p63
8	Summary and Q&A	Steve Groves	p72

Introduction

Steve Groves



Business model update

Steve Groves



A period of significant regulatory change

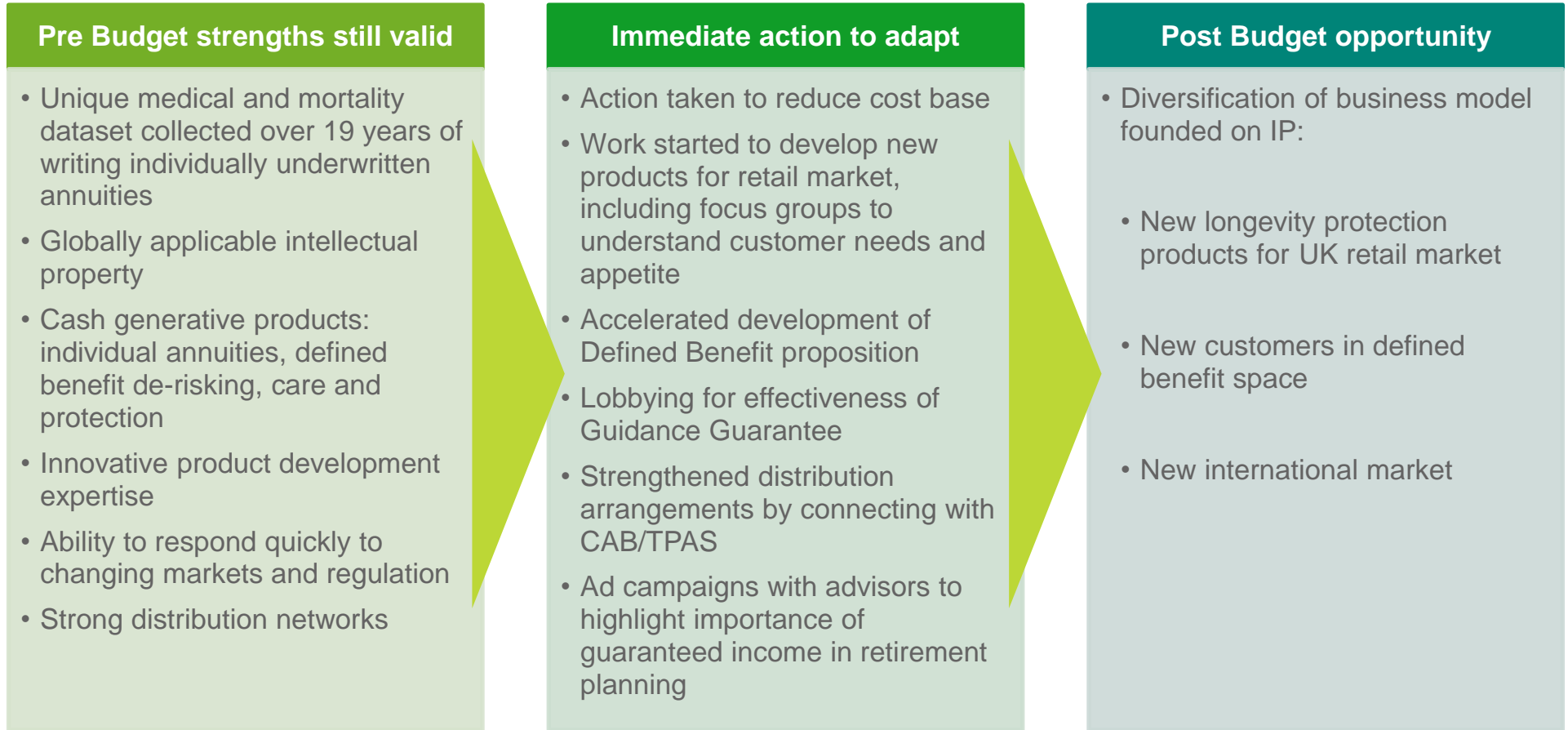
Chancellor announces “nobody will have to buy an annuity” Guidance guarantee announced	Pensions freedom consultation period ends and government response published	Death benefit tax changes announced and then clarified	TPAS/CAB named as providers of pensions guidance
March	July	September	October
<ul style="list-style-type: none"> • Immediate and significant reduction in individual annuity sales • Paralysis of distribution networks • Initial commitment to all retirees having access to free impartial face to face ‘advice’ quickly revised down to ‘guidance’ • April 2015 deadline for guidance set without consideration of practicalities of implementing access for 320,000 retirees p.a. 	<ul style="list-style-type: none"> • Government response provided further details on changes but many areas required further consultation • Industry, advisers and customers in limbo awaiting for clarity on tax and regulatory changes 	<ul style="list-style-type: none"> • Announcement that pension savings & drawdown contracts to be passed on tax free <75 / at marginal rate >75 • Clarification followed days later that annuity lump sum death benefits would be treated equally • Advisers paused again to digest latest changes 	<ul style="list-style-type: none"> • Government announces Citizens Advice Bureau will provide face to face guidance, and telephone guidance will be provided by the Pensions Advisory Service

Uncertainty remains in key areas

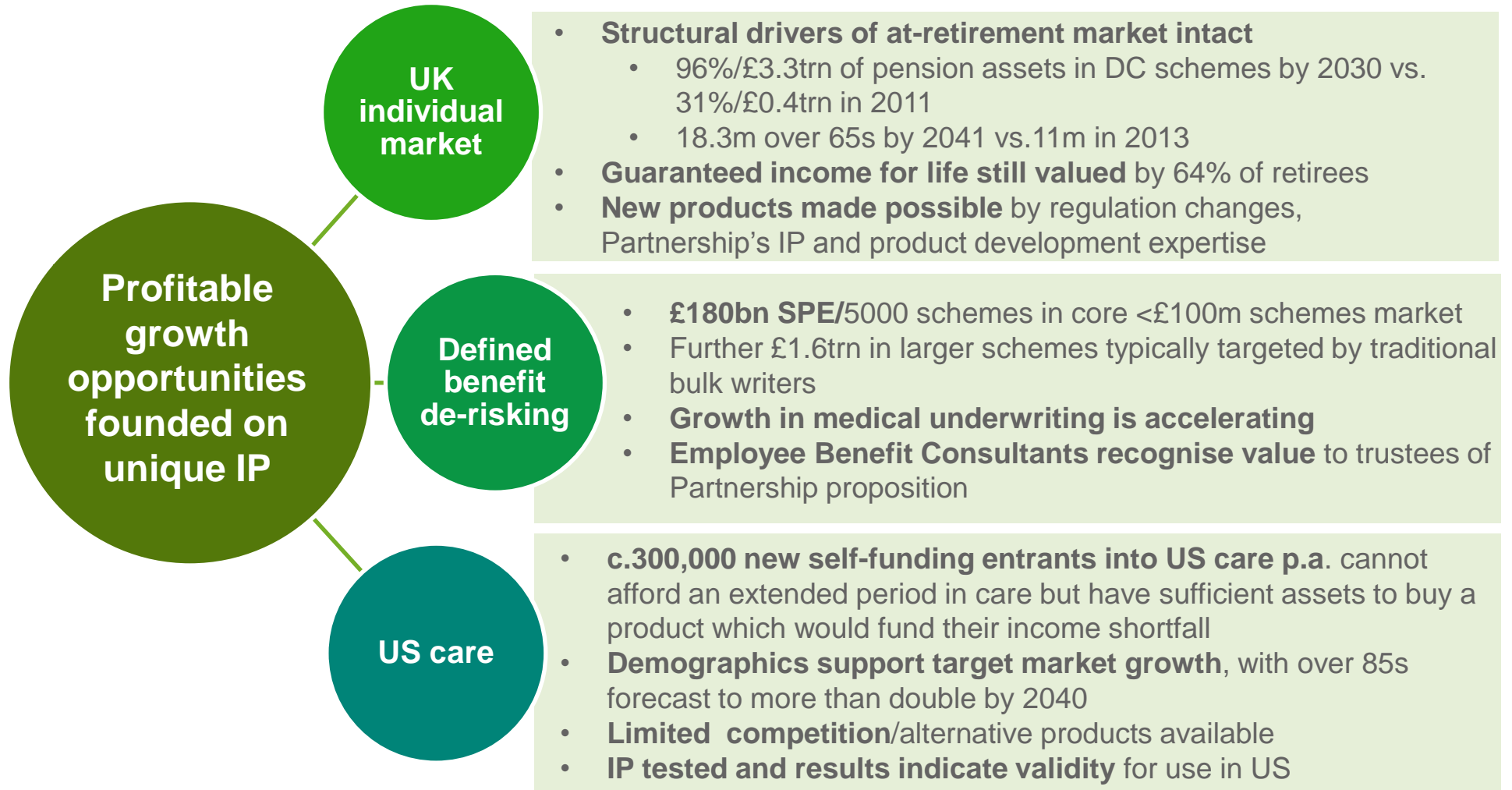
Announced changes	Uncertainty remains in key areas
<ul style="list-style-type: none">• Up to 25% taken as tax-free lump sum, remainder can be used to buy annuity/other products or withdrawn in one or several lump sum(s) and taxed at marginal rate	<p>Customer behaviour</p> <ul style="list-style-type: none">• How retirees will react to pensions freedoms; how quickly and how much of pension savings held by those who have deferred their retirement income decision will be used to buy annuities/other products• How many retirees will choose to transfer out of DB schemes. Government estimates suggest 10-20%; subsequent Hymans Robertson report indicated transfers may be as high as 30-40%
<ul style="list-style-type: none">• Upon death; <75; pension fund passed on tax free / >75; tax payable at marginal rate• DB to DC transfers allowed, compulsory guidance for pots above £30k	<p>Guidance</p> <ul style="list-style-type: none">• How many retirees will choose to use guidance service, how effective it is and what it will recommend• How FCA views on suitability of drawdown arrangements for <£50k pots will be reflected in guidance
<ul style="list-style-type: none">• Free and impartial face to face guidance to be offered to all retirees at the point of retirement• FCA believes income drawdown is “unlikely to be suitable” for pension pots under £50,000	<p>Products/ industry</p> <ul style="list-style-type: none">• What the new rules will permit in terms of product development• How the industry will deal with the practicalities of proposals for pensions to be accessed regularly in the same way as a bank account



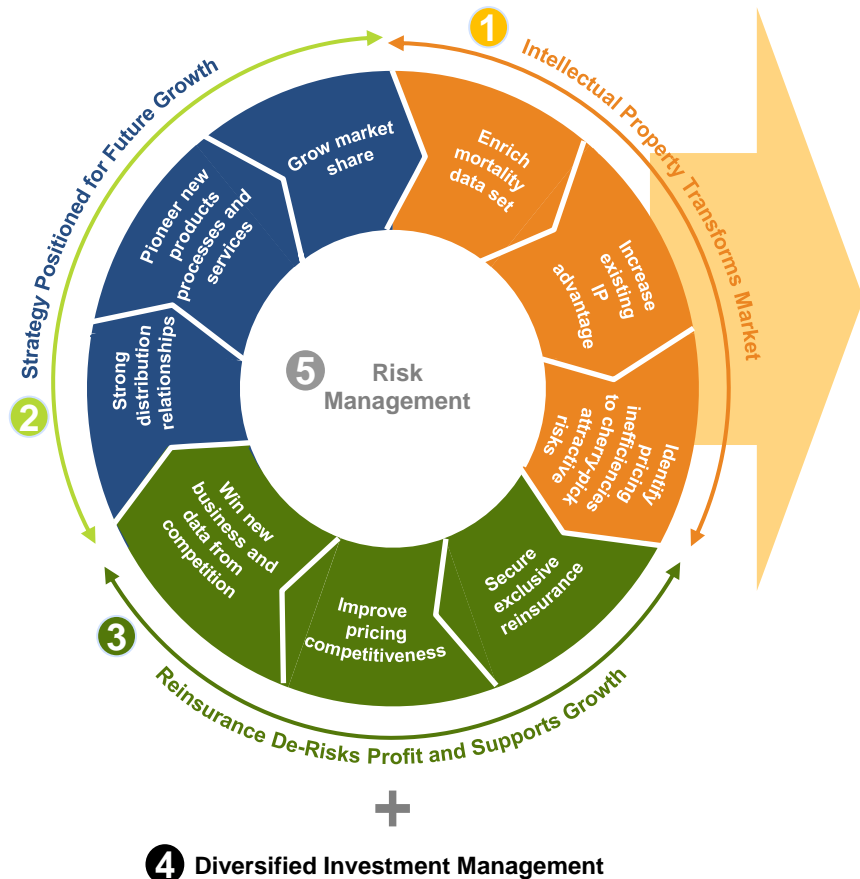
Partnership past, present and future



Profitable growth opportunities for diversified business



IP led business model



1 Unique IP based on mortality dataset	
Years of data collection	19 years
No of customers	108,000+ at FY13
Total no of rating factors collected	120 million +
Experienced mortality rate in 2013	210-230 deaths per month
Annuitant mortality since 1995	12,000 deaths
Questions asked per life	250
% of applications which include medical conditions covered by underwriting tables	90% (Remainder subject to individual assessment)
No of Medical Officers	4 MOs who can assess and give guidance on more complex or unusual cases

IP enables product development

Track record of innovation

New Products

- Enhanced choice annuity launched within 8 weeks of 2014 Budget
- Smoker and Lifestyle annuities launched in 2007 and 2008
- Equity release mortgages which leverage Proprietary IP

New Processes

- New automated underwriting process minimises need for underwriter referral and enables automatic underwriting in approximately 80% of cases
- Remaining 20% more complex or larger cases are referred for underwriter review

New Markets

- Early mover in underwritten defined benefit pension scheme markets
- US expansion plans underway
- Accessing new, untapped and significant pools of demand, have the potential to add meaningfully to sales

1 UK individual market

- Individual annuity market expected to move increasingly towards individually underwritten products, playing to Partnership's IP strengths
- Securing guaranteed income for clients still likely to be a priority for IFAs; products offering higher income through medical underwriting attractive to retirees
- Exploring options for partnering with drawdown providers to offer medically underwritten longevity protection as part of a retirement account when new regulations have been implemented

2 Defined benefit de-risking

- DB proposition has been strengthened and extended to meet trustee needs

3 US Care

- Care product developed for US

Changes in the longevity landscape

Richard Willets



Changes in the longevity landscape

1 Deceleration now evident in the pace of longevity improvement

- Underlying pace of improvement at older ages is likely to decline in the short-run
- However, the long-run case for further increase in life expectancy remains

2 Customers' perception of longevity will drive financial decisions in retirement

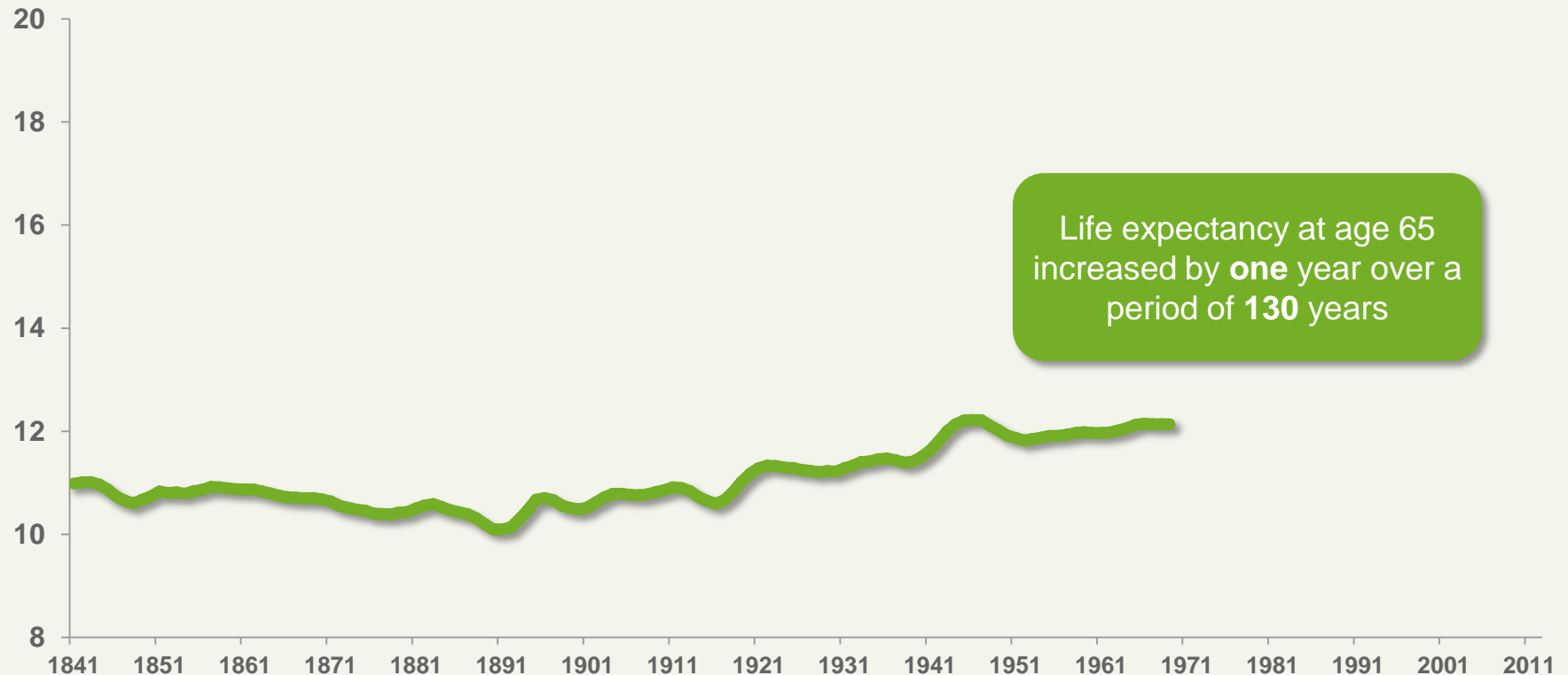
- Projected lifespans are significantly longer than people expect
- The annuity proposition is most compelling when life expectancy is short, but potential lifespan long

