Investor Day
Wednesday, 26 November 2014

Steve Groves
Chief Executive Officer
Good morning ladies and gentlemen. I guess I can just start by thanking you for joining us this morning at our Building the Future Investor Day.

As you will all have been aware, 2014 has been a period of what I would call unprecedented regulatory change. And in line with the commitment we made at the time to communicating with the market, we want to take the opportunity between the normal financial reporting cycle to take stock and have a look at what the future holds for Partnership.

In terms of the Agenda, first I will give you an update on our business model and how I see that developing, we then have Richard Willets our Director of Longevity. For those of you who don't know Richard, Richard is regarded within the Actuarial Profession as one of the leading experts on mortality and longevity. In 1999 he published a prize winning paper called 'Mortality in the next Millennium' which is still actually widely quoted by press and indeed analysts. He is a member of the continuous mortality investigation bureau executive committee. I assume that is more interesting than it sounds Richard. And he is Chairman of the Working Party of the Social Policy Board which was established to research longevity risk.

Sitting next to Richard is Andrew Megson, who may be familiar to a number of you as our MD of Retirement. Andrew will be giving you an update on our distribution arrangements and our strategy. Andrew has been with Partnership since June 2009 and was previously the Sales Director of Just Retirement, where he held overall responsibility across a number of different areas, particularly sales, distribution and IFA communications. Prior to this Andrew held a number of senior roles within the Investment Specialist NPI and he was also the Sales Director who launched Britannic Retirement Solutions into the IFA market.

Following Andrew will be Costas Yiasoumi, our Director of Defined Benefit. Costas will be providing you with an overview of the DB market and our proposition within it. Costas has over 20 years experience in the bulk annuity industry, largely as a commercial actuary. So his background is in derisking corporate pension schemes and his roles have included Head of Longevity Solutions at Swiss RE. Executive Director at JP Morgan Chase and the European Principal at Mersa Human Resource Consulting.

Sat next to Costas is Mark Dearsley who is our MD of International and Mark is going to run you through where we are with our international plans. Some of you may know Mark actually. Mark was previously Partnership CFO for four years and prior to that he was the Group CFO at Savills. He was also CFO for Aviva's Europe and International Division and its Group M&A Director. So he has a lot of experience of both UK and International business. Before that Mark was a Director at an International Investment Bank.

And then finally, David Richardson, our CFO who I hope by now is familiar to all of you and David is going to give you a brief update on financials, before we open the floor to Q&A.

In terms of timing, I am expecting to wrap this up late morning.

So moving straight into the Business Model. I am pretty sure everything on this slide will be familiar to all of you, but I thought it would be a helpful place to start just to look at the changes we have seen in the last 8 months or so. In the 2014 Budget, the Chancellor announced that nobody will have to buy an annuity and that resulted in an immediate and

significant reduction in sales within our core individual annuity market. We have also seen significant disruption amongst advisers as they considered the implications of the changes for their clients. The Chancellor's announcement also committed to all retirees having access to free face to face advice, although this has been revised to guidance and it remains unclear as to how the guidance guarantee will work in practice.

Following the Budget the Government consultant on pensions freedom was undertaken and in July the Government response was published. This provided further details on the changes, but left many areas requiring further consultation. As a result the industry, advisers and customers were left in limbo while the changes were developed further.

Then in September we saw changes to death tax benefits which had actually been outlined in July, but were published, and they set out the way in which pension savings and draw down contracts could be passed on tax free in future. It was not clear in the announcement that the same treatment would apply to lump sum death benefits in annuities, but this was clarified subsequently. These changes resulted in further disruption within the adviser network as they digested the impact of the latest information.

And then bringing everybody up to speed after being muted over the summer, it was confirmed that the Citizen's Advice Bureau would be responsible for providing face to face guidance and that the guidance guarantee and that the Pensions Advisory Service would be dealing with the telephone based guidance.

So I talked in the last slide there was a lot of uncertainty remaining, but I thought it was also worth focusing on things we do know. So first of all in terms of customer behaviour, we do know there will be far greater freedom in retirement income choices. At this stage it is unsure how retirees will react to these changes and what they will do with their pension savings. We do know that compulsory guidance will be introduced for people who want to transfer from DB to DC schemes with pot greater than £30,000 but there is a wide range of estimates still in the market regarding the likelihood of members taking up this option.

Second, in terms of guidance, we know that the Treasury has committed to providing the 320,000 people reaching retirement each year with free guidance on their retirement options. We know that we provided face to face by CAB and over the phone and by TPAS from April 2015. We strongly believe that the fact that the independent bodies will be providing the guidance represents a positive outcome for customers and minimises the risk of customers receiving biased guidance. However, many will choose to engage in the process, sorry, how many will choose to engage in the process and how effective and useful it will be and what it will recommend all remain to be seen. We know that three weeks ago the FCA announced that it believes income draw down products are unlikely to be suitable for pension pots under £50,000. How this will be reflected in the guidance and whether customers will agree this assessment is still unclear.

Third, in terms of the products that are developed and how the industry adapts, we know the launch of new more flexible products will be possible post April 2015, but much of the regulation and legislation still needs to be fleshed out to allow product development to be finalised. We know the Government intends to allow pensioners to access their pension savings with regular withdrawals in the same way as say a bank account, and this is clearly less of an issue for Partnership, but the practical issues for large pension providers being able to provide this access by April should not be underestimated.

So whilst there is still a lot to be clarified and although the new regime will be put in place in just over four months, we expect it will be much longer before we really understand how all these moving parts play out.

So turning to look at what these changes mean for Partnership and what we are doing to adapt to them. I have said countless times before and you will no doubt hear it consistently through this morning's presentation, Partnership is a business founded on its intellectual property. Nobody else either in the UK or globally that we are aware of has a mortality data base like ours. It has been collected over 19 years of medically underwriting individuals and

care annuities. The IP has allowed us to develop and write innovative cash generative products which help our customers manage their own longevity risk. We are dynamic, innovative and highly skilled in developing and pricing new products in the face of changing markets and regulations. The strength of our distribution relationships has allowed us to weather the storms of RDR and gender neutral pricing. These strengths together have underpinned our previous successes and they are what fortifies us for the next stage of our journey. There is no question that our core market has been impacted by a series of announcements and changes and we have taken immediate action to adapt.

Internally we have cut costs, we have started to develop new products and we have accelerated the development of our DB proposition. Externally we have been lobbying for an effective and independent guidance regime. We have been working to strengthen our distribution relationships and we have been delivering high profile campaigns within adviser networks to highlight the importance of managing client longevity risk.

In addition to continuing to serve our core market with individual annuities we believe there are significant opportunities in the wider world and our clear priority is to diversify the business and deliver profitable growth. We will be doing this through three key areas. The first is developing new products for the UK retail space which will allow customers to benefit from a guaranteed income for life which we and the growing proportion of industry commentators believe will still be fundamental to retirement income planning.

Secondly, we will be looking to increase our traction in the defined benefit derisking area where we believe there is a significant potential for medical underwriting to benefit trustees and members.

Finally, we will be looking at new international markets where we can leverage our intellectual property.

So turning to look at each of these opportunities in a little more detail. In the UK individual market, the structural drivers for at retirement funds remain intact, supported by the increase in prevalence of DC schemes and favourable demographics. The reduction in annuity sales that we have seen since the Budget has, to a large extent, been as a result of customers choosing to defer their retirement income decision. These pension savings have not disappeared. We expect a proportion of them to return to the market in time either to be invested in new annuities or other products.

The customer desire for a guaranteed income for life continues and our intellectual property and innovative product expertise will position us well to develop new and more flexible products.

In the defined benefits space, the market is very significant. Our medically underwritten proposition is gaining traction with Employee Benefit Consultants and trustees and there is clear potential for our IP to be leveraged in this market.

And finally, the IP that developed in the UK can be applied in the US as we look to launch our point of need care annuity internationally where we believe the market potential is significant and there are very limited alternatives currently available.

So I would like to spend just a little bit of time now looking at the business model which we set out at the time of the IPO and explaining why we believe it is still a valid business model in the post Budget world. So the first point is the model is founded on our intellectual property which is enriched with every new policy that we write and with every year that passes. That allows us to deliver more competitive pricing than traditional annuity providers and makes our reserving more accurate. For the last 19 years we have collected over 120 million rating factors and asked around 250 questions on each quote and have gathered more data on impaired annuitant mortality than any other provider. Our product development and the pricing of our products relies on our unique data set which gives us a competitive advantage versus our peers.

Our retail distribution review compliant distribution arrangements are designed so we can benefit from the development of specialist IFAs as well as more broadly within the generalist networks. We have secured economically attractive reinsurance arrangements with A rated reinsurers. And this has been made possible by our intellectual property which lower our longevity exposure and increase our capital efficiency thus making our earnings less volatile.

Our investment management strategy delivers a conservative asset portfolio, focused on efficient asset liability matching.

And finally, this is all underpinned by effective risk management. This is a virtuous circle which is strengthened by every new policy we write. I know Richard is going to cover the IP component of this in the coming slides, Andrew will pick up on the distribution component and then David will cover the remaining components at the end of the Presentation.

So before the Budget our IP had enabled a range of products to be sold across the individually annuity spectrum as well as being the market leader in the UK care annuity space. Post Budget we are well placed to develop new products which leverage our existing IP and provide customers with more flexibility under the new regulations. To us it seems inconceivable that the market won't move increasingly towards individual underwriting which will clearly play to our strengths. We are currently exploring the options for partnering with drawdown providers to provide medically underwritten longevity protection as part of a new retirement account.

Further clarity on the exact regulations which will be implemented in April 2015 is required in order for us to finally develop these propositions but we expect to be able to develop products which will provide an attractive guaranteed income for life as part of an overall retirement account post April 2015.

Our DB proposition has been strengthened using our existing IP and product development expertise and we have been able to develop our existing care product and its mortality basis for use in the United States.

So in conclusion, our intellectual property is at the heart of everything we do. It has allowed us to innovate to meet evolving markets in the past and it positions us well for future product development to meet the demands of our new chosen markets.

At this point I would like to hand you over to Richard Willets who will take you though the emerging picture on longevity in the UK.

Richard Willets
Director of Longevity
Thank you very much Steve and good morning everyone. I am going to cover three main aspects in relation to longevity. First of all an overview of what has happened to the trend in improvements in live expectancy. We have seen some really interesting developments recently and I am going to give you my take on what is happening.

Second of all, a really important factor is customer's perception of longevity, how long people think they are going to live and whether they are realistic in their perceptions.

And then finally, Steve has emphasised the role of IP as being critical to our business. I am going to go into a bit more detail on how our IP has given us a really solid platform to react to changes in the retail space in the environment and to allow us to diversify into other markets and products.

So first of all, when considering trends in longevity I think it is useful to recap what has happened in the past and this graph goes way back to the 1840s when we first started collecting mortality data in the UK and it shows how life expectancy at age 65 in this case for men in England and Wales has changed since then. And you can see that for a very long period of time for 130 years there was hardly any change in life expectancy in retirement, so just a one year increase over this 130 year period. In the four decades following we have

seen an increase of more than six years. So basically if you work out the pace of improvement over the last four decades it is something like twenty times as rapid as over the 130 years that preceded it. And actually if you look in detail at what has happened over the last four decades, the pace of improvement has actually got faster and faster at an accelerating rate of improvement in life expectancy in retirement. And obviously this is what has driven the concern about life expectancy and longevity improvements in the annuity sector and amongst pension schemes as well.

