

## NEWS RELEASE

### **JUST RETIREMENT GROUP PLC INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**28 February 2014**

#### **A SOLID PERFORMANCE IN A CHALLENGING MARKET.**

##### Financial Highlights

- Operating profit before tax amounted to £40.7m, up 11 per cent (HY 2012/13: £36.7m), and on track to meet our expectations for the full year
- Underlying operating profit amounted to £47.3m, down 7 per cent (HY 2012/13: £50.9m), mainly due to lower individually underwritten annuity sales volumes
- Total new business sales of £906m, down 4 per cent (HY 2012/13: £947m). Annuity sales down by 14 per cent at £688m in line with expectations, reflecting the impact of gender neutral pricing and Retail Distribution Review. However, this reflects 15 per cent per annum growth in annuity sales since 2011
- Group embedded value increased to £892m
- Strong capital position with an economic capital coverage ratio of 188 per cent

##### Operational highlights

- Successful completion of the IPO in November 2013
- Further acknowledgment of service excellence; our 9<sup>th</sup> consecutive FT Adviser 5 star service award, which is unique in the industry
- Our newly formed medically underwritten defined benefits team completed their first sales during the half year, and look forward to a promising next six months
- Just Retirement entered the long term care market with the launch of an immediate needs annuity

Commenting on the results Rodney Cook, Group Chief Executive, said:

“Following the successful execution of our IPO and listing on the London Stock Exchange in November 2013, I am pleased to announce our first set of results for the six months ending December 2013.

As we have previously communicated, the normal patterns of sales in the annuity market during 2012 were significantly disrupted due to the introduction of gender neutral pricing and the retail distribution review. This has given both the market and Just Retirement very challenging comparative figures against which to measure H1 2013/14 performance, but these results are in line with our expectations.

Notwithstanding this impact, we are confident that the long term growth drivers remain in place as the number of people in our target customer group looking for competitive retirement income solutions continues to grow.

New annuity sales were 14 per cent lower compared to the same period last year, reflecting the previously flagged tough trading conditions in 2013. There was pleasing growth in lifetime mortgage sales, which were 49 per cent higher.

Underlying IFRS operating profit amounted to £47.3m down 7 per cent (HY 2012/13: £50.9m) and is in line with expectations. Operating profit before tax totalled £40.7m up 11 per cent on the comparative period (HY 2012/13: £36.7m). Including capital raised as part of the IPO, Group embedded value has increased to £892m and the economic capital coverage ratio has strengthened and is now 188 per cent. It remains the Board's intention to commence dividend payments during the second half of 2014 representing two thirds of the dividend based on the results for the full financial year 2013/14.

We continue to innovate and enter markets where we consider our intellectual property enables us to disrupt those markets for the benefit of customers. Current examples of this are the defined benefits pension de-risking and long term care markets where we have entered and completed our first transactions.

Just Retirement has a strong position in its chosen markets and continues to deliver great value for customers. We are continuing our efforts with policy makers, regulators and distributors to accelerate reforms to ensure more people are protected from being sold poor value products and attain improved outcomes.

We remain confident in the long term growth prospects of our core markets and are on track to meet our full year expectations.”

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A presentation for analysts will take place at 11.00am today at Deutsche Bank, 1 Great Winchester Street, London EC2N 2DB

To access the presentation by telephone please use:  
UK FreeCall: 0800 953 1287  
US FreeCall: 1 866 224 3297  
Std International Dial-In: +44 (0) 1452 560 297  
Conference ID: 3997979

A copy of this announcement, the presentation slides and a transcript of the conference call will be available on Just Retirement's website [www.justretirementgroup.com](http://www.justretirementgroup.com)

**Forward looking statements disclaimer:**

This announcement in relation to Just Retirement Group plc and its subsidiaries (the 'Group') contains, and we may make other statements (verbal or otherwise) containing, forward-looking statements 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', 'targets', 'continues' and 'anticipates' or other words of similar meaning are forward-looking (although their absence does not mean that a statement is not forward-looking). Forward-looking statements 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, although the Group believes its expectations are based on reasonable assumptions, actual future gains and losses could differ materially from those that we have estimated.

Other factors which could cause actual results to differ materially from those estimated by forward-looking statements include but are not limited to: domestic and global economic and business conditions; asset prices; market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of governmental and/or regulatory authorities, including, for example, new government initiatives related to the provision of retirement benefits or the costs of social care and the effect of the European Union's "Solvency II" requirements on the Group's capital maintenance requirements; the impact of inflation and deflation; market competition; changes in assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, gender pricing and lapse rates); risks associated with arrangements with third parties, including joint ventures and distribution partners; 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 the Group operates.

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 within this announcement. The forward-looking statements only speak as at the date of this document and the Group undertakes no obligation to update or change any of the forward-looking statements contained within this announcement or any other forward-looking statements it may make. Nothing in this announcement should be construed as a profit forecast.

## JUST RETIREMENT GROUP PLC

### Key Financial Highlights

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	Half year ended 31 December 2013 £m	Half year ended 31 December 2012 £m	Year ended 30 June 2013 £m
<b>Sales of annuities</b>	687.8	800.4	1,343.9
<b>New lifetime mortgage advances</b>	218.3	146.2	309.7
<b>New business IFRS operating profit</b>	27.1	29.4	58.9
<b>In-force IFRS operating profit</b>	20.2	21.5	41.1
<b>Underlying IFRS operating profit</b>	47.3	50.9	100.0
<b>Group Embedded value*</b>	892.3	253.5*	188.8*

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\* Group embedded value at 31 December 2012 and 30 June 2013 represents the consolidated position for Just Retirement Group Holdings Limited; Group embedded value for Just Retirement Holdings Group Limited amounted to £795.8m as at 30 June 2013 on a pro forma basis.

## **JUST RETIREMENT GROUP PLC**

### **Group Chief Executive's Report**

#### **Introduction**

The first half of the 2013/14 financial year has been both an extremely busy but also very satisfying period of development for the Just Retirement Group. Our IPO was clearly a highlight for the Group over the period; it represented a substantial milestone in the Group's journey and I would like to thank the senior management team for their superb commitment in achieving such a significant step.

Despite this, the Group has continued to make progress in its chosen markets and has delivered solid trading results in what can only be described as challenging market conditions. The impact of RDR and gender neutral pricing changes which took place at the end of 2012, continued to resonate throughout 2013. I am, however, confident that the longer term growth factors remain in place and that the individually underwritten annuity (IUA) market will return to expected levels of growth.

#### **Performance Review**

New business premiums, representing IUA and defined benefit de-risking solutions (DB) sales, for the half year ended 31 December 2013 totalled £651.2m, a decrease of 14% on the same period last year, reflecting the dislocation of the wider annuity market due to regulatory changes which 'pulled' sales into the period ended 31 December 2012 and reduced market activity generally for the calendar year to 31 December 2013. However, our IUA market share stabilised at historic levels of around 30-35%, and over the last two quarters of calendar 2013, we have seen market share gains.

I am pleased to report that we made our first sales in the defined benefit de-risking market, amounting to £5.4m in the half year. This represents our first successes in an exciting new area of growth for the Group which promises to provide key benefits for pensioners and trustees alike. The Group has also made its first steps into the care market, with the launch of the Group's Immediate Needs Annuity product during the period.

In addition, lifetime mortgage advances continued to grow strongly, with £218.3m of lifetime mortgage (LTM) advances achieved in the period – an increase of 49.3% achieved on the comparative period last year. Loan quality has remained consistent with the prior year and demand for the product continues to grow.

New business margins, measured as the ratio of new business operating profit to IUA sales, amounted to 4.2%. Profits emerging from in-force were slightly lower as a result of further tightening of credit spreads although the offsetting benefit from increased asset values was reflected in investment and economic profits of £8.5m.

Improved operating experience resulted in growth in operating profit by 11% to £40.7m (HY 2012/13: £36.7m).

Financial assets under management increased from £6.0bn at 30 June 2013 to £6.8bn at 31 December 2013 as a result of new business premiums and the new capital received as part of the IPO.

Following the capital re-organisation of the Group as part of the IPO, group consolidated net assets totalled £802.1m at 31 December 2013, which compares to the Group's pro-forma net assets of £757.1m at 30 June 2013. Profit after tax for the half year ended 31 December 2013 amounted to £22.0m.

European Embedded Value (EEV) amounted to £892.3m at 31 December 2013 (June 2013: £188.8m), and included new business value amounting to £47.4m (HY 2012/13: £55.5m).

The capital position of both the Group and the life company, Just Retirement Limited, has been strengthened following the receipt of the IPO proceeds.

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### **Operating review**

Whilst a key focus for management was the preparations for the Group's IPO during the period, excellent progress has been maintained across a wider range of initiatives and developments. Once again, it was very gratifying that the quality of our service was recognised by the industry as we were awarded the Financial Adviser 5 Star Service award for the 9<sup>th</sup> consecutive year for annuities, which is unique in the industry, and the 6<sup>th</sup> consecutive year for lifetime mortgages – a fantastic achievement.

We entered the Sunday Times 'Best Companies to Work For in the UK' survey again this year. I am pleased to be able to report that we were again ranked in the Top 100, and since entering the survey 5 years ago, we have appeared in the Top 100 in each consecutive year.

The Group also delivered on a number of projects including the piloting of our Immediate Needs Annuity product and launching our Lump Sum Plus mortgage product. With the European Insurance and Occupational Pensions Authority (EIOPA) publishing its interim guidance for Solvency II implementation from 1 January 2016, the Group continued work on the development of our approach to Solvency II. Such development will be a key focus of the Group for the remainder of 2014 and beyond.

We continue to make significant progress towards completing our automated underwriting system – Prognosys<sup>TM</sup> – and Phase 2 remains on track for final implementation during the second half of calendar year 2014. We have already been using key insights that this development has provided, to refine our reserving, pricing and acceptance criteria, which supports the Group's confidence in delivering profitable growth.

### **Outlook**

Our expectations for financial year 2013/14 sales have not changed, and we believe our longer term growth drivers remain in place, notwithstanding current market turbulence. We are pleased that our defined benefit de-risking solutions (DB) are starting to attract interest and will represent a more meaningful part of our sales going forward. The margin outlook remains subdued, given demand trends, falling credit spreads and continued low interest rates. However, the performance of DB and the yields arising from lifetime mortgages give some grounds for optimism in relation to margins in the second half.

Overall we remain confident that we have a good product, a strong brand, and a positive regulatory background within which our business can operate. This makes us optimistic as to what the longer term future holds for us and for our shareholders.

Rodney Cook

Chief Executive Officer

## JUST RETIREMENT GROUP PLC

### Group Strategy

The Group is a specialist UK financial services group focussing on high growth segments of the UK retirement market. Just Retirement is a leading and established provider of individually underwritten annuities (IUA) and lifetime mortgages (LTM) within the UK. We have focussed primarily on the core segments of the IUA market (medically enhanced and lifestyle), which the Board believes are the larger and faster growing segments of this market, whilst also achieving a growing volume of business in the smaller impaired segment.