3 Partnership's IP continues to be relevant & generate value

- IP means Partnership well-placed to react to the changing retail environment (with deferral of purchase, increasing age of purchase and increasing use of underwriting across the health spectrum)
- IP has allowed Partnership to develop a bespoke underwriting and mortality basis for DB pensioners
- IP has been tested and results indicate validity for use in US

In 130 years, life expectancy at 65 increased by 1 year

Life expectancy at age 65 for men in England & Wales, 1841 to 2012



Source: Company calculations using data from HMD & ONS

Business model update

Changes in the longevity landscape

Distribution

Defined benefit proposition

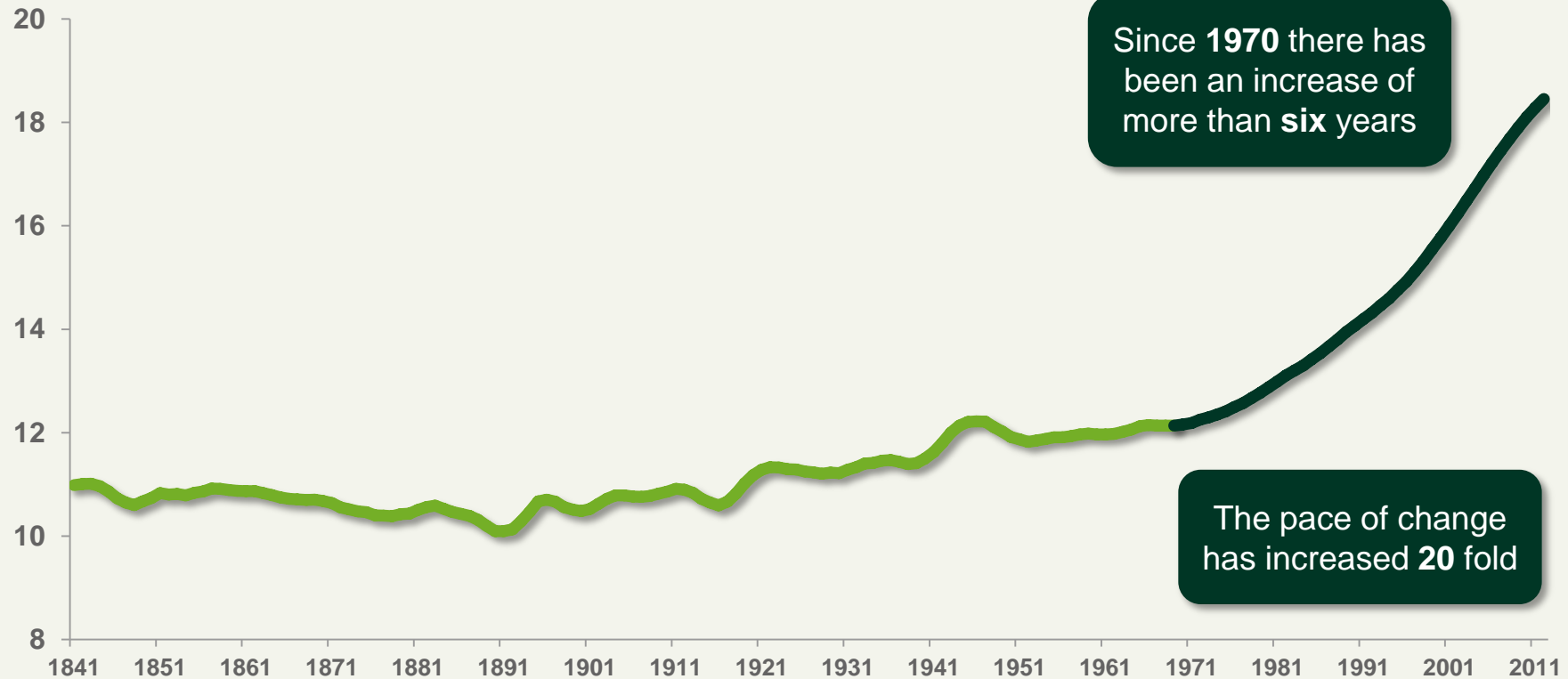
International

Current trading, costs & balance sheet

Summary and Q&A

But since 1970, the pace of change has increased 20x

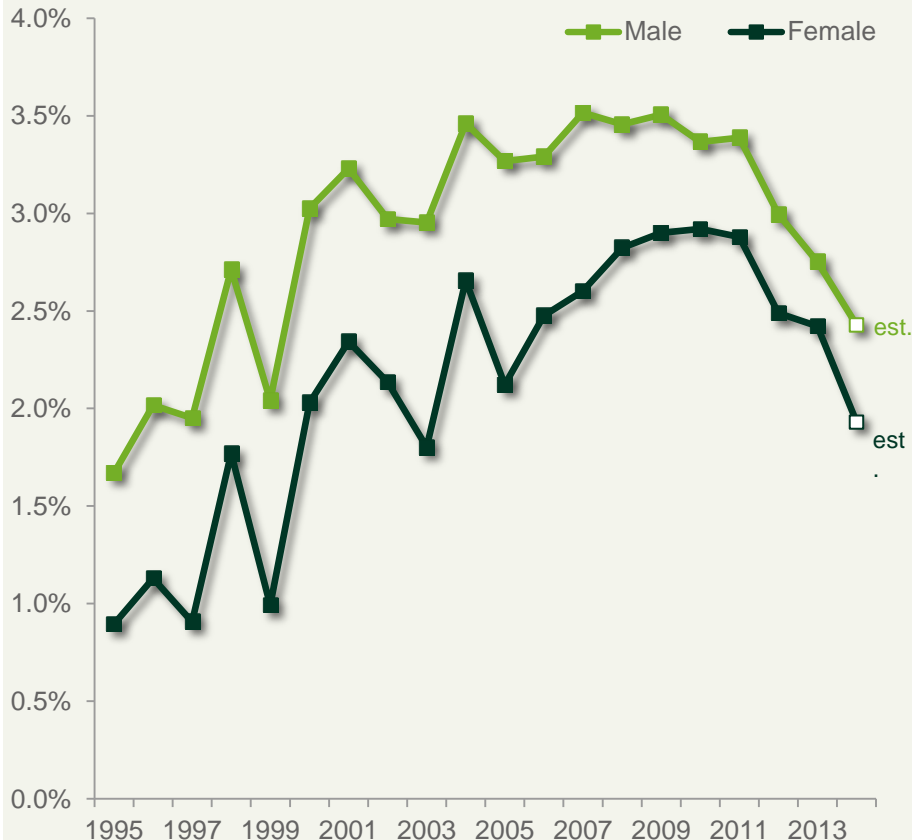
Life expectancy at age 65 for men in England & Wales, 1841 to 2012



Source: Company calculations using data from HMD & ONS

Recent deceleration in the pace of improvement

Average rate of mortality improvement, England & Wales, ages 65-84, five-year rolling periods to 2014, by gender

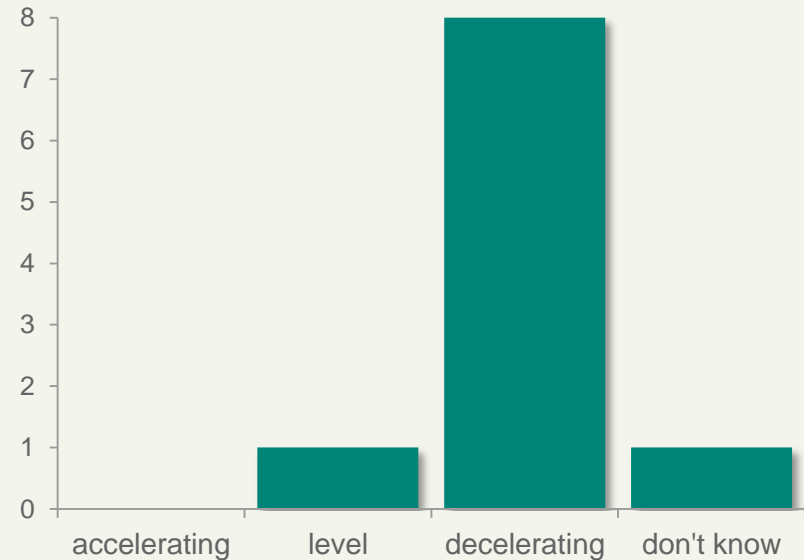


Source: Own calculations using data from HMD & ONS

Results from a survey of longevity specialists conducted in 2014

In relation to the pace of improvement in mortality rates for the UK population (at ages 65+) which of the following is closest to your view?

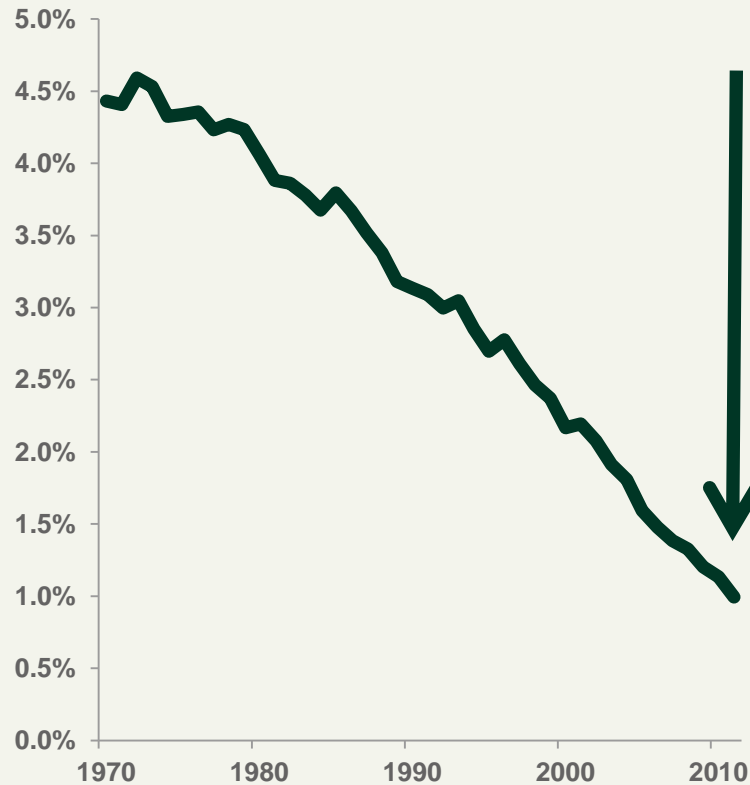
- a) The underlying pace of improvement is **continuing to accelerate**
- b) The underlying pace of improvement has **levelled off**
- c) The underlying pace of improvement is now **decelerating**
- d) **Don't know**



Source: 'Longevity in the Age of Austerity', Richard Willets (2014)

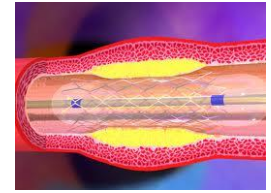
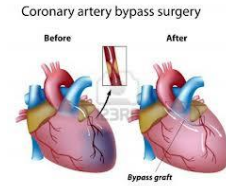
Rapid improvement caused by precipitous fall in circulatory disease mortality

Mortality rate from circulatory causes, males aged 75, England & Wales, 1970 to 2011



Death rates from circulatory causes have fallen by approximately **75%**

Potential for further reduction



Source: Company analysis using ONS data

The long-run case for improvement remains...

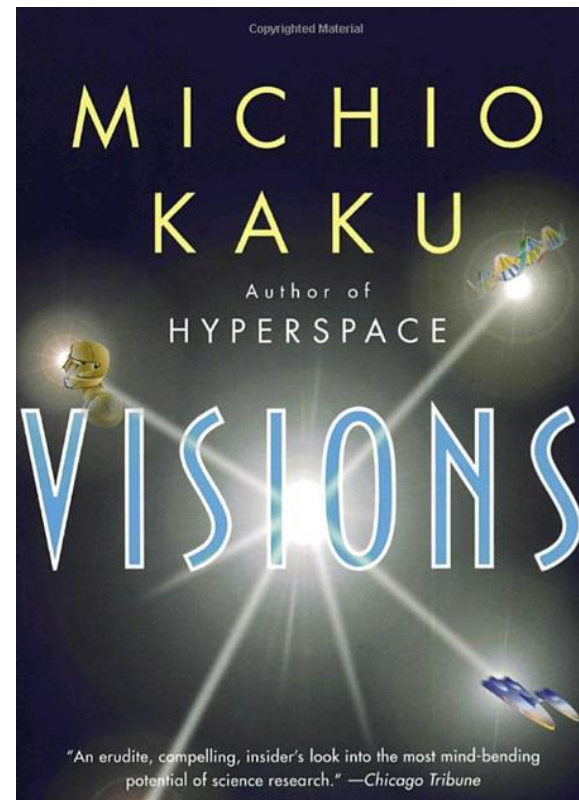
General pace of scientific innovation

Falling cost of decoding the human genome
(increased understanding of the origins of disease, individually tailored treatments)

Stem cell research (notably induced pluripotent stem cells)

Large cohort studies, e.g. UK biobank

Online patient forums (and other developments related to use of digital media)



Business model update

Changes in the longevity landscape

Distribution

Defined benefit proposition

International

Current trading, costs & balance sheet

Summary and Q&A

The long-run case for improvement remains...

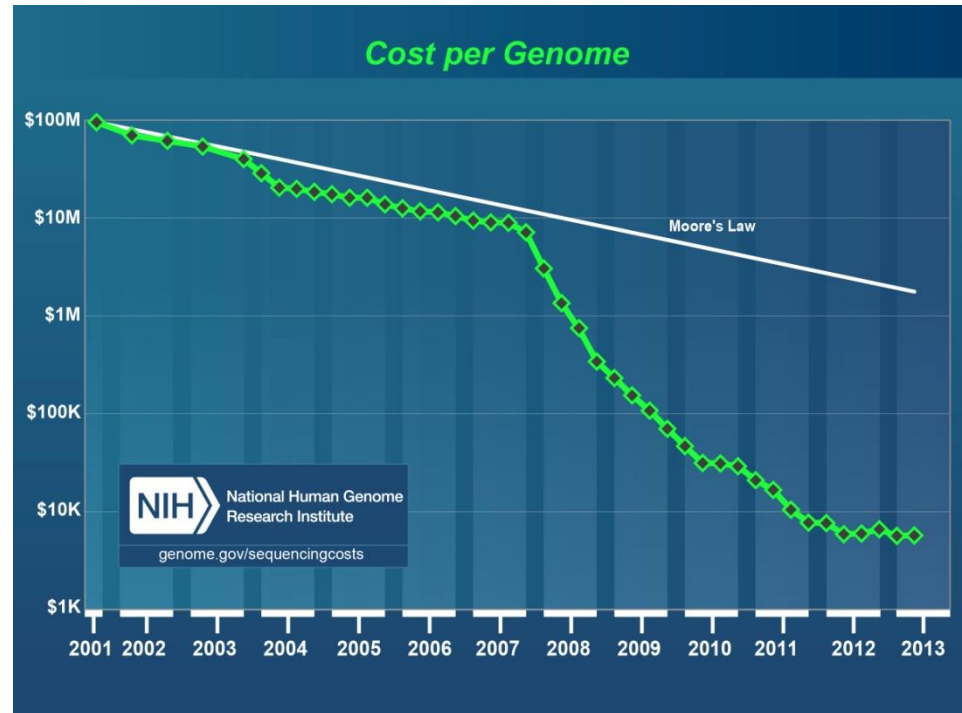
General pace of scientific innovation

Falling cost of decoding the human genome (increased understanding of the origins of disease, individually tailored treatments)

Stem cell research (notably induced pluripotent stem cells)

Large cohort studies, e.g. UK biobank

Online patient forums (and other developments related to use of digital media)



The long-run case for improvement remains...

General pace of scientific innovation

Falling cost of decoding the human genome (increased understanding of the origins of disease, individually tailored treatments)

Stem cell research (notably induced pluripotent stem cells)

Large cohort studies, e.g. UK biobank

Online patient forums (and other developments related to use of digital media)

The screenshot shows a BBC News article from October 8, 2012. The headline is "Gurdon and Yamanaka share Nobel prize for stem cell work". The author is James Gallagher, a health and science reporter for BBC News. Below the headline is a video player showing a man, identified as John Gurdon, speaking at a news conference. The article text states that British scientist John Gurdon and Shinya Yamanaka from Japan were awarded the Nobel prize for changing adult cells into stem cells. It also mentions that Gurdon used a gut sample to clone frogs and Yamanaka altered genes to reprogramme cells. A "Related Stories" section lists "Q&A: Stem cells", "Nobel prize for chromosome find", and "Nobel prize for viral discoveries".

