

Partnership Holdings Limited

Interim statement for the 6 months ended 30 June 2011





Highlights

Partnership's trading in the first half of 2011 has continued to show strong growth, with substantial increases in premium income for both our principal annuity product lines. Continued volatility in the investment markets has made the pricing of our products challenging, however, the growth in sales has not been at the expense of margins earned. Our unaudited trading result (before short term investment gains and losses) is on track to achieve our targets for 2011.



Highlights for H1 2011 include

- Significant growth in annuity sales with total SPE of £396m for H1 2011 up 32% on H1 2010, and new equity release loans totalling £23m
- Substantial increase in market share for retirement annuities and a stable market share for care annuities¹
- Gross funds under management increased by 21% to £1.7bn (from £1.4bn at December 2010)
- Strong capital position with available capital of 163% of the FSA's required minimum level (no material change from the year end position of 164%)
- Successful launch of Enhanced Equity Release Mortgage using individual health and lifestyle underwriting to provide some of the highest loan to value ratios in the market and with a completely free to entry proposition
- Named as one of only five annuity providers on the National Employment Savings Trust ("NEST") panel
- Launched important information websites for customers, including PayingForCare.co.uk and PensionAnnuity.co.uk
- Named the Best Annuity Provider at the Professional Adviser awards in February 2011



Corporate strategy and focus

Our strategy continues to be to leverage our unique data set and intellectual property to bring innovative financial products to as wide a customer base as possible. As a result, we look to expand both our product range and our distribution reach to give customers the fullest opportunity to take advantage of our enhanced annuity rates.

The insurance industry as a whole continues to be subject to significant regulatory change. Responding to this so as to ensure the benefits of our proposition can continue to reach as wide an audience as possible remains at the top of Partnership's agenda.

Key developments in the first half of 2011 include:

- A European Court ruling that (from December 2012) insurers must no longer apply different pricing factors that are dependent upon a customer's gender. This will require Partnership to provide "unisex" annuity pricing. Partnership's business is based on providing customers with a price based on their own unique circumstances, and uses a wide range of medical and other underwriting factors. Gender is only one of those factors, and it is relatively easy to adjust the underwriting process to comply with the new requirements. We would expect this change to continue to drive the whole market towards individual underwriting factors and believe Partnership is therefore well positioned to benefit from this trend.



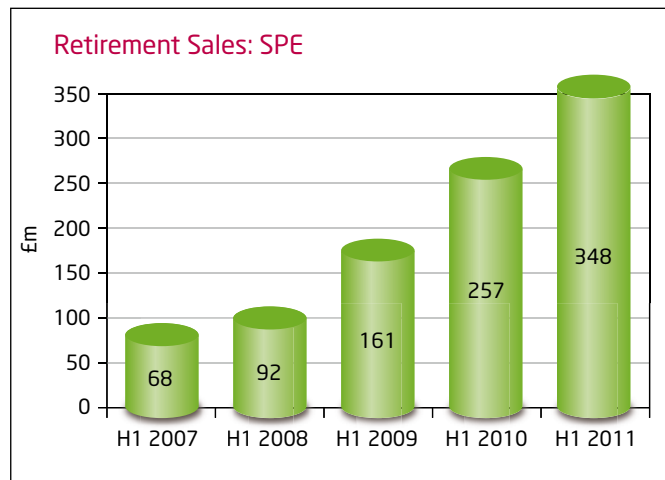
Corporate strategy and focus Continued

- Proposals from the Council of the European Union to amend wording in the Omnibus II directive issued by European Commission, a key consequence of which would be to delay the full implementation of the Solvency II capital regime for insurers within the European Union to at least 1 January 2014. Such an amendment will require approval from the European Parliament (amongst others) which is unlikely to be confirmed until 2012. Partnership continues to work on its implementation plan and the development of more sophisticated capital modelling techniques to improve the management of its capital base, irrespective of any change in timing of the requirements, and is on track to develop the necessary tools and processes to comply with Solvency II requirements

In addition to the regulatory changes, we also continually look to improve our governance and oversight arrangements to provide comfort to policyholders, staff and shareholders. In the first half of 2011, we have invested in new resource within our internal audit team, risk team and the actuarial department, both in hiring additional executives into those teams, and in utilising industry expertise to review the work that those teams do to ensure our processes remain aligned to our growth and aspirations.



Retirement Division



SPE in the first half of 2011 has increased 35% since the same period in 2010. Since H1 07 the average growth rate for retirement sales has been 50% per annum. As a result Partnership has increased its market share in Q1 2011² to 26% (Q1 2010: 21%) of the non-standard annuity market in the UK and 6.5% of all annuities sold (Q1 2010: 4.3%).

The growth in sales has been achieved through the continued focus on expanding our distribution reach. A key metric for us is the number of IFAs that choose to quote a Partnership annuity rate. The number of total quotes issued for retirement annuities increased 38% in the first half 2011 compared to same period in 2010; and the number of IFAs using Partnership has increased, on average, by 13% since the first half of 2010, with a typical month in 2011 attracting quotes from 1,640 different IFAs.

In seeking new avenues to reach retirees, we have continued to seek new corporate partners with whom we work to bring our expertise to their customers. This has included working with a number of internet based entities. During the first half of 2011 we have established a new venture called PensionAnnuity.co.uk, working with a specialist internet supplier, to promote the Open Market Option ("OMO") and the benefits of enhanced annuities through the internet. Partnership has also been confirmed on the NEST panel of annuity providers, one of only five providers to be accepted.