Our strategy is to provide positive outcomes for all key stakeholders, including providing attractive shareholder returns and profitable growth using a robust and capital efficient business model. Just Retirement intends to achieve this by continuing to build and leverage our proprietary IP and underwriting capability. This will enable us to offer competitive pricing in the IUA market, develop innovative products in the wider at or in retirement income market and enhance our distribution reach to new customers via existing and new channels.

Just Retirement has a proven track record of profitable growth supported by innovation and entry into new markets. This proven track record gives the Directors confidence in the Group's strategy, which is summarised below:

**Continue to strengthen and leverage the Group's proprietary IP** - Just Retirement plans to continue to invest in developing the Group's IP. This will allow Just Retirement to implement an innovative approach to underwriting, improve its competitive pricing and profitability through careful selection of risks; and increase its share in those segments of its target markets assessed to be attractive.

**Enhance relationships with current distribution partners and extend distribution reach** - Just Retirement has developed strong relationships with distributors of its major products and intends to further invest in these relationships and provide distributors with solutions that will allow them to improve the ability to access new customers who would benefit from Just Retirement products. The Group expects significant evolution in the distribution of financial services products to retirees as a result of both evolving regulation and changing customer habits, which Just Retirement is seeking to promote.

**Extend product innovation using the Group's significant competitive advantages and knowledge of the retirement income market** - Through the sale of its existing product range and its relationships with key distributors, Just Retirement has developed a deep understanding of the complex issues that individuals face at and in retirement. As these needs evolve and change over time, the value of assets flowing into the "at or in-retirement" segment continue to increase. In response to these developments, the Group plans to develop new products catering to the needs of retirees, who increasingly are expected to live longer.

**Continue to optimise the efficiency and effectiveness of the Just Retirement business and operating models** - Just Retirement is focused on optimising the risk-adjusted returns to shareholders and continually seeks to improve key aspects of the Group's business and operating models to achieve this.

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### Business Review

#### Overview

As part of the admission of Just Retirement Group plc to the London Stock Exchange on 15 November 2013, the Group undertook certain reorganisation steps immediately prior to admission.

The Group undertook a re-organisation during the period to insert a new holding company, Just Retirement Group plc (JRG), above the existing parent, Just Retirement Group Holdings Limited (JRGHL). As a consequence of the re-organisation, loan notes and other debt-like instruments, together with the ordinary shares held in JRGHL, were converted into a single class of ordinary shares.

As described in notes 1 and 8 to these interim financial statements, the Group has applied the principles of reverse acquisition accounting to account for the insertion of the new holding company, and, as a result, the interim financial statements are presented as a continuation of the JRGHL group.

In the six months to 31 December 2013, the Group has achieved steady progress against its objectives. The 'pull through' of annuity sales into the last quarter of calendar year 2012, largely as a result of the introduction of the Retail Distribution Review and Gender Directive, subsequently left the annuity market in 2013 with a difficult legacy. Despite a weaker sales environment due to these regulatory impacts, the Group has improved its share in a challenging market.

The Directors are confident that the Group is well placed to benefit from favourable demographic trends, the potential future growth of the Open Market Option (OMO) and individually underwritten annuities as defined contribution pension assets accumulate.

On 14 February 2014, the Financial Conduct Authority (FCA) published its thematic review of the annuity market. The study concluded that eight out of ten people purchasing annuities directly from their existing pension provider would achieve improved financial outcomes if they had used their OMO and purchased an annuity in the external market. The Board believes that the FCA's findings and potential future reforms will be positive for further growth in the individually underwritten annuity market.

#### Key Performance Indicators (KPI)

##### New business sales

**£906.1m** (HY 2012/2013: £946.6m)

New business sales represent the amount of new business sold during the reporting period. Annuity business sales are measured in terms of gross premium written, whereas lifetime mortgage (LTM) sales are measured in terms of cash advances. The table below sets forth a breakdown of new business sales for the six months to 31 December 2013 and 31 December 2012:

	HY ended 31 December 2013	HY ended 31 December 2012	
	£m	£m	
Individually underwritten annuities (IUA)	645.8	758.8	-14.9%
Fixed term annuities (FTA)	36.6	41.6	-12.0%
Defined benefit solutions (DB)	5.4	-	-
<b>Total annuities</b>	<b>687.8</b>	<b>800.4</b>	<b>-14.1%</b>
Lifetime mortgage advances (LTM)	218.3	146.2	49.3%
<b>Total new business sales</b>	<b>906.1</b>	<b>946.6</b>	<b>-4.3%</b>

New business sales totalled £906.1m for the six months ended 31 December 2013 (HY 2012/2013: £946.6m). The fall in total annuity sales of 14.1% relative to the comparative period is primarily as a result of the influence of the timing of the Retail Distribution Review and the Gender Directive, as illustrated in the



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graphic below. However, the decrease in annuity sales was offset in part by strong LTM advances, which increased by 49.3% compared to the prior period. The first sales of defined benefit de-risking contracts amounting to £5.4m were achieved in the half year ended 31 December 2013, and this represents an area of promising growth for the Group.

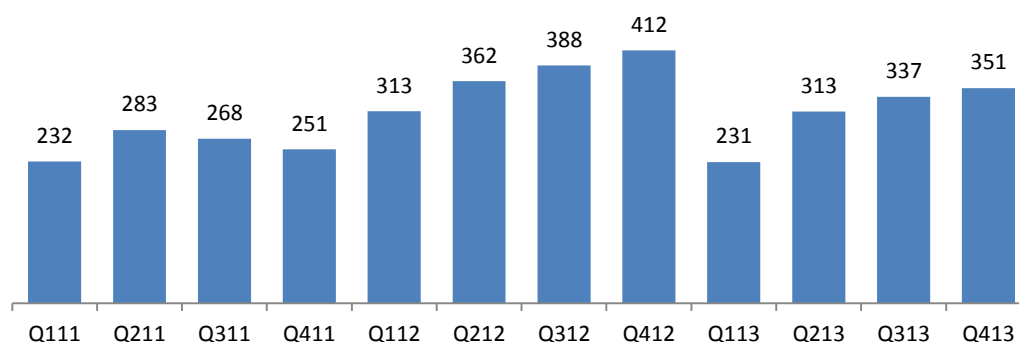


Figure 1: Quarterly Annuity sales between 1 January 2011 and 31 December 2013. Source: Just Retirement, ONS. Includes IUA, DB, FTA and INA

### New business operating profit

**£27.1m** (HY 2012/2013: £29.4m)

New business operating profit represents the profit generated from new business written in the reporting period, calculated using IFRS assumptions at the point of sale. The calculation of new business operating profit includes allowances for prudent reserves above best estimates for mortality, corporate bond defaults, and, with respect to LTM, no-negative equity guarantee (NNEG) and early redemptions, which should be released in future years and recognised as part of the in-force operating profit element. New business operating profit is stated after allowing for acquisition costs for both annuity and LTM business.

The decrease in new business operating profit is primarily due to lower annuity sales compared with the comparative period. As a percentage of IUA sales, the new business operating profit margin amounted to 4.2%, mainly reflecting an increasingly competitive IUA market, partly offset by a higher proportion of LTM sales in the overall sales mix..

### In-force operating profit

**£20.2m** (HY 2012/2013: £21.5m)

In-force operating profit captures the margin from the in-force book of business and free surplus. In particular, it reflects the release of prudent margins in excess of best estimates in relation to mortality and corporate bond defaults within the IFRS liability reserves, as well as the expected emergence of profit from the LTM business. It also includes the expected return on surplus assets.

Profits emerging from the in-force book were largely in line with expectations, and reflected both the growth in the in-force book as a whole, offset by the lower emergence of allowances for corporate bond defaults above best estimate as a result of the further tightening of credit spreads in the period.

### Underlying operating profit

**£47.3m** (HY 2012/2013: £50.9m)

Underlying operating profit represents the sum of new business operating profit and in-force operating profit. Underlying profit is considered by the Board as one of the core measures for assessing the financial and

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operating performance of the Group, as this measure excludes the impact of “one-off” operating assumption changes and investment variances which can distort the period-on-period results.

The decrease of 7.1% was due to the factors outlined in the sections above.

### European Embedded Value

**£892.3m** (30 June 2013: £188.8m)

European embedded value (EEV) represents the sum of shareholders’ net assets and the present value of in-force business, where items have been calculated in accordance with generally accepted EEV principles. In the Directors’ view, the EEV is a valuable KPI since it provides investors with a prudently calculated measure of the value of future profit streams of the Group’s in-force long term business and captures some of the additional value of profits of the business that has already been written but not yet recognised under new business operating profit.

EEV amounted to £892.3m at 31 December 2013, compared with £188.8m at 30 June 2013. The increase was primarily due to the reorganisation of the Group, net proceeds raised from the IPO and comprehensive post tax income arising in the period. Relative to the pro forma EEV of £795.8m as at 30 June 2013, EEV increased by 12.1%.

### **IFRS results**

The analysis of the IFRS results for the half year ended 31 December 2013, the half year ended 31 December 2012 and the twelve months ended 30 June 2013 are presented in the table below:

	HY ended 31 December 2013 £m	HY ended 31 December 2012 £m	12 months to 30 June 2013 £m
New business operating profit	27.1	29.4	58.9
In-force operating profit	20.2	21.5	41.1
<b>Underlying operating profit</b>	<b>47.3</b>	<b>50.9</b>	<b>100.0</b>
Operating experience and assumption changes	0.4	(9.6)	(11.8)
Reinsurance and bank finance costs	(7.0)	(4.6)	(9.2)
<b>Operating profit before tax</b>	<b>40.7</b>	<b>36.7</b>	<b>79.0</b>
Non-recurring and project expenditure	(4.4)	(2.3)	(6.5)
Investment and economic profits	8.5	43.4	48.9
<b>Profit before corporate costs and before tax</b>	<b>44.8</b>	<b>77.8</b>	<b>121.4</b>
Finance and other costs incurred by corporate companies	(16.0)	(20.6)	(40.0)
Listing costs	(2.3)	-	(3.1)
<b>Profit before tax</b>	<b>26.5</b>	<b>57.2</b>	<b>78.3</b>
Tax	(4.5)	(14.0)	(20.5)
<b>Profit after tax</b>	<b>22.0</b>	<b>43.2</b>	<b>57.8</b>

### Operating profit before tax

Operating profit before tax represents the operating results of the Group before taking into account of non-recurring and project expenditure, investment and economic profits / (losses) and the finance and other costs (see below) borne by Just Retirement Group plc and Just Retirement Group Holdings Limited. The activities of Just Retirement Holdings Limited are included as appropriate within operating profit before tax. Under Note 3, “Segmental Reporting”, the financial performance of all corporate companies are shown in aggregate and separate to the Group’s core functions as described.