Nobel prize in physiology or medicine 2012: as it happened

- John B Gurdon and Shinya Yamanaka have won the 2012 Nobel prize in physiology or medicine
- Gurdon worked out that cells could be reprogrammed into a more immature state in 1962
- In 2006, Yamanaka worked out how to turn mature cells in mice into stem cells by introducing a few genes
- Yamanaka's 'induced pluripotent stem cells' removed the need to use live human embryos to create versatile stem cells



The long-run case for improvement remains...

General pace of scientific innovation

Falling cost of decoding the human genome (increased understanding of the origins of disease, individually tailored treatments)

Stem cell research (notably induced pluripotent stem cells)

Large cohort studies, e.g. UK biobank

Online patient forums (and other developments related to use of digital media)



About UK Biobank

UK Biobank is a major national health resource, and a registered charity in its own right, with the aim of improving the prevention, diagnosis and treatment of a wide range of serious and life-threatening illnesses – including cancer, heart diseases, stroke, diabetes, arthritis, osteoporosis, eye disorders, depression and forms of dementia. UK Biobank recruited 500,000 people aged between 40-69 years in 2006-2010 from across the country to take part in this project. They have undergone measures, provided blood, urine and saliva samples for future analysis, detailed information about themselves and agreed to have their health followed. Over many years this will build into a powerful resource to help scientists discover why some people develop particular diseases and others do not.

UK Biobank was established by the Wellcome Trust medical charity, Medical Research Council, Department of Health, Scottish Government and the Northwest Regional Development Agency. It has also had funding from the Welsh Assembly Government and the British Heart Foundation. UK Biobank is hosted by the University of Manchester and supported by the National Health Service (NHS). It works with researchers from a large number of British universities. The medical research project is a non-profit charity and had initial funding of about £62 million. UK Biobank has had additional funding of £6m for extra baseline measurements (such as the eye measures and saliva samples) and £25m for the next 5 years, 2011-2016 (such as storage of samples, and developing the online access facility that will allow scientists to use the Resource).



The long-run case for improvement remains...

General pace of scientific innovation

Falling cost of decoding the human genome (increased understanding of the origins of disease, individually tailored treatments)

Stem cell research (notably induced pluripotent stem cells)

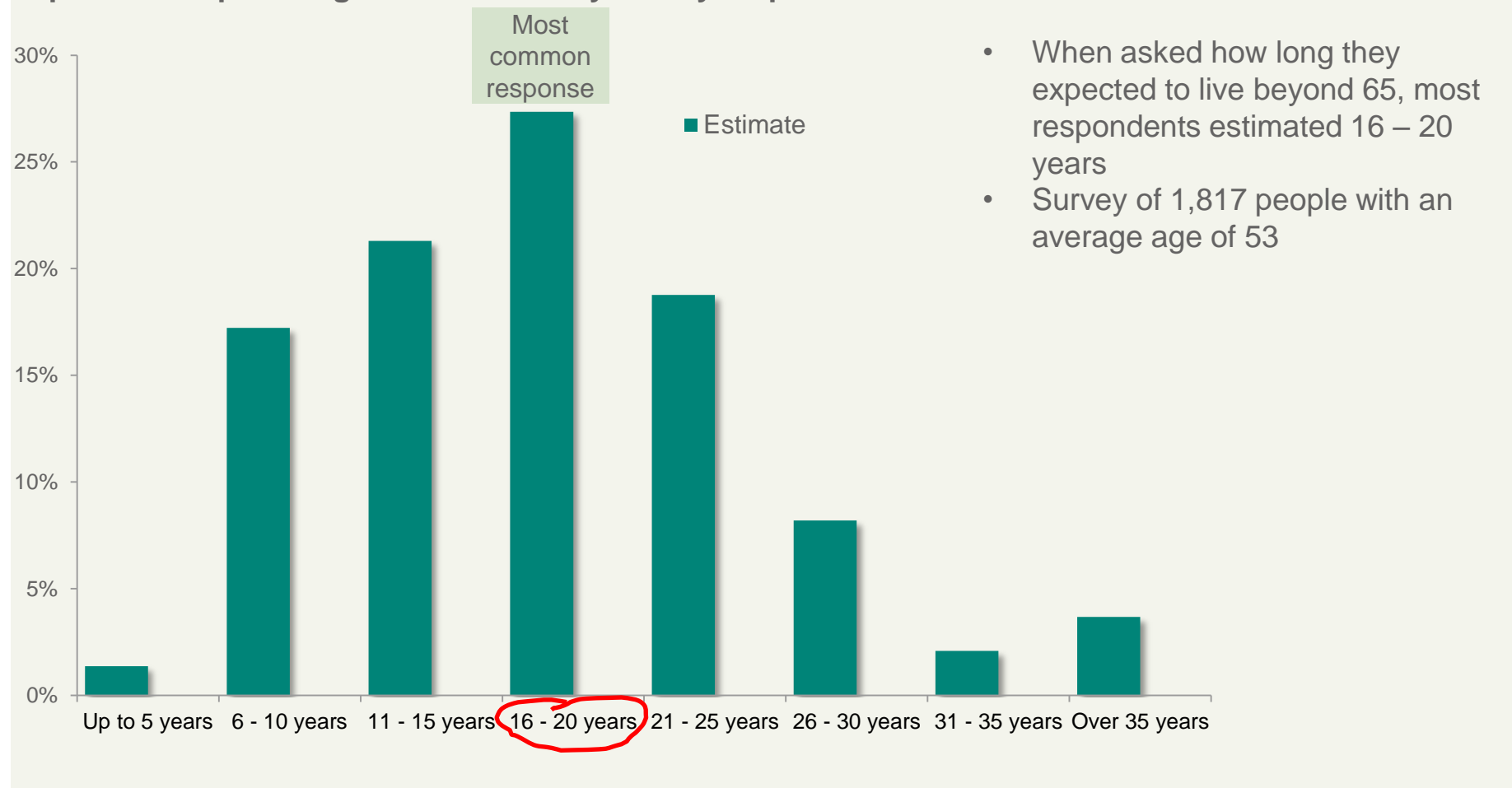
Large cohort studies, e.g. UK biobank

Online patient forums (and other developments related to use of digital media)



Projected lifespans are significantly longer than people expect

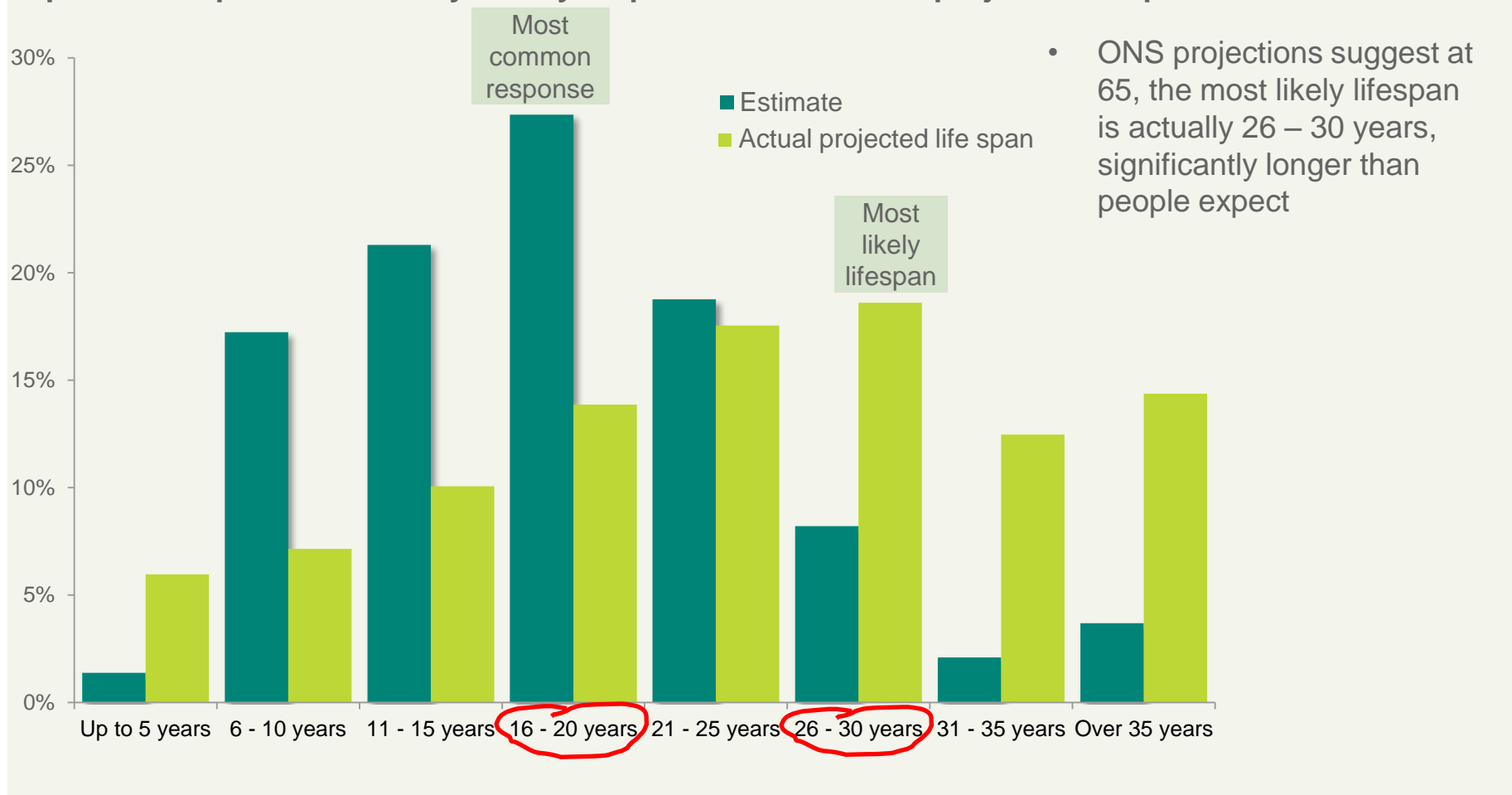
Expected lifespan at age 65 estimated by survey respondents



Source: Projected lifespans are derived from the ONS 2012-based principal projection for the UK population

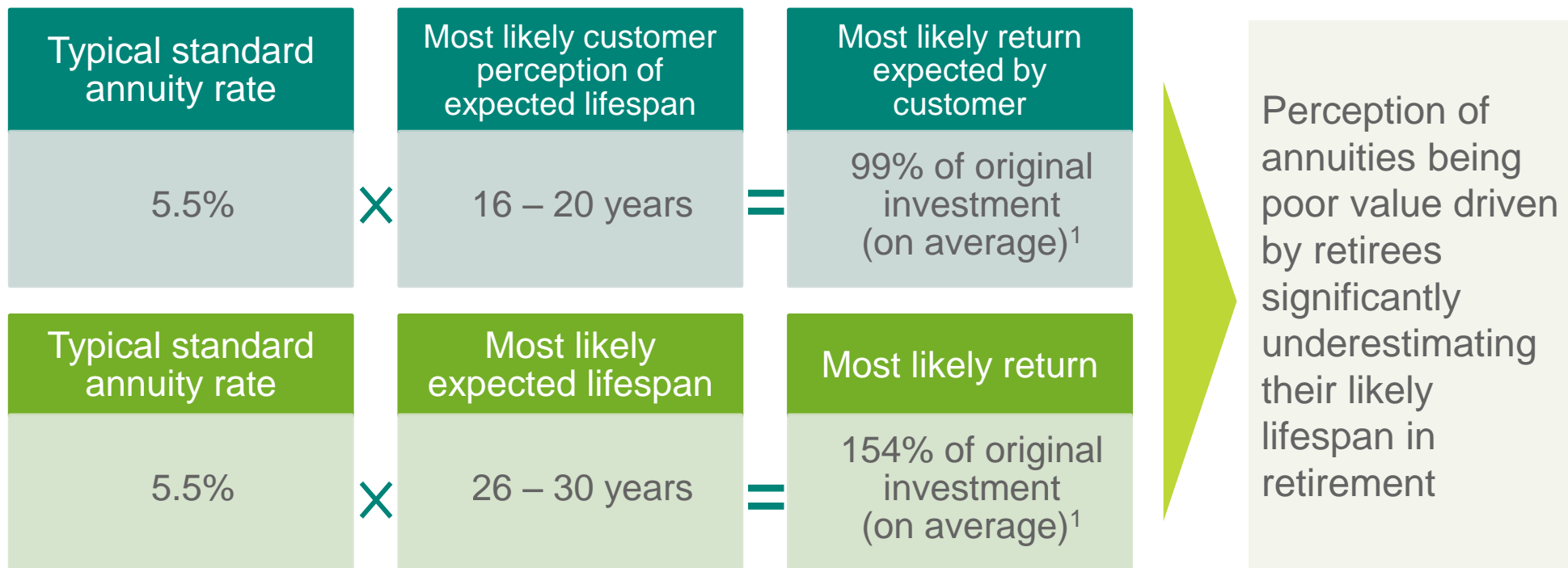
Projected lifespans are significantly longer than people expect

Expected lifespan estimated by survey respondents vs. actual projected lifespan at 65



Source: Projected lifespans are derived from the ONS 2012-based principal projection for the UK population

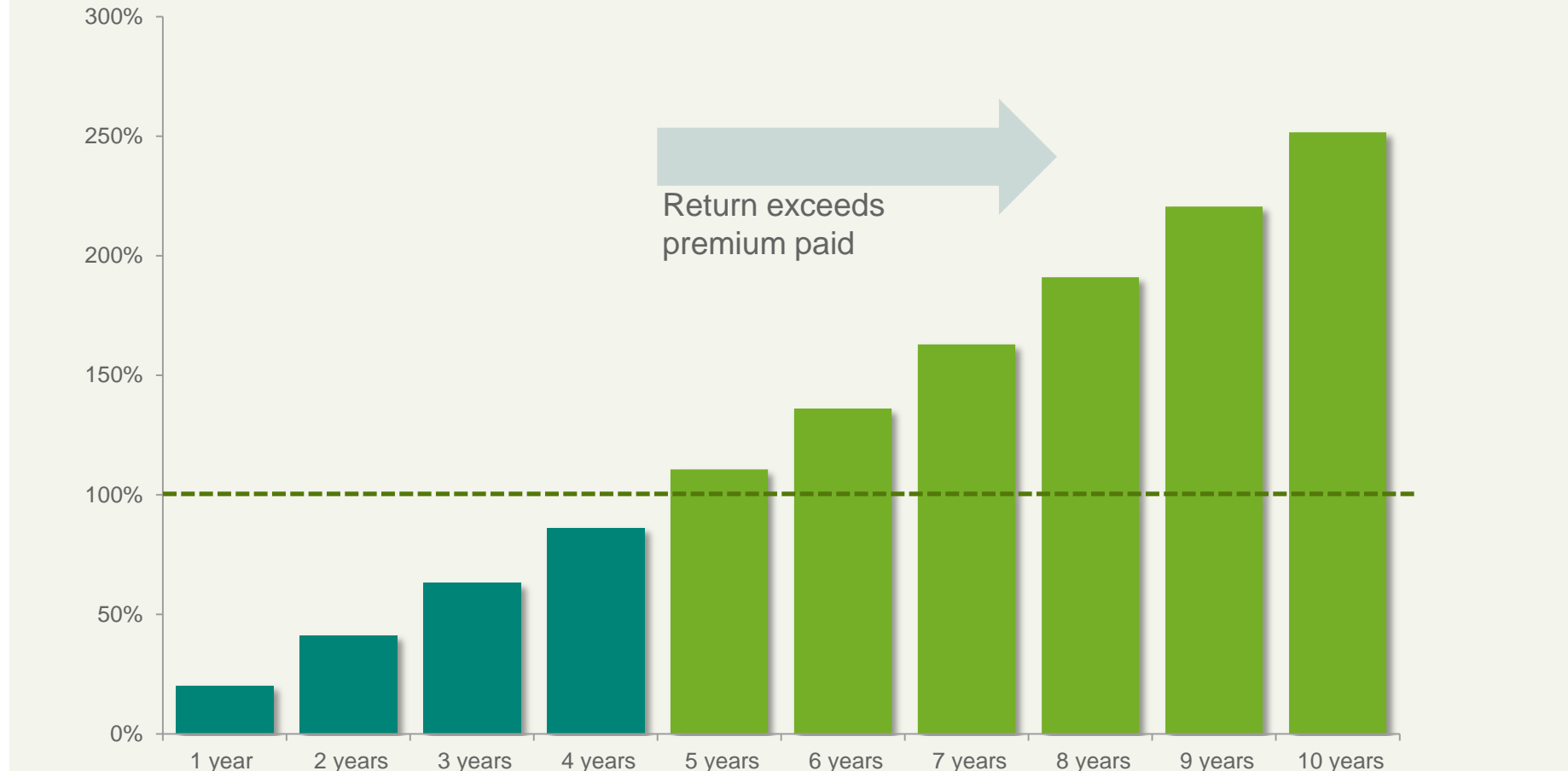
Retirees' perception of whether annuities are good value is influenced by their expected lifespan