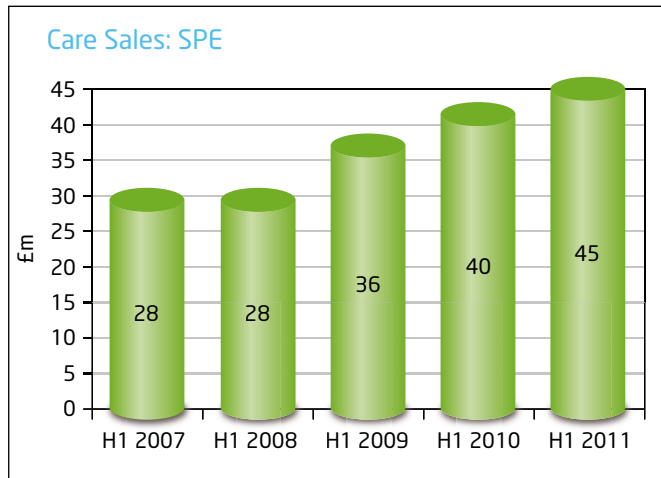
Retirement Division Continued

In developing our product offering, we have worked with a number of the Employee Benefit Consultant firms to bring the benefits of our enhanced and impaired underwriting capabilities to those retiring with defined benefit pensions and other occupational pension schemes that may not normally be able to benefit from the enhanced terms we can offer.

We have continued to roll out our small annuity fund solution (PA Lite) across distributors, and have been developing a web based customer self-navigation site that will enable many individuals to see the benefit of enhanced annuity rates for themselves.



Care division



The UK market for annuity funding of long term care costs remains an under-developed market, and consequently much of our focus continues to be the promotion of the security an Immediate Needs Annuity ("INA") provides to those in need of long term care, especially in an environment where the costs of care continue to rise. We have carried out this promotional activity at the most senior levels of national and local government; through charitable and non-government organisations who work with the elderly and infirm; through commercial organisations that provide care (both residential and domiciliary); through Independent Financial Advisers and other distributors of financial products; and directly to the end consumer through internet based information provision.

During the first half of 2011, we increased SPE by 12% to £45m, and our market share was maintained in excess of 75% of the INA market in the UK. In response to our efforts to publicise the benefits more widely, the number of INA quotes in H1 increased by 25% on the same period in 2010, and the average number of unique financial intermediaries who requested an INA quote from Partnership increased by 20% compared to the first half of 2010.



Care Division Continued

On the 4th July 2011, the Dilnot Commission published its recommendations into solutions for funding the increasing need of care provisions in the UK. Partnership worked closely with Government and other organisations providing information and recommendations to the Dilnot Commission, as well as with Andrew Dilnot himself, to support the development of those recommendations. Whilst we warmly welcome the recommendations of the committee, we recognise that there remains an ever increasing need for individuals to provide from their own resources the majority of the funding needs for their long term care provision, and as such, remain confident in the opportunities for the INA product in providing that solution for many individuals.

Within local government, Partnership has focussed on promoting the benefits of people receiving financial advice at the time of going into care, to provide security and certainty of funding for the individual, and to minimise the incidence of individuals falling back onto

state funding when their own financial resources are exhausted. As part of that communication exercise, we sponsored the Local Government Information Unit's independent report on the Local Authority cost of care. We have worked closely with a number of individual councils to help them respond to the needs of their citizens, including Buckinghamshire, Nottinghamshire and Essex amongst others.

Our work with Care Home owners, and with providers of domiciliary care, has been widely welcomed for bringing information and advice to those in need of care. Through these discussions we recognised the need for a much greater level of information on funding care needs amongst the public and, in response, have developed PayingforCare.co.uk, a website that provides extensive information on funding care requirements, and which provides the opportunity to speak to independent professionals who can advise on financial products to fund care costs.



Equity Release division

In the second half of 2010, Partnership began providing funding to equity release providers and concluded two significant acquisitions of in-force equity release mortgage books. In the first half of 2011, we have provided funding on £23m of new equity release mortgages through the funding of other providers.

To complement those products we fund through other providers, during H1 we launched our own equity release product, the Partnership Equity Release mortgage, through which we are now able to provide funding directly to customers. Whilst the launch was at the very end of the first half of 2011, and the product is still in its infancy, it has been well received into the market with encouraging levels of applications received.



Customer focus

Partnership is committed to acting as a responsible stakeholder in its business community as an insurer, investor, employer and consumer. We have always recognized that the successful growth of our business enables us to provide better levels of income and greater security of funding for those individuals purchasing our products.

Effective communication with our customers and their advisers is a core part of our business, and we were pleased to see widespread industry recognition of our efforts in this area in 2010. This has continued into the current year, with Partnership named as the Best Annuity Provider at the Professional Adviser awards in February 2011. But, however good we feel our service is, there is always room for improvement, and with that in mind, we have invested further in resource for our customer facing staff (both in technology, and in quality improvement), and have also appointed new roles within our marketing team to focus on the customer journey and communication.

Outside of the immediate business needs, we also continue to work extensively with government and charitable organisations, including the International Longevity Centre, the Society of Later Life Advisers (SOLLA), and the Pension Income Choice Association (PICA) amongst others.



Outlook

The potential for growth at Partnership remains strong as we continue to exploit the many opportunities to reach new customers so they can benefit from the improved income and added security our products provide.

The ageing population in the UK, and consequent pressures on financing the costs of that population, is a widely reported phenomenon. Not only are the numbers of individuals at retirement age increasing, but also the proportion of pension savings held within a defined contribution scheme is also increasing, which further boosts the growth in our target core retirement market. With a rapidly increasing potential customer base the benefits that Partnership's expertise can bring are extensive, which is why we remain committed to translating that expertise into products that consumers require, and ensuring they are available to as many consumers as possible.