Now for as long as I have been involved in longevity research, actuaries have always projected the pace of improvement has just peaked and is about to decline and so far, well until recently that had not actually happened and we continued to see faster and faster improvements. For the first time, certainly in my career there is now some emerging evidence that that may have happened. The graph on the left shows the average rate of mortality improvement, the pace at which mortality rates are declining, averaged over a five year rolling period for men and women aged 65 to 84 in England and Wales. And you can see that in the sort of mid 1990s, in the first decade of the 21st century the pace of improvement was still accelerating for both men and women. There were signs that maybe the pace had sort of levelled off more recently. But if you look at the most recent data points, driven by the fact that we saw relatively high mortality rates over the whole of 2002, particularly the first half of 2003 was very heavy mortality. The second half of this year has been heavy as well. There now appear to be, it is clear evidence that the rate of improvement has dipped. That is not to say the life expectancy isn't going upwards, just the rate of improvement has decelerated.

When I conducted an informal survey of a small number of my peers of actuaries that specialist in longevity research earlier this year, one question I asked them was whether they felt that the pace of improvement was still accelerating, had levelled off, was decelerating or whether they couldn't tell. And it was only a very small survey, but I think was significant in that 8 out of 10 felt we were now seeing deceleration. We weren't seeing blip in the trend, we were actually seeing genuine deceleration in the pace of improvement. Now I think that was a very interesting finding, because if I had conducted the same survey two years ago or even twelve months ago, I am pretty sure I would not have got anywhere near like the same result. I think people are much more bought into the idea of there being real deceleration in the rate of improvement.

Now you may ask what has caused that to happen? My view is that the main reason is that if you actually look at what has driven the substantial improvement in life expectancy over recent decades since the 1970s, by far the most significant cause has been fewer deaths from circulatory disease, that is fewer deaths from heart attacks, few deaths from strokes in the main. And in fact we are seeing at some ages a 75% fall since the early 1970s in death rates from circulatory disease. The reason why that is significant is that there now is much less potential for further reduction from improvements from this specific cause and so far no other driver has stepped up to the plate and kind of replaced it into the driving mortality improvements. So there is almost a sort of a natural tail off in the rate of improvements because of the fact we are now approaching something close to zero in terms of circulatory mortality rates.

Now does this mean that our projections of future improvement in life expectancy are overdone? I think that is certainly not the case and in fact if you consider the reasons for why there may be substantial improvements in life expectancy in retirement over the long run, I think those reasons are still very much in place and still very relevant. And I could spend all morning on this, but that is probably not the idea of the whole event. But I am just going to spend a few moments talking about some of my favourite reasons why that is the case.

And the first is something I focused on very much when I started presenting papers on this topic in the 1990s, and it is the fact that the sum total of human knowledge is growing at an exponential rate, driving faster and faster scientific innovation and more and more rapid medical advances. And that is likely to drive substantial improvements in life expectancy in the future. The reason why I have shown a picture of a book that was published in the 1990s is that it very much went into those kind of ideas and actually argues specifically that improvements in different fields particularly in computing were likely to drive substantial

improvements in medicine in the coming decades and the first decades of the 21st century and that will be very significant. Now I think that has actually turned out to be exactly correct and you can see that as an example if you look at the cost of decoding a single human genome. The full genome was decoded in year 2000, 2001 the cost of decoding a human genome was estimated at 100 million dollars, just ten years later the cost had fallen to something like a few thousand dollars for decoding a human genome. And actually this sort of revolution has sparked a whole new area of medical research in which we now have a much greater understanding of which genes and which genotypes are implicated in different diseases and that should make us very optimistic about the development of treatments for different diseases in the coming decades.

There has also been a number of areas in which research has been conducted which should make us very optimistic about future treatments for different diseases and one very good example is stem cell research. Stem cells have been on the research agenda for a long period of time, but recent discovery, the recent proof that induced pluripotent stem cells, that is adult mature stem cells that are essentially reprogrammed to become stem cells that can then grow into other cells, the fact that that has been proved to work in practice which led to awarding of the Nobel Prize a couple of years ago. That has meant people have become very optimistic about how stem cells can be used in different areas of medicine.

Another area which I think is really significant and is probably the area that I think is almost the most notable one, is the fact that we have invested a lot of money or various organisations have invested a lot of money in kicking off very large cohort studies in recent years and a very good example of that is UK Biobank. Half a million people have been recruited to provide lifestyle information and biological samples which has allowed us to sample their genes and they are going to be tracked over time to see what their genes and what their lifestyle tell us about their propensity to develop different diseases. And that potentially has the power to be extremely valuable.

And then just finally there has been a massive growth in the use of digital media and other forms of social media and people are very optimistic about how this will allow people with different medical conditions to share information about treatments, which are successful and which aren't and so on. And potentially this is a very significant force for good. So as I have described strong reasons to feel that the pace of improvement in life expectancy into retirement over the very long run is likely to be still very significant.

But have individuals really cottoned on to the fact that life expectancy in retirement has improved so much and is likely to continue improving? We conducted a survey earlier this year which asked a number of questions of customers and one was in relation to life expectancy and we asked almost 2,000 people if they were to retire age 65 how long would they expect their retirement to last? How long would they expect to live at age 65? And you can see the responses we got to that question in this chart. The most common response actually by both men and women was 16 to 20 years as their expected lifespan and you can see 11 to 15 years came second.

Now what we did is, the average age of the people who responded to the survey was 53, but we looked at their individual ages, we looked at whether they were men or women and we worked out how long they were actually projected to live according to the latest ONS projection of mortality rates which actually incorporates an assumption that the trend will decelerate, so it is not a very optimistic projection. I would say it is a realistic projection. But obviously it gives you quite different results to what people perceive their lifespan will be. We found that the most likely lifespan wasn't 16 to 20 years, it wasn't even 21 to 25 years. But as you can see from this chart, the most likely lifespan is 26 to 30 years for people in the general population and obviously would be higher for people of higher social classes and potentially annuity customers. So essentially a 10 year difference between perception and reality.

I think the other thing you can pick up from this graph is there is actually a very wide distribution of likely life spans for the average person in the UK. You can see the left hand side of that graph something like 10% of people are likely to live less than 10 years at age 65 whereas something like 15% of people are likely to live past their 100th birthday. So a very

wide variation in outcomes. And that probably tells you absolutely everything you need to know why an annuity is a good product for people in retirement.

But the underestimation of potential lifespan does present a challenge especially in relation to value that standard annuity rates appear to provide customers. A typical standard annuity rate at the moment for somebody aged 65 is something like 5.5%. Now if an individual feels they are going to live somewhere between 16 and 20 years, say 18 years as an average, that would mean they would expect to receive 99% of the original investment. And so you can see why the perception of annuities as being poor value is partially driven by retirees who significantly underestimate their likely lifespan in retirement. If they had a more realistic view of expected lifespan you can see the return is substantially more than the premium and the annuity appears to offer greater value. So you could argue there is significant upside in people having greater understanding of their likely lifespan in terms of their appreciation of the value of annuities.

Now when it comes to assessing the value of the annuity proposition, I think it is becoming increasingly realised that the annuity proposition itself is actually most compelling when life expectancy is relatively short but potential lifespan is much longer than the life expectancy. And actually this is something that Steve has argued very eloquently on a number of forums as to why the impaired life annuity is such a good product when somebody has quite a short lifespan, they may well recover from the condition they have and go on to live much longer an annuity in that circumstance provides an excellent investment vehicle.

Now I think a very good example of this is actually our care annuity which is sold to people of average age, round about mid 80s, typical lifespan is something like 4 years. And what I have shown on this chart is the return on investment you would get from a representative care annuity which is assumed to provide the income of 20% of the premium escalating at 5% per annum which is round about our average. And you can see from this chart that if the individual was to survive five years they would be receiving more than the premium that they paid in and as time goes on if you get 8,9,10 years the return on the original premium is very substantial and would be very difficult to replicate with an alternative product. And this expressed in a different way, means that customers can judge the value of the products by comparing the period in which they would be receiving less money than they received in premium, so relatively short period in which they sort of lose in financial terms versus potentially a much longer period in which the upside is much greater than the premium paid. And I think that because customers can balance the upside and the downsize much more easily when life expectancy is short, that is one of the reasons why the care annuity proposition has been so compelling.

So moving on to our IP. As Steve has mentioned our proprietary IP enables us to provide accurate longevity estimates in order to assist our pricing at the outset of annuity which sort of leverages a very large number of different rating factors with each quote we provide, with each policy we write, the size of that data set has been increasing. And as time goes on we very carefully monitor the results of our actual experience of writing business. We monitor how many deaths we observe compared to how many we expect based on our model. And we analyse it in a lot of detail. We cut things down by calendar year, by commencement year, by age, by premium, by condition, by severity of condition, by postcode. We look at interactions between the different factors. So we are fairly ruthless in trying to extract as much value as we possibly can from our emerging experience.

This graph shows how experience has tracked year on year. So that is just one metric we look at and you can see that consistently over the years our experience versus our expectation has been above 100 and this is on a reserving basis so we expect the experience to be slightly above 100%. But you can see it has been consistently above 100%. You can also see how the volume of our experience has been growing at a near exponential rate as the accumulated value of our IP increases.

So we go through a very regular review cycle, we produce very detailed reports twice a year, every year we go through a review process for our model which brings in insights from our underwriters both in terms of technical development of underwriters and our operational

underwriters, the doctors that work for us as well also have views on the continuing appropriateness of rating factors for different conditions that we bring into that work as well.

So we have a very strong track record of consistent mortality experience against expectations and a very thorough review process to try and extract the value out of our IP.

In terms of the relevance of our IP in the new retail world. I mean Steve has already mentioned a couple of the trends which play very much into the hands of our IP, the fact that there has been a very long, established trend towards the use of underwriting across the whole health spectrum and we feel that when people are buying annuities because they want to rather than are compelled to, there is going to be an even stronger driver to get the best possible annuity, the best value annuity rate and this will lead to ever more use of underwriting in the retail space. And obviously that plays very well to our IP.

We also feel the average age at annuity purchase is likely to increase perhaps as people defer decisions about annuity purchase and make use of our other products and other options at younger ages and this essentially has two benefits for us in terms of leveraging our IP. One is the fact that as the graph on the right suggests, as people age they are more likely to have medical conditions that would result in them receiving a different annuity rate to somebody in good health, so it gives us more potential to leverage our IP. It is also true that if you actually look at where our IP has been generated. If you look at our actual mortality experience by commencement age, more than half, 61% of our mortality experience from enhanced annuities actually relates to business where the commencement age is 70 or over which is partially driven by the fact that we have been so active in the care annuity market and partially because mortality rates are just heavier at older ages. But again that sort of means we should be beneficiaries from the fact that people defer annuity purchase.

So moving on to a couple of areas where our IP has given us this solid platform to diversify our business. One is the defined benefits market and Costas is going to give us a lot more detail about how we have developed our proposition in this area. But in relation to our IP, basically our experience in the retail market are 19 years of accumulated experience of writing impaired annuities in the retail market, has given us, it has made it very straightforward for us to develop a proposition for underwritten annuities in the DB market, we have borrowed very heavily on our models and our experience from the retail market. But we have had to allow for a couple, well a number of differences between the retail market and the DB market. One is the fact there is a different process for collecting medical evidence in the DB market.
We are sending, for example, one method is sending questionnaires out to members of pension schemes. We can't necessarily ask exactly the same questions in the DB space as the retail space, but we have got a lot of experience in the retail side of things in relation to what impact asking different amounts of information and questions has on the experience we see. And we have been able to leverage that experience in sort of tailoring our basis to the DB market. We have also had to make very careful adjustments in our DB basis for factors such as the sort of varying degree of health selection you see in the retail market versus the DB market. In the retail market a customer is choosing to buy an annuity but in a DB market they are just reacting to perhaps a questionnaire they are sent through the post. So there is a different degree of health selection and we have been very careful in how we allow for areas where there are differences in the two markets.