(1) Undiscounted

The annuity proposition is most compelling when life expectancy is short, but potential lifespan long

Return on investment on a representative care annuity by survival duration



Note: Annuity income is assumed to be 20% of the purchase price and the income is assumed to escalate at 5% per annum. Amounts are undiscounted

The annuity proposition is most compelling when life expectancy is short, but potential lifespan long

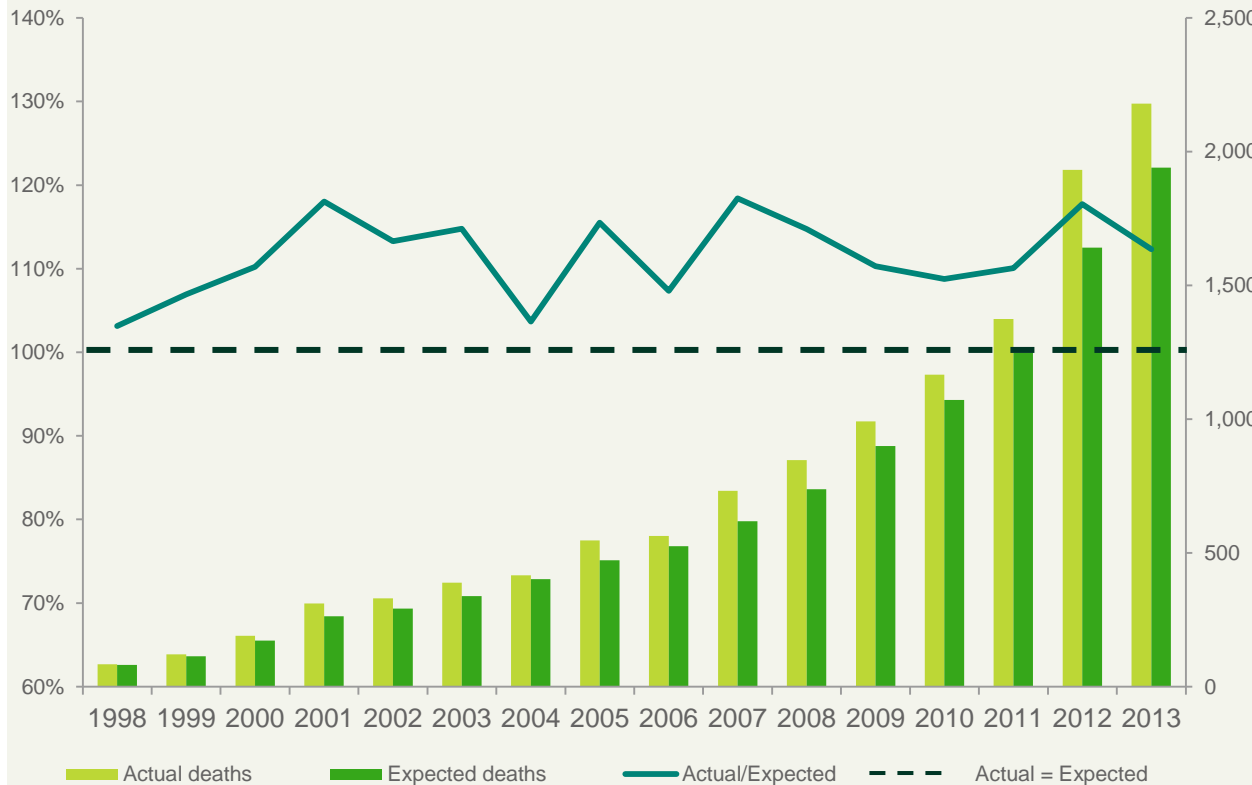
Profit/loss on a representative care annuity by survival duration



Note: Annuity income is assumed to be 20% of the purchase price and the income is assumed to escalate at 5% per annum

IP is accurate and continually improving

Annuity Historic Mortality Experience IFRS basis⁽¹⁾



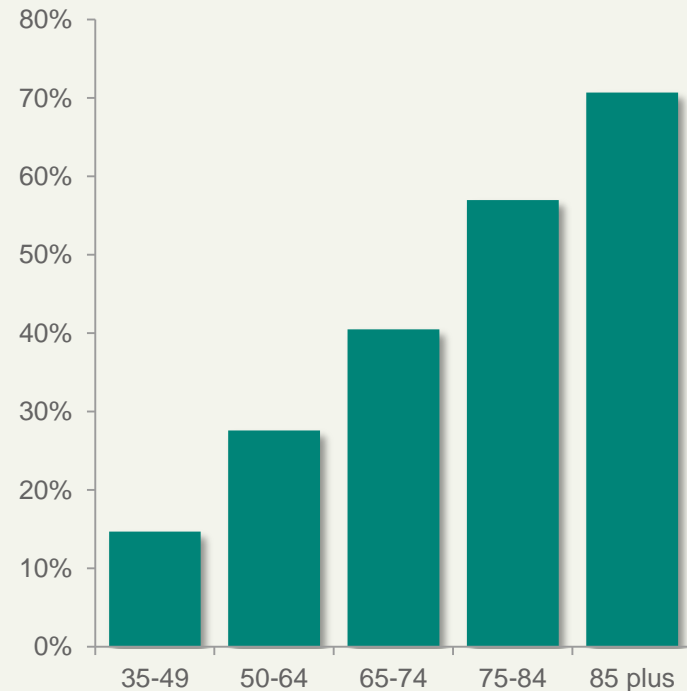
Note: (1) Expected deaths as determined by mortality assumptions used for the IFRS valuation at 31 December 2013. Includes all annuity products sold by the Group

- Proprietary IP enables accurate longevity estimate at outset of annuity
- Data collection increased with each new quote
- Underwriting tables subject to regular review cycle and continually updated to reflect new mortality experience, thereby enhancing predictive capabilities
- Shorter average duration results in quicker confirmation of actual mortality and a richer dataset
- Review process includes expert input from medical officers, as well as technical and operational underwriters
- Track record of consistent mortality experience against expectations

Partnership's IP more relevant in the 'new world'

- Long-established trend towards increasing use of underwriting in retail annuity market likely to continue
- Average age at annuity purchase likely to increase
 - Increasing likelihood of medical issues with advanced age
 - 61% of Partnership's mortality experience for enhanced annuities relates to business where the commencement age is 70 or over⁽¹⁾

Proportion of England & Wales population not in 'good' or 'very good' health, by age



Notes: (1) Based on observed number of deaths as at FY13

Source: ONS data based on 2011 Census.

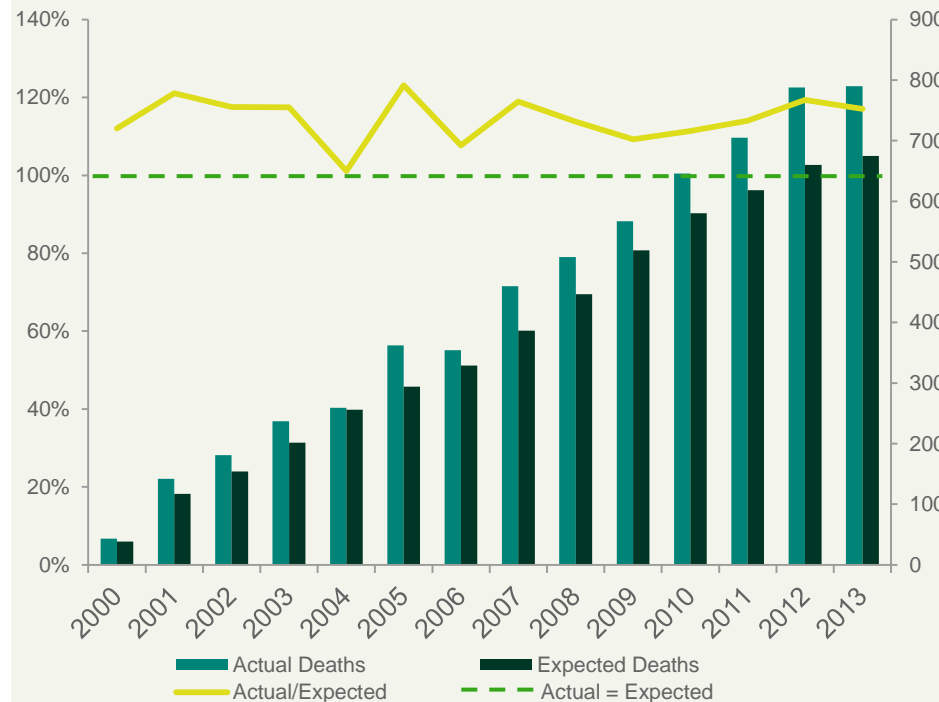
Note: Represents proportion who report health as being other than 'good' or 'very good'.

IP has been used to develop a bespoke basis for underwritten DB pensioners

- Bespoke DB basis leverages 19 years accumulated experience from writing impaired life annuity business in the retail market
- Different process for collecting medical evidence
- Careful adjustment to reflect differences (degree of health selection, typical benefit amounts, etc.)
- Multi-state modelling of marital status to capture effect of divorce/re-marriage and spouse age difference

Existing IP is directly relevant in US context

Extensive reliable UK Care experience



Notes: (1) Chart shows actual versus expected experience for care product. Expected deaths as determined by mortality assumptions used for the IFRS valuation at 31 December 2013

IP is relevant in US context

- Similar demographics and medical provision
- Analysis of US and UK mortality rates at advanced ages undertaken. Mortality differences largely eliminated by age of care entry
- Differences in care provision, disease prevalence, disability and treatment have been assessed and are allowed for in US underwriting and mortality assumptions
- Approaches for gathering and assessing underwriting information have been evaluated to ensure sufficient data can be captured to accommodate medical underwriting
- Seek to protect IP through business model and contract

Changes in the longevity landscape

1 Deceleration now evident in the pace of longevity improvement

- Underlying pace of improvement at older ages is likely to decline in the short-run
- However, the long-run case for further increase in life expectancy remains

2 Customers' perception of longevity will drive financial decisions in retirement

- Projected lifespans are significantly longer than people expect
- The annuity proposition is most compelling when life expectancy is short, but potential lifespan long

3 Partnership's IP continues to be relevant & generate value

- IP means Partnership well-placed to react to the changing retail environment (with deferral of purchase, increasing age of purchase and increasing use of underwriting across the health spectrum)
- IP has allowed Partnership to develop a bespoke underwriting and mortality basis for DB pensioners
- IP has been tested and results indicate validity for use in US

Distribution

Andrew Megson



Distribution themes

- 1 Customers still value the attributes provided by an annuity
- 2 Advisers believe annuities will play an integral part of retirement planning
- 3 Guidance Guarantee critical to consumers who do not have access to advice
- 4 Strengthened distribution arrangements position Partnership well
- 5 Emerging consumer advice models are focussed on securing basic level of guaranteed income from pension savings
- 6 The alternatives to securing a guaranteed income for life transfer risk to the consumer

Customers want the attributes that an annuity provides

ANNUITIES AREN'T SEXY BUT NOR IS FLIPPING BURGERS WHEN YOU'RE 81.

Your clients risk going back to work in retirement unless you make sure they've got enough to cover the essentials. Flip the book, add risk and running a car.

An enhanced annuity could still be the cheapest way to secure them a basic income, guaranteed for life. With our Target Income Calculator you can give them the best of both worlds. Guaranteed, with a way to add to it as well as the income they could receive from a Partnership annuity.

And that way, the next time they're in their local cafe, you can be sure to see the sign on the wall.

For more details call 0845 108 0443 or visit partnership.co.uk

partnership
seeing retirement differently

- When asked, only 16% of customers by assets say they want to buy an annuity¹, but 64% of customers rank a guaranteed income for life as the most important attribute for their retirement income²
- Media messages since the Budget have been that alternatives to annuities – cash and drawdown – can solve every issue. In the same way young families need life assurance if the worst happens too early, retirees need annuities in case it happens too late

Source: (1) PWC research poll of 2000 consumers post budget, (2) Partnership research poll of 1000 consumers over age 55

Our proposition

Partnership is forcing advisers to think about what their clients would do without the secure income an annuity provides

Annuities used to secure basic income needs

The image shows three overlapping screenshots of the Partnership financial planning software. The top-left screenshot is titled 'EXPECTED EXPENDITURE' and shows a list of 'ESSENTIALS' and 'OTHER HOME COSTS'. The top-right screenshot is titled 'YOUR CLIENT'S HEALTH' and shows a table with columns for 'HEALTH', 'AGE', and 'RISK'. The bottom screenshot is titled 'YOUR CLIENT'S GUARANTEED INCOME PAYMENTS' and shows a table with columns for 'PAYMENT', 'START DATE', and 'END DATE'. At the bottom of the software interface, there are buttons for 'A Basic Income', 'A Target Income', and 'Q & A'.

- There is already a change in the adviser market in how annuities are perceived – from being viewed as a default option to being seen as a vehicle for providing a baseline level of secure income to meet essential spending needs
- Larger distributors are building business models based on this approach and along with the main quotation portals, are asking for quotes based on a target income rather than a starting fund size

Our proposition

Target income calculator helps advisers and clients calculate a shortfall and the amount of fund required to meet it

Guaranteed income valued by retirees but customer behaviour will depend on effectiveness of guidance

Top feature	% of responses	Provided by an annuity?
Guaranteed income for life	64%	Yes
Getting as much income as possible	31%	Yes – Best Buy standard/enhanced product
Income which keeps track with inflation	24%	Yes – RPI product
Structured to be as tax efficient as possible	21%	Yes – Pension transferred to annuity remains within tax wrapper and allows 25% fund tax free
Control over how much income received each month	17%	Not under current rules, but possible post April 2015

Effectiveness of guidance critical

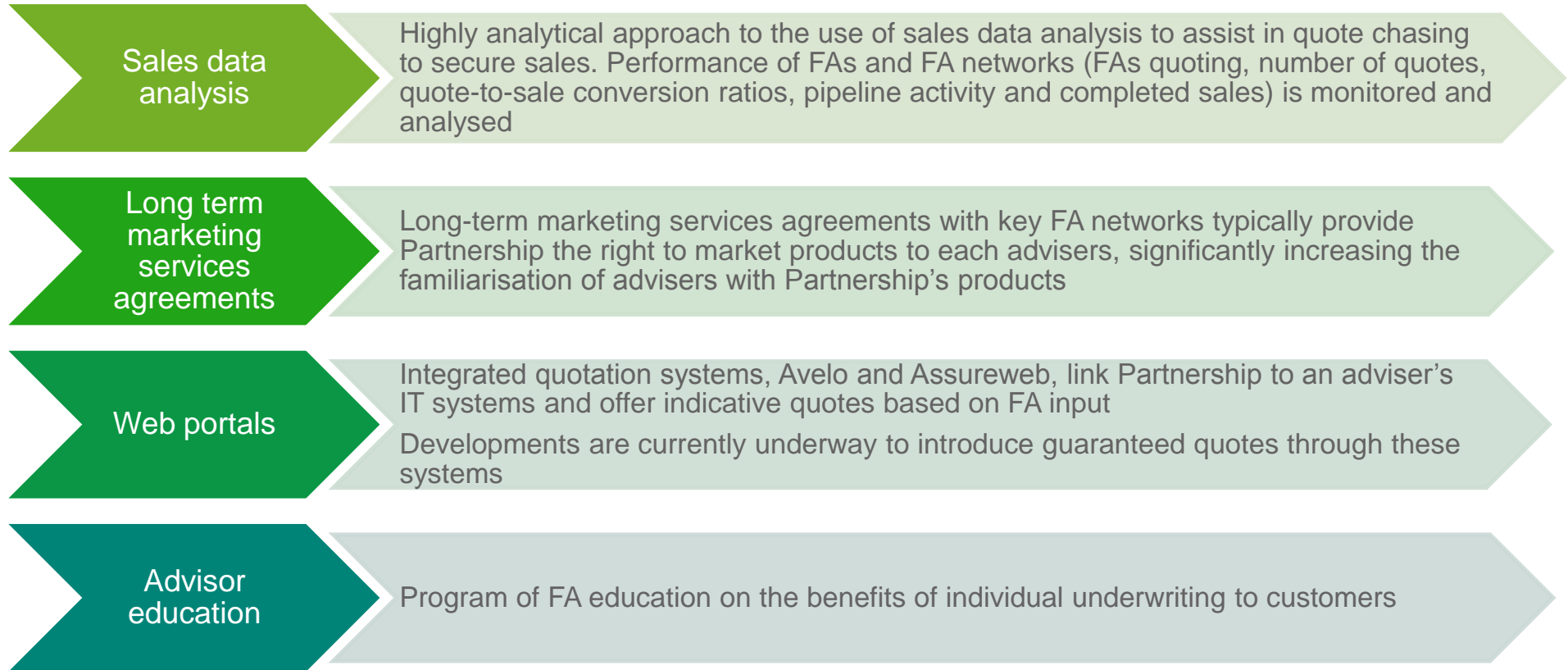
- Potential for guidance provided by the Citizen’s Advice Bureau and the Pensions Advice Service to materially increase Partnership’s addressable market
- Insufficient clarity at this stage as to how the guidance guarantee will operate, what guidance is likely to be given and how effective it will be in identifying the most appropriate products for customers



