2015 Interim Results

11 August 2015

partnership

seeing retirement differently

Interim results summary

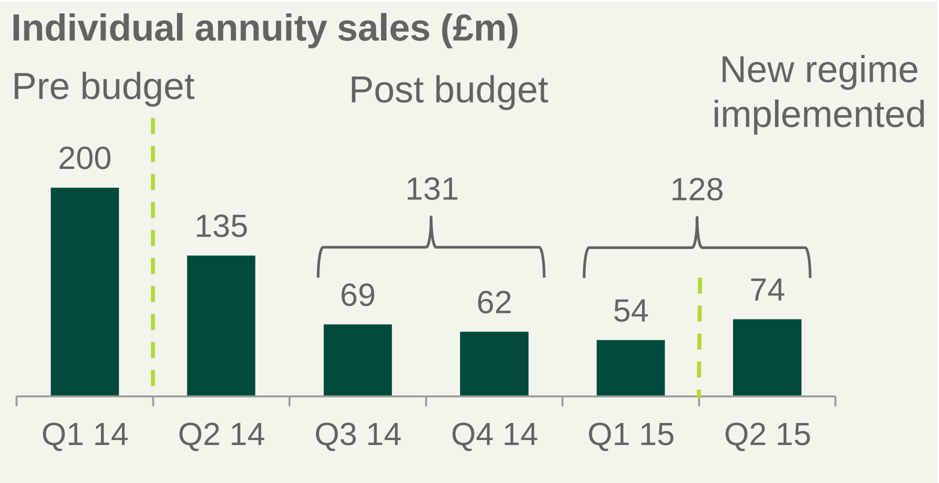
	H1 14	FY 14	H1 15
New business sales	£409m		£231m
New business profit / (loss)	£18m 4.4%		£(2)m (1.0)%
Total operating profit	£33m		£18m
Economic capital coverage		Proforma 159%[1]	156%
MCEV per share		144p	147p
Interim dividend	0.5p		0.5p

Notes: (1) 134% at year end. Proforma position takes into account £100m bond issue in Q1 2015

partnership
seeing retirement differently

Individual annuity volumes beginning to recover, DB remains lumpy

£m	H1 14	H1 15	FY 14
Individual annuities	334	128	466
DB bulk annuities	37	68	247
Care	36	33	76
Protection	2	2	3
Total new business(1)	**409**	**231**	**791**