One aspect of DB annuity underwriting that we have been able to take account of is in actual marital status and DB pensions pay to generally speaking whatever spouse somebody has at the point they die rather than the point they retire. So we have found it extremely useful to try and capture information about the current marital status of pensioners. It is really important, pricing consideration, whether a pensioner is currently single or married. And if they are married how old their spouse is, makes a very big difference to pricing if their spouse is say 10 or 20 years younger than them and in good health.

Now to allow for that kind of degree of granularity in our model we have had to also incorporate assumptions around the likelihood that people get divorced, separate, get remarried, if they get remarried, how old is their partner and so on. So there is a lot of depth and detail we have gone into in order to develop a DB proposition. And I think our experience

in the retail sector and our experience in pricing these kind of products in the past I think gives us a significant advantage.

And then just finally, the US market. Now you are going to hear a lot more about the US a little bit later on from Mark. But just in relation to the IP, what we have done in recent months is essentially develop an underwriting and pricing model that is appropriate for the US care market and we have been able to do that because of the model we have got in the UK and because of the experience that has emerged around our UK product. The way our UK product works, the way our UK underwriting on care annuities works is that we collect information on a large number of rating factors that influence life expectancy and older ages, especially in a care environment. And they tend to be very different rating factors to the ones you might use to underwrite retirement annuities at a younger age.

But we have developed a model and did it in a very systematic way and I was actually involved in the original development of the care model that we have. We had a multi disciplinary team involving underwriters and doctors, geriatrician and we basically decided to capture a whole host of these rating factors and then very systematically work out what influence they had on life expectancy in a care environment. And you can basically see our experience versus our expected mortality rates using that model and our experience has been very solid. The model has worked very well in the UK context and the fact that we have captured all this data allows us to continually assess whether the factors that we see driving life expectancy in care continue to be relevant and continue to be good predictors of life expectancy.

So the UK product is unique and supplied us with a really solid platform to price UK business. So what we had to establish was; was it relevant in a US context. And we have done an enormous amount of research over the past year in particular looking at how mortality rates in the US and UK compare both at a population level and in terms of the rates that you see for people in care, so the length of stay in various care establishments. We have looked at prevalence of different conditions, prevalence of disability in the US versus the UK. In fact what we have actually done is gone through every single rating factor and there are a very large number. We have gone through every single rating factor we have in our UK model and looked to see whether we can capture the same information in the US and how we might capture that information. And then whether there are any differences in the US versus the UK that we need to reflect in our model. And there are differences. There are different levels of diagnosis and treatment of different conditions in the US versus the UK and we have made adjustments to our model in order to allow for those observed differences. But we have found that there is strong reasons to suggest that our UK model, suitably adjusted to allow for differences between the US and UK, will be very successful at predicting US mortality in a care setting.

So I could actually go into a lot more detail on this, but I am probably slightly over time anyway. So just to summarise, I have talked about the deceleration evident in the pace of mortality improvement, despite that, I still think our estimations of substantial improvement in life expectancy are valid. Customer's perceptions have not caught up with this reality and our IP continues to provide us with a really solid platform to react to changes in the retail market and to diversify our business as well.

So on that note I will hand over to Andrew who is going to talk us through how we have reacted to the evolving retail market and other challenges that we face.

Andrew Megson
MD-Retirement

Thanks Richard. Picking up from Steve's session, I want to look at a number of factors that demonstrate how important annuities are and will be in retirement planning and there is a huge amount of urban myths that have grown up since the Budget and we have sort of used research and feedback from both customers and advisers to really ascertain how important and the need that annuities cover.

If you look at from a customer perspective, a guaranteed income for life and not risking that income, is becoming more and more important and discussed with customers. We will look at that in a little bit more detail.

From advisers we are now getting constant feedback from advisers that annuities post the market dislocation and the uncertainty, Steve has mentioned, will form a part of their retirement advice to their customers. There are two factors that have driven the dislocation of the market. One is the customer deferring, but the other factor is that advisers are incredibly reluctant to provide any kind of advice. From an adviser's perspective you cannot get fined for providing no advice, you can get fined for providing the wrong advice and that has been a huge dislocation. We have seen it in previous areas, previous times in the Pension Act in 2005. That caused months of dislocation. This has been slightly longer because of the 14 months from the Budget to April 2015.

We see the guaranteed guidance as potentially being a big positive. It is crucial that customers who don't' have access to advice have somewhere to go and if the guaranteed guidance is as strong as the Treasury would like to make it, we see that as potential opportunity.

We are also seeing the FCA become far more involved in the debate about the appropriateness of advice on products for customers. And straight after the Budget there was this huge discussion, this is great for drawdown, drawdown this, drawdown that. What actually is happening now is that the FCA are starting to make comments, I refer to Steve again saying that basically they are not convinced that, for customers with pension pots under £50,000, a drawdown is an appropriate product.

We have got strong and strengthened distribution. We have always led the market in distribution and we continue to do so. I think the final point is and highlighted a bit by Richard's section. A consumer has no idea of the transfer of risk they are taking by opting out of annuity and that is an argument we are making more and more.

Annuities meet the customer's need. They are an insurance against living too long. We have been very proactive in this market. In fact we have had a huge amount of credit from the Adviser community because I think we have been the only provider who has been proactive in this market. We have developed and launched a basic income calculator for people and the whole thrust of the debate has moved from "non-standard annuities can get you more income", to "what is the cheapest way of securing the income that the customer requires?". So clearly a non standard annuity with a higher running yield is a cheaper way of securing a guaranteed income than a standard annuity.

And we are winning this argument about blended solutions of one size does not fit all. I think that is one of the benefits of the Budget is that it does improve flexibility and give customers choice. As I said our position in the non standard annuity market has been strengthened. Our reputation has been strengthened because we have actually led the debate and the feedback is at least Partnership have got something to say.

Immediately after the Budget we conducted some consumer research and at the time it was quite alarming. When we asked customers about annuities, the feedback we got was of consumers, "Don't know what an annuity is. Don't like it, it is poor value and we don't need one. And we don't have to buy one now."

Now when we actually then said, okay we understand that, because that was basically what all the press comment was about. What do you actually want? What do you need? We want security of income, we want our income to be guaranteed and we don't want it to run out. So in effect an annuity.

That is the point, annuity became a toxic name straight after the Budget. But in reality, it is exactly what a customer needs to secure that guaranteed income for life. What I mean by guaranteed income for life. If you ask somebody, you have got your state pension, what are your basic needs above that? Would you bet your food bill? Would you bet your council tax?

People then respond, absolutely not. So again the argument then moves onto what is the cheapest way to secure that?

I repeat the point I made at the start, the guidance is crucial for the mass market because the complexity of choice for people at retirement is enormous and we fundamentally believe the guaranteed guidance needs to be able to move people towards advice or provide them with a vehicle that allows them to make an informed choice.

We have got experience of working with the Citizen's Advice Bureau, supporting them and the Personal Finance Society in a sort of pro bono initiative for customers. And actually our sort of findings in working with the Citizen's Advice Bureau is that they are pretty well placed and make a pretty good fist at being able to provide face to face guaranteed advice. Guidance, sorry, Chancellor slip, guidance for the customer.

Apologies for a slightly arrogant statement, but we have fundamentally believe that we understand distribution far better than the rest of the market. We spot trends in advance of the market and we act quickly. I think history has demonstrated that we have done this. Steve mentioned in his introduction, distribution has been buffeted over the last 18 months or so by both RDR or Retail Distribution Review and the Financial Guidance 14.1 which was the Hospitality and Inducement update.

In terms of RDR, there is a change to remuneration, an upskilling, i.e., level of qualification required for advisers. And that resulted in about 20% of advisers leaving the industry, most of which frankly were employed by banks. That has largely settled and now the industry's distributional landscape is moving forward.

Financial Guidance 14.1 has basically resulted in a lowering of the amount of marketing services that organisations such as Partnership can buy from distributors. What that means is if you have a distribution strategy, as per Partnership, where you use a centre to buy services to communicate to the advisers, there is a lower opportunity to do that. We spotted these sort of trends early and identified an element of consolidation. And what we have done is we have set up an agreement with a Personal Finance Society, a professional body and we have access to 30,000 advisers and we use communication in exactly the same mechanism. So our message is in terms of guaranteed income etc. We can access via the Personal Finance Society and it has derisked any consolidation in the network segment.

On our corporate partner side, we work with retail brands and we are exploring options to work with them in the post April 2015 environment and as Costas is going to tell you, work very closely with Employee Benefit Consultants in terms of DB de-risking.

We have always taken an analytical approach to distribution and as ever data drives all our actions. We segment the market for face to face telephone and marketing. We relentlessly use our marketing arrangements, as I have talked to you abou,t and we have invested in IT to in effect make the quote process far more straightforward for our advisers and reduce their costs, being able to provide advice to consumers.

We are the leader in terms of educating advisers and so we are known as a market leader and we are known as the organisation that is trying to help the adviser through the period of uncertainty to post April 2015.

There is an advice model emerging which has the foundation of a guaranteed income and securing the cheapest means of securing this guaranteed income and then once this is secured for the customer, being able to access an element of flexibility, whether it be in a blended drawdown type arrangement or an individual bespoke arrangement.

As I mentioned, the IFA market perception of annuities is changing back with this knowledge that annuities will always be core to retirement planning. The FCA is helping this with comments on the appropriateness of recommendations and product recommendations. And as we develop our flexible solutions, what is clear in the retirement account that Steve mentioned, a key element of the advice will be the cheapest way of securing that guaranteed

income. That is where the advice risk will sit for the adviser and an access to low cost funds. But the cheapest way of guaranteed income, i.e., via non standard annuity will be where the Regulator will look in terms of, is this appropriate advice? Which again is the core strength of Partnership proposition.

Ethel I think probably encapsulates the point and the risks that people do not understand they're taking [?]. We got a really good response to this advert. When people retire with the flexibility and the access to the funds and having no understanding whatsoever of how long they may live, the point Richard made, people go back to work, you know, whether it is flipping burgers or working in B&Q. We fundamentally believe that when you look through the market dislocation there is a really strong place for our core product, which is non standard annuity, but with a slightly different approach, i.e. the cheapest way of securing a guaranteed income for the customer. It is the only insurance against longevity. We have got the strongest distribution relationships in the industry. We have got some pretty exciting product developments that Steve has mentioned and we feel the outlook post April is pretty positive.

What I would like to do now is to hand you on to Costas Yiasoumi who is going to take you through the Defined Benefits of proposition.

Costas Yiasoumi
Director of Defined Benefit Solutions

Thank you Andrew and good morning everybody. My name is Costas Yiasoumi, Director of Defined Benefit Solutions. I am going to run through with you the bulk annuity opportunity.

It is a really significant opportunity for Partnership and there are four key points I would like to leave with you today. Number one, there is a very large market of defined benefit pension plans, 6,000 defined benefit pension plans in the UK, some 2 trillion pounds of liabilities in those and a very large number of those pension plans are on a journey to purchasing a bulk annuity.

Point number two, we have had a very upbeat reception to our proposition, medically underwritten bulk annuities and I will talk about that very shortly.

Number three, we have put in place the infrastructure for a DB business. That is not just systems and processes, but it is all the people as well with deep defined benefit experience and at Partnership, ready to take advantage of this opportunity.