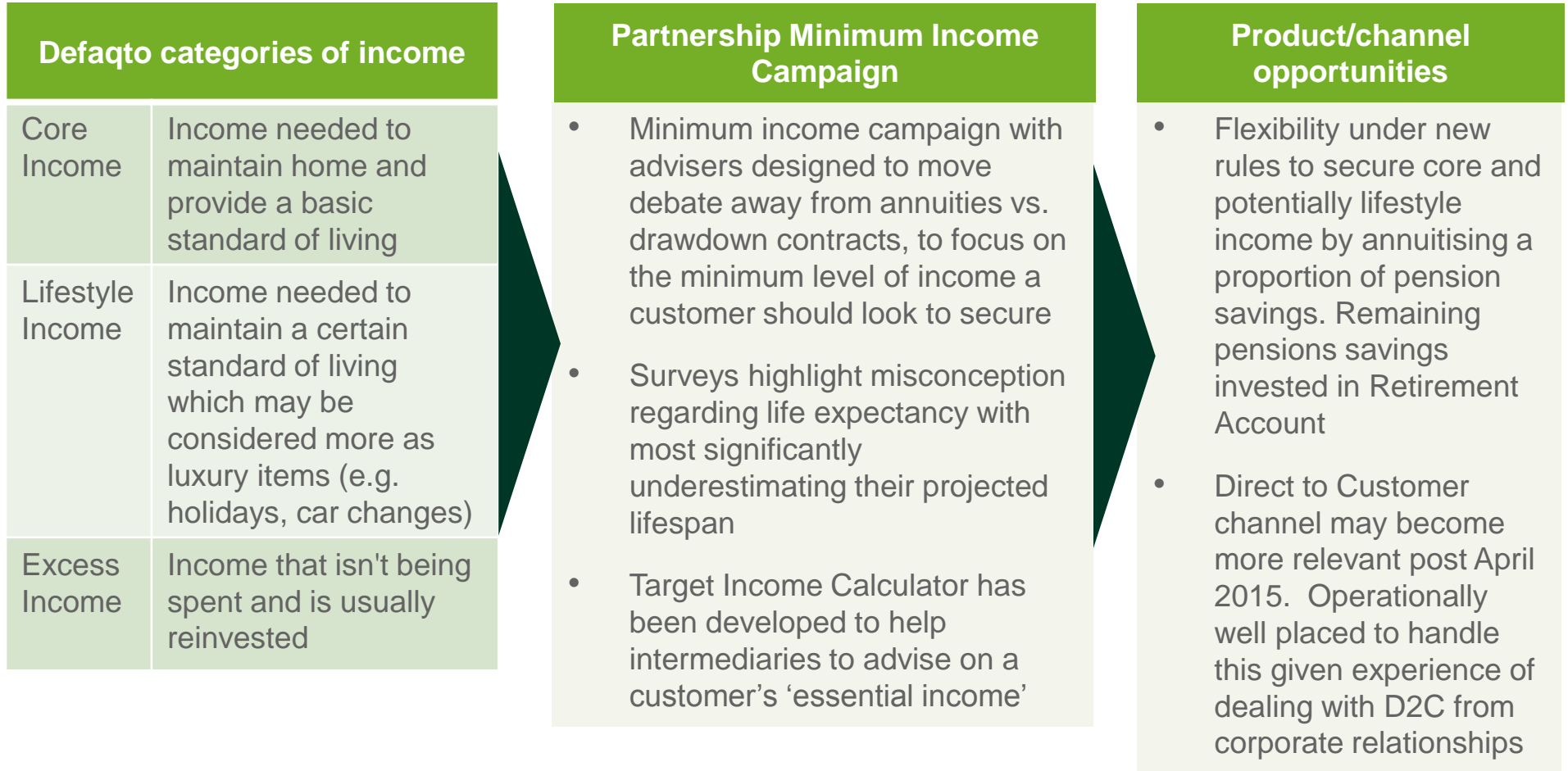
Strengthened distribution arrangements position Partnership well

Target	Strategy	
<p>1</p> <p>Network and Specialist IFAs</p>	<p>Network IFAs</p> <ul style="list-style-type: none"> ➢ Agreements provide: (i) Marketing of individually underwritten annuities to member IFAs, (ii) Access to events/ seminars as sole individually underwritten annuity provider, and (iii) participation in networks' learning and education programme ➢ Positions on Restricted Panels set up by Networks ➢ New arrangement as lead professional partner with Personal Finance Society: access to 32,000 advisers: de-risks any RDR impact on networks 	<p>Specialist IFAs</p> <ul style="list-style-type: none"> ▶ Sales team with approach tailored to reflect needs of specialist IFAs to capitalise on the fastest growing distribution segment ▶ Divergence between Traditional and "New Breed" Specialist IFAs ▶ Partnership has strong penetration in "New Breed" as they have health questions included in "fact find" process
<p>2</p> <p>Corporate Partners</p>	<ul style="list-style-type: none"> ▪ Insurance companies: Partnership entered into exclusive agreements with leading pension companies (e.g. Standard Life) to provide their customers with NSAs ▪ Banks: Offer broad distribution (branch, web, telephone) ▪ Retail: Brands may in the future be used to attract customers, thereby broadening Partnership's distribution reach 	
<p>3</p> <p>EBCs</p>	<ul style="list-style-type: none"> ■ Pensions scheme sponsors expected to significantly reduce exposure to defined benefit liabilities over next 10-15 years ■ Significant market opportunity through de-risking solutions <div style="text-align: center; margin-top: 10px;"> <pre> graph LR Partnership[Partnership] --> EBC[EBC] EBC --> DBPST[DB Pension Scheme Trustees] </pre> </div>	

Increased presence in IFA segment via key initiatives



Emerging consumer advice models



The alternatives to securing a guaranteed income for life result in risk being transferred to the consumer

For authorised financial advisers only
— not for retail clients

ANNUITIES AREN'T SEXY BUT NOR IS FLIPPING BURGERS WHEN YOU'RE 81.



Your clients risk going back to work in retirement unless you make sure they've got enough to cover the essentials. Things like food, utility bills and running a car.

An enhanced annuity could still be the cheapest* way to secure them a basic income, guaranteed for life. With our Target Income Calculator, you can give them an idea of how much pension fund they'll need to set aside for it, as well as the income they could receive from a Partnership annuity.

And that way, the next time they're in their local café, you can be sure it's on the right side of the counter.

For more details call 0845 108 0443
or visit partnership.co.uk

 **partnership**
seeing retirement differently

*Source: Partnership data 2014. Compared to a standard annuity and depends upon individual circumstances. Telephone calls may be recorded for training and monitoring purposes. Local call rates will apply. Partnership is a trading style of the Partnership group of Companies, which includes Partnership Life Assurance Company Limited (registered in England and Wales No. 06161252). Partnership Life Assurance Company Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Business model
update

Changes in the
longevity
landscape

Distribution

Defined benefit
proposition

International

Current trading,
costs & balance
sheet

Summary and
Q&A

Defined Benefit proposition

Costas Yiasoumi



Defined Benefit de-risking represents a significant opportunity for Partnership

1 A huge bulk annuity opportunity for Partnership

- c.6,000 UK DB pension plans valued at £2 trillion. Many are on journey to eventual bulk annuity purchase
- In our core market, c.200 transacted in 2013 paying premiums of £3.2 billion
- The various pressures encouraging bulk annuity purchase were unaffected by the Budget

2 Upbeat market reception

- Many employee benefit consultants have embraced medically underwritten bulk annuities and are actively taking this to clients
- Apprehensions about medically underwritten bulk annuities have been methodically dealt with

3 New infrastructure to support a scalable business has come on stream over 2014

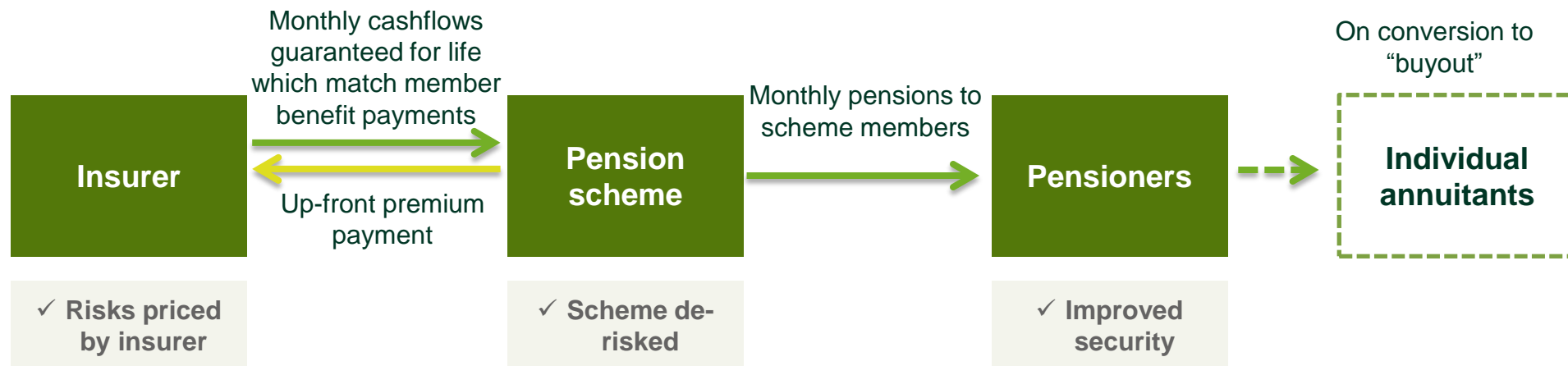
- Significant build project coming on-stream to support a broader proposition and DB specific infrastructure
- The core team has bedded in; externally recruited hires with DB backgrounds complement internal redeployments

4 Outlook positive. Quarterly performance will be lumpy until volumes build

- Market share of medically underwritten bulk annuities significantly up on 2013
- Large deal sizes means quarterly performance will be variable quarter to quarter, until volumes become more predictable

Our innovation to bulk annuities - a step change in pricing sophistication

Bulk annuities – the traditional approach



Bulk annuities – the Partnership approach

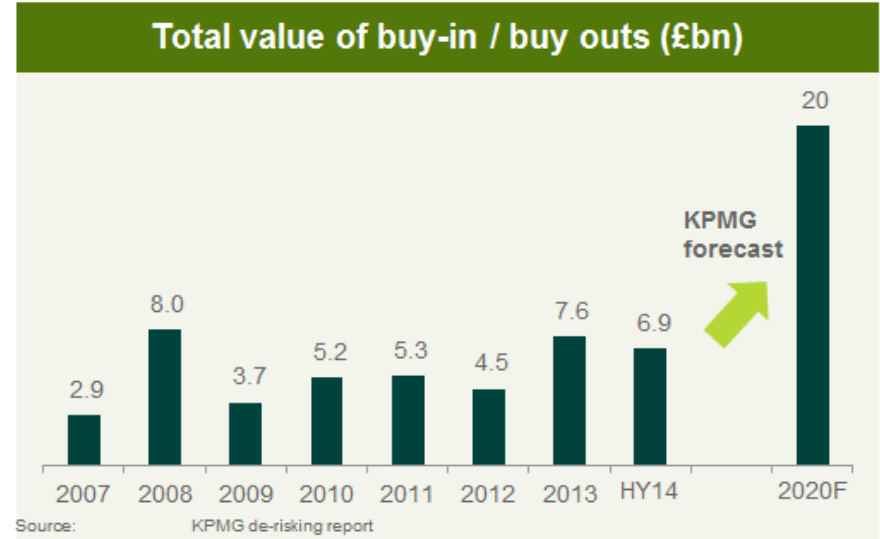
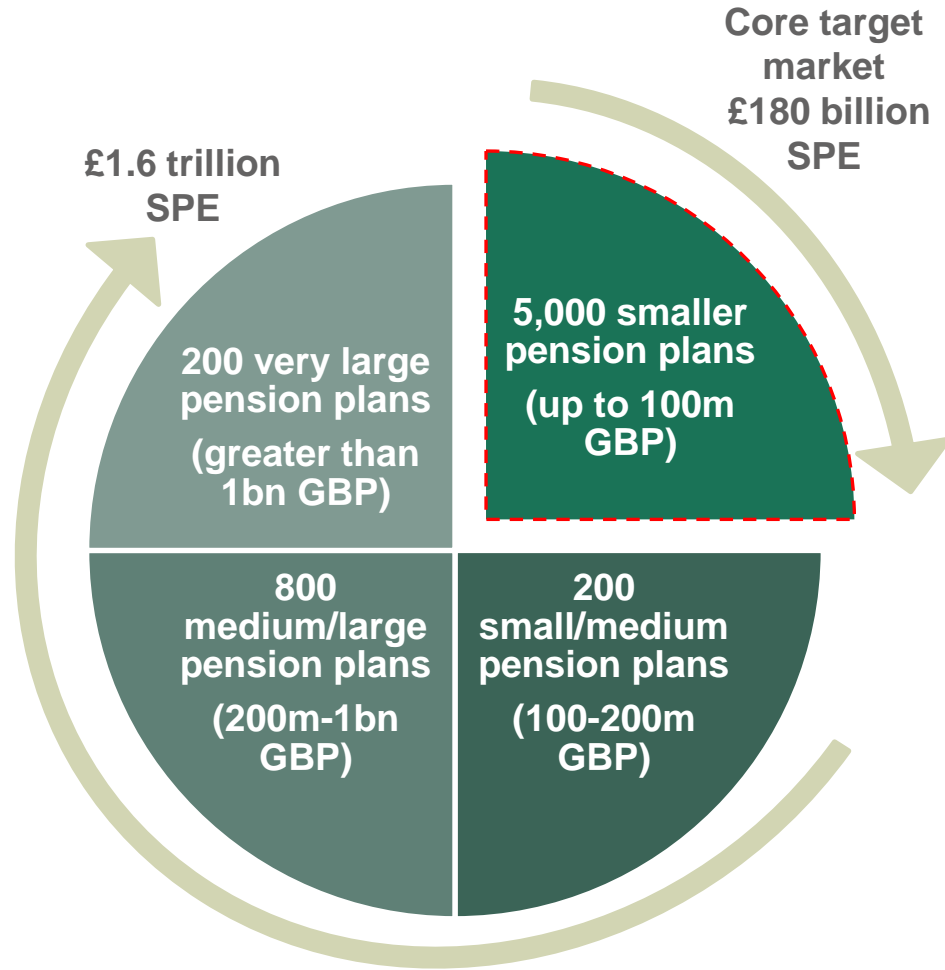
The traditional approach

- Life expectancies estimated using proxy rating factors to allocate pensioners into broad based groupings
- Rating factors include gender, age, postcode, pension amount and employer industry type
- Experience data cannot be credibly used for smaller pension plans

The medically underwritten innovation

- Partnership uses expertise and IP in medical underwriting to more accurately assess life expectancies
- Done by obtaining medical and lifestyle data from selected pensioners
- Considerably increases the credibility of life expectancy calculations for smaller pension plans

The bulk annuity opportunity is huge



	Core target market <£100m schemes	>£100m market segment
No of schemes	5,000	1,200
Total SPE	£180 billion	£1.6 trillion
2013 deals	208 / £3.2 billion	11 / £4.3 billion
Deal style	More straightforward	More complex
Partnership presence	Will underpin regular DB flow business in time	Top slicing and selective annuitisation

Source: Company analysis
Note: Chart not to scale

Communication of our proposition has been aligned with client needs

1. Complete buy-in or buyout

- Targets small/medium size plans
- Potential for premium saving
- Targeted member underwriting
- Can be applied to whole schemes

Trustee rationale for purchasing product

Medically underwritten bulk annuities are potentially cheaper than a traditional bulk annuity

Target market

Existing sub £100m sector

208 deals in 2013 totalling £3.2bn

2. Top Slicing

- Pension scheme funding prudent
- Removes concentration risk
- Potential for large premium saving
- Can work for all scheme sizes

Medical underwriting possibly cost effective for insuring larger lives

Growing deal activity

Area for development

Traditional bulk annuity pricing is seen as prudent for larger lives

3. Selective risk removal

- Medical underwriting is truly individual - trustees can “cherry pick”
- Get quotations for largest lives
- Only insure those showing the best result of cost vs risk reduction

Medically underwritten bulk annuities offer the ability to pick and choose the pensioners to insure

Growing interest

Area for development

Pricing is truly individual

Marketing has been up-scaled to promote the proposition

- Considerable increase in marketing activities
- Education sessions with market stakeholders to demystify perceived complexities
- Promotion of the medically underwritten proposition
- External facing material has been revamped to align with market expectations



FOR PROFESSIONAL CLIENTS ONLY
NOT FOR RETAIL USE OR DISTRIBUTION



BUYOUT CONFERENCE
JLT EMPLOYEE BENEFITS 2014

LEADING THE WAY IN A DEVELOPING MARKET

Agenda

- 09.00 – 09.45**
Charting the journey so far
De-risking is nothing new, we'll look at how the market has developed so far and look at the ripple effects from the Budget 2014.
- 09.45 – 10.30**
Exploring Liability Management
We'll discuss how the budget has implications across the range of traditional exercises as well as potentially creating new ones.
- 10.30 – 11.00**
Refreshments
- 11.00 – 11.45**
Discovering why Medical Underwriting could be part of every solution
Previously seen as having a glass ceiling, Partnership Assurance will explain how this solution is proving to have something to offer to schemes of all sizes.
- 11.45 – 12.30**
Mapping the future
We'll provide an insight into a new breed of solutions designed to keep pace with the evolutionary steps to come in this exciting market.

partner
seeing retirement differently

partnership
seeing retirement differently

HOME BENEFITS PROCESS CASE STUDIES FAQs DOWNLOADS

DEFINED BENEFIT SCHEME DE-RISKING

WHY ACCEPT AVERAGE WHEN YOU CAN HAVE ENHANCED?