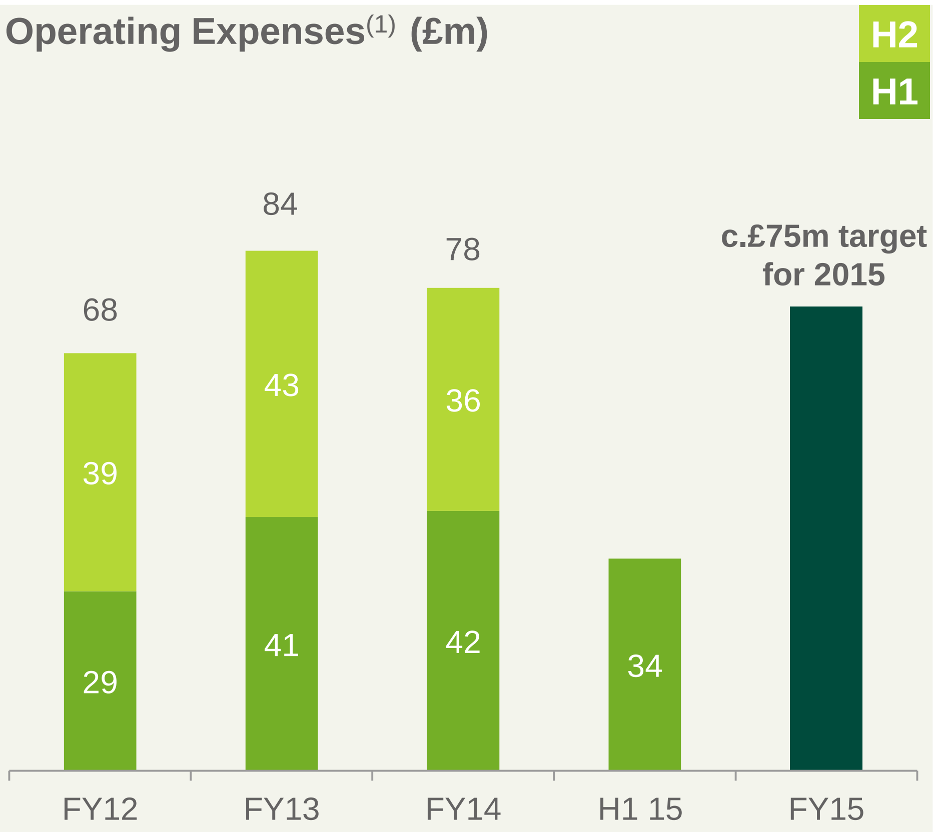
- Q2 individual annuity sales post implementation of the Budget changes increased by over a third vs. Q1, as advisers and customers started to return to the market
- Long term structural drivers remain intact and early lead indicators and Q2 sales point to early signs of recovery in individual annuity market, but customer behaviour and conversion trends have not yet stabilised
- Whilst too early to be certain, based on current activity levels, expect H2 sales to grow relative to H2 2014 and H1 2015
- £68m of bulk annuities in H1 reflects industry wide slow start to 2015 DB de-risking. Completions remain lumpy but recent market activity and current pipeline provides confidence in our ability to achieve our target of at least £200 million in FY15
- Remain confident in medium term outlook for Care

Notes:
(1) Half and full year totals of SPE subject to rounding

partnership
seeing retirement differently

Well placed to achieve FY 15 operating expenses target

Operating Expenses[1] (£m)

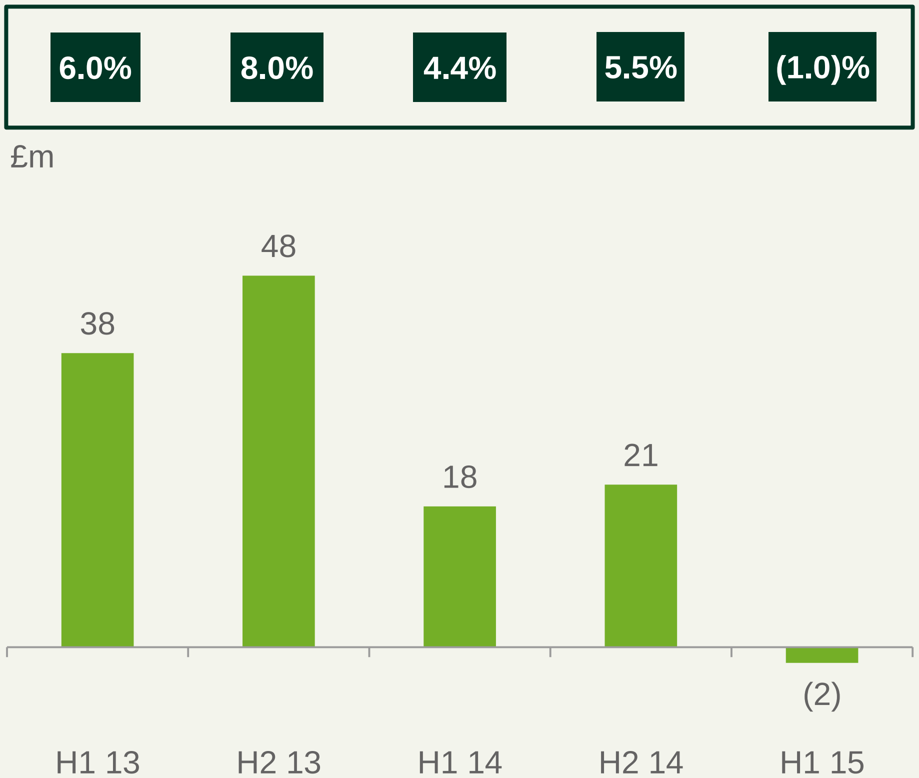


Notes: (1) Excludes non-recurring expenditure

- Well placed to deliver targeted c.£75m cost base for FY15, with £34m of operating expenses incurred in H1
- Over 90% of operating expenses allocated to new business, reflecting activity and level of resource required to support in-force vs. new business
- Cost management action protected technical core and reduced cost base to a level to support new business volumes as they recover