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Operating profit before tax for the half year ending 31 December 2013 totalled £40.7m, an increase of £4.0m reported for the half year ending 31 December 2012, driven by positive operating experience and assumption changes, offset by lower underlying operating profit and higher reinsurance and bank finance costs over the period.

### *New business operating profit*

As discussed in 'Key Performance Indicators' above.

### *In-force operating profit*

As discussed in 'Key Performance Indicators' above.

### *Operating experience and assumption changes*

Operating experience and assumption changes capture the impact of actual operating experience differing from that assumed at the start of the period, plus the impact of changes to future operating assumptions applied during the period. It also includes the impact of any expense reserve movements, the results of non-insurance group operating companies and other sundry operating items.

For the half year ended 31 December 2013, operating and assumption changes amounted to a gain of £0.4m compared with a loss of £9.6m for the half year ended 31 December 2012.

### *Reinsurance and finance costs*

Reinsurance and finance costs include the interest charge on bank loans and reinsurance financing, together with reinsurance management fees incurred during the period.

Reinsurance costs have increased slightly from period to period in line with increased reinsurance financing, and changes in gilt yields. Finance costs relating to bank loans amounted to £1.3m for the half year ended 31 December 2013 compared with £0.4m incurred in the comparative period largely due to initial bank financing being arranged in September 2012, and an increase in facility to £55m (from £35m) in May 2013.

### *Non-recurring and project expenditure*

Non-recurring and project expenditure includes any one-off, regulatory, project and development costs.

Costs incurred to the half year ended 31 December 2013 related to product development, investment in infrastructure and the Group's Solvency II preparations. Non-recurring and project costs for the half year ended 31 December 2012 related primarily to the development of the defined benefit de-risking solution and the costs of complying with RDR and the Gender Directive.

### *Investment and economic profits / (losses)*

Investment and economic profits / (losses) reflect the difference in the period between expected investment returns, based on investment and economic assumptions at the start of the period, and the actual returns earned. Investment and economic profits / (losses) also reflect the impact of assumption changes in future expected risk free rates, corporate bond defaults and house price inflation and volatility.

For the half year ended 31 December 2013, investment and economic profits amounted to £8.5m, arising primarily from the impact of changes in credit spreads on default allowances and favourable movements in property prices, offset by changes in the risk free rate. For the half year ended 31 December 2012, investment and economic profits amounted to £43.4m, reflecting significant reductions in credit spreads and changes in the risk free rate.

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### *Finance and other costs*

Finance and other costs incurred by both JRG and JRGHL represent the incremental costs recorded by both companies arising from the structure of the acquisition of the Group by JRGHL and the operational costs of both JRGHL and JRG.

Finance and other costs amounted to £16.0m for the half year ended 31 December 2013, and largely comprised interest costs on loan notes and preference shares which were incurred in relation to the original acquisition of the Group by JRGHL and amortisation of intangible assets. The loan notes and preference shares were redeemed in November 2013, and their associated finance costs will not be incurred on an ongoing basis. Finance and other costs incurred in the period ended 31 December 2012 were higher than the half year ended 31 December 2013 as they were incurred over the full six month period.

### *Listing costs*

Listing costs for the IPO in November 2013 totalled £18.4m. The non-capital element of total costs has been taken through profit and loss in the half year to 31 December 2013, and amounted to £2.3m. Of the remaining costs of £16.1m, £3.1m was provided for in the period to 30 June 2013, and £13.0m has been taken directly to reserves.

### Profit before tax

Profit before tax totalled £26.5m for the six months ended 31 December 2013, a decrease of £30.7m on the half year ended 31 December 2012, largely reflecting higher investment and economic profits arising during the prior period.

### Profit after tax

Profit after tax for the half year ended 31 December 2013 totalled £22.0m compared to £43.2m for the half year ended 31 December 2012.

The effective rate of tax for the six months to 31 December 2013 at 16.8% was lower than the effective rate for the prior comparative period of 24.4%, on account of adopting the new basis of life company taxation on 1 January 2013 and a fall in the headline rate of tax over the period.

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### Highlights from consolidated statement of comprehensive income

The following table presents the consolidated statement of comprehensive income for the Group, with key line item explanations below.

	HY ended 31 December 2013 £m	HY ended 31 December 2012 £m	12 months to 30 June 2013 £m
Gross written premium	651.2	758.8	1,265.1
Net premium revenue	630.7	455.5	715.7
Net investment income	147.7	240.5	249.5
<b>Total revenue</b>	<b>778.4</b>	<b>696.0</b>	<b>965.2</b>
Other operating income	2.9	3.1	5.6
Net paid claims	(94.9)	(70.0)	(149.1)
Change in net liabilities	(513.7)	(432.8)	(466.6)
Change in investment contract liabilities	0.7	2.7	5.2
Acquisition costs	(16.7)	(25.4)	(39.5)
Other operating expenses	(57.8)	(49.2)	(106.5)
Amortisation of intangibles	(2.5)	(4.9)	(7.7)
Finance costs	(69.9)	(62.3)	(128.3)
<b>Total claims and expenses</b>	<b>(754.8)</b>	<b>(641.9)</b>	<b>(892.5)</b>
<b>Profit before tax</b>	<b>26.5</b>	<b>57.2</b>	<b>78.3</b>
Income tax	(4.5)	(14.0)	(20.5)
<b>Profit after tax</b>	<b>22.0</b>	<b>43.2</b>	<b>57.8</b>

#### *Gross written premium*

Gross written premium represents the total premiums received by the Group in relation to its IUA and DB annuity contracts in the accounting period, gross of commission paid.

Gross written premium amounted to £651.2m for the half year ended 31 December 2013, a decrease on the comparative period of 14.2% due to the impact of Gender and RDR on IUA sales in both periods.

#### *Net premium revenue*

Net premium revenue represents the sum of gross written premium and reinsurance recapture, less reinsurance premium ceded.

Net premium revenue increased by 38.5% due to the recapture of previously ceded reserves for the 2006/07 underwriting year, which increased net premium revenue by £263.1m (HY 2012/2013: nil), offset by a fall in gross premium written of £107.6m. The reinsurance finance for the 2006/07 underwriting year has now been fully repaid and the Group has exercised its option to recapture.

#### *Net investment income*

Net investment income comprises interest received on financial assets and the net gains and losses on financial assets designated at fair value through profit or loss upon initial recognition and on financial derivatives.

Net investment income decreased by £92.8m, or 38.6%, from £240.5m for the half year ended 31 December 2012 to £147.7m for the half year ended 31 December 2013. Whilst interest received on financial assets totalled £160.0m (HY 2012/2013: £134.1m) and increased in line with business growth, falls in the valuation of financial assets amounting to £12.3m for the half year ended 31 December 2013, compared with net gains

## JUST RETIREMENT GROUP PLC

amounting to £106.4m for the half year ended 31 December 2012. The change was due to a significant tightening in average credit spreads on corporate bonds held during the comparative period, accompanied by a decrease in the risk free rate of interest.

### *Net paid claims*

Net paid claims represents the total payments due to policyholders during the accounting period less the reinsurers' share of such claims, which are payable back to the Group under the terms of the reinsurance treaties.

Net paid claims increased by £24.9m from £70.0m at the half year ended 31 December 2012 to £94.9m for the half year ended 31 December 2013, which reflected the growth of the in-force book combined with a lower reinsurers' share of paid claims for the half year ended 31 December 2013 due to past reinsurance recapture.

### *Change in net liabilities*

Change in net liabilities represents the period-on-period change in the carrying value of the Group's insurance liabilities less the period-on-period change in the carrying value of the Group's reinsurance assets.

Change in net liabilities increased by £80.9m from £432.8m for the half year ended 31 December 2012 to £513.7m for the half year ended 31 December 2013. The gross change in liabilities was impacted by lower new business sales and an increase in interest rates compared to the comparative period, and reinsurers' share was reduced in the half year ended 31 December 2013 by reinsurance recapture which amounted to £263.1m.

### *Acquisition costs*

Acquisition costs comprise the direct costs (such as commissions) and indirect costs of obtaining new business. Acquisition costs are not deferred.

Acquisition costs decreased by £8.7m from £25.4m for the half year ended 31 December 2012 to £16.7m for the half year ended 31 December 2013, primarily as a result of the implementation of the RDR and the resulting switch to direct adviser charging for advised business.

### *Other operating expenses*

Other operating expenses represent the Group's operational overheads, including personnel expenses, investment expenses and charges, depreciation of equipment, reinsurance fees, operating leases and other expenses incurred in running the Group's operations.

Other operating expenses increased by £8.6m from £49.2m for the half year ended 31 December 2012 to £57.8m for the half year ended December 2013. The increase was largely due to increased personnel and occupancy costs, and non-capital related costs relating to the IPO totalling £2.3m.

### *Finance costs*

Finance costs represent interest payable on the deposits received from reinsurers, interest on reinsurance financing and bank finance costs.

Finance costs increased by £7.6m in the half year ended 31 December 2013 from £62.3m for the half year ended 31 December 2012 to £69.9m for the half year ended 31 December 2013. The increase was primarily due to higher interest on reinsurance payable in line with the increase in reinsurance deposits and higher bank finance costs.

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### Income tax

Income tax charges decreased by £9.5m from £14.0m for the half year ended 31 December 2012 to £4.5m for the half year ended 31 December 2013, largely as a result of changes to the headline rate of tax between the two periods and certain transition rules regarding life company taxation.

### Highlights from consolidated statement of financial position

The following table presents selected items from the consolidated statement of financial position, with key line item explanations below:

	As at 31 December 2013 £m	As at 31 December 2012 £m	As at 30 June 2013 £m
<b>Assets</b>			
Financial assets	6,788.6	5,889.0	6,044.7
Reinsurance assets	3,394.0	3,435.9	3,476.8
Other assets	237.6	225.0	240.7
<b>Total assets</b>	<b>10,420.2</b>	<b>9,549.9</b>	<b>9,762.2</b>
Share capital and share premium	330.3	21.6	21.6
Reorganisation reserve	347.4	63.6	63.6
Accumulated profit and other adjustments	124.4	49.9	64.9
<b>Total Equity</b>	<b>802.1</b>	<b>135.1</b>	<b>150.1</b>
<b>Liabilities</b>			
Insurance liabilities	5,921.3	5,415.5	5,490.3
Financial liabilities	3,401.2	3,685.4	3,705.4
Insurance and other payables	15.6	117.0	159.6
Other liabilities	280.0	196.9	256.8
<b>Total liabilities</b>	<b>9,618.1</b>	<b>9,414.8</b>	<b>9,612.1</b>
<b>Total equity and liabilities</b>	<b>10,420.2</b>	<b>9,549.9</b>	<b>9,762.2</b>

### Financial assets

The table below provides a breakdown by credit rating of financial assets where applicable as at 31 December 2013 compared with the position at 31 December 2012 and 30 June 2013.