THE OPPORTUNITY

De-risking via a bulk annuity policy (a buy-in and buy-out) offer significant benefits to trustees, corporate sponsors and members alike. Most de-risking techniques use an assumption that members are in average health to determine the premium the sponsor must pay.

Average health will mean an average premium and this doesn't allow for any actual health or lifestyle details to be taken into account. This creates a cross-subsidy where those in below average health are paying too high a premium and vice versa.

Enhanced de-risking, also known as medically underwritten de-risking, takes into account the actual health and lifestyles of individual scheme members. By underwriting the members on an individual basis, the scheme will pay a premium based upon the health of its membership and this has the potential to significantly reduce the premium paid.

The Pensions Institute research paper "A Healthier Way to De-risk" (February 2013) states this could be "about 10% - much more in certain cases".

This can particularly benefit for:

- Small to medium sized schemes - liabilities centered around a small number of members creates the opportunity for greater variance in longevity and hence variance in premium
- A handful of members with large benefits from a scheme of any size - "top-slicing" tackles the concentration risk which traditional insurers dislike leading to premium with high loadings

LATEST NEWS

- TAKING RISK OFF THE TABLE** 06/10/2014
Partnership's research survey...
[Read More](#)
- PMI AND PARTNERSHIP JOIN FORCES** 01/10/2014
We provide valuable insight and education...
[Read More](#)
- MEDICAL UNDERWRITING CAN HELP SOME SCHEMES ACHIEVE A LOWER PREMIUM** 01/09/2014
Increasing trend for competitive processes...
[Read More](#)

CONTACT US

Phone: 0845 108 0443*
Mon-Fri 9am - 5pm

Business model update

Longevity trends and challenges

Distribution

Defined benefit proposition

International

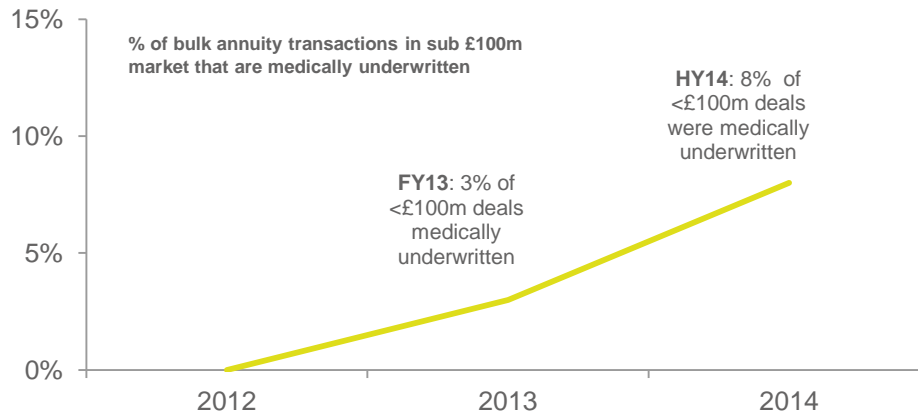
Current trading, costs & balance sheet

Summary and Q&A



Growth in medically underwritten solutions for <£100m schemes is accelerating...

Growth in medical underwriting for <£100m DB deals



“The medically underwritten buy-in market is developing rapidly. We are seeing rapidly growing interest from pension schemes of all sizes, and as a result, we expect medically underwritten buy-ins to reach £500m by the end 2014.”

James Mullins, Partner and Head of Buy-out Solutions, Hymans Robertson, 11 September 2014

The transition to medically underwritten may be faster in DB market than in the retail market

- ✓ Medical underwriting already established in the retail market – no proof of concept needed
- ✓ DB pension schemes are sophisticated, informed and highly advised buyers
- ✓ Trustees have access to employee benefit consultants (“EBCs”) who provide leading advice

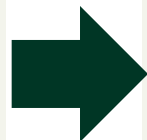
Positive indicators

- ✓ Medically underwritten pipeline deals received from all the major UK EBCs
- ✓ Many deals are now coming straight to market as medically underwritten
- ✓ Two major EBCs have set up in house medical data collection services to support DB deals

...but the benefits of medically underwriting are not limited to <£100 million schemes

Issue

- Larger pension schemes not seen as a suitable segment for medically underwritten bulk annuities because perception is that medical data would simply confirm what average based traditional pricing offers



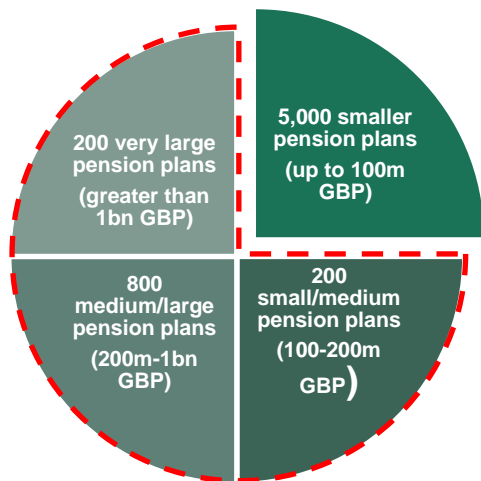
Partnership approach

- Actively promoting the concept of “top slicing”
- Traditional bulk annuity pricing is seen as prudent for individuals with large pensions as pricing relies on limited rating factors such as postcode and pension amount
- Obtaining medical data allows prudence to be released

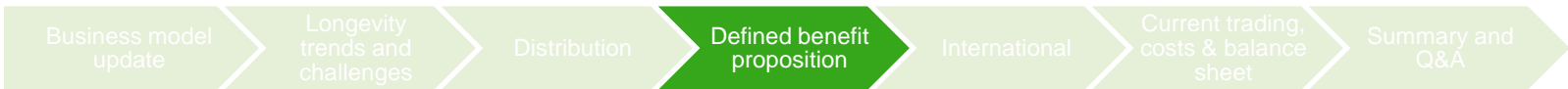


Outcome

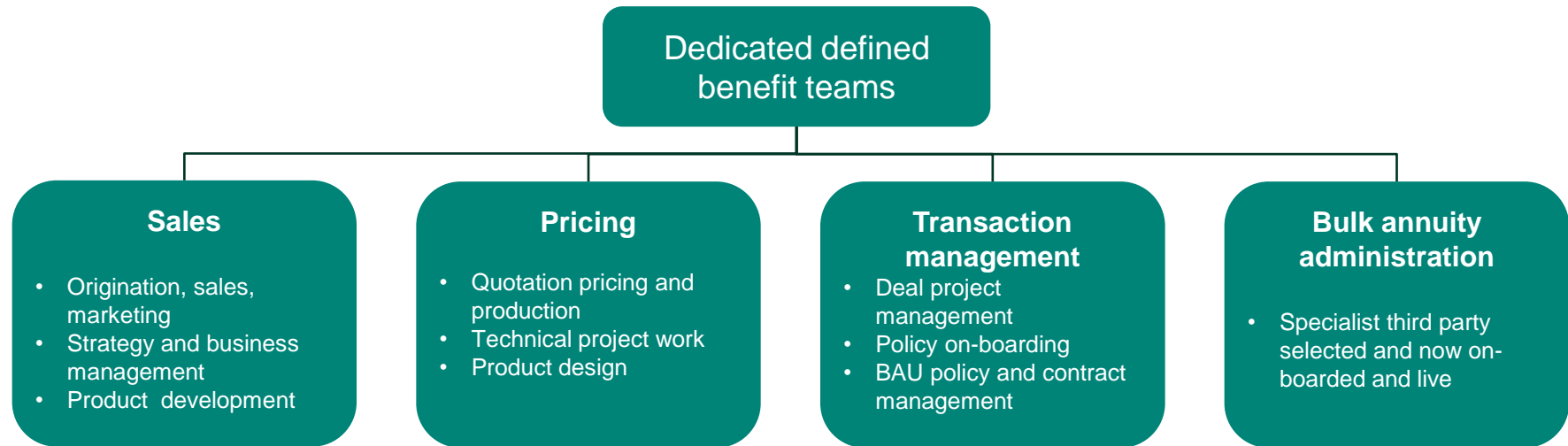
- EBCs have reacted positively to top slicing
- The result is that our target market can increase significantly to encompass sub-portfolios for pensions plans >£100 million



Focussed objectives will capitalise on the opportunity



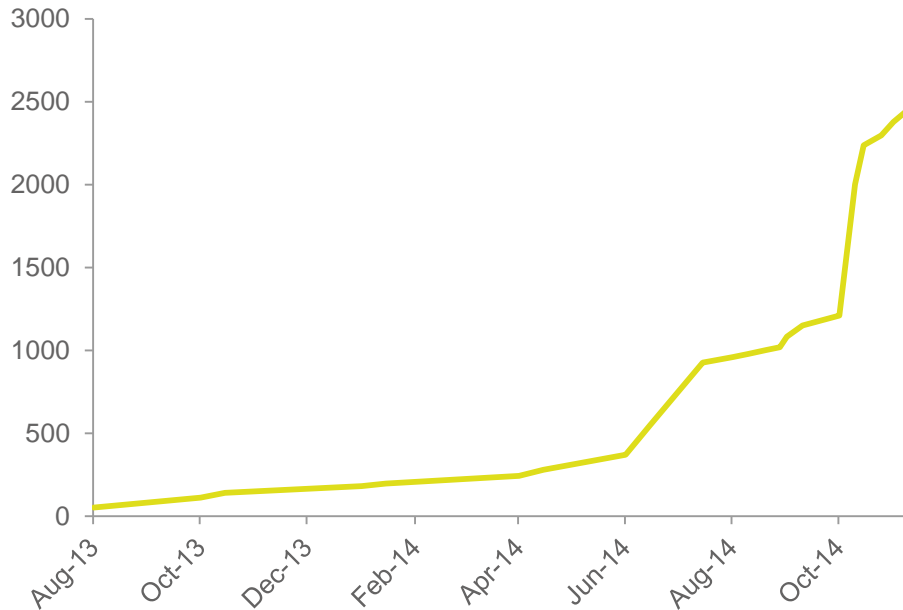
A dedicated, experienced team now in place



- Leveraging existing in house retail expertise e.g. asset management, Actuarial Function Holder
- Complement internal redeployments with external hires with deep DB backgrounds

The transactions pipeline is strong and growing...

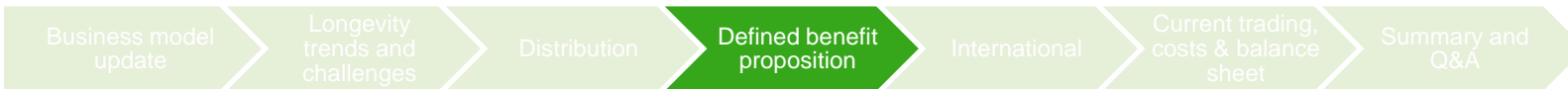
Number pensioners engaged for medical underwriting in bulk annuity deal processes



Source: Morgan Ash

Activity	Number of deals in pipeline has increased significantly over 2014
Penetration	Every major EBC has now requested a quote
Maturing	Over 90% of deal processes are now multi-insurer
Larger schemes	Around a quarter of the advanced pipeline (by number of deals) are top-slicing transactions

...but quarterly completions will remain lumpy due to the relatively large size of some potential deals and lengthy deal processes



Defined Benefit de-risking represents a significant opportunity for Partnership

1 A huge bulk annuity opportunity for Partnership

- c.6,000 UK DB pension plans valued at £2 trillion. Many are on journey to eventual bulk annuity purchase
- In our core market, c.200 transacted in 2013 paying premiums of £3.2 billion
- The various pressures encouraging bulk annuity purchase were unaffected by the Budget

2 Upbeat market reception

- Many employee benefit consultants have embraced medically underwritten bulk annuities and are actively taking this to clients
- Apprehensions about medically underwritten bulk annuities have been methodically dealt with

3 New infrastructure to support a scalable business has come on stream over 2014

- Significant build project coming on-stream to support a broader proposition and DB specific infrastructure
- The core team has bedded in; externally recruited hires with DB backgrounds complement internal redeployments

4 Outlook positive. Quarterly performance will be lumpy until volumes build

- Market share of medically underwritten bulk annuities significantly up on 2013
- Large deal sizes means quarterly performance will be variable quarter to quarter, until volumes become more predictable

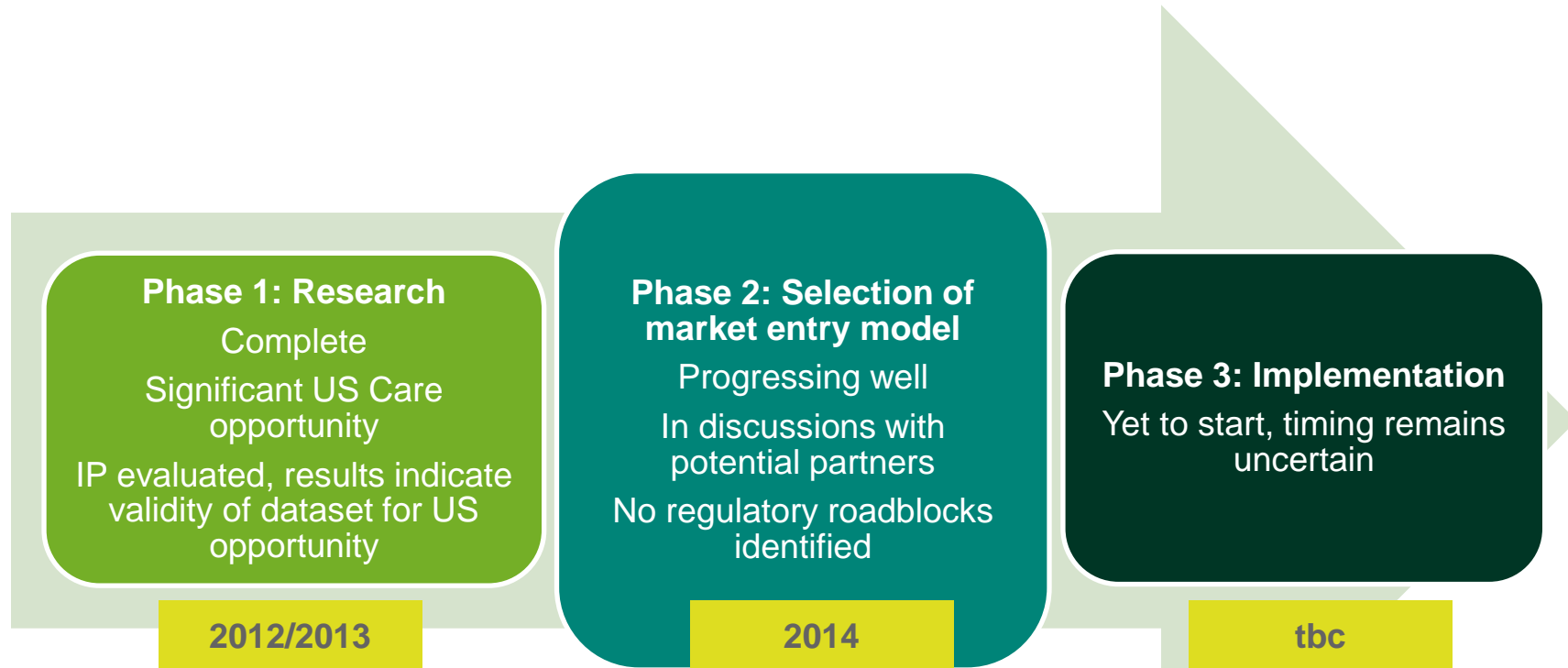
International Mark Dearsley



US opportunity is significant

- 1 Significant opportunity identified for point of need care annuity in the US
- 2 Limited alternative products or options currently available to customers
- 3 IP has been tested and results indicate validity for use in US
- 4 Market entry via reinsurance delivers attractive risk/reward balance and speed to launch
- 5 Advanced discussions with US partners are progressing well

Recap on international



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

Research into international opportunities commenced over two years ago



- Research into international opportunities commenced over two years ago with assistance from Oliver Wyman
- Range of economies in Europe and North America assessed and ranked based on potential and achievability
- US selected on combination of size and likelihood of success
- Dedicated management team with experience of international expansion focussed exclusively on this opportunity
- Current discussions with partners in US are natural evolution of this journey