Number four, very positive outlook. We have been getting very good traction with our proposition, but this is not high volumes of small premium business, it is small volumes of high premiums which means performance would be lumpy quarter to quarter in this area.

So firstly, let me explain what is a bulk annuity? To make sure we are all on the same page here. Bulk annuities have existed for decades. I placed my first bulk annuity nearly 25 years ago, so it is a very established product and it is very simple in concept. You have a pension plan. Employers have set up a defined benefit pension plan to promise a guaranteed income to their employees and former employees. And these defined benefit pension plans have in effect insurance like liabilities in them. Employers realise that that brings volatility to the balance sheet, to the cash flow, to the P&L, management time commitment. Trustees that look after these pension plans want to secure the benefits for their members. They can do that by purchasing a bulk annuity; single premium to an insurer in relation to a group of pensioners. The insurer then pays each of them each month the aggregate pensions due to those pensioners until they all die, that is paid to the Trustees, the Trustees pay to the individual pensioners. So it is a perfect matching asset. It takes the risk away from the pension plan, transfers it to the insurance company.

If the pension plan wants to wind up or the Trustees want to wind up the pension plan, then that policy that the Trustees hold, is in effect transferred to the individual pensioners and they become individual annuitants. So for Partnership that means they join the other 100,000 annuitants that already have a secured income with us. So very straightforward product.

So what has Partnership done? What have we brought to this industry? Well the product has not changed, we have not changed the product. What we have done is we have brought considerable innovation in the way in which that product is priced. If we look at how traditional pricing for bulk annuities works, is an insurer will get information on the pensioners and the key insurance risk in bulk annuities is how long individuals will live, what Richard Willets spoke about.

The insurance company will get proxy rating factors, post code, how much pension they are receiving, perhaps what industry they worked in and will use that to estimate the life expectancy. But that is quite a blunt tool for estimating life expectancy and it is very blunt when we look at smaller pension plans where there is a considerable variation in how long those individuals are going to live. What we have done is said, why don't we use our expertise and our IP in medical underwriting, adapt it to the defined benefit market and be a lot more sophisticated in how these bulk annuities are priced. We can get the medical and lifestyle data from the pensioners and we can come up with a far more accurate calculation for life expectancy. What does that mean for the client? It can mean a much cheaper premium for purchasing that security. The security for the bulk annuity.

So market. As I mentioned, the market is very, very large. These defined benefit pension plans set up in the 1930s, set up in the 1940s, 1960s, 1970s, 1980s and they have built up over a very long period of time. 10 or 15 years ago employers started to recognise the considerable risks inherent in defined benefit pension plans and that has driven the move from defined benefits to defined contribution. And as far as the defined benefit pension plans they already had on their balance sheets were concerned, they closed them to new entrants first; no more new members and then eventually, in many cases, even to current employees. So you have these defined benefit pension plans, the legacy made up primarily of former employees and employers would like to remove those from their balance sheets and also Trustees would like to secure the liabilities. And that is what is driving the growth in bulk annuities and it is these sorts of structural reasons that mean we would expect the bulk annuity market to grow year in year out. And this is not something for the future. The market is transacting already. The graphic on the top right shows the volume of bulk annuities, the volume of premiums spent by Trustees each year. Last year it was £7.6 billion and the latest third quarter figures that I have received show that this year has already exceeded all past years in terms of premiums spent on bulk annuities. KPMG expect £20 billion in 2020 and that is not inconsistent with other commentators. And that is not a large number relative to a trillion of liabilities, it is only 1%. It could be higher and even if it was £20 billion, it is a very sustainable number so it could be that year in year out.

The market you would initially expect Partnership to concentrate on are the smaller pension plans, the ones where medical underwriting at first sight would be expected to make the biggest difference and that is represented by the top right quadrant on this chart. There are 5,000 of those pension plans with aggregate liabilities of just under £200 billion. And it is a market that is transacting. Last year there were 200 bulk annuity purchases in that market and a total amount spend of £3 billion in premiums and that is the market we would primarily target in terms of generating regular premium flow from defined benefit business.

What I will do is I will come back to the other three-quarters of that circle later on because although the larger pension plans, you may say well does medical underwriting have a place to play there? It does and I will explain why that is.

So that is the product; that is the market. What have we been doing to promote medical underwriting in this market? So I am going to cover a couple of areas today. Firstly we have had a careful look at what difference medical underwriting can make to Trustees of pension plans and we have aligned the way we communicate out proposition to those needs. I have already mentioned that by getting the medical and lifestyle data we can be a lot more accurate in pricing which can mean much cheaper pricing. But there is actually a second benefit medical underwriting offers which traditional pricing really struggles with. And that is our pricing is very precise, is very surgical. What that means is that it is accurate and confident and down to the individual pensioner. So whereas traditional pricing relies on broad

averages being correct and really struggles if you say, well actually how about just for that one pensioner, it is very difficult to estimate the premium just for a single pensioner just on post code, just on the amount of pension they are receiving. By getting the medical data we can do that and that opens up two additional opportunities in this market which I will run through.

So the first application of our proposition is broad based bulk annuity purchases, it's that top right quadrant. The smaller pension plans that want to annuitise a large part of their exposures, remove that risk. Our basic premise there is get the data, we will give you a very accurate price based on our IP and invariably or we would hope that is cheaper. Not always, but it is a strong selling point for Trustees and employers who are under pressure in relation to their pension costs. So that is a market that already exists, 200 transactions, £3 billion a year and we would want to penetrate that as much as possible.

The other two areas, top slicing and selective risk removal are new opportunities. This allows us the option of creating new deal flow which wasn't there already which widens the applicability of our proposition.

Top slicing can apply to any size of pension plan from the smallest to the largest, and the proposition there is most pension plans don't have a smooth set of pension benefits being paid. You have some pensioners with very large pensions and some with very small. The ones with very large pensions create a large concentration of risk. So you may find in a 5 million pension plan there is one pension who represents maybe 15 to 20% of the total exposures. So the future financial stability of that pension plans depends very much on how long that one pensioner will live. Or you may have a very large pension plan of 700 million and you may find the largest 50 pensioners out of a few thousand, the largest 50 pensioners represent perhaps 15 to 20% of the exposures. So what we say is, why don't you get medical data for these individuals and we can give you an accurate price and also, what you will find, is traditional pricing is quite prudent in relation to those individuals. Because, if you are using post code and pension amounts to underwrite them, all the post code is going to tell you is they probably live in a nice area of the UK, why wouldn't they, they have a large pension. So it is very difficult to come up with an accurate assessment of life expectancy.

So this opens up the other three-quarters of that circle to our proposition. And we have been getting very, very good traction with this and I will come to this in a couple of slides. The third takes this one step further and here what we are saying is, why don't you get a quotation for say a 100 or 200 pensioners, we will give you individual pricing and a Trustee may have a budget on how much to spend on bulk annuities and they will also have a measure of risk removal. So by having an individual pricing, they can in effect select from the pensioners we have given them pricing for, the maximum risk removal for their spend. So it could be pensioner a,b,e,f and y. And that is fine from our perspective because we are confident in our pricing down to an individual level like we are in the retail market.

Traditional pricing struggles there. So by being very clear on how our proposition can be applied, we can accelerate its acceptance in the market and also open up new opportunities which did not exist before.

The second thing we have been doing amongst lots of things is really scaling up the marketing. And why? Market education, market familiarity and also brand building within defined benefit market. And what we have done is we systematically identified the concerns that were being put forward to us as to why shouldn't medical underwriting be used for bulk annuities. And these weren't real concerns, it was more around a matter of education, seeing real cases that had successfully completed. And what we have done is methodically tackled them, through all of this marketing activity to really get over the hurdle so that Employee Benefit Consultants are confident to recommend this as an approach for their Trustee clients and Trustees are also confident to go through the process to contact their pensioners for the medical data and with confidence that the outcome at the end if likely to be beneficial to them.

So that is a couple of things we have been doing to promote medically underwritten in bulk annuities. So how has this manifested itself in the market? Well if we look firstly at the

smaller pension plans, the ones below £100 million, we have seen some good growth there. When we first entered the market in 2012 there were no medically underwritten in bulk annuities and we started that from a zero position. Over 2013, 3% of bulk annuities in the sub 100 million size, the smaller size were underwritten and by the first half of this year it was 8%. We have been seeing some very good take up from a proposition that was introduced cold and new in 2012. And we have commentators like Highmans Robertson that predict that this year we may see 500 million of medically underwritten bulk annuities. Is that possible? Yes, possibly, and if that was achieved that would demonstrate a very substantial growth on 2013.

And you may ask the question why will take up of medical underwriting be stronger and faster in the bulk annuity market than in the retail market? And there are three very good reasons for that to highlight.

Reason number one, no proof of concept is needed. We know medical underwriting works, it has a strong track record in the retail market. You have credible insurance companies that operate in the retail market on this basis and we have also had the initial cases of defined benefit pension plans going down this route, over 20 now have gone down the medically underwritten route. So no proof of concept is required.

Number two, defined benefit pension plans are sophisticated buyers. Most pension plan trustees will have had estimates of how much it would cost to purchase a bulk annuity going back several years. It is automatically provided by their actuary as part of that evaluation process. They know what a bulk annuity is, they know what the likely cost is. So when they come to the point of purchase, they will ask what is the most effective way of accessing the market. And if they are advised that the most effective way is the medically underwritten route, they will go down that. And surveys we have helped co-sponsor do demonstrate now on a wide level of familiarity with medically underwritten bulk annuities or the concept, but not necessarily the detail.

And this brings me onto the employed benefits consultants. Point number three here. In the defined benefit market, the Employee Benefit Consultants are key to generating bulk annuity sales. It will be the Employee Benefit Consultants who generally place the business. Trustees by law have to take advice and there is not many employed benefit consulting firms in the UK, perhaps 12 large ones and a number of medium sized and small specialist ones. But what that means is that it is more straightforward than other markets to access the employed benefits consultants, explain our proposition and also for them as a firm to have a positive experience with medical underwriting, which means they are far more likely to then take that to their other clients.

And we are seeing lots of positive indicators. We have now seen bulk annuity requests from all of the major UK EBCs. Many deals are now coming to the market straight in as medically underwritten. Six months ago the typical request to us would have been: 'We are thinking about medical underwriting, but we are not quite sure. Can you tell us what the range of pricing would be based on what the outcome of that medical data may be'? That was six months ago. The typical request to us now is: 'We have decided to go down the medically underwritten route, our EBC was confident enough to recommend this was likely to have the most value. We have already initiated getting the medical data, therefore can you get ready to price?' So a very big change over a six month period.

And thirdly, there are a number of specialist providers in the UK that collect the medical data from the pensioners and they act as a hub and pass it out to the insurers who are quoting. But what was a real vote of confidence, we have now seen two of the major UK Employee Benefit Consultants invest in setting up their own in-house data collection teams to support their own clients.

And moving on to the larger pension plans, the other three-quarters of the circle, we have also seen some very positive developments there. So once we identified that we did have a proposition for these pension plans, we very actively promoted that to them, the concept of top slicing. Traditional pricing seen as prudent, get the medical data, remove that concentration of risk at a cost effective price. And now what we have got is Employee Benefit

Consultants who have reacted very positively taking this to the clients and around a quarter of our pipeline is now top-slicing which is around where we would want it to be.

That opens up a significant extra market for us. That other three-quarters is around the 1,000 pension plans. If you make an assumption about the typical size of a top slice transaction, that in effect doubles the size of the accessible market for us from that top right quadrant it doubles that.