£m	As at 31 December 2013	As at 31 December 2012	As at 30 June 2013
AAA*	694.4	468.4	527.0
AA	578.8	477.6	466.4
A	1,768.8	1,748.5	1,765.3
BBB or below	1,443.5	1,148.2	1,204.8
Loans secured by mortgages	2,303.1	2,046.3	2,081.2
<b>Total</b>	<b>6,788.6</b>	<b>5,889.0</b>	<b>6,044.7</b>

\* Includes investments in gilts and units held in sterling liquidity fund

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Financial assets increased by £0.8bn from £6.0bn at 30 June 2013 to £6.8bn at 31 December 2013 on account of new business volumes and the proceeds from the IPO. The quality of the corporate bond portfolio remains high and there were no corporate bond defaults during the period (HY 2012: £nil).

Reinsurance assets decreased by £0.1bn from £3.5bn at 30 June 2013 to £3.4bn at 31 December 2013 mainly due to the impact of the reinsurance recapture amounting to £0.3bn.

Insurance liabilities increased by £0.4bn from £5.5bn at 30 June 2013 to £5.9bn at 31 December 2013 due to liabilities arising on new business written less claims paid in the period.

Financial liabilities decreased by £0.3bn from £3.7bn at 30 June 2013 to £3.4bn at 31 December 2013 largely as a result of the conversion of loan notes and preference share capital outstanding at 30 June 2013 into ordinary share capital as part of the Group's reorganisation prior to the IPO.

Insurance and other payables decreased by £144.0m from £159.6m at 30 June 2013 to £15.6m at 31 December 2013 largely as a result of the conversion of interest and dividends accrued on loan notes and preference share capital respectively as part of the Group's reorganisation.

Total equity increased by £652.0m from £150.1m at 30 June 2013 to £802.1m at 31 December 2013, largely due to the reorganisation of the Group, which included the conversion of £339.2m of loan notes and preference share capital to equity, and subsequent raising of £300m gross proceeds from the IPO.

### Capital management

The Group is managed on an economic capital basis, with a target to maintain minimum cover of 140% of economic capital requirements under normal circumstances. The Group also monitors the regulatory Pillar 1 position of its life company, Just Retirement Limited (JRL).

	As at 31 December 2013		As at 30 June 2013	
	Economic capital (JRG plc Group) £m	Pillar 1 (JRL) £m	Economic capital (JRG plc Group) £m	Pillar 1 (JRL) £m
Total available capital	962	578	578	411
Capital required	(511)	(261)	(467)	(241)
<b>Excess surplus</b>	<b>451</b>	<b>317</b>	<b>111</b>	<b>170</b>
Coverage ratio	188%	222%	124%	170%

The group economic capital ratio has increased significantly to 188% from 124% at 30 June 2013. This is mainly as a result of the new capital received as part of the IPO, positive trading conditions in the six months to 31 December 2013, together with economic changes, including the tightening of credit spreads and changes to house prices.

The Pillar 1 capital ratio has increased significantly to 222% from 170% at 30 June 2013 mainly as a result of new capital injected into the life company, namely £50m of ordinary equity and £75m of Tier 2 capital.



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### European embedded Value

	HY ended 31 December 2013 £m	HY ended 31 December 2012 £m	12 months to 30 June 2013 £m
<b>JRH Group EEV at start of period</b>	<b>503.9</b>	<b>365.0</b>	<b>365.0</b>
Net debt of JRGHL at date of IPO	(315.1)	-	-
JRGHL Group EEV at date of IPO	188.8	-	-
Conversion of loan notes and Preference shares	339.2	-	-
Proceeds from IPO	300.0	-	-
Share issue costs taken to reserves	(13.0)	-	-
Share based payments	3.8	0.3	0.7
Total comprehensive income for the period	73.5	145.7	98.2
Capital injection	-	40.0	40.0
<b>JRG Group EEV at end of period</b>	<b>892.3</b>	<b>551.0</b>	<b>503.9</b>

Group EEV increased by £703.5 from £188.8m at 30 June 2013 to £892.3m at 31 December 2013, largely due to the reorganisation of the Group, net proceeds received from the IPO, EV profit of £73.5m for the period and share based payments of £3.8m.

### Solvency II

Developments in Europe towards the end of 2013 have made Solvency II implementation, with an effective date of 1 January 2016, increasingly likely. The Group is continuing with its plans for the implementation of Solvency II, but is aware that some details still remain uncertain. These preparations will remain a key focus for the Group during 2014.

### Dividend policy

The Board intends to adopt a progressive dividend policy, in line with guidance given at the IPO, having regard to future earnings of the Group and its ongoing capital requirements. Dividend payments will be made on an approximate one-third : two-thirds split for interim and final dividends, respectively. The Board intends to commence dividend payments with a dividend in respect of the period to June 2014, which will represent a full final dividend for the year to 30 June 2014, payable in the second half of calendar year 2014. The initial dividend payment for the year ending 30 June 2014 is expected to be set at a level consistent with the Group's strategy for future growth.

Rodney Cook  
Chief Executive

## **JUST RETIREMENT GROUP PLC**

### **Risk management**

As an insurance group, risk selection and management are core competencies. The management of risk applies to all activities, is embedded into our culture and visibly contributes to both growth in economic value and the protection of policyholder and shareholder assets.

The Group's risk management strategy is to actively seek appropriate risks, against the background of a clearly articulated risk appetite and business strategy. Risks are only appropriate if they are well understood and either generate the required return on the financial and other resources consumed, or otherwise support the Group's strategic objectives.

The Group faces a number of key risks and uncertainties that are reviewed on a regular basis as part of the Group's risk management framework. The Group's overall risk profile is stable and risk exposure is within tolerances. The following presents a summary of key changes in material risks to which the Group is exposed, and its objectives, policies and processes for their measurement and management.

The main sources of risk and uncertainty in the next six months arise from the economic environment, exposure to insurance risks, future regulatory, legal and political risks, and their associated potential impacts on the Group's brand.

The Group listed on the London Stock Exchange in November 2013. The listing of the Group does not materially change the Group's risk profile and the principal risks and uncertainties facing the Group, as reported in the JRGHL 30 June 2013 annual report have not materially changed in the period, and remain relevant and applicable for the remainder of the current financial year.

#### ***Market risk***

An improving economic situation in the UK and US and a more stable Eurozone is reducing the probability of significant volatility in financial markets and decreases the risk of systemic failures. However, considerable structural and economic challenges remain, and the potential for a low growth and low interest rate environment persists. There is also the risk that interest rates may quickly increase and that the current environment is short lived.

Whilst the Group actively manages its exposure to market risks, the economic environment, and confidence in the economic outlook can give rise to changes in the values of the assets and liabilities of the Group. Such changes may reduce profitability and significantly influence the behaviour of the Group's target customers and the markets in which it sells its products; for example, changes in lifestyle, technology, regulation, taxation, government policies, financial and property markets could significantly alter customers' actual or perceived needs.

The potential impacts on the business plan of changing financial market conditions and the characteristic of target markets are continuously monitored, and management actions taken where possible and as appropriate. Such actions could include, for example, product and services diversification and innovation pipelines, active participation in industry forum, working with customers, distributors, other manufacturers and the government to help develop products and services for those at or in retirement.

#### ***Insurance risk***

Insurance risk is the risk of loss or adverse change in the value of insurance liabilities that arises from the inherent uncertainties as to the occurrence, amount and timing, of those insurance liabilities.

The Group's key insurance risks are that it may suffer adverse experience compared with the actuarial assumptions used in pricing products, establishing reserves and reporting business results, and that its reinsurance treaties may be terminated, not renewed, or renewed on terms less favourable than those under existing treaties. Insurance risk arises through its exposure to longevity and morbidity and exposure to factors such as withdrawal levels and management and administration expenses.

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Underpinning the Group's management of insurance risk is:

- The development and use of proprietary medical data to provide detailed insight into longevity risk.
- Controls around the development of suitable products and their pricing.
- Adherence to approved underwriting requirements.
- Regular monitoring and analysis of actual experience.
- Use of reinsurance to minimise solvency and profit volatility.
- Monitoring of expense levels.
- Monitoring concentrations of insurance risk.

### ***Regulatory, legal and political risks***

The Group is subject to detailed and comprehensive government regulation and legislation. Regulatory agencies have broad powers over many aspects of the business, including marketing and selling practices, product development and structures, data and records management, systems and controls, capital requirements, permitted investments and the ability to impose restrictions on the future growth of the business. Government regulators are concerned primarily with financial stability and the protection of policyholders and third-party claimants rather than the Group's shareholders or creditors and have been giving increasing attention to consumer protection issues and the overall fairness of financial services products.

The UK Regulatory environment is adjusting to the establishment of two new bodies, the Prudential Regulatory Authority and the Financial Conduct Authority. There is still some uncertainty as to extent to which the operation of the new regulators will affect capital requirements, the cost of compliance and the conduct of our business in future. Regulatory bodies are in the process of conducting thematic reviews of markets and products in which the Group has interests, for example, annuity sales processes. The outcome of these reviews are presently unknown (with the exception of the FCA review of the annuity market detailed below), although the Group proactively participates in data/information gathering exercises, information sharing and shaping through industry forums and proactive engagement with regulatory authorities.

On 14 February, the Financial Conduct Authority (FCA) published its thematic review of the annuity market. The study concluded that eight out of ten people purchasing annuities directly from their existing pension provider would achieve improved financial outcomes if they had used their open market option and purchased an annuity in the external market. The Board believes that the FCA's findings and potential future reforms will be positive for further growth in the individually underwritten annuity market.

Reflecting the wider financial and political conditions, the UK and European regulatory authorities are in the process of implementing enhanced regulatory requirements. Solvency II is expected to come into force 1<sup>st</sup> January 2016, although uncertainty remains around the finalisation of technical standards and detailed level 3 guidance.

The Group's strategy is to implement all regulatory change efficiently and effectively, with a particular focus on better outcomes for our customers and a competitive advantage for the Group. The Group continues to be involved in wide-ranging programmes of active and constructive engagement with government, policy makers and regulators to minimise the level of uncertainty and to ensure that it is well placed to adapt to and adopt new regulatory regimes as and when standards are finalised.

### ***Brand risk***

The Group is exposed to the risk of damage to its brand and/or contagion effects from association with its partners, which may result in damage to its reputation or a decline in customer confidence in the Group or its products. The Group's brand is vulnerable to adverse market perceptions as the Group operates in an industry where integrity, customer trust and confidence are paramount.

The Group is exposed to risks from litigation, employee misconduct, operational failures, regulatory censure, media speculation and negative publicity, among others, whether founded or not, which could damage its reputation. The Group's reputation could also be harmed if products or services sold by the Group (or by

## **JUST RETIREMENT GROUP PLC**

any of its distribution partners or intermediaries on behalf of the Group) do not perform as expected or customers' expectations for the product change.