Point of need care annuity

Proposition

- Point of need Long Term Care funding solution
- Medically underwritten Single Premium Immediate Annuity
- Focused on 85% of US care residents who have not planned for care
- Partnership has led UK market for 15 years
- Product tailored to meet US regulatory requirements and norms

IP provides barrier to entry and will be protected

IP Protection

- Seek to protect through business model and contract

Competition

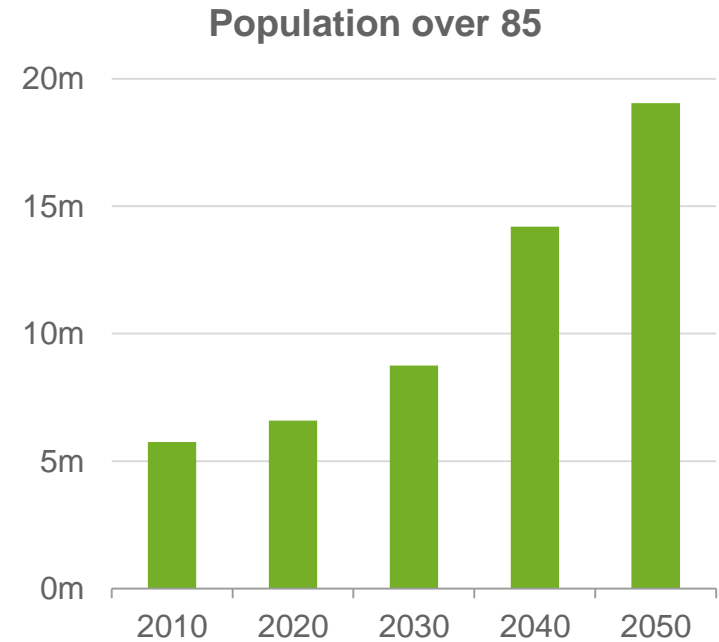
- Success is likely to breed competition, but will also raise awareness of product; market is big enough for other participants
- Over time, dataset could be replicated but likely to take several years and mortality tail will not be clear for much longer
- Early years likely to be capital intensive for a new entrant due to lack of experience data for reserving

Data relevant to target market

	Partnership	LTCI claimants	Impaired annuities	Life settlements
Target market (80+ care users)	✓	✓	✗	✗
Fully underwritten at right time	✓	✗	✓	✓
Care-based underwriting factors	✓	✗	✗	✗

US long term care provision is a large and growing market

Care Setting	Description of care setting	Annual Spend	Population receiving LTC	New entrants p.a. ⁽¹⁾	Self fund
Assisted Living	For residents who are not able to live independently, but may need personal care or assistance with meal preparation	\$50bn	1,200,000	300,000	\$30bn
Skilled Nursing (long stay only)	Staffed 24 hours a day by medical staff for those with chronic conditions requiring long term care or those needing a shorter term acute recovery period after hospitalisation	\$55bn	1,000,000	250,000	\$10bn
Home Health (long duration only)	Where caregivers are hired to provide care in the home	\$40bn	1,300,000	300,000	\$5bn
TOTAL		\$145bn	3,500,000	850,000	\$45bn



SOURCE: US Census 2010 National Projections

NOTES: (1) Excludes movements between different care settings
 SOURCE: Towers Watson analysis of incidence/duration for US care stays

Proposition resonates with wide range of interested parties

- Certainty of lifelong income to fund care
- Protection of residual assets
- Avoid Medicaid dependency

Customer



- Peace of mind
- No call on family resources
- Potential early access to residual assets

Family



- Self-funder fees guaranteed
- Marketing opportunity for new residents

Senior Living Facility



- Positive solution to address key policy area
- Reduction in Medicaid costs

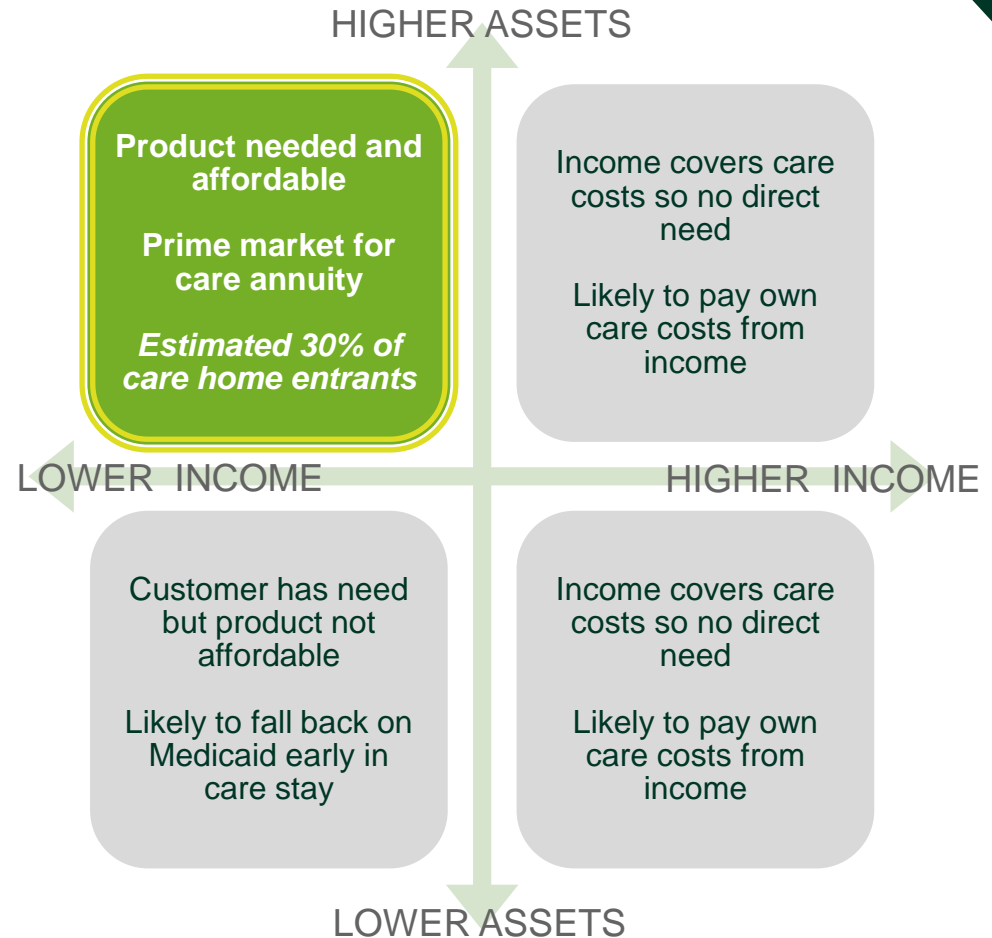
Government



- Focus Groups
 - Strong response from customers and advisers
- Quantitative Customer Research
 - Carried out by Maddock Douglas
 - Significant opportunity confirmed
- Limited options at point of need
 - 90% don't have Long Term Care Insurance (LTCI)
 - Self insurance
 - Medicare/ Medicaid/ Veterans Benefits
 - Single Premium Immediate Annuity (SPIA) (mostly non-underwritten)

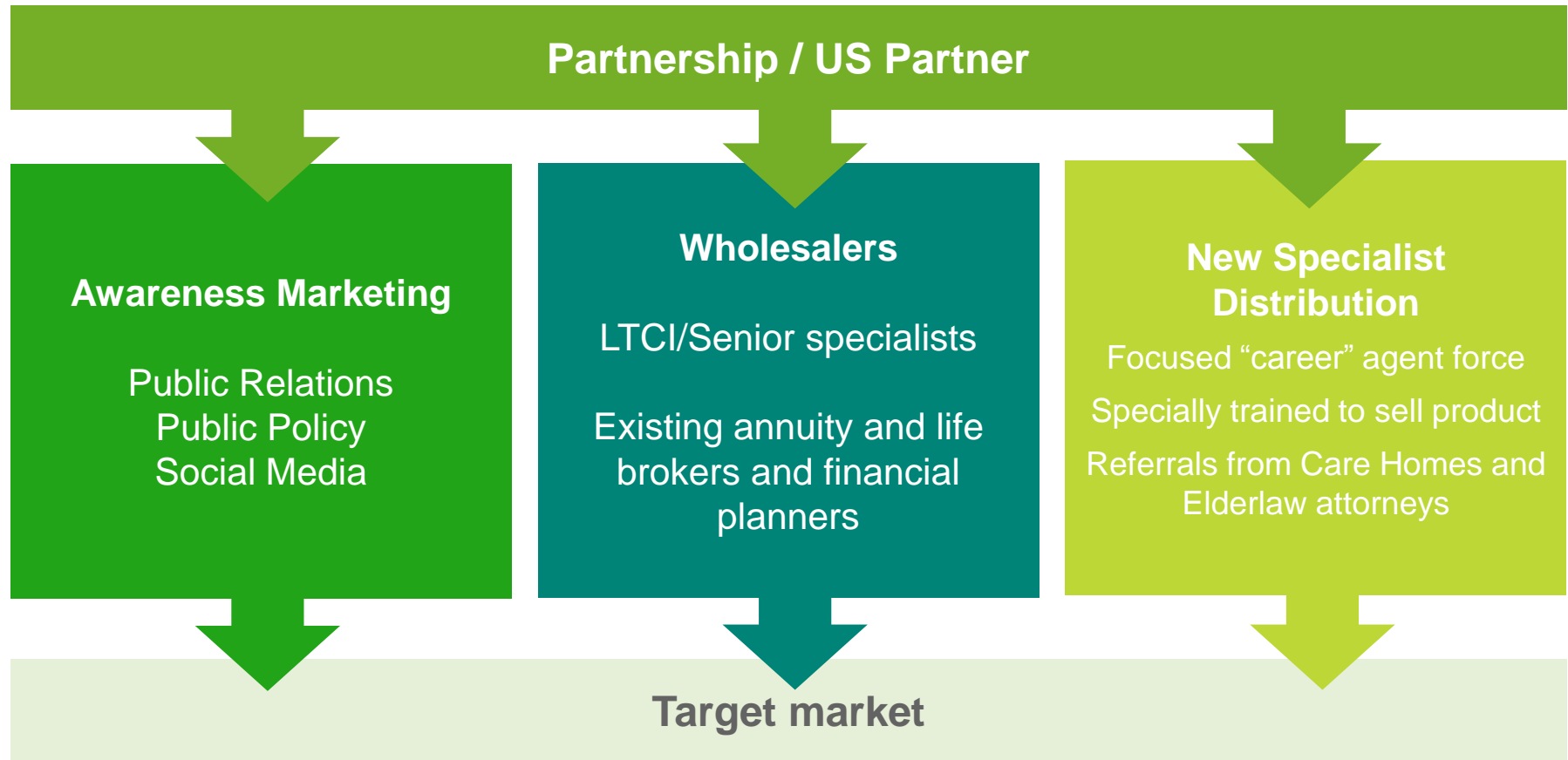
A significant subset of US care entrants have an income shortfall but sufficient assets to address it

- Analysis of national income and asset data suggests 1m of care residents (c.30%) have:
 - Sufficient assets to fund the income shortfall for the average stay in care
 - Insufficient income to pay for all their care costs on an extended basis
 - Average shortfall of \$33,000 p.a.
 - No LTCI
- Quantitative market research suggests opportunities outside core top left quadrant
 - Children funding purchase for parents
 - Insurance to protect residual income
 - Opportunities for those in receipt of informal care

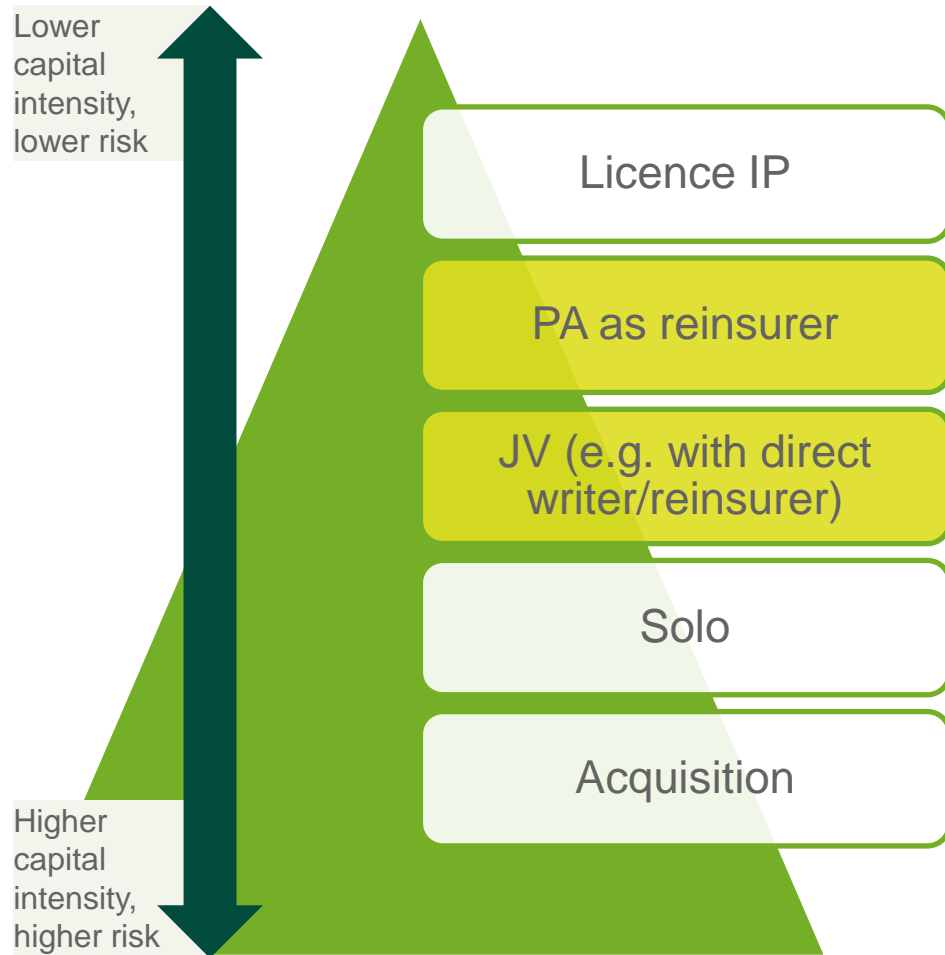


Source: Towers Watson modelling based on national income/asset data for over 85s

New specialist channel would provide depth while broad market can be accessed through wholesalers



Reinsurance based arrangement provides attractive balance of risk and reward



- Range of market entry options considered, with varying implications for risk and reward
- Focus on minimising impact on capital, risk and on UK business and maximising control of IP, returns, and speed to market
- Reinsurance arrangement selected as preferred market entry approach with an existing player in the US who has deep understanding of market
- This approach combines the strengths of both parties, allowing Partnership to take the risks we understand whilst allowing the US partner to take on the tasks that they understand well and would be new to us

Potential division of activities	
Partnership	US Partner
<ul style="list-style-type: none"> • Underwriting and pricing • Longevity and investment risk 	<ul style="list-style-type: none"> • Distribution • Commission payments • Policy administration • Brand • Regulatory permissions

Positive outlook for US launch

- 1 Significant opportunity identified for point of need care annuity in the US
- 2 Limited alternative products or options currently available to customers
- 3 IP has been tested and results indicate validity for use in US
- 4 Market entry via reinsurance delivers attractive risk/reward balance and speed to launch
- 5 Advanced discussions with US partners are progressing well

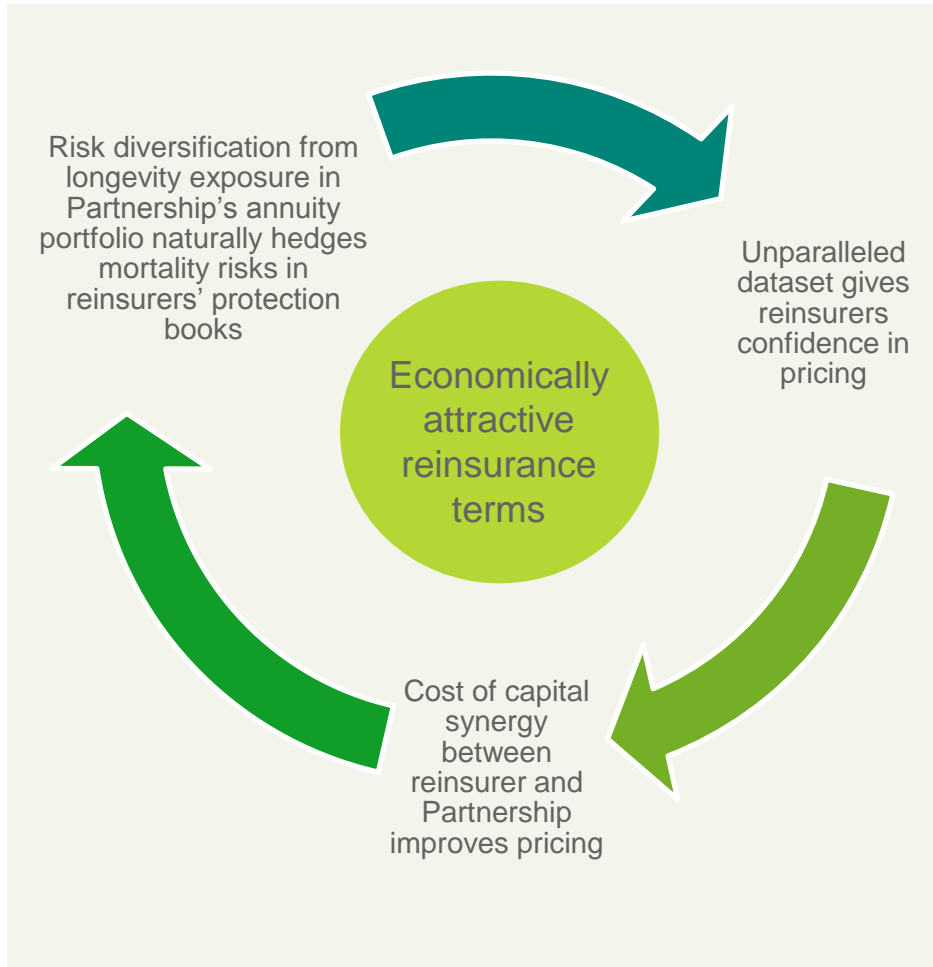
Current trading, costs and balance sheet