New business profits impacted by operational leverage

New business profits / (loss) and margin[1]

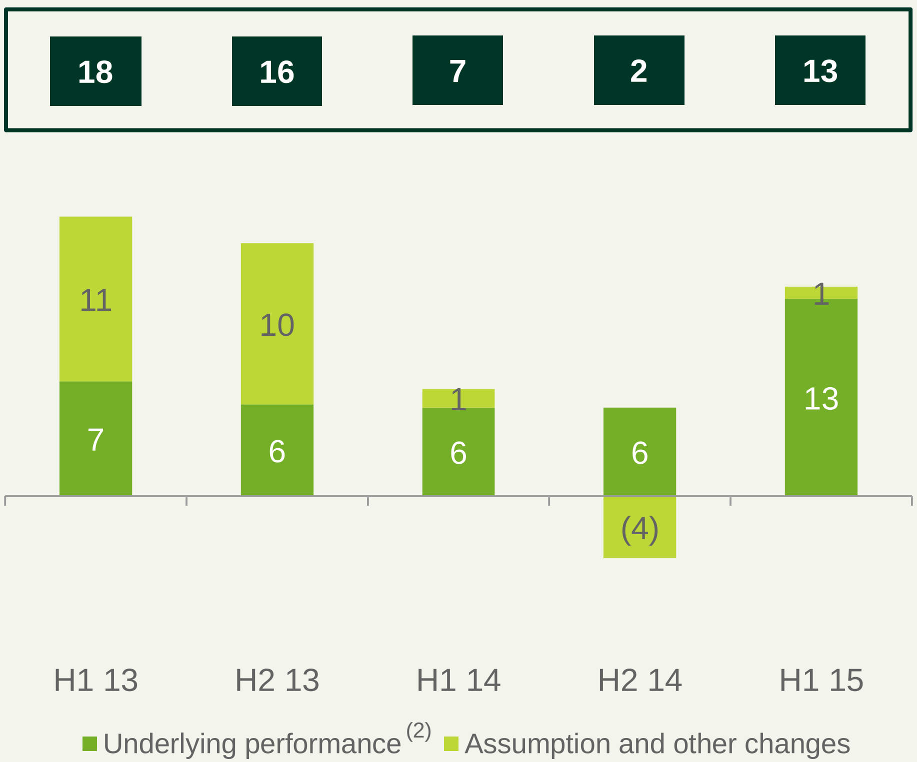


Notes: (1) Calculated as new business profit as a percentage of new business premiums

- Strong pricing discipline and gross margins maintained through the recent market disruption
- However, as over 90% of operating expenses are allocated to new business, new business profits are sensitive to the currently subdued levels of new business sales
- As individual annuity volumes increase and targeted DB sales are delivered, the benefit will flow through to both the absolute level of new business profits and the new business margin

Strong performance on in-force book

In-force operating profits[1] (£m)