So that is what we have been seeing in the market. So the question is, how are we taking advantage of this? So we are very focused on what we need to do over the next 2 to 3 years to capitalise on this opportunity. Five objectives. Objective number one, we want medical underwriting in the smaller end of the market to be the norm. We don't want trustees to ask, "Should we go down the medical underwritten route?", we want them to be asking in future, "Should we go down the traditional route?". So it is the default path for trustees of smaller pension plans, the sub-100 million size.

Number two, we want our product to be as easy as possible to access so buyers, have as smooth a purchase journey as they possibly can. That is not just in the design of the product. So defined benefit pension plans are more complex than retail. For example pension plan indexation, the annual increases in pensions is more complex. Trustees need to secure a good match of the benefits, we need to offer that in our product. But it is also around access to the product, so making the data collection process, our requirements for medical data as straightforward as possible. So as un-intrusive as possible.

Number three, it goes without saying, faultless client execution. But why do I say that here? This is an area where we can build on our retail heritage. We have a very strong philosophy of delivering for the consumer and Andrew Megson can tell you about all the different awards we have won. We can take that philosophy into the defined benefit market and really give a fresh approach to the way bulk annuities are sold, the way they are executed, the way they are on-boarded and the way in which they are operated.

Number four, the coverage of the Employee Benefit Consultants. We want to be there at hand so that when their clients are considering whether to go down the medically underwritten route, we can support the Employee Benefit Consultant in overcoming any apprehensions the client has, supplying case studies, helping guide them about the best way to go around this. Because although there are only a small number of employed benefit consulting firms in the UK, they do have quite a number of actuaries and consultants working for them who will deal with their own clients. So having very deep coverage there means that we can make sure take up of medical underwriting is accelerated.

And finally, and very importantly, we want to leverage the infrastructure Partnership already has. So we have already got the infrastructure to run as a large insurance company in the retail market, we can leverage that. But crucially, only when it is the best thing to do for defined benefit. So where something is better being built new or specialist or dedicated to make sure we offer a very solid, defined benefit and set up, we do that.

And that brings me onto the next slide. Over 2014 and prior years we have been building our defined benefit capabilities and a lot of that has now come on stream in 2014. And we have been very disciplined in putting in place dedicated teams where that is necessary for defined benefit. So it is sales, pricing, transaction management. And also through a third party, policy holder administration. So that is all in place. We have leveraged existing capabilities so asset management. We have got a very strong Chief Investment office, deals with assets for retail business. There is no reason why that can't deal with the asset side for the defined benefit business.

What this means is we do have the teams in place, we do have the capabilities. But also important, it is very scalable. So we are very well placed to take advantage of this market and even if it grows quicker than we expect, we will be well placed to take advantage of all of that growth.

And this is how all of that work is manifesting itself. The pipeline is very strong. The graphic on the top left hand side if I can explain that to you. I mentioned earlier there are a number of specialist providers in the market that collect medical data. The one that is most prominent is a company called Morgan Ash and what this data shows is the cumulative number of pensioners that they have been asked to contact for medical data to enable a bulk annuity transaction. So this is an earlier indicator of future bulk annuity volumes. Because once that data is collected it goes to insurance companies, they produce a price. It goes to the EBC to assess those. It goes to the Trustees who make a decision and it then gets transacted. And this shows the cumulative number of pensioners per transaction that are going through competitive processes. So we need to layer on top of this transactions that are only going through with one insurer and also layer on top of this the data being collected by other organisations.

And what this shows is the very strong growth we have seen in 2014. So we have seen an increase in activity, an increase in pipeline, penetration is very good, all the major EBCs have asked us for quotes and many now have successful cases they have transacted. Maturing, most transactions are multi processes, so there are four insurance companies that will offer medically underwritten bulk annuities which is confident to the client as well.

And also larger pension plans, I have mentioned top-slicing. We have also brought them into the fold within when medical underwriting can make a difference.

But as I mentioned earlier this is a lumpy business, so performance will be variable quarter to quarter.

So to wrap up, bulk annuities, huge opportunity for Partnership. The defined benefit market is very large, is transacting today and so we are penetrating a market that already exists and structurally the market will grow as well in the future. And importantly it wasn't impacted by the Budget.

Secondly, we have had a very upbeat market reception to our proposition. Apprehensions around medically underwritten bulk annuities have been systematically dealt with and we have seen the benefits of that.

Thirdly, we have the infrastructure in place to take advantage of the defined benefit opportunity, we have the specialist teams and it is scalable as well.

And finally, the outlook is very positive and the expectation is the market share of medically underwritten bulk annuities in that sub-100 million size will be considerably higher this year than it was last year. But performance will be variable quarter to quarter, it is a lumpy business.

So thank you very much. I will hand over to Mark who will talk to you about International.

Mark Dearsley
MD-International

Thank you Costas. So I am Mark Dearsley. And as Steve mentioned, I am heading up Partnership's international development project. So I am going to provide you with an update on why we believe we can build a very successful and significant business in the US on the basis of the research we have done and provide you with an outline of our market assessment in the competitive environment and also take you through some of the structures that we have identified to limit the risks and costs of going down this sort of journey whilst capturing the economic benefits which we believe are available. And finally, I will take you through an update of where we are in discussions with potential partners.

This is for us a three stage journey. The first stage really comprising research, starting with our IP and a deeper valuation of the market opportunity which has led us to conclude that the first place we want to start is a UK Care INA. That will then take us into the second box which is having identified the opportunity, how are we going to seize that and this is the point we are

at now. And the next stage will be implementation and what we are focused on there is making sure we will have a safe and successful launch. We have a small dedicated team working on this full time and that is supported by the UK experts in the business.

So the first phase. It started about two years ago when we did some work supported by Oliver Wyman looking at essentially what we could do with our intellectual property. As Steve mentioned, that is the basis of everything we do in Partnership. If there is not an IP advantage then we don't proceed because that is how we are going to win.

We looked at Europe and North America basically to see whether there were companies that had similar IP to us. Assessed the market in terms of its potential size and achievability. So the big areas that we questioned were does the IP work? Do others have it or could it be replicated easily? Is there a market for our products? Do people actually perceive that they have the need that our products address? Is there accessible distribution? For those of you who have worked in international markets, there are some markets where actually distribution is pretty much tied up with insurance companies and is not available to rent. Would the Regulators be supportive? And how would the competition react?

It was very positive in that there were lots of countries that actually presented very positively from the research but our assessment concluded that the US was the place to start. Having selected the US we then looked at both our retirement and care immediate needs annuity products and we selected the care product again as the place to start. We did receive very strong positive reaction to both, but we selected care on the basis of the customer and distributer research we carried out. Essentially the lack of competition and the size of the opportunity. And if you spend time in the US I think you would realise that this is a very hot topic in the US, how they are going to fund care for their aging population.

We are the clear market leader in the UK and have a successful track record, as Richard showed you, of underwriting this product, stretching back over 15 years which is a great place to start. Although the US does have a prefunded long-term care insurance industry, the data shows that over 90% of Americans have not bought one and arrive at the point of need of going into care without an insurance solution and these are our potential customers.

Now Richard took you through the exercise we have gone through to make sure that we are confident we have a reliable longevity underwriting pricing basis. But we also wanted to make sure that other people didn't have something similar. And we looked at various pools of competitors or potential competitors. We looked at the long-term care insurance players. These are the people who write the pre-funded business. They do an underwriting of sorts at the point of claim. They need to check that people who need to fail three activities of daily living, to be able to go on claim, have actually failed three activities of daily living. But that is all they do. So it is not a full underwriting.

There are underwritten non standard annuities in the US. These are not widely marketed and tend to be focused at the retirement age group. We also looked at those companies that buy peoples life assurance policies, so the life settlement players. There, there is an underwriting, but they don't look at care specific factors and their customers tend to be a bit younger.

But when we look at competition more generally we think it is most important to seize the early mover advantage by selecting the right partner and bringing to market a great product with a strong brand and access to great distribution and that is what we are focusing on.

Over time someone could build the data set, but it would take some time to determine the mortality tail given the significant deviation from the mean in this type of business. A new entrant would also have to hold significant reserves as it would be difficult for them to demonstrate the reduction from normal mortality which is required in the US and hence it is likely to be capital intensive.

Now we believe this is a material opportunity and the numbers are frankly huge. Now we worked with Towers Watson to get behind the available data and we see a large potential population of self funding customers. So excluding those in short stay rehab, which does tend

to happen in what we would call care and nursing homes in the UK, people like that tend to be treated in hospital more likely in the UK. In the US they are in the care data. We estimate there are about 3.5 million people receiving long-term care in the US spending about 45 billion dollars of their own money and with a further 850,000 people moving into care each year. And with the over 85 population set to almost quadruple by 2050, this is a growth market.

The focus groups and market research and conversations that we have been having show a strong desire in the US for people to have control over their care and a dislike and distrust of the Federal and State funded Medicaid and Medicare schemes, both of which are needs and means tested.

And further, in most States, many providers of care will not accept Medicaid funding because of the low reimbursement rates and the complexity of the process, meaning that even those people who want to rely on Medicaid actually struggle to find a care provider that will accept it.

So we believe there is a large pool of potential buyers and I would now like to spend a little bit of time taking you through why people like it and will buy it and then move on to our estimates of the market size.

Now there are many people involved in the purchase of a long-term care annuity. And it is important to actually consider the environment in which the decision is made. So let's just take the average customer that Richard mentioned which is the same in the US as it is in the UK, fortunately for many people in the room, a lady in her mid-80s, let's assume there are a couple of children and a major asset will be her home and then they have some retirement savings. Not an atypical situation.

Before the onset of the need to move into care, this is probably quite a nice happy state with a certain amount of retirement income savings and the children being happy and confident at some point they are likely to be able to receive the proceeds from the sale of the house. And that then changes and it is often quite a shock. In the US depending on whether it is an assisted living facility or a skilled nursing facility sort of care homes or nursing homes, this will be somewhere between 50,000 and maybe up to a 100,000 dollars a year in expense. And for a very uncertain period.

So let's just look why people are interested and expressing such a strong desire to see our product available in the US. If you look at the customer, what they are looking for is peace of mind. And peace of mind around two different demographics one might see. The first of those, who are probably at the slightly lower wealth scale. What they are worried about is the actual impact on their care of running out of money. They have found a nice home, they can afford to stay there for some period, but what happens if they run out of money and have to go to the care provider and say they have and that they are going to fall back on Medicaid or they have to go and see their children and ask if their children will actually pay. So they are worried about their care.

People who have got a bit more money and are much less likely to actually run out of money, what we are hearing is their issue is that they don't know how much of their assets they need to set aside for their care and therefore they are stuck really not being able to do anything. And what they are looking to be able to do is ring fence a proportion of their assets and say, "I can set that aside for my care and then the rest of my assets I can actually start maybe passing it down to children and grandchildren for school fees or mortgage deposits etc" and actually see some benefit from that in their lifestyle or just lead a slightly more prosperous life. So both demographics, one ring fencing the money, the other really worried about the impact on their care.

Now the family are also looking for peace of mind. Having got their parents settled into the right home, they want to know that they are going to be able to stay there, but they are also concerned that if the money runs out, that they are going to have to step in and pay. And again in the wealthier demographic maybe they would quite like earlier access to the estate.

So you get a good confluence of interest within the family, with the person themselves and the children.

The care provider is also very important in this. Remember this is not looking, when it comes to trying to find customers looking for needles in haystacks, we know where they are. They are receiving care. We know where the haystacks are, full of people that we actually want as customers. Their business model is about getting their beds filled and filled by private payers who are going to be paying those higher rents. So they want to get people in earlier and keep them there longer in as private payers.