Little appetite exists for exposure to risks to the 'Just Retirement' brand and the Group's sound reputation. All reasonable actions are taken by the Group to reduce the causal risks to their lowest possible level.

## JUST RETIREMENT GROUP PLC

### Statement of Going Concern and Directors' Responsibilities

#### Going Concern

The Directors have undertaken a going concern assessment in accordance with "Going Concern and Liquidity Risk: Guidance for UK directors of UK Companies 2009", published by the Financial Reporting Council in October 2009. As a result of this assessment, the Directors are satisfied that the Group and the Company have adequate resources to continue to operate as a going concern for the foreseeable future and have prepared the financial statements on that basis. In assessing whether the going concern basis is appropriate, the Directors have considered the information contained in the financial statements, the latest business plan profit forecasts, and estimated forecast solvency of the regulated subsidiaries of the Group. These forecasts have been subject to sensitivity tests and the Directors are satisfied that the Group and Company have adequate resources to continue in operational existence for the foreseeable future.

#### Directors' Responsibilities

Each of the Directors of the Company confirms that to the best of their knowledge:

- the condensed consolidated financial statements have been prepared in accordance with IAS 34: *Interim financial reporting* as adopted by the European Union;
- the interim results statement includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7, namely important events that have occurred during the period and their impact on the condensed consolidated financial statements, as well as a description of the principal risks and uncertainties faced by the Company and the undertakings included in the condensed consolidated financial statements taken as a whole for the remaining six months of the financial year; and
- the interim results statement includes a fair review of material related party transactions and any material changes in the related party transactions described in the last annual report as required by Disclosure and Transparency Rule 4.2.8.

By order of the Board

Simon Thomas  
Director  
27 February 2014

## JUST RETIREMENT GROUP PLC

### INDEPENDENT REVIEW REPORT TO JUST RETIREMENT GROUP PLC

#### Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2013 which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated statement of financial position, the condensed consolidated cash flow statement and the related explanatory notes set out on pages 24 to 44.

We have also been engaged by the company to review the European Embedded Value (EEV) basis supplementary information (the supplementary information), set out on pages 45 to 57, for the six months ended 31 December 2013.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements or the supplementary information.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA") and also to provide a review conclusion to the Company on the supplementary information. Our review of the condensed set of financial statements has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. Our review of the supplementary information has been undertaken so that we might state to the company those matters we have been engaged to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

#### Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1.1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

The supplementary information has been prepared in accordance with the EEV principles, using the methodology and assumptions detailed in the basis of preparation of the supplementary information. The supplementary information should be read in conjunction with the condensed set of financial statements.

#### Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

#### Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information and the supplementary information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The scope of our work did not include detailed checking of the models and processes involved in the preparation of the results shown in the EEV supplementary financial statements. Accordingly, the scope of our review was less detailed than that which we would carry out in respect of a full audit.

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### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2013 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information for the six months ended 31 December 2013 is not prepared, in all material respects, in accordance with the EEV principles, using the methodology and assumptions as detailed in the basis of preparation of the supplementary information.

**Ben Priestley (Senior Statutory Auditor)**  
**for and on behalf of KPMG Audit Plc, (Statutory Auditor)**  
*Chartered Accountants*  
15 Canada Square  
London  
E14 5GL  
United Kingdom  
27 February 2014

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**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Half year ended 31 December 2013	Half year ended 31 December 2012	Year ended 30 June 2013
Note	£m	£m	£m
<b>Revenue</b>			
Gross premiums written	651.2	758.8	1,265.1
Reinsurance premiums ceded	(283.6)	(303.3)	(666.2)
Reinsurance recapture	263.1	-	116.8
Net premium revenue	<u>630.7</u>	<u>455.5</u>	<u>715.7</u>
Net investment income	147.7	240.5	249.5
<b>Total revenue</b>	<u>778.4</u>	<u>696.0</u>	<u>965.2</u>
Other operating income	2.9	3.1	5.6
<b>Expenses</b>			
Claims incurred			
Claims paid			
Gross amount	(210.3)	(176.9)	(370.4)
Reinsurers' share	115.4	106.9	221.3
	<u>(94.9)</u>	<u>(70.0)</u>	<u>(149.1)</u>
Change in insurance liabilities			
Gross amount	(431.0)	(788.9)	(863.6)
Reinsurers' share	180.4	356.1	512.4
Reinsurance recapture	(263.1)	-	(115.4)
	<u>(513.7)</u>	<u>(432.8)</u>	<u>(466.6)</u>
Change in investment contract liabilities	0.7	2.7	5.2
Acquisition costs	(16.7)	(25.4)	(39.5)
Other operating expenses	(57.8)	(49.2)	(106.5)
Amortisation of intangible assets	(2.5)	(4.9)	(7.7)
Finance costs	(69.9)	(62.3)	(128.3)
<b>Total claims and expenses</b>	<u>(754.8)</u>	<u>(641.9)</u>	<u>(892.5)</u>
<b>Profit before tax</b>	26.5	57.2	78.3
Income tax	(4.5)	(14.0)	(20.5)
<b>Profit for the period</b>	<u>22.0</u>	<u>43.2</u>	<u>57.8</u>
<b>Attributable to:</b>			
Equity holders of Just Retirement Group plc	22.2	43.3	58.2
Non-controlling interest	(0.2)	(0.1)	(0.4)
<b>Profit and other comprehensive income for the period</b>	<u>22.0</u>	<u>43.2</u>	<u>57.8</u>
Basic earnings per share (pence)	<b>5</b>	5.55	12.36
Diluted earnings per share (pence)	<b>5</b>	5.54	12.36

The notes on pages 28 to 44 are an integral part of these financial statements.



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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Reorganisation reserve £m	Shares held by employee benefit trust £m	Accumulated profit £m	Shareholders' equity £m	Non-controlling interest £m	Total £m
<b>Half year ended 31 December 2013</b>								
Balance at 1 July 2013	21.6	-	63.6	-	66.1	151.3	(1.2)	150.1
Exchange of preference shares	3.6	-	45.1	-	32.1	80.8	-	80.8
Exchange of loans and loan notes	11.5	-	246.9	-	-	258.4	-	258.4
Shares issued for cash	13.3	286.7	-	-	-	300.0	-	300.0
Share issue costs*	-	(7.6)	(8.2)	-	2.8	(13.0)	-	(13.0)
Total comprehensive income for the period	-	-	-	-	22.2	22.2	(0.2)	22.0
Share-based payments	0.1	1.1	-	(0.1)	2.7	3.8	-	3.8
<b>Balance at 31 December 2013</b>	<b>50.1</b>	<b>280.2</b>	<b>347.4</b>	<b>(0.1)</b>	<b>125.9</b>	<b>803.5</b>	<b>(1.4)</b>	<b>802.1</b>

\* Total share issue costs incurred were £18.4m, consisting of £13.0m recognised directly in reserves in the current period, £2.3m recognised through profit and loss, and £3.1m recognised in the prior period, of which £2.8m has been transferred to the reorganisation reserve in the current period.

	Share capital £m	Share premium £m	Reorganisation reserve £m	Accumulated profit £m	Shareholders' equity £m	Non-controlling interest £m	Total £m
<b>Half year ended 31 December 2012</b>							
Balance at 1 July 2012	19.7	-	53.5	7.2	80.4	(0.8)	79.6
Issue of ordinary shares	1.9	-	10.1	-	12.0	-	12.0
Total comprehensive income for the period	-	-	-	43.3	43.3	(0.1)	43.2
Share-based payments	-	-	-	0.3	0.3	-	0.3
<b>Balance at 31 December 2012</b>	<b>21.6</b>	<b>-</b>	<b>63.6</b>	<b>50.8</b>	<b>136.0</b>	<b>(0.9)</b>	<b>135.1</b>

	Share capital £m	Share premium £m	Reorganisation reserve £m	Accumulated loss £m	Shareholders' equity £m	Non-controlling interest £m	Total £m
<b>Year ended 30 June 2013</b>							
Balance at 1 July 2012	19.7	-	53.5	7.2	80.4	(0.8)	79.6
Issue of ordinary shares	1.9	-	10.1	-	12.0	-	12.0
Total comprehensive income for the year	-	-	-	58.2	58.2	(0.4)	57.8
Share-based payments	-	-	-	0.7	0.7	-	0.7
<b>Balance at 30 June 2013</b>	<b>21.6</b>	<b>-</b>	<b>63.6</b>	<b>66.1</b>	<b>151.3</b>	<b>(1.2)</b>	<b>150.1</b>

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**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

		31 December 2013	31 December 2012	30 June 2013
	Note	£m	£m	£m
<b>Assets</b>				
Intangible assets		81.3	84.0	83.3
Equipment		1.2	1.9	1.6
Financial assets	7	6,788.6	5,889.0	6,044.7
Reinsurance assets		3,394.0	3,435.9	3,476.8
Deferred tax assets		12.2	6.4	12.7
Current tax assets		-	-	-
Prepayments and accrued income		118.4	103.5	84.4
Insurance and other receivables		3.5	3.2	18.1
Cash and cash equivalents		21.0	26.0	40.6
<b>Total assets</b>		<b>10,420.2</b>	<b>9,549.9</b>	<b>9,762.2</b>
<b>Equity</b>				
Share capital	12	50.1	21.6	21.6
Share premium	12	280.2	-	-
Reorganisation reserve		347.4	63.6	63.6
Shares held by Employee Benefit Trust		(0.1)	-	-
Accumulated profit		125.9	50.8	66.1
Equity attributable to owners of Just Retirement Group plc		803.5	136.0	151.3
Non-controlling interest		(1.4)	(0.9)	(1.2)
<b>Total equity</b>		<b>802.1</b>	<b>135.1</b>	<b>150.1</b>
<b>Liabilities</b>				
Insurance liabilities		5,921.3	5,415.5	5,490.3
Financial liabilities	10	3,401.2	3,685.4	3,705.4
Investment contract liabilities		162.4	98.6	130.4
Loans and borrowings	9	51.6	35.4	55.2
Deferred tax liabilities		38.3	39.6	44.8
Other provisions		1.8	0.5	1.7
Current tax liabilities		9.4	14.1	7.9
Accruals and deferred income		16.5	8.7	16.8
Insurance and other payables		15.6	117.0	159.6
<b>Total liabilities</b>		<b>9,618.1</b>	<b>9,414.8</b>	<b>9,612.1</b>
<b>Total equity and liabilities</b>		<b>10,420.2</b>	<b>9,549.9</b>	<b>9,762.2</b>

The notes on pages 28 to 44 are an integral part of these financial statements.