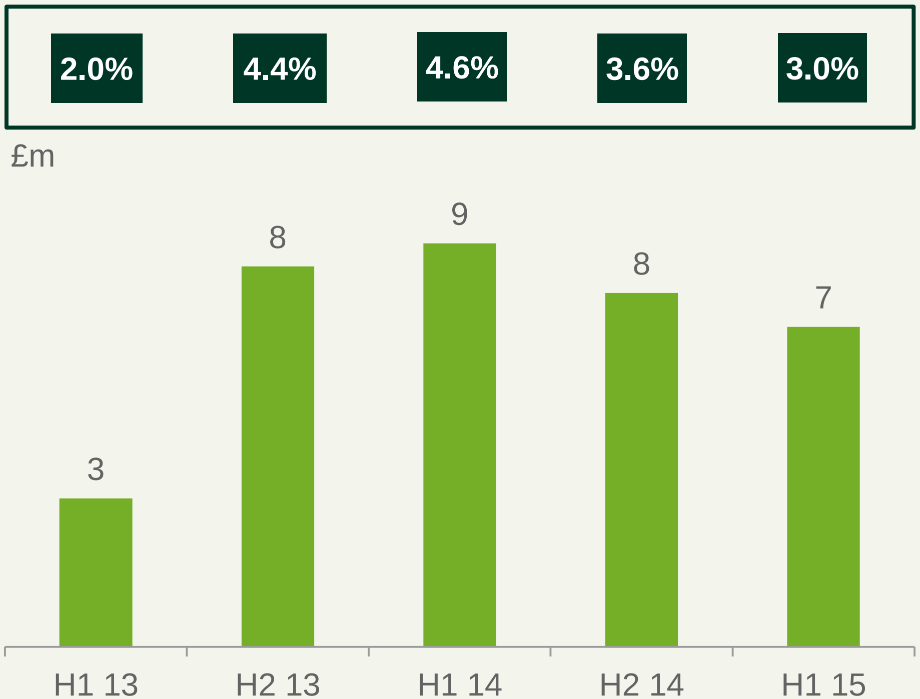


Notes:
(1) Subject to rounding
(2) Represents surplus emergence and non-economic experience variances against best estimate assumptions

- Strong underlying performance on the in-force business reflecting
  - positive mortality experience, particularly for Care business
  - higher planned mortality margins as a result of the growing business and the relatively lower proportion of longevity risk reinsured in Defined Benefit business
- Minimal assumption changes during H1

3.0% yield achieved on surplus assets in H1

Return and yield[1] on surplus assets



Notes: (1) Annualised yield

- H1 15 return on excess assets of £7m reflects reduction in yield since year end as
  - excess equity release assets were allocated to new business at the end of 2014, and
  - a higher proportion of excess assets were held in cash

Profit components below operating profit

£m	H1 14	H1 15	FY 14
New business operating profit / (loss)	18	(2)	39
In-force operating profit	7	13	9
Return on surplus assets	9	7	16
Total operating profit	**33**	**18**	**64**
Investment variances	(9)	(7)	(24)
Non-recurring expenses and other items			
cash items	(3)	(5)	(8)
non-cash items	(6)	(1)	(8)
Interest expense	-	(3)	-
IFRS PBT	**15**	**3**	**24**
Tax	(4)	(1)	(5)
IFRS PAT	**11**	**2**	**19**
EPS	**2.76p**	**0.5p**	**4.71p**

- Investment variances of £7m largely reflects variance between long-term return assumptions and returns achieved in H1
- H1 non-recurring cash costs of £5m incurred in respect of Solvency II, product development and supporting US Care initiative, plus £1m of system amortisation
- In total for FY15, £12m of non-recurring cash costs and £2.5m of non-recurring non-cash costs expected
- £3m of interest expense in respect of £100m bond issued in March
- Dividend per share of 0.5p

Notes (1): IFRS Operating Profit, PBT and IFRS PBT totals subject to rounding

partnership
seeing retirement differently

MCEV increased to 147p per share

	H1 15
Opening MCEV per share	**144p**
Opening MCEV (£m)	**576**
New business value	6
Expected return on existing business	2
Transfers to free surplus	1
Experience variances and assumption changes	3
Other operating variances	6
Economic variances	(9)
Other non-operating variances	7
Movement in IFRS net equity	1
Shareholder dividends - 2014 final	(4)
Closing MCEV(1) (£m)	**590**
Closing MCEV per share	**147p**