Our product actually helps all of that business model. One of the reasons people defer going into care is because they feel if they can defer going in they can save some money that they might be able to spend at the back end of their stay. Our product of course provides a one off premium which gives them the confidence to move in earlier and given that we will be providing the private pay income through to the person, they can be confident they are not going to need to fall back on Medicaid.

And finally, the Government, which is very supportive in the UK, is involved in this because essentially just now they are the insurer of last resort. If someone dies early in their stay, the family get the estate, if someone lives an extended period in care then it would be the Government that will be stepping up to pay the bills. So good confluence of interest around all of those.

And currently people have few options available at the point of need and the research we did with Maddock Douglas and the focus groups with LIMRA, suggested very strong propensity to buy our product which takes away that core longevity risk and provides the peace of mind.

So let's look at those 3.5 million people who are receiving long-term care and the 850,000 moving in and say which ones of those are likely to have the need and be able to afford to buy our product? Which will give you some sense of the potential for this market. So essentially it is a nice little quadrant of income and assets. People need enough assets to be able to pay the premium and our assessment is that people that have sufficient income, high income people, will probably just pay out of income. So the top right, where we have high income people, got sufficient income to be able to pay their care costs each month without dipping into assets, we have excluded those. And that is about 15% of the population on the work we did with Towers Watson.

The bottom half, whether it's lower or high income. They actually don't have the assets, it is very unusual to have some of those combinations, but the bottom half is about half the market. We have excluded those because essentially at some point in their expected life they are going to fall back on Medicade, they have not got enough money to pay the premium.

Which leaves the top left hand quadrant in this technical analysis of about 30% of the people who have an income shortfall and hence the need because they are depleting their assets, but have enough assets, probably from the sale of the house that we are saying in our average typical person, to be able to buy a policy.

So this equates to about a million people in America who are currently in care receiving formal care and about 300,000 people moving into care each year. And again on a State by State basis, all this analysis was on a State by State basis, the average shortfall from income to the cost of care was about 33,000 dollars.

We did some quite extensive market research with an outfit called Maddock Douglas who are very well known in the US, quite interesting thinkers in this space. There is a number of people who have actually been excluded in this analysis which actually showed up with a stronger propensity to buy. So we have got some people who we would have excluded in the bottom half because they essentially didn't have enough money to pay the premium, where we were hearing that the children will pay the premium to protect the risk that the cost actually falls on them. We had people in the top right hand box who have enough income who are actually saying that they would buy a product because they want to protect that income, they

wanted the lifestyle. And as a completely new market, because we had excluded these are people receiving formal care. We found that people in informal care, say where a family member is providing the care there was also a strong propensity to buy and there seemed to be two drivers to that. One, because the family member is not able to work as much as they were and hence a need to top up the family income or because there is an anticipation that they will be moving into formal care sometime in the near future. And those people which is actually a very significant number of people are excluded completely from this analysis. So we think this is a very significant opportunity.

I now just want to touch on how we are going to find those customers and I said one of the beauties of this product is we kind of know where they are, was the distribution model. We have been discussing this with some of the major US distribution groups and also sources of lead generation which are the care home groups and elder-law attorneys which is a significant sub-set of the legal profession in the States. And hospital discharge staff. These are people that when people are being asked to leave the hospital find and identify where they need to go next for their care.

The general reaction from all distribution has been very positive and part of this is because this isn't a product that currently competes with their core business. These are people who, if you think about long-term care insurance who will be declined. These are people who have not bought insurance and at present are largely uninsurable. And our model essentially is based on, if we start at the right, building a team of fully trained specialists who will work with those lead generation sources to establish the market. Also with the financial advisers, so those generalists, financial advisers who will just come across this in their normal business, but also had a very strong reaction, a very strong response from those people who are currently selling the pre-funded long-term care insurance. Their propensity to find customers is much stronger because they have both a, or they have all of a back book of people they have declined in the past so they know that there is a desire to buy an insurance solution, but they have not been able to buy one.

There is the fact that one of the key drivers for people buying long-term care insurance is the fact that a parent has gone through a care, movement into care and hence they understand the cost and what provision is going to be made by the State and the difficulties and want to make sure they are not going to go through it. So the LTC sales people are saying, there is a very simple up-sell because when people come in saying, 'Mum has just moved into care and it is dreadful, I want to make sure it never happens to me'. You can say, well not only have I got a product for you, but I have also got a product for her. And also people who just turn up essentially trying to buy insurance for their house when it is on fire. So people who are really at the point of need now, are thinking they can buy an insurance at a stage when they just can't.

And we are in discussion as I said with a number of large marketing organisations about them being our launch partners. So a very strong reaction from distribution.

So, having established what we believe is a significant opportunity, we then looked at how we are going to seize it and we looked at a number of alternative approaches ranging from establishing our own insurance company and getting the licences through to acquiring an insurance company. That didn't get a lot of attention. And through to simply licensing our IP/ And the way we looked at the assessment was to try and minimise the impact on our capital. Minimise the new risks we are taking and there are risks in moving into a new country. And also minimise the impact on our UK business and hence any impact on the significant opportunities we see there. And at the same time, maximising the control of our IP. IP is at the core of Partnership and we want to make sure it remains ours. And maximising the returns and also maximising the confidence with which we are able to launch.

What we concluded was that we would establish, that is what we are currently discussing, reinsurance based solutions. So this is essentially where we would form an alliance with a major US insurance company which is fully licensed as a strong brand in that market and understands how to sell product in that market. And we would take a very substantial amount of the insurance risks, so the underwriting, pricing, longevity and investment risks that we

understand well and allow them to focus on the US conduct and regulatory issues which we, much as the research, I have done a lot of research on that, it would be difficult to say I was an expert compared to someone who has been operating in that market. And then together with them, build a compelling go to market strategy.

So to conclude. We believe this is a very significant opportunity, that we are ideally placed to seize. Our current discussions with potential partners are progressing well. And we believe the structures we are exploring deliver attractive returns and allow us to focus on the risks we understand. And of course we will update you as the project progresses.

So thank you very much. I will now hand you over to David.

David Richardson
Chief Financial Officer

So good morning everyone. Thank you very much Mark. So Richard has talked about intellectual property, Andrew has talked about distribution. I am going to talk about the other three elements of our business model here, namely reinsurance, investment management and risk management, before giving you a bit of an update on the financials and trading.

So let me start with reinsurance. Reinsurance has been an important component of our business model to date as we have been successful in securing attractive reinsurance terms. That has enabled us to pass on significant amounts of longevity risk on attractive terms and reduce the capital we need to hold for that risk. So I guess the key question is how have we been successful in achieving those attractive reinsurance terms? I put it down to two principle reasons. The first which is fairly generic for longevity writers is that our risk, longevity risk diversifies very well with the predominant risk on most UK reinsurers balance sheets which is actually protection risk. So from a capital prospective, the amount of capital that a UK reinsurer has to hold for longevity risk is a lot lower than us as a specialist longevity writer. So we effectively access risk and capital diversification benefits on their balance sheet via reinsurance.

The second component, which is more Partnership specific comes back to our intellectual property. The fact that we can price our risks very accurately and are confident, gives our reinsurance partners confidence to offer us attractive terms. And this is something I have actually witnessed and lived in real life for many years. I was Head of Global Longevity Pricing for Swiss RE and the one thing I can say is as a reinsurer you really value is a highly knowledgeable counter party with expertise in the area that you are reinsuring. You know the quality of risks they are going to be passing on to you are well understood and well priced.

So those two things together means we have achieved attractive reinsurance terms. What that means for us is in aggregate approximately two-thirds of the enforce longevity risks that we have today is reinsured with full risk transfer to our reinsurance partners. That achieves two things. First of all it improves the quality of our earnings, it reduces volatility in our earnings because two-thirds of that risk passes on to a third party.

The second thing it does is it reduces, it doesn’t completely eliminate, but it reduces the exposure of our balance sheet to shocks. So medical breakthroughs, maybe longer data developments that Richard was talking about earlier on. So two-thirds of that risk; we’re immunised from that and that both protects our balance sheet and reduces the amount of capital that we need to hold for longevity risk.

The final point I would make about reinsurance is that it does introduce another risk which is counterparty risk, the fact that you rely on your reinsurer. The way we manage that is again twofold. First of all, we work with highly established and credible reinsurers so we work with a panel of global reinsurers who are at least rated single A. And second of all we supplement that with collateral arrangements. They might be in the form of trust arrangement or in the form of a deposit back arrangement, we put collateral arrangements around our reinsurance to give us that counterparty protection.

If I move onto investment management. Our approach to investments really has three overall objectives. The first is to achieve an attractive risk adjusted yield on the assets that we invest in. The second is to invest in capital efficient assets so make effective use of our balance sheet. And the third is we have an overarching prudent management approach to how we put all that together. So we express that via very close limits on cash flow matching of assets and liabilities and also putting in place sensible and appropriate limits on things like rating, sector and individual name concentration limits.

Our current portfolio of approximately £4.5 billion of assets is split roughly three-quarters in fixed income bonds and then most of the rest about 21% of that in equity release assets. Most of the three-quarters in fixed income bonds is in corporate bonds although we do have a not insignificant about 14% of that is in triple AAA super national bonds.

Our approach to asset investment generally is, we have illiquid liabilities. So once somebody purchases an annuity with us they literally have it for life, they cannot cash it in so there is no call risk on our liability cash flows. Therefore we can invest in illiquid assets with confidence provided they match the underlying cash flows of our liability profile.

So the way we execute that on our corporate bond portfolio is we implement a strategy which we call 'Buy and Maintain Plus'. So the first element of that; Buy, is we try to source fixed income assets which offer a high risk adjusted yield which are capital efficient. And we buy those on the basis that we will hold them to maturity because of our illiquid liabilities. So that is the buy piece.

The second step is, we don't just put those assets in a box and forget about them, we do clearly monitor them and make sure they remain appropriate. If we feel that the credit outlook is deteriorating for those assets, we will then sell those and reinvest them in alternative assets. That is the Maintain part.

And finally, plus, is the value adding piece. We selectively, I wouldn't call it very actively, but selectively we look for opportunities where we see particular assets we believe are overvalued and we will switch those into assets which represent similar risk adjusted yields before allowing for price differential and buy those. So adding value that way incrementally over time.

On equity release, the reason we are attracted to that as an asset class is it really ticks all three boxes in terms of our investment objectives. It is specialised and more illiquid asset and therefore it offers in return a higher risk adjusted yield. Second of all, the key risks that you are exposed to on equity release is effectively indirect residential property risk. That risk diversifies very well against more generic credit risks that we have on our corporate bond portfolio. So from a capital perspective, it is a very efficient diversification tool.

And the third element, risk management. The cash flow profile on equity release is generally longer dated in corporate bonds and that provides a very good cash flow match for the tail of our liabilities or indeed new areas like DB which tend to have a longer average cash flow profile. From this description though you can probably tell that we view equity release as an investment activity, we don't view it as a customer driven activity, that is a key point for us.

Finally, the other thing I would say on investment management is we do continue to look at new asset classes which may achieve our overall investment objectives and we have announced that we are investing in commercial real estate mortgages. We are using Rothschild for that. And we announced a while ago and we continue to work on looking at opportunities to invest in infrastructure debt. Another asset class which can offer, higher risk adjusted yield as a compensation for the illiquid nature of that asset class.

Finally on the business model, let's look at risk management. It is really important and really permeates throughout the whole organisation. Probably not lost on you today that you've actually got four actuaries at the top and it is something that we do live and breathe. It starts at the top on the Board, it permeates its way down the Executive and right through to line management. We offer a three lines of defence model in line with industry practice.