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**CONDENSED CONSOLIDATED CASHFLOW STATEMENT**

	Half year ended 31 December 2013 £m	Half year ended 31 December 2012 £m	Year ended 30 June 2013 £m
<b>Cash flows from operating activities</b>			
Profit before tax	26.5	57.2	78.3
Depreciation of equipment	0.5	0.5	1.1
Amortisation of intangible assets	2.5	4.9	7.7
Share-based payments	3.8	0.3	0.7
Interest income	(98.8)	(85.2)	(175.1)
Interest expense	69.9	62.3	128.3
<b>Operating profit before changes in operating assets and liabilities</b>	<b>4.4</b>	<b>40.0</b>	<b>41.0</b>
Increase in financial assets	(454.3)	(849.6)	(965.1)
Decrease/(increase) in reinsurance assets	82.8	(356.1)	(397.0)
(Increase)/decrease in prepayments and accrued income	(31.0)	(11.7)	21.4
Decrease/(increase) in insurance and other receivables	14.6	2.9	(12.0)
Increase in insurance liabilities	431.0	788.8	863.6
Increase in investment contract liabilities	32.0	37.1	68.9
(Decrease)/increase in deposits received from reinsurers	(78.1)	336.5	369.8
(Decrease)/increase in accruals and deferred income	(0.3)	(4.8)	3.3
Decrease in insurance and other payables	(49.3)	(16.1)	(2.0)
Increase/(decrease) in other creditors	2.1	-	(3.6)
<b>Cash outflow from operations</b>	<b>(46.1)</b>	<b>(33.0)</b>	<b>(11.7)</b>
Interest received	95.8	77.3	161.1
Interest paid	(51.5)	(46.9)	(94.3)
Taxation (paid)/recovered	(9.0)	5.0	(14.0)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(10.8)</b>	<b>2.4</b>	<b>41.1</b>
<b>Cash flows from investing activities</b>			
Additions to internally generated intangible assets	(0.5)	(0.6)	(3.0)
Acquisition of equipment	(0.1)	(0.6)	(0.6)
<b>Net cash outflow from investing activities</b>	<b>(0.6)</b>	<b>(1.2)</b>	<b>(3.6)</b>
<b>Cash flows from financing activities</b>			
(Decrease)/increase in borrowings	(3.6)	35.4	80.5
Interest paid	(1.2)	-	(1.0)
Issue of ordinary and preference share capital (net of costs)	287.0	44.8	19.0
<b>Net cash inflow from financing activities</b>	<b>282.2</b>	<b>80.2</b>	<b>98.5</b>
Net increase in cash and cash equivalents	270.8	81.4	136.0
Cash and cash equivalents at start of period	189.9	53.9	53.9
<b>Cash and cash equivalents at end of period</b>	<b>460.7</b>	<b>135.3</b>	<b>189.9</b>
Cash available on demand	21.0	26.0	40.6
Units in sterling liquidity fund	439.7	109.3	149.3
<b>Cash and cash equivalents at end of period</b>	<b>460.7</b>	<b>135.3</b>	<b>189.9</b>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1 Significant Accounting Policies**

**General information**

Just Retirement Group plc (the Company) was incorporated and registered in England and Wales on 13 June 2013 as a public company limited by shares. The Company's registered office is Vale House, Roebuck Close, Bancroft Road, Reigate, Surrey, RH2 7RU.

On incorporation, the share capital of the Company was £2 divided into 20 ordinary shares of 10 pence each. During the period to 31 December 2013, the Company acquired a 100% shareholding in Just Retirement Group Holdings Limited (JRGHL) as part of a reorganisation of the Group and successfully completed the issue of new Ordinary Shares to raise approximately £300m through a Premium Listing on the London Stock Exchange on 15 November 2013. Further details of these transactions are included in note 8.

**1.1 Basis of Preparation**

These condensed interim financial statements comprise the condensed consolidated financial statements of the Company and its subsidiaries, together referred to as "the Group", as at and for the half year ended 31 December 2013.

These condensed interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, Interim Financial Reporting, as adopted by the European Union.

These condensed interim financial statements have been reviewed by KPMG Audit Plc and their review opinion is included.

The Group in its current structure was formed prior to admission on the London Stock Exchange when the Company acquired JRGHL. As described in note 8, the Group undertook a re-organisation during the period to insert a new holding company above the existing parent. Whilst the re-organisation did not meet the definition of a business combination, the Group has applied the principles of reverse acquisition accounting in IFRS 3 to account for the insertion of the new holding company. As a result, the interim financial statements are presented as a continuation of the JRGHL group.

These condensed interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. As the predecessor holding company of the Group, statutory accounts of JRGHL for the year ended 30 June 2013 were approved by the board of directors on 3 October 2013. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

The Group has applied all IFRS standards and interpretations adopted by the EU effective for the period ended ending 31 December 2013.

The Group has adopted the following new standards, amendments and improvements to existing accounting standards with effect from 1 July 2013:

- IFRS 13, Fair value measurement (effective 1 January 2013) – the standard provides a single source of guidance on how fair value is measured. There is no effect on the values previously recorded in the financial statements.
- Amendments to IFRS 7, Offsetting financial assets and financial liabilities (effective 1 January 2013) – the amendments require disclosure about rights to offset financial instruments and related arrangements in order to provide users with information that is useful in evaluating the effect of netting arrangements on the Group's financial position. The amendments do not impact the Group.
- Annual improvements 2011 (effective 1 January 2013) – included in the improvements are amendments to IAS 34, Interim financial reporting, which align the segmental disclosure requirements in IAS 34 with IFRS 8, Operating segments. Improvements to other standards are not significant for the Group.

Adoption of these amendments has not had a material effect on the financial performance or position of the Group.

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The following new accounting standards, interpretations and amendments to existing accounting standards are also effective in the period but are not relevant to the Group's operations:

- Amendment to IFRS 1, First time adoption on government grants (effective 1 January 2013)
- IAS 19 (revised 2011), Employee benefits (effective 1 January 2013)
- IFRIC 20, Stripping costs in the production phase of a surface mine (effective 1 January 2013)

The following new accounting standards, interpretations and amendments to existing accounting standards in issue but not yet effective or endorsed by the EU, have not been early adopted by the Group:

- Amendment to IFRS 9, Financial instruments on general hedge accounting (effective date unknown, not yet endorsed)
- IFRS 10, Consolidated financial statements (effective 1 January 2013, endorsed for annual periods commencing 1 January 2014)
- IFRS 11, Joint arrangements (effective 1 January 2013, endorsed for annual periods commencing 1 January 2014)
- IFRS 12, Disclosures of interests in other entities (effective 1 January 2013, endorsed for annual periods commencing 1 January 2014)
- Amendment to IAS 19, Employee benefits on defined benefit plans (effective 1 July 2014, not yet endorsed)
- IAS 27 (revised 2011), Separate financial statements (effective 1 January 2013, endorsed for annual periods commencing 1 January 2014)
- IAS 28 (revised 2011), Associates and joint ventures (effective 1 January 2013, endorsed for annual periods commencing 1 January 2014)
- Amendments to IAS 32 on financial instruments asset and liability offsetting (effective 1 January 2014)
- Amendment to IAS 36, Impairment of assets on recoverable amount disclosures (effective 1 January 2014, not yet endorsed)
- Amendment to IAS 39, Financial instruments: Recognition and measurement on novation of derivatives and hedge accounting (effective 1 January 2014, not yet endorsed)
- IFRIC 21, Levies (effective 1 January 2014, not yet endorsed)

There are no changes to the significant accounting policies applied by the Group for the financial statements of JRGHL.

## 2 Critical Accounting Judgements in Applying the Group's Accounting Policies and Key Sources of Estimation and Uncertainty

Certain critical accounting judgements in applying the Group's accounting policies are described below.

### 2.1 Present value of acquired in-force business (PVIF) and other intangible assets

The most significant intangible asset is the PVIF. The value of PVIF is based on the estimated value in-force using the European Embedded Value model under IFRS.

The key sensitivities are:

- Liquidity premiums,
- House price growth and volatility,
- Mortality,
- Cost of capital

Information relating to the methods used to value PVIF and other intangible assets is set out in the accounting policies.

### 2.2 Fair value determination of financial instruments at fair value through profit or loss

Financial assets are designated at fair value as they are managed on a fair value basis and to eliminate mismatch with the financial liabilities they support which are valued on a fair value basis.

Fair values of financial instruments that are quoted in active markets are based on bid prices for the assets held. Corporate bond valuations are obtained from quoted market information or market observable data. Note 7 explains how fair values of financial instruments for which there is no observable market data are derived.

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### 2.3 Lifetime Mortgage

The lifetime mortgage contains both financial and insurance risks. These contracts are accounted for at fair value in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, on a mark to model basis with changes in fair value included in profit or loss.

The key sensitivities are:

- The period when the loan is expected to be repaid;
- The discount rate applied to the anticipated cash flows;
- The value of the no-negative equity guarantee embedded within the product.

### 2.4 Insurance Liabilities

The key sensitivities are:

- Mortality assumptions;
- Valuation interest rate for annuities in payment;
- Assessment of the liquidity premium for corporate bond spreads;
- Changes in valuation technique assumptions for assets that are not quoted in active markets, insofar as such changes impact the valuation rate of interest for annuities in payment.

## 3 Segmental Reporting

A single reportable segment is disclosed separately as core and this comprises the activities of the following:

- the manufacture of insurance products for distribution to the at- or in- retirement market, which is undertaken through the activities of the life company
- the arranging of annuity contracts through a non-advised service, and providing intermediation, mortgage advising and arranging from a panel of lifetime mortgage products
- the provision of licensed software to financial advisers

The reconciliation of the results of the operating segments for the income statement includes the results arising from the activities of the Group's management services and holding companies and eliminations on consolidation.

The Group operates in one geographical segment which is the UK.

Eliminations relate to intra group transactions and balances.