- MCEV increased by £14m or 2% in H1 to £590m, representing 147p per share
- Primary components of the increase were
  - £6m generated from the value of new business,
  - £6m from expected returns on existing business, transfers to free surplus and positive mortality experience variances
  - £6m return on excess assets, included within 'Other operating variances' plus
  - £10m beneficial tax effect on an MCEV basis from the £100m bond issuance, which is included within 'non-operating variances'

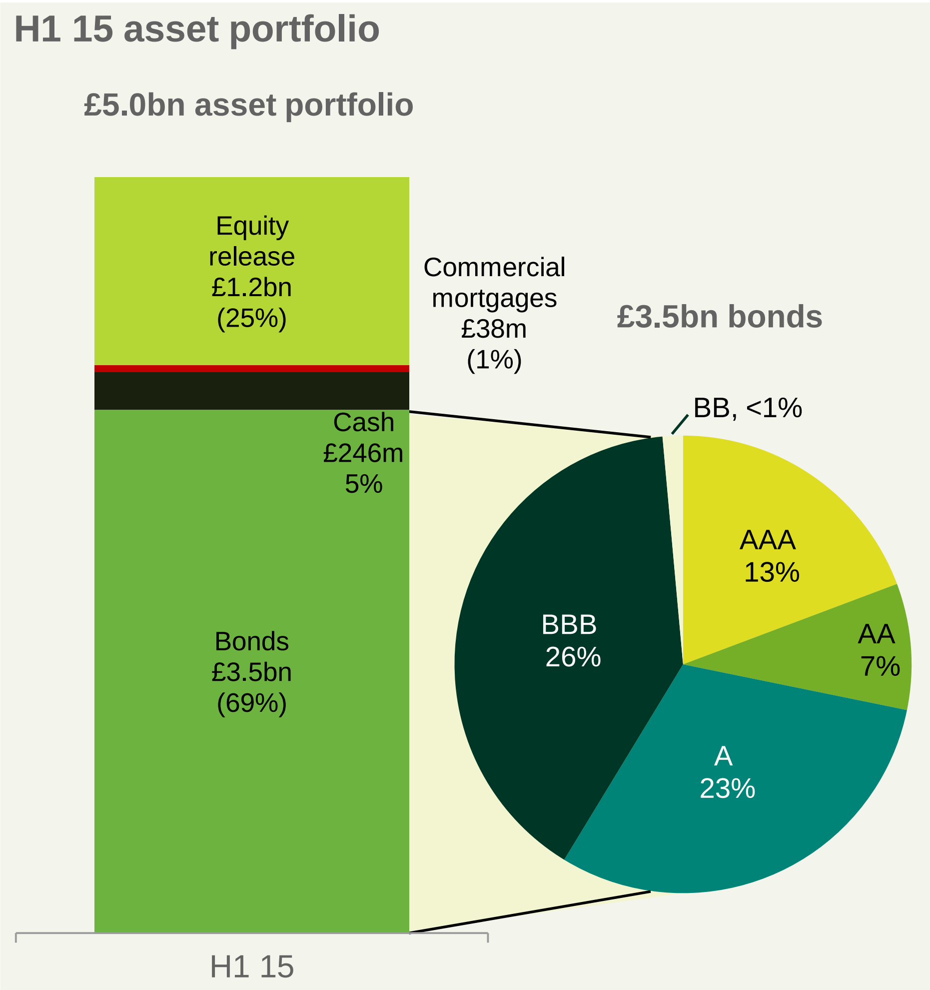
Offset by

- £9m of economic variances, largely reflecting the cost of interest rate hedges put in place in Q1 and
- £4m in respect of the 2014 final dividend