David Richardson

63



Reinsurance secured on attractive terms reduces longevity risk and improves capital efficiency

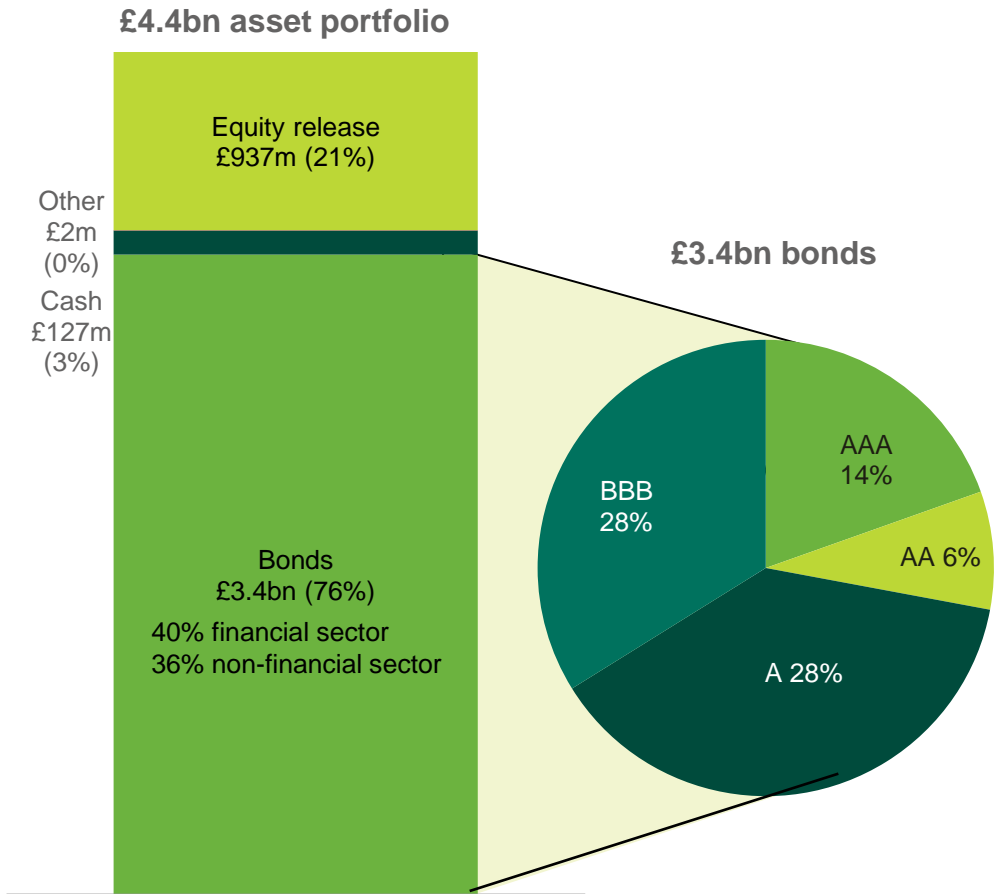


- 66% of in-force longevity risk reinsured
- Risk transferred to reinsurers, reducing volatility of earnings. No financial reinsurance in place
- Capital efficiency improved
- Exposure to risk of medical breakthroughs reduced
- Counterparty risk managed through use of A rated reinsurers
- Credit risk minimised through collateralised arrangements
- Reinsurer due diligence process acts as additional check on IP robustness

Conservative asset portfolio driven by focus on efficient Asset Liability Matching

- Assets managed under “Buy and Maintain Plus” strategy:
 - Buy investment grade bonds on expectation that they are held to maturity
 - Sell holdings of bonds expected to underperform due to increasing likelihood of default or of a credit downgrade
 - Enhance returns by pursuing value-enhancing transactions e.g. sale of over-valued bonds and reinvestment in under-valued bonds
- Investment strategy designed to achieve
 - attractive risk-adjusted yields
 - capital efficiency,
 - risk management
- Asset classes all subject to strict risk tolerance limits
- Fixed income portfolio managed by Insight Investment Management
- Equity release portfolio enhances returns and diversifies asset mix
- New asset classes being considered to further diversify investment strategy and improve risk adjusted yields, e.g. commercial property and infrastructure debt

Asset portfolio at H1 14⁽¹⁾



H1 14 Notes: (1) All percentages relate to total portfolio, totals subject to rounding

Risk management central to Partnership's strategy

- 1 Protect and leverage IP
- 2 Maintain a strong capital position
- 3 Continuously develop new pricing methodologies and more capital efficient asset strategies
- 4 Maintain diversified group of A rated or better global reinsurers to transfer longevity risk and support pricing competitiveness
- 5 Maintain conservative investment strategy run by specialist third-party asset managers where appropriate

- Close monitoring of cost base and capital position given subdued individual annuity market and ongoing investment in new initiatives. Partnership considers balance sheet options on a regular basis, including the potential for accessing debt capital markets and will continue to do so
- Partnership uses a “three lines of defence” model for managing risk and providing internal control, with comprehensive oversight from Board level down
- Within this risk management framework, Partnership’s operations and IT infrastructure are well protected through rigorous and robust controls to ensure no data theft or benefit to competitors

Trading update

Individual annuities

- Performance in line with guidance given at Q3
- Sales well below 50% of pre-Budget averages due to customer deferrals continuing to result in lower quote volumes and conversion rates

DB de-risking

- DB pipeline is strong and growing, as Partnership's DB proposition gains traction with EBCs
- Quarterly completions are likely to remain lumpy

Care and protection

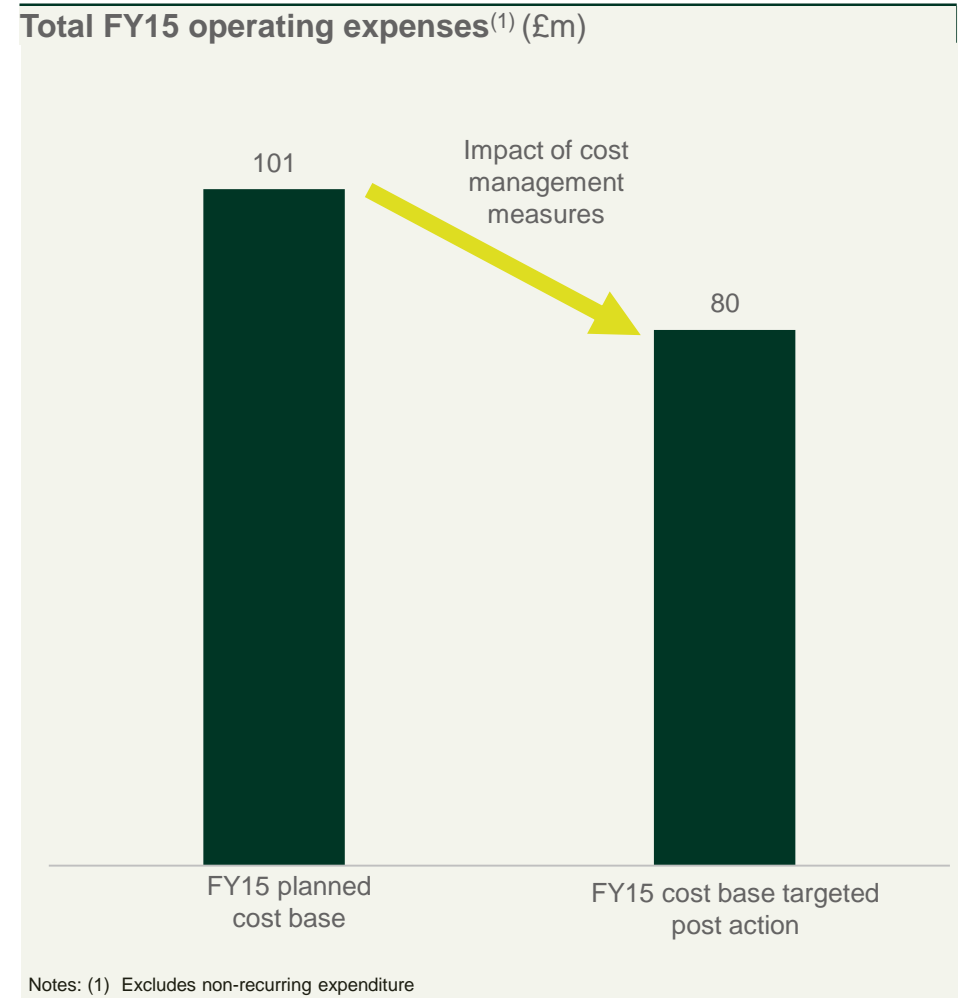
- Continues to be unaffected by regulatory changes

Regulatory update

- FCA discontinued investigation into distribution agreement and confirmed no further action would be taken

Cost management programme tracking well against target

- Cost management actions intended to bring cost base to the level required to support lower sales of individual annuities, as well as allowing new initiatives to be pursued (DB proposition, product development and international)
- Programme to reduce the 2015 cost base by £21 million to £80 million versus plan are tracking well
- Headcount reduced from 566 at end March to 445 at 30 September 2014
- Further marginal savings may be achieved through natural attrition
- Non-recurring restructuring costs in 2014 expected to be within previous guidance of £3 million



Economic capital position remains in excess of minimum target in stress scenarios

£m	Q3 14 ¹	H1 14	FY13
Economic Capital			
Available	496	492	467
Required	333	322	294
Surplus	163	170	173
Coverage ratio	149%	153%	159%
IGD			
Available	476	470	469
Required	208	207	193
Surplus	268	263	276
Coverage ratio	229%	227%	243%

Notes: (1) Estimated as full actuarial valuation only completed at 30 June and 31 December

Economic capital position

- Board continues to maintain a target minimum economic capital coverage ratio of 125% in normal conditions
- Economic capital position remains in excess of minimum target under range of stress scenarios including stress of Lehman crisis severity with no recovery
- No change to pricing discipline, which is focussed on ensuring each policy covers its own capital requirement
- However, as new business is being written at a lower capital coverage ratio than the current ratio, and the cost base is also supporting new initiatives, the economic capital coverage ratio is expected to reduce while the individual annuity market remains subdued

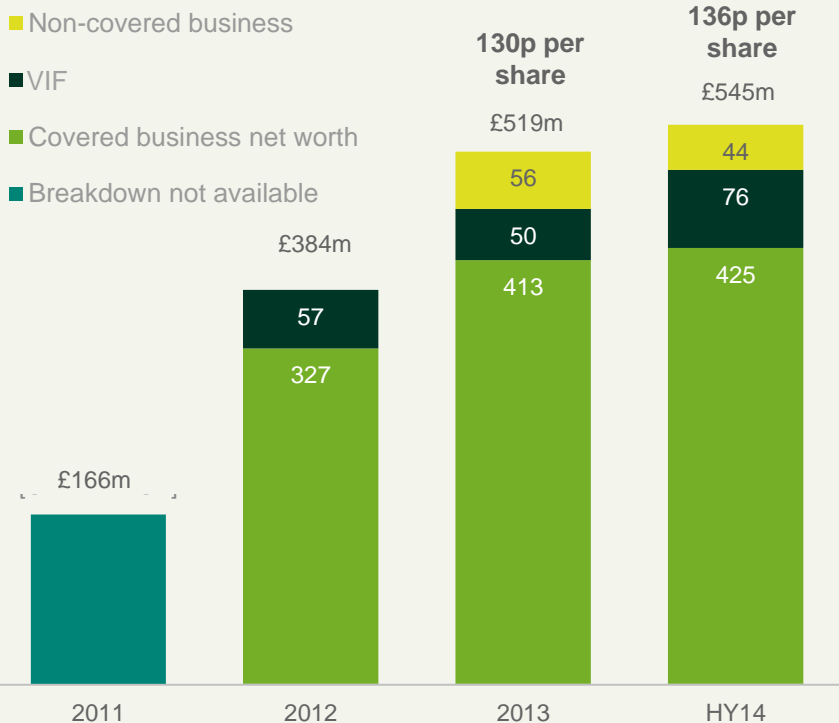
Solvency II

- Solvency II programme in place to ensure the group meets requirements of the Solvency II regulations, when they go live on 1 January 2016
- Based on Partnership's current interpretation of the draft Solvency II regulations, we expect to be well capitalised under Solvency II and expect the standard formula basis to be favourable relative to our economic capital basis

Growing MCEV robust in stress scenarios

- High quality MCEV; 85% of MCEV represented by net assets, only 15% is VIF
- MCEV relatively insensitive to market stresses
- No value included within MCEV for future new business
- In hypothetical run off scenario, no material impact would be expected on MCEV from closing to new business

MCEV¹ (£m)



30 June 2014 Sensitivities

	Covered Business MCEV at H1 14
	£500.5m
Interest rate environment +100 bps	-1.4
Interest rate environment -100 bps	-1.0
Property volatilities +25%	-30.6
Property: 10% decrease in carrying value (equivalent to 32% fall from HY14 market value)	-22.5
Lapses -10% (including equity release)	2.2
Mortality -5% (annuities)	-17.7
Expenses -10%	6.2
Mortality improvements +0.25%	-8.6
Decrease in liquidity premium 25 bps	-66.8
Required capital set to be 100% of CRR	11.2

Notes: (1) MCEV for non-covered business not disclosed prior to 2013

Summary

- 1 Sales in individual annuity market remain subdued
- 2 DB pipeline continues to strengthen
- 3 Cost management actions to protect new business margins tracking well vs. plan
- 4 Economic capital position remains in excess of minimum target in stress scenarios
- 5 MCEV robust

Summary and Q&A

Steve Groves

72



Summary

- 1 Clear strategy to diversify business model within UK individual, Defined Benefit and US Care markets, based on strong core Intellectual Property and expertise
- 2 Opportunities identified for profitable growth by an organisation with a track record of innovation
- 3 Strength of UK distribution arrangements positions the group well post April 2015
- 4 Strong balance sheet with conservative asset portfolio





Disclaimer and other information

Partnership is a trading style of the Partnership group of companies, which includes; Partnership Life Assurance Company Limited (registered in England and Wales No. 05465261), and Partnership Home Loans Limited (registered in England and Wales No. 05108846).

Partnership Life Assurance Company Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Partnership Home Loans Limited is authorised and regulated by the Financial Conduct Authority. The registered office for both companies is 5th Floor, 110 Bishopsgate, London, EC2N 4AY.

This presentation in relation to Partnership and its subsidiaries (the 'Group') contains, and we may make other statements (verbal or otherwise) containing, forward-looking statements and other financial and/or statistical data 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', 'continues', 'targets' and 'anticipates' or other words of similar meaning are forward-looking. Such forward-looking statements and other financial and/or statistical data 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 the Group has 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 financial crisis and the effect of the PRA's planned 'ICA+' regime and ultimate transition to the European Union's 'Solvency II' on the Group's capital maintenance requirements; 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); the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; risks associated with arrangements with third parties; 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 members of the Group operate.

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 and other financial and/or statistical data within this presentation. The Group undertakes no obligation to update any of the forward-looking statements or data contained within this presentation or any other forward-looking statements it may make or publish. Nothing in this presentation should be construed as a profit forecast.

No person who is a member, partner, shareholder, director, employee or consultant or otherwise connected with the Group accepts or assumes any responsibility, or has any liability, to any person or entity in respect of this presentation. All information contained in this document is confidential and should be treated as confidential. No disclosure, use, copying or circulation of this document should occur without the permission of Partnership. Partnership retains all intellectual property interests in association with this presentation. The content of this presentation is intended to provide general information. Examples and other materials contained within this presentation may be for illustrative purposes and should not be relied upon. Partnership take no responsibility for any errors or omission in this document. This document shall not form the basis of, or be relied upon, in connection with any offer or act as an inducement to enter into any contract. No representation or warranty is given, express or implied, as to the accuracy of the information contained in this presentation.