### Reporting segments and reconciliation to financial information

Half year ended 31 December 2013 £m	Core	Corporate Functions	Eliminations	Total
New business operating profit	27.1	-	-	27.1
In-force operating profit	20.2	-	-	20.2
<b>Underlying operating profit</b>	<b>47.3</b>	<b>-</b>	<b>-</b>	<b>47.3</b>
Operating experience and assumptions changes	0.9	0.2	(3.3)	(2.2)
Reinsurance and financing costs	(9.0)	(14.6)	3.3	(20.3)
<b>Operating profit before tax</b>	<b>39.2</b>	<b>(14.4)</b>	<b>-</b>	<b>24.8</b>
Non-recurring and project expenditure	(3.6)	(3.2)	-	(6.8)
Investment and economic profits	7.7	0.8	-	8.5
<b>Profit/(loss) before tax</b>	<b>43.3</b>	<b>(16.8)</b>	<b>-</b>	<b>26.5</b>

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Half year ended  
31 December 2012  
£m

	Core	Corporate Functions	Eliminations	Total
New business operating profit	29.4	-	-	29.4
In-force operating profit	21.5	-	-	21.5
<b>Underlying operating profit</b>	<b>50.9</b>	<b>-</b>	<b>-</b>	<b>50.9</b>
Operating experience and assumptions changes	(9.2)	(4.7)	(0.9)	(14.8)
Reinsurance and financing costs	(5.1)	(15.8)	0.9	(20.0)
<b>Operating profit before tax</b>	<b>36.6</b>	<b>(20.5)</b>	<b>-</b>	<b>16.1</b>
Non-recurring and project expenditure	(2.0)	(0.3)	-	(2.3)
Investment and economic profits	43.3	0.1	-	43.4
<b>Profit/(loss) before tax</b>	<b>77.9</b>	<b>(20.7)</b>	<b>-</b>	<b>57.2</b>

Year ended  
30 June 2013  
£m

	Core	Corporate Functions	Eliminations	Total
New business operating profit	58.9	-	-	58.9
In-force operating profit	41.1	-	-	41.1
<b>Underlying operating profit</b>	<b>100.0</b>	<b>-</b>	<b>-</b>	<b>100.0</b>
Operating experience and assumptions changes	(11.1)	(4.8)	(3.0)	(18.9)
Reinsurance and financing costs	(10.7)	(34.0)	3.0	(41.7)
<b>Operating profit before tax</b>	<b>78.2</b>	<b>(38.8)</b>	<b>-</b>	<b>39.4</b>
Non-recurring and project expenditure	(5.9)	(4.1)	-	(10.0)
Investment and economic profits	47.4	1.5	-	48.9
<b>Profit/(loss) before tax</b>	<b>119.7</b>	<b>(41.4)</b>	<b>-</b>	<b>78.3</b>

The results of the corporate functions include group financing costs, the amortisation of intangibles, movements in fair value of financial derivatives, and administration costs.

Amortisation of intangibles are included within operating experience and assumption changes for corporate functions.

### 4 Employee Share Plans

Following Admission, the Group has implemented the following employee share plans:

#### Long Term Incentive Plan (LTIP)

The Company has made awards under the LTIP to Executive Directors and other senior managers in November 2013.

The aggregate value (at the Offer Price) of the Shares underlying the initial LTIP Awards granted were £6,765,138, of which £6,505,138 was in respect of LTIP Awards subject to performance conditions and £260,000 was in respect of Restricted Share Units (which are not subject to performance conditions, as described below).

50 per cent. of the initial LTIP Awards (other than the Restricted Share Units) are subject to a performance condition relating to the growth in the Company's operating profit over a performance period of three financial years. If operating profit for the financial year ending June 2016 exceeds operating profit for the financial year ending June 2013 by 29.5 per cent. (equivalent to 9 per cent. per annum cumulative growth), 20 per cent. of these LTIP Awards will vest. The maximum 100 per cent. will vest if operating profit for the financial year ending 30 June 2016 exceeds operating profit for the financial year ending 30 June 2013 by at least 64.3 per cent. (equivalent to 18 per cent. Per annum cumulative growth). Payment will be on a sliding scale in between these points. None of these awards would be made if growth is below 29.5 per cent. The operating profit will be subject to any adjustments as determined by the Remuneration Committee.

The remaining 50 per cent. of the initial LTIP Awards (other than the Restricted Share Units) are subject to a condition measuring the Company's Total Shareholder Return (TSR) performance relative to the constituent

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companies of the FTSE 250 index (excluding investment trusts, mining companies and oil and gas producers) over the performance period from Admission to 30 June 2016, where the initial TSR shall be determined by reference to the Offer Price. Vesting of 25 per cent. of these LTIP Awards will occur for median performance and the maximum 100 per cent. will vest for upper quintile performance or above, with straight line vesting in between these points. None of these awards will vest if TSR is below the median.

The awards are accounted for as equity-settled schemes. The fair value of these schemes is calculated at each award date based upon the number of shares expected to vest and the expense charge is recognised over the course of the vesting period.

At 31 December 2013 there were 3,006,703 awards in issue and a charge of £181,000 has been recognised in the Consolidated Statement of Comprehensive Income with a corresponding increase in equity in the Consolidated Statement of Financial Position.

### **Share Incentive Plan (SIP)**

The SIP is an “all-employee” share ownership plan. The Company has made an award of 831,070 free shares immediately after admission to all eligible employees. These shares will be forfeited if the employees cease employment (except in “good leaver” circumstances) within the first three years from the date of the award.

While Shares are held in trust by the SIP Trust on behalf of the employees and subject to the SIP rules, the employee will be the beneficial owner of the Shares and will be entitled to receive dividends (subject to any reinvestment in Dividend Shares described below) and, through the SIP Trust, to vote and to participate in substantially the same way as other shareholders. Any Shares held in the SIP Trust will rank equally with Shares then in issue. An employee may leave his or her Shares in the SIP Trust until he ceases to be employed by the Group at which point he will be required to withdraw his Shares from the SIP Trust.

These awards are accounted for as equity-settled schemes. The fair value of these schemes is calculated at each award date based upon the number of shares awarded multiplied by the share price at grant date and expensed over the vesting period.

At 31 December 2013 there were 831,070 awards in issue and a charge of £68,000 has been recognised in the Consolidated Statement of Comprehensive Income with a corresponding increase in equity in the Consolidated Statement of Financial Position.

### **Deferred Share Bonus Plan (DSBP)**

The DSBP is operated in conjunction with the Company’s Short Term Incentive Plan for Executive Directors and other senior managers of the Company or any of its subsidiaries. Awards under the DSBP (“Bonus Awards”) will usually be granted over Shares with a market value of one-third (or such other proportion as has been determined by the Remuneration Committee) of any bonus payable to such employees under any of the Company’s annual bonus arrangements, unless the Remuneration Committee decides otherwise.

Awards under the DSBP may be made in the form of:

- (a) a conditional right to acquire Shares at no cost to the participant (“Conditional Award”);
- (b) an option to acquire Shares at no cost to the participant (“Nil-Cost Option”); or
- (c) a right to receive a cash amount which relates to the value of a certain number of notional Shares (“Cash Award”), and in this paragraph 8.2, Conditional Awards, Nil-Cost Options and Cash Awards are together referred to as “Bonus Awards” and each “Bonus Award”, as appropriate.

The share element of these bonus awards are accounted for as equity-settled schemes. The fair value of the awards is calculated at each award date based on based on one-third of the estimated annual bonus payout and the expensed over the vesting period.

Initial Bonus Awards will be made to Executive Directors and other senior managers in October 2014 in respect of bonuses earned in the financial year ending June 2014.

### **Save As You Earn (SAYE) scheme**

The SAYE is an “all-employee” share option plan. Under the SAYE, the Remuneration Committee may invite all eligible employees to apply for options over a number of Shares (“Options”). As part of the application process, employees must enter into a savings contract under which they agree to save up to £250 per month (or such other limit as may be permitted by the tax legislation governing the SAYE from time to time) for



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either three or five years (a “Sharesave Contract”). Options must be granted on the same terms to all eligible employees.

The SAYE may operate over new issue Shares, Shares held in treasury or Shares purchased in the market.

The scheme was not in place at 31 December 2013.

### 5 Earnings per share

	Half year ended 31 December 2013			Half year ended 31 December 2012			Year ended 30 June 2013		
	Earnings	Weighted average number of shares	Earnings per share	Earnings	Weighted average number of shares	Earnings per share	Earnings	Weighted average number of shares	Earnings per share
	£m	million	pence	£m	million	pence	£m	million	pence
<b>Basic earnings</b>	22.2	400.3	5.55	43.3	350.2	12.36	58.2	358.3	16.24
<b>Diluted earnings</b>	22.2	400.5	5.54	43.3	350.2	12.36	58.2	358.3	16.24

The calculation of basic and diluted earnings per share is based on dividing the profit attributable to equity holders of the Company of £22.2m (period ended 31 December 2012: £43.3m, year ended 30 June 2013: £58.2m) and by the weighted average number of ordinary shares outstanding and by the diluted weighted average number of ordinary shares potentially outstanding at the end of the period, calculated as follows:

	Half year ended 31 December 2013	Half year ended 31 December 2012	Year ended 30 June 2013
	million	million	million
Weighted average number of ordinary shares	400.3	350.2	358.3
Effect of dilutive potential ordinary shares			
Share options	0.2	-	-
Diluted weighted average number of ordinary shares	400.5	350.2	358.3

As explained in note 8, all of JRGHL’s ordinary shares were exchanged for JRG’s ordinary shares. For the purpose of the earnings per share calculation, the weighted average number of shares for the comparative periods also reflect the exchange.

As explained in note 4, the Group introduced a number of new employee share plans following admission. It is assumed the LTIP will be settled through external share purchases. Awards under the DSBP had not been made at 31 December 2013 and the SAYE was not yet in operation. Therefore, only the SIP has a dilutive effect.

### 6 Dividends

No dividends were paid during the six months ended 31 December 2013 (Six month ended 31 December 2012: nil, Year ended 30 June 2013: nil).

### 7 Financial Assets

The Group’s financial assets are summarised by measurement category as follows:

	31 December 2013	31 December 2012	30 June 2013
	£m	£m	£m
<b>Fair value through profit or loss</b>			
Loans secured by mortgages	2,303.1	2,046.3	2,081.2
Financial investments	4,485.5	3,842.7	3,963.5
<b>Total financial assets</b>	<b>6,788.6</b>	<b>5,889.0</b>	<b>6,044.7</b>

All financial assets at fair value through the profit or loss are designated as such on initial recognition.

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### a) Determination of fair value hierarchy

In accordance with IFRS 13 Fair Value Measurement, financial assets and liabilities at fair value have been classified into three categories.

Level 1 – quoted prices (unadjusted) in active markets for identical assets. An active market is one in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes assets that are priced based on models using market observable inputs.

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). Assets with limited trading activity are included in this category.

The majority of the Group's debt securities held at fair value are valued based on quoted market prices or market observable data. The Group's loans secured by mortgages are valued using valuation techniques for which significant observable market data is not available. There are no non-recurring fair value measurements as at 31 December 2013 (31 December 2012: nil, 30 June 2013: nil).

The Group's policy is to recognise transfers into and transfers out of levels 1, 2 and 3 as of the date the statement of financial position is prepared.