Notes:
(1) Total subject to rounding

partnership
seeing retirement differently

Conservative asset portfolio

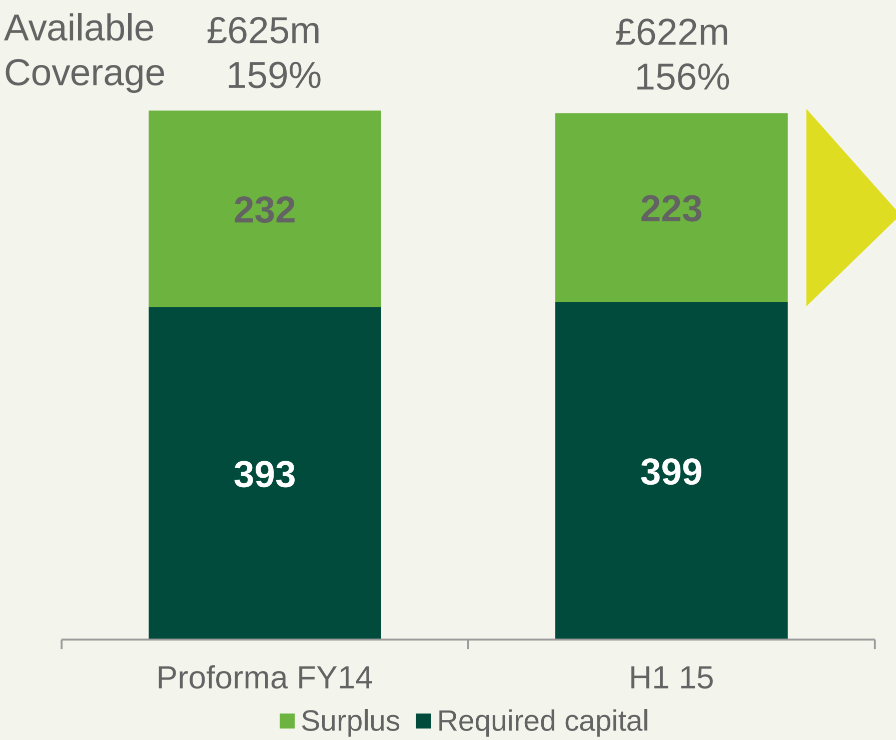


- 69% of asset portfolio remains in bonds, with majority of remainder invested in equity release
- Proportion of assets invested in BBB rated bonds increased due to normal investment trading activity
- Cash increased largely due to £100m 9.5% Tier 2 bond issuance in March
- Investments in other illiquid assets (e.g. infrastructure debt) being explored to further diversify asset portfolio and generate well matched higher risk adjusted returns

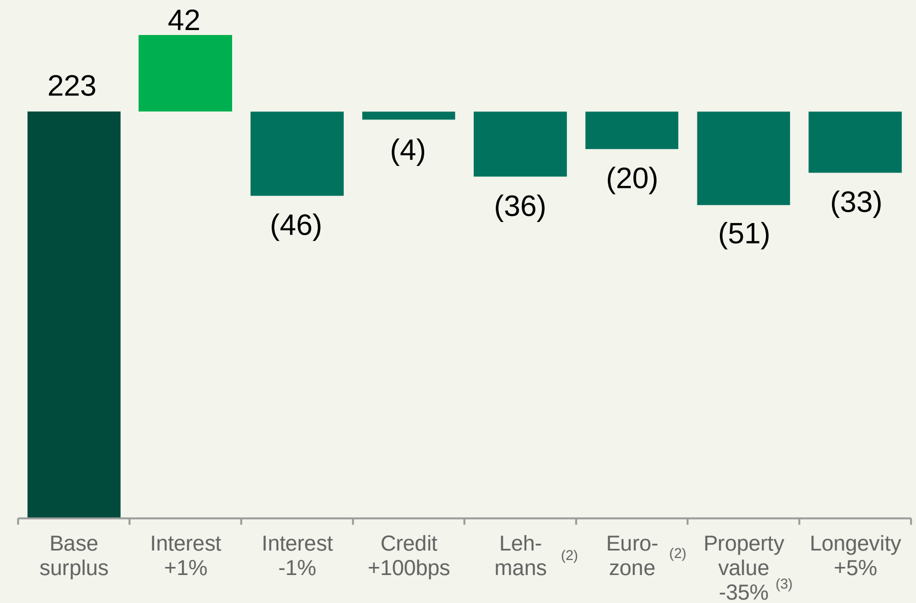
Notes: (1) All percentages relate to total portfolio, totals subject to rounding