What we try to achieve in our risk management approach, I will call out five of the key objectives here. The first is we aim to protect our intellectual property, given it is key and core to our business. Second of all, we aim to maintain a strong capital position. Now this is an area which we do closely monitor, particularly post Budget, with the subdued revenue news and that has led to our focus on cost and our focus on our capital position. As part of this we do regularly review balance sheet options including the potential for accessing the debt capital markets.

The other areas I will call out, we do continually assess are price and strategy which we have talked about before and our asset management strategies to ensure that we maintain and manage appropriately our exposure to longevity risk and our investment risk.

So they are the last three components of the business model we want to talk about today and remind you of. So let's move onto a trading update.

If we start with individual annuities, individual retail annuities, really the message is entirely consistent to what we gave at the Q3 IMS six weeks ago, volumes and lead indicators on individual annuities remain subdued, they remain significantly below 50% due to the combination of lower quote volumes, a lot of deferral going on as Andrew mentioned earlier together with lower conversion rates on those quotes.

On DB and hopefully Costas has really brought this to life today, the pipeline continues to grow and we are getting really good and improving traction on that proposition as we build out the medically underwritten DB derisking solution across a much broader market. However and again I think Costas emphasised the reasons why, quarterly completions are still expected to remain lumpy as this business model develops over time.

On care and protection, no real change here. These two lines they remain relatively small lines in aggregate but have been unaffected by the Budget and we have seen no change in conditions there.

And finally, as we announced on the 27th October, the FCA has announced it has discontinued its investigation in relation to a distribution agreement and confirmed that no further action would be taken.

Back in the summer on 23rd June, we announced we were taking a broad cost management action across the organisation and I can report back to you today we are tracking well against a targeted savings of £21 million against our 2015 operating expense base. As you may recall from the time, the approach we took was to identify what cost base we thought we would need to support our individual retail annuity business and then layered onto that the additional resources required to support our initiatives, some of which you have heard about today, DB, International, also the development of a new retirement account. We announced at the time we expected to reduce the headcount by approximately 100 FTE, by the 30th September I can report that we had achieved that. Our total headcount at 30th September was 445, down from 566 at the 31st March, shortly after the Budget announcement.

We also guided restructure costs of around £3 million would be incurred as a result of this exercise and I can confirm that the expected costs are expected to fall within that amount.

There is a possibility of further savings through natural attrition during the coming months, but I would not flag those up as material.

Moving onto capital now. I know we have talked about this before but I thought I would take the opportunity to recap very briefly on the two capital measures that we communicate to you and monitor closely. So the first of those is IGD, this is a formulaic capital approach based on our PRA returns and prepared in accordance with rules set out in the insurance group directive. The ratio at Q3 raised slightly from the half year at 229%.

On economic capital, this is actually the basis on which we manage the business, it is a risk based assessment that looks at the amount of capital we need to hold to survive one in 200 year risk events. We believe it more accurately captures the risks of our business which is why we use it to manage the business as well as being more onerous than IGD. At Q3 our economic capital surplus was £163 million, that represented a coverage ratio of 149%. Well in excess of our target minimum of 125% under normal conditions.

A few words on Solvency II, I think along with the rest of the industry, we are working very hard to ensure we are ready to go live on 1st January 2016 when Solvency 2 is expected to come into place. Again, within that though we are still working against a background where a number of areas of the legislation still require further clarity. However based on our current interpretation of the draft regulations, we expect the Group to be well capitalised on a Solvency II basis. To give a flavour of this and we wouldn't manage the business on a standard formula basis, however our current assessment of the current formula requirements is that they would be less onerous than our existing economic capital basis. Put another way, our current interpretation is that on a standard formula basis our capital coverage ratio would be higher than the existing economic capital coverage ratio.

Finally on the numbers. Just to reflect an increasing number of questions on MCEV we just thought we would highlight the key numbers there again. Our market consistent embedded value at the half year was in pence per share terms, 136p per share. So just over £550 million. Just as a reminder our MCEV represents tangible net assets on the balance sheet plus the present value of future cash flows which will emerge over the remaining life of our existing business today. We do not include any allowance for the value of future new business in our MCEV. The other thing I have highlighted around MCEV is that it has actually got a very robust mix between net assets and value in-force, approximately 85% of the MCEV is net asset value. So approximately 118 pence per share with the remaining 15% accounted for by VIF.

We believe the MCEV to be robust and we have just repeated here the stress scenarios that we showed at the time of the Interims to demonstrate that.

And to conclude for me and as guided at the time of the IMS a few weeks ago, sales in the individual annuity market remain subdued. But on the other side on the DB front, the pipeline and proposition continues to strengthen appreciably. Cost management action to protect new business margins and our capital base are tracking well versus plan. Our economic capital position remains robust and well in excess of our minimum targets. And finally, we believe the MCEV is robust and of high quality.

With that I will hand you back to Steve to wrap up.

Steve Grove
Chief Executive Officer

Thanks David. I am aware you have been sat around for quite a while now so I will keep this very brief.

In summary, I guess despite eight months of significant change, we have a clear strategy to diversify our Business Model within our chosen markets. These allow us to leverage our strong core and intellectual property and technical expertise. We have identified three areas where we think we can deliver profitable growth. In the UK retail market, UK bulk market and overseas in the US care market.

We have a track record of innovation which gives me confidence in our ability to deliver successful products in these markets.

We have a strong network of distribution arrangements and have developed these to ensure we are well positioned.

And finally, as David described, we continue to maintain a strong balance sheet, both in terms of our economic capital position, being comfortably in excess of our minimum target even in stress scenarios and our MCEV being robust.

At this point I would like to open up to Q&A and if you could just wait for the mike to be brought for you and confirm your name and institution before asking a question. Thank you.

Question and Answer Session

Question 1
Anasuyer Iyer, Jeffries
I have two questions please. One is you say that your reinsurance is very important part of your business model. For the US business will that continue to be the case and then will you be able to secure the same terms for the US business?

And the second one is slightly geekier question on Solvency II. On the matching adjustment, what is the current status for the recognition of equity release and commercial mortgages and how will that affect your Solvency II ratio please? Thanks.

Steve Groves
Mark do you want to cover the potential for reinsurance in the US and then David take Solvency II.

Answer : Mark
Yes only to say that that is not a decision we have yet made. We have had discussions with reinsurers both in the UK and US and there will be strong appetite, but we have not decided yet whether we are going to go that route.

Further answer : David
On the Solvency II questions, first of all on equity release, you are absolutely right that the PRA interpretation of the matching adjustment requirement is not on the face of it favour equity release. However we have a number of solutions we are working on which will seek to ensure that those quality for matching adjustments. So we feel comfortable about our position on that.

On commercial mortgages it is an asset class which we are just branching into and we were very conscious of Solvency II in how we approached that market and so what we are doing is we are only investing in commercial mortgages which we believe will quality for matching adjustments. For example they have their required make-whole clauses that will mean they qualify for matching adjustment.

Question 2
Ade Roberts, City Financial
Andy Roberts, City Financial. Richard talked about the differences between the US and UK markets and how you could tweak your IP model to sort of boost your chances. Can you give us an example of a key difference in the two markets and where you make changes that might help you in the US.

Steve Groves
Richard, sounds like one for you.

Answer : Richard
Sure, I mean one example is in the US there is much more diagnosis and treatment for diabetes at an earlier stage. So if we just used our UK model unadjusted and gave a certain amount of credit for an individual say being diagnosed as being diabetic, then we sort of would be over stating the impact in relation to the US market. So we have to sort of allow for the fact that certain conditions are more commonly diagnosed and treatment is at an earlier stage in the US versus the UK. So that is the kind of adjustment we have had to make to our model.

Further Question
And just a follow-up on that, what sort of sense checking takes place in terms of making sure that you are capturing all the nuances of the US market rather than sort of overlooking things?

Answer: Richard
Well we have basically been through a very long process of trying to capture information on disease prevalence from as many different sources as we could. Our underwriters have also been on a number of visits to the US, visiting care homes, talking to experts in the field in the US. So we have leveraged as many different sources of information as possible to make sure we are not missing something.

Question 3
Ming Zhu Canaccord
Two questions please. In terms of US, could you give a bit more colour in terms of what time line are we looking at for launching the products and anything you can provide in terms of what sort of sales figure are we talking about here?

And as you mentioned, you will be in partnership with US insurer, what sort of profit margin would you be looking at comparing to the profit margin you currently have and any upfront costs we should be aware?

And second question is on the Group's expense. You have got this 28% cost saving target for next year. But your sales are down more than half. Should we expect more cost saving, more rigid cost saving to come through? Thank you.

Steve Groves
Mark do you want to cover the International question and David take the cost one.

Answer : Mark
Well first of all on time lines, we are not going to commit to anything today. What we are very mindful of is we want to have a safe and successful launch. The different partners we are talking to would have already in place different components of the infrastructure that is required and that would then lead to some bits needed to be built in one model, not needing to be built into another model and we are still in that process.

That really also feeds through into your cost question. We are working with people who effectively have significant infrastructure in place and therefore that should significantly limit the costs that we will have to pick up compared to a model where we were effectively establishing something from scratch. So we will be very much leveraging the selective partners existing infrastructure.

Sales figures, no I don't think we are yet ready to share that, but I think hopefully I have shown that the opportunity is significant. The rollout strategy to go to market is again one we are still working through.

Profit margins, well it is a new market, but there are no reasons for us to believe the margins that will be available in the US would be different to the margins available in the UK. We do have competitors in the UK so one would hope that that early mover advantage would be one we can flow through the figures.

Further answer: David
Yes on expenses, as I described earlier, the approach we took was not try and track costs down directly in line with revenues because we wanted to protect our capabilities so that we could invest resources into what hopefully you will agree are some material opportunities we talked about today. So we are not planning at this stage to make any further significant cuts. I have flagged that there may be marginal savings through natural attrition. So clearly if the individual annuity market remains subdued, natural attrition means you may not have to replace certain people as they leave, but I would call this very much at the margins rather than a material change.

Question 4
Chris Huggins, GLG
Yeah, my understanding is that in the UK there is a tax incentive in the care annuity product. What is the prospect of that existing in the US and to what extent do you think it drives sales in the UK?

Answer:
I mean that isn't the same tax treatment. So in the UK if the annuity itself was paid to the care provider, it falls outside of an income, that is not the case in the US. I think it is a nice marketing touch. The actual amount of tax that we think would be payable in the US is actually very low because the care costs themselves are substantially offset against the income. And therefore the marginal tax rate is very low. This is not really a tax driven, it is not an investment product, it is a peace of mind protection product ensuring against the impact of an extended period of time in care. So if we are selling it as an investment product, that is the wrong way, it is a peace of mind product.

Further question
Just one other question on the equity release mortgages you described them as more an asset management product for you. Who originates them?

Answer: David
So we actually have a mixture of origination sources, so we originate them through the IFA model. So either under our own brand or supporting other people so effectively taking the risk for them. And we also acquire equity release in bulk transactions. So this would be where we acquire a block of existing equity release assets from a company which is seeking to exit those, typically a building society which built up these portfolios in the mid 2000s and because of the liquidity issues, needs to get rid of that illiquid asset.

Question 5
Barrie Cornes, Panmure Gordon
Good morning, it is Barrie Cornes from Panmure Gordon, I have got three questions if I may. Just touching again on the equity release there. I just wondered if you think the equity release market is likely to grow significantly as a result of the lack of tax payable on pension pot on death?

Secondly, in the US, I wondered if you could comment on some of the other options that you considered and why you rejected them in terms of your entry into the US?