### b) Analysis of financial assets and liabilities held at fair value according to fair value hierarchy

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>31 December 2013</b>				
<b>Financial assets held at fair value</b>				
Units in sterling liquidity fund	439.7	-	-	439.7
Debt securities and other fixed income securities	82.5	3,904.7	-	3,987.2
Deposits with credit institutions	22.2	-	-	22.2
Financial derivatives	-	36.4	-	36.4
Loans secured by mortgages	-	-	2,303.1	2,303.1
<b>Total financial assets held at fair value</b>	<b>544.4</b>	<b>3,941.1</b>	<b>2,303.1</b>	<b>6,788.6</b>
<b>Financial liabilities held at fair value</b>				
Investment contract liabilities	-	-	162.4	162.4
Derivative financial instruments	-	67.4	-	67.4
<b>Total financial liabilities held at fair value</b>	<b>-</b>	<b>67.4</b>	<b>162.4</b>	<b>229.8</b>
<b>31 December 2012</b>				
<b>Financial assets held at fair value</b>				
Units in sterling liquidity fund	109.3	-	-	109.3
Debt securities and other fixed income securities	62.5	3,596.0	-	3,658.5
Deposits with credit institutions	24.5	-	-	24.5
Financial derivatives	-	50.4	-	50.4
Loans secured by mortgages	-	-	2,046.3	2,046.3
<b>Total financial assets held at fair value</b>	<b>196.3</b>	<b>3,646.4</b>	<b>2,046.3</b>	<b>5,889.0</b>
<b>Financial liabilities held at fair value</b>				
Investment contract liabilities	-	-	98.6	98.6
Derivative financial instruments	-	87.0	-	87.0
<b>Total financial liabilities held at fair value</b>	<b>-</b>	<b>87.0</b>	<b>98.6</b>	<b>185.6</b>

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30 June 2013	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial assets held at fair value</b>				
Units in sterling liquidity fund	149.3	-	-	149.3
Debt securities and other fixed income securities	78.8	3,681.1	-	3,759.9
Deposits with credit institutions	17.2	-	-	17.2
Financial derivatives	-	37.1	-	37.1
Loans secured by mortgages	-	-	2,081.2	2,081.2
<b>Total financial assets held at fair value</b>	<b>245.3</b>	<b>3,718.2</b>	<b>2,081.2</b>	<b>6,044.7</b>
<b>Financial liabilities held at fair value</b>				
Investment contract liabilities	-	-	130.4	130.4
Derivative financial instruments	-	66.6	-	66.6
<b>Total financial liabilities held at fair value</b>	<b>-</b>	<b>66.6</b>	<b>130.4</b>	<b>197.0</b>

### c) Transfers between Level 1 and Level 2

During the period there were no transfers of financial assets between Level 1 and Level 2.

### d) Level 3 financial assets and liabilities measured at fair value

The table below shows a reconciliation of the opening and closing recorded amount of Level 3 financial assets which are at fair value:

	Half year ended 31 December 2013 £m	Half year ended 31 December 2012 £m	Year ended 30 June 2013 £m
<b>Loans secured by mortgages</b>			
At start of period	2,081.2	1,842.8	1,842.8
Total gains in profit or loss <sup>(1)</sup>	42.7	82.7	(32.7)
Loans advanced	218.3	146.2	309.7
Redemptions	(39.1)	(25.4)	(38.6)
<b>At end of period</b>	<b>2,303.1</b>	<b>2,046.3</b>	<b>2,081.2</b>

<sup>(1)</sup> All gains and losses are included in "Net investment income" in profit or loss.

The table below shows a reconciliation of the opening and closing recorded amount of Level 3 financial liabilities which are at fair value:

	Half year ended 31 December 2013 £m	Half year ended 31 December 2012 £m	Year ended 30 June 2013 £m
<b>Investment contract liabilities</b>			
At start of period	130.4	61.5	61.5
Deposits received from policyholders	36.6	41.6	78.8
Payments made to policyholders and fees deducted	(3.9)	(1.8)	(4.7)
Change in contract liabilities recognised in profit or loss	(0.7)	(2.7)	(5.2)
<b>At end of period</b>	<b>162.4</b>	<b>98.6</b>	<b>130.4</b>

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### Loans Secured by Mortgages

	31 December 2013 £m	31 December 2012 £m	30 June 2013 £m
Fair value	2,303.1	2,046.3	2,081.2
At cost <sup>(1)</sup>	1,621.0	1,286.2	1,431.2

<sup>(1)</sup> Includes advances, further advances, accrued interest less redemptions

Loans secured by mortgages are classified as fair value through profit or loss. The loans are not expected to be recovered within 12 months of the Statement of Financial Position date, because the loans are lifetime mortgages and significant levels of early redemption are not anticipated.

The model value is determined using an internal model which projects future cash flows expected to arise from each loan. Future cash flows allows for assumptions relating to future expenses, assumed mortality experience, costs arising from no-negative equity guarantees and voluntary redemptions. Net future cash flows are discounted at swap rates prevailing at the reporting period date.

The fair value is calculated by taking the difference between the transaction price for each loan and the value that is calculated at that date using the model, deferring it and recognising it over the expected life of each loan.

### Principal Assumptions Underlying the Calculation of the Loans Secured by Mortgages

#### *Maintenance expenses*

Assumptions for future policy expense levels are based on the Group's recent expense analyses and external benchmarking. The assumed future expense levels incorporate an annual inflation rate allowance of 4.0% (31 December 2012: 3.7%, 30 June 2013: 4.0%).

#### *Mortality*

Mortality assumptions have been set up by reference to appropriate standard mortality tables. The base tables have been adjusted to reflect the future mortality experience of the annuitants, taking into account the medical and lifestyle evidence collected during the underwriting process and the Group's assessment of how this experience will develop in the future. This assessment takes into consideration relevant industry and population studies, published research materials, input from the Group's lead reinsurer and the management's own industry experience.

#### *Property Prices*

The value of a property at the date of valuation is calculated by taking the latest valuation for that property and indexing this value using the Nationwide quarterly index for the property's region.

#### *Voluntary Redemptions*

Assumptions for future voluntary redemptions levels are based on the Group's recent analyses and external benchmarking and the assumed redemption rate for policies in their first year is 0.8% (31 December 2012: 1.0%, 30 June 2013: 0.8%).

### Investment Contract Liabilities

The Group writes capped drawdown products for the at-retirement market. In return for a single premium, these contracts pay a guaranteed lump sum on survival to the end of the fixed term. There is an option at outset to select a lower sum at maturity and regular income until the earlier of death or maturity. Upon death of the policyholder and subject to the option selected at outset, there may be a return of premium less income received or income payable to a dependent until the death of that dependent.

Liabilities are calculated on a policy-by-policy basis using a prospective valuation of future annuity benefit and expense cash flows, but with an adjustment to amortise any day one gain over the life of the contract.

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### Principal Assumptions Underlying the Calculation of Investment Contract Liabilities

#### Maintenance expenses

Assumptions for future policy expense levels are based on the Group's recent expense analyses and external benchmarking. The assumed future expense levels incorporate an annual inflation rate allowance of 4.2% (31 December 2012: 4.1%, 30 June 2013: 4.2%).

#### Sensitivity Analysis

Changes to unobservable inputs used in the valuation technique could give rise to significant changes in the fair value of the assets. The Group has estimated the impact on profit for the period in changes to these inputs as follows:

Net increase/(decrease) in profit before tax (£m)	Loans Secured by Mortgages Valuation Assumptions			
	Maintenance Expenses	Mortality	Property prices	Voluntary redemptions
	+10%	-5%	-10%	-10%
31 December 2013	(0.6)	1.5	(4.8)	1.2
31 December 2012	(0.3)	1.1	(4.6)	0.9
30 June 2013	(0.4)	1.4	(4.1)	1.2

The sensitivity on profit before tax to changes in maintenance expense assumptions in respect of investment contract liabilities is not material.

The sensitivity factors are applied via actuarial and statistical models. The analysis has been prepared for a change in variable with other assumptions remaining constant. In reality, such an occurrence is unlikely, due to correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts cannot be interpolated or extrapolated from these results.

The sensitivity factors take into consideration that the Group's assets and liabilities are actively managed and may vary at the time that any actual market movement occurs.

Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represents the Group's view of reasonably possible near-term market changes that cannot be predicted with any certainty, and the assumption that there is a parallel shift in interest rates at all durations.

The change in fair value recognised in profit or loss during the period is a loss of £18.1m (period ended 31 December 2012: profit of £34.0m, year ended 30 June 2013: loss of £122.2m).

The following table shows the movement in the aggregate difference yet to be recognised in profit or loss between the fair value of loans secured by mortgages at initial recognition and the amount that would have been determined at that date using the valuation technique:

	Half year ended 31 December 2013 £m	Half year ended 31 December 2012 £m	Year ended 30 June 2013 £m
At start of period	431.0	316.9	316.9
Amounts deferred in the period	70.0	72.8	143.5
Amounts recognised in profit or loss in the period	(11.5)	(8.7)	(29.4)
<b>At end of period</b>	<b>489.5</b>	<b>381.0</b>	<b>431.0</b>

## JUST RETIREMENT GROUP PLC

### Financial Investments

Financial investments of the Group are designated at fair value through profit or loss.

	31 December 2013 £m	31 December 2012 £m	30 June 2013 £m
<b>Fair value</b>			
Units in sterling liquidity fund	439.7	109.3	149.3
Debt securities and other fixed income securities	3,987.2	3,658.5	3,759.9
Deposits with credit institutions	22.2	24.5	17.2
Financial derivatives	36.4	50.4	37.1
	<b>4,485.5</b>	<b>3,842.7</b>	<b>3,963.5</b>
<b>Cost</b>			
Units in sterling liquidity fund	439.7	109.3	149.3
Debt securities and other fixed income securities	3,909.6	3,404.2	3,638.5
Deposits with credit institutions	22.2	24.5	17.2
Financial derivatives	5.5	6.0	6.3
	<b>4,377.0</b>	<b>3,544.0</b>	<b>3,811.3</b>

All investments included in debt securities and other fixed income securities are listed investments.

Units in sterling liquidity fund comprise wholly of units in a fund which invests in cash and cash equivalents.

Deposits with credit institutions with a carrying value of £22.2m (31 December 2012: £24.5m, 30 June 2013: £17.2m) have been pledged as collateral in respect of the Group's derivative financial instruments. Amounts pledged as collateral are deposited with the derivative counterparty.

Of the above financial investments, £3,929.2m (31 December 2012: £3,504.6m, 30 June 2013: £3,637.2m) is expected to be recovered more than one year after the Statement of Financial Position date.

### 8 Group reorganisation

The principal purpose of the reorganisation is to make JRG the ultimate holding company of the Group and to convert the existing shareholders' economic interests in JRGHL into Shares of JRG, thereby ensuring that the interests of existing shareholders and those of investors who purchase Shares in the offer rank *pari passu*.

The reorganisation has been effected by JRG acquiring the entire issued share capital of JRGHL, the parent company of Just Retirement (Holdings) Limited, which is the holding company of the Group operating companies.

#### Structure immediately prior to reorganisation

JRGHL had (immediately prior to the reorganisation) four classes of shares in issue: A and A1 Ordinary Shares, B Ordinary Shares, C1 and C2 Ordinary Shares, A and B Preference Shares. The B Ordinary Shares carry all voting rights in respect of JRGHL's share capital. JRGHL also had two classes of loan notes outstanding, the A Loan Notes and the B Loan Notes, an outstanding shareholder term loan (the "Shareholder