Economic capital coverage of 156% at 30 June 2015

Economic capital position[1] (£m)



Economic capital sensitivities at H1 15 (£m)



Base surplus	Interest +1%	Interest -1%	Credit +100bps	Lehmans	Eurozone	Property value -35%	Longevity +5%
156%	176%	138%	158%	160%	159%	142%	147%
	20%	(18)%	2%	4%	3%	(14)%	(9)%

- Pricing discipline maintained to ensure new business covers its capital requirement
- H1 2015 reflects natural dilution of coverage as new business is written, and the impact of current sales volumes relative to the cost base
- Board continues to target minimum coverage ratio of 125% under normal conditions

Notes:
(1) Economic capital is Group's own internal risk based assessment of its capital requirement and does not imply capital as required by regulators
(2) Lehman and Eurozone crisis scenarios modelled by applying credit spreads of 5 December 2008 and 7 October 2011, respectively
(3) Property stress represents 10% decrease in carrying value, equivalent to a 35% fall from current market value

partnership
seeing retirement differently

Solvency II – progress update

Solvency II programme will deliver Standard Formula approach

The option of developing an internal model remains under review so it can be developed for certain risks if and when considered appropriate

Applications for matching adjustment and transitional measures were submitted to PRA for approval prior to 30 June in line with our plans

Steps being taken to mitigate potential risks associated with the new regulations e.g. impact of matching adjustment on equity release

Application of the Solvency II rules remains uncertain, however, based on our current interpretation of the rules, the Group is expected to remain well capitalised

Summary of results and expectations for H2

- Individual annuity market volumes beginning to recover. Customer behaviour has not yet stabilised so it remains too early to be certain, but expect volumes to grow in H2 vs. H1 2015 and H2 2014
- DB sales of £68m in H1 and remain lumpy, but pipeline gives confidence in FY15 target of at least £200m
- Well placed to achieve FY15 operating expenses target. New business profits and margin sensitive to volumes and expected to remain compressed in the short term until sales volumes recover
- Economic capital coverage of 156%, comfortably above Board's minimum target of 125%
  Solvency II programme on track to deliver Standard Formula approach
- MCEV per share increased to 147p

Disclaimer and other information

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

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

This presentation in relation to Partnership Assurance Group plc and its direct and indirect subsidiaries (the 'Group') contains, and we may make other statements (verbal or otherwise) containing, forward-looking statements and other financial and/or statistical data about the Group's current plans, goals and expectations relating to future financial conditions, performance, results, strategy and/or objectives.

Statements containing the words: 'believes', 'intends', 'expects', 'plans', 'seeks', 'continues', 'targets' and 'anticipates' or other words of similar meaning are forward-looking. Such forward-looking statements and other financial and/or statistical data involve risk and uncertainty because they relate to future events and circumstances that are beyond the Group's control. For example, certain insurance risk disclosures are dependent on the Group's choices about assumptions and models, which by their nature are estimates. As such, actual future gains and losses could differ materially from those that the Group has estimated.

Other factors which could cause actual results to differ materially from those estimated by forward-looking statements include but are not limited to: domestic and global economic and business conditions; asset prices; market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of governmental and/or regulatory authorities, including, for example, new government initiatives, the effect of the PRA's planned 'ICA+' regime and ultimate effect of transition to the European Union's 'Solvency II' on the Group's capital maintenance requirements; the impact of inflation and/or deflation; market competition; changes in assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, gender pricing and lapse rates); the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; risks associated with arrangements with third parties; inability of reinsurers to meet obligations or unavailability of reinsurance coverage; the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which members of the Group operate.

As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in the forward-looking statements and other financial and/or statistical data within this presentation. The Group undertakes no obligation to update any of the forward-looking statements or data contained within this presentation or any other forward-looking statements it may make or publish. Nothing in this presentation should be construed as a profit forecast.

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