And last of all, slightly cheeky I guess, given you are trading at discount to cash, I just wondered if you had any comments on the M&A sector, particularly the announcement last week around embedded value?

Answer:
Sure, I will take the question on M&A and ER and let Mark handle the other things we did in the US. So the easiest one first, probably not for me to comment on Aviva and Friends M&A activity. From an equity release point of view I see two conflicting drivers to be honest. I think at the wealthier end of the scale the opportunity to leave the money in the pension pot certainly until 75, could drive people to look to raise liquidity from other sources. Conflicting with that the equity release market for the last certainly 6 or 7 years has been almost entirely funded by annuity providers. So on the one hand you can see technical drivers that could lead to an increased demand, particularly at the higher net worth end and at the other end you can see potentially constricting supply. So it is really hard to tell at this stage how that balance will play out.

Further answer: Mark
The assessment as I said was really looking against a whole balance of positives and seizing the positives and not falling into the negative issues. We did look at the achievability of setting up or acquire a shell and gaining the licenses. I think the expense and time it would take to do that. But also the taking Partnership as it is, with no US brand and effectively establishing a

whole capability is something which is really quite a significant cost and also exposed us to risks that really are not risks that we understand well and potentially would be confident about being able to say we have got them all covered off in the same way as working with a partner in the US. And I think the other thing is just how well received the discussions were when we opened them up, that I think both the economics and the risk allocation was such that it made it a very compelling entry approach. From the economics the risk management and the IP protection as well, where the reinsurance approach essentially means that we are going to be doing the pricing and reserving and hence we keep the data very close.

Question 6
Oliver Steel, Deutsche Bank
Oliver Steel, Deutsche Bank. I have got sort of three and a half questions. The first is I am slightly bemused by your comments on capital because you say solvency ratios are coming down quicker than it would have done otherwise, even though you are writing less business. So your liabilities are going up less fast, but your solvency ratio is coming down quicker. I wonder if you can square the circle on that one?

Linked to this, this is the half of the question. If your solvency is so strong, why do you constantly explore the opportunity in the debt market?

Second question is rather a stupid question I guess, but it shows my lack of understanding of the US care market, but what is the difference between what you are planning to do and what Genworth did which I think cause their share price to drop 50% or so the other day?

And then the third question is, one of the slightly strange situations at the moment is that Just Retirement appears to be seeing its sales of individual annuities holding up a little bit better than yours. The difference I am guessing, it is still down, but there does seem to be a significant difference in the percentage fall and I am just wondering if there is anything you can see in your distribution or their distribution or maybe margins that makes the difference?

Steve
I guess probably the place to start is David if you want to cover the solvency ratio and the question around debt and Mark pick up the US and I will come back on the PVJR

Answer: David
On the capital, the drivers there are we maintain our existing pricing discipline in that we seek to ensure that for each policy we write that the margins on that policy are sufficient to cover its marginal capital requirements. What we seek to do is achieve margins in excess of that to make a contribution towards overheads. So our operating expense base. And clearly with the subdued volumes that we are seeing at the moment in the retail annuity space, that contribution from retail annuities to our overheads has reduced and that is going to put a little bit of pressure on the economic capital ratio over the short term.

With respect to regular review of balance sheet options, well really just prudent management. At the time of the IPO we took the prudent step of repaying all our debt. So we are a company with zero external debt, no financial reinsurance. So we have significant financial flexibility. And so particularly at times like this it is sensible to keep that option under review.

Further answer: Mark
In many ways, what happened with Genworth is why we have got a great opportunity. So the issue there was, this was the prefunded long-term care insurance sort of back book. These are the products which were, when the market was really started in the 1980s, which were a level load, so a premium set up at the start in a monthly premium. Actuarial assessment of interest rates and lapse rates and then for the early products, effectively an unlimited benefit so unlimited by amount, unlimited by duration. And those products from what we have heard, and this is not a Genworth thing, this is as an industry, Genworth are simply the largest players in that market, in those early years it was spectacularly mispriced and I think they pretty much got the interest rate environment wrong, which you might say, fine that was an assumption. The lapse rates were wrong and the benefit so the amount of claim they are getting both in incident and amount were higher. The current generation of products which are

being sold now are limiting the benefits so you will find they are three or four years and capped by amounts. And secondly, the insurers are making strong representations to the States Regulators to get regular premium increases. So the attractiveness of the product is that if you are going to need care it is actually quite a cheap way of getting it because you have got a pooling with people who don't, that actually won't need the care, but the benefits are much less attractive because it does not actually provide a certainty for an extended period of time and also you don't know how much it is going to cost because the Regulators are allowing great increases. So the issue is a back book. It is basically rippling right through the long term care industry and the fact that their product is less attractive means there is going to be an even bigger opportunity for us and not one which is going to diminish but is going to grow.

Further answer: Steve
Coming onto Partnership versus JR. It is very hard for me to comment on the specifics of what a competitor are doing. But what we are doing is we are setting our pricing and our pricing discipline at the point that maximises the return on capital through this difficult period. I said earlier my strong belief is that there is a significant amount of deferral going on particularly because of disruption in the adviser market which you heard about from Andrew. Therefore I don't see a huge amount of economic value in deploying lots of shareholder capital at relatively low margins at the moment. I would rather hold onto that capital and deploy it as that deferral starts to unwind and the economic returns on it are better. What JR are doing I guess I would have to say is a question for Rodney.

Question 7
Andrew Crean, Autonomous
Good morning, Andrew Crean from Autonomous. Three questions please. Firstly you have given a sense that your economic capital would be stronger under a standard Solvency II model. Could you say the same about how it rates versus the ICA plus, plus the internal buffers?

Secondly, you have talked with confidence about a recovery in the individual annuity market and about growth in the PPA market, could you give us some sense as to where you think the industry will be in say 2016 in terms of size?

And then for yourself really, whether you think DB will actually come past your IA sales?

And then finally on the US, currently you don't have a self funding business in the UK should you see as the economic capital falls, you are paying a nominal dividend and yet you are still entertaining the idea of entering the US market where you are looking at a product where there is no proof of concept. Why is that a good idea for shareholders after the recent history in the shares?

Steve
Okay I will let David take the question on standard formula and I will take the other two.

Answer: David
The reference to standard formula is just to give a flavour of what we are seeing coming out at this stage. I think it is fair to say there is still a lot of moving parts in Solvency II, our expectation is that we will continue to manage the business on an economic capital basis and so the standard formula was just to give you a sense of where we are seeing things coming out at the moment.

The economic capital framework captures the risk of our business a lot better. We feel it is very closely aligned to the current ICA regime and whilst things can and probably will change in the run up to Solvency II our basic expectations is that we will still manage the business on an economic capital basis.

Further question
[Too quiet to hear]

Answer: David
You mean within the current Pillar II regime, I think as we said before, you should view the economic capital as a proxy for our own ICA at the moment. The internal buffers is 125% minimum target that the Board seek to maintain so at a 100% of economic capital that is enough to absorb one in 200 year risk events. 125% is just to give a buffer over that to absorb market fluctuations.

Further answer: Steve
I guess then taking your two questions in the order they were asked, 2016. I guess I am going to be very careful in calling the time in which the UK retirement market shakes out. So I think there are 2 or 3 underlying trends. One which was a long-term trend which was happening before the Budget which is towards later retirement. Whenever you look at data on peoples age of retirement you can see even before the Budget it was increasing significantly. And the second is what the people who are currently deferring a decision until April do. So the information from research we have done is we think a proportion of that will annuitise and will secure its basic guaranteed income for life and possibly taking its excess funds into other more flexible solutions. So I would be really wary of predicting the 2016 market with a great degree of accuracy. What I would say is I have a high degree of confidence that as I look over the long-term the annuity market in the UK will recover and will eventually grow back to above the levels it was previously partly driven by the rates of demographic change and DC funds under management.

In terms of the DB business, the potential for the DB business is very large. I think as Costas explained, even if you look at just that small scheme segment and we don't include top-slicing, there is the order of magnitude £200 billion of liabilities in there. It is early days so again I don't want to set too high an expectation on the speed at which medically underwritten schemes develop, but our belief is that over the next 20 to 30 years a significant proportion of that will derisk. Some of it may not have the money to, but a significant proportion will and we think that the medically underwritten side of that is gaining good traction, it is certainly gaining much quicker traction than the individually underwritten side did when we launched into the individual market. So is it possible that DB will be bigger for us than individual annuities at a future point? Yes I think that is well within the spectrum of possibilities.

And then finally coming onto your question on the US, fully understand, the reason for the question. We have looked at the US in excruciating detail in terms of the economic model and what we think is needed from a shareholder capital point of view and what returns we think can be made on it. However we have looked at it and particularly in the model we are talking about where we try and limit the upfront costs to access what is a very big opportunity, we think it is a sensible thing for shareholders. And clearly at the moment what we are doing is going on a journey with you and taking you through that journey. The numbers that we expect to come out and the numbers that start to come out we are confident that will evident that this is a sensible thing to do with shareholders money. And I do say that as a major shareholder. So it is not just that I think it is a good idea, we really have looked at this.

Further question
Could I ask a follow-up then. So the cost of doing it relative to the dividend cost, what are we talking about in terms of the shareholder investment relative to what you are spending on shareholder dividends?

Answer:
Well it rather depends on which particular partner and which model we go for which have different rewards and risks and costs. But we are not looking at a high cost build, we are looking at something which is appropriate for the business. It depends on which partner we decide to go with, they are different.

Answer:
I mean the best way to answer that is the cost incurred to date is modest, a very small team and you know we are not talking about. So we talked about £5 million investment in product development over 2014 and 2015 in our announcement on the 23rd June. And what we have spent so far falls well inside of that across both international and retirement account.

Question 8
Fahad Changazi, Nomura
Fahad Changazi, Nomura. Just a quick follow-up question on Oliver's question, just so we are not surprised by what is happening with the economics on solvency, you had a drop in economic solvency to 153 to 149%, with sales down in Q3. It will probably be the same in Q4, it will be lower in Q1, probably lower in Q2. I mean how should we be looking at the development of the economics of solvency given the sales trajectory and the cost savings you are doing as well please?

Answer:
We are not going to provide forward guidance on the economic outlook for all the variables that you have just described. It is a function of what the volumes are sold against an uncertain background and what the margins we achieve on those and how things like the DB initiatives start to pay off in terms of completions which goes the other way. So the key things we are emphasising at the moment are maintaining our pricing discipline so each business we write at the margin is covering its own capital requirements and we are taking and have taken action to manage the cost base to protect those new business margins and our capital position. And we have also flagged that to you. We do keep the balance sheet options under review and we have a significant flexibility if required there and if it makes sense economically.

Further question
If Q4 sales were at the same level as Q3 sales, would the economic solvency dropping at 4 percentage points?

Answer:
Unfortunately it depends on the margin, it also depends on the financial market conditions so I am afraid I can't give you a definitive answer on that. I would love to know by the way, but it is just one of these things that has so many variables. The economic capital is the summation of all the risks on the balance sheets. So the total assets versus total liabilities and all the risks on top of those. So there are so many variables there that I don't want to give you any misleading guidance there.

Question 9
Female
Just one question please. Do you have an open mind to be acquired? You are trading at about 20% discount to EV. If someone can offer you one times or more EV that is probably better for shareholders?

Answer:
I guess I would say we are very focused as a management team on delivering a strong viable future for the business. I think that is probably a question for shareholders at that point rather than for management.

Steve Groves
Any more for any more? In that case I will say on behalf of the team from Partnership, thank you for your time today. Hopefully that has given you some insight into what is going on and we will be around if anyone wants to chat afterwards.

Thank you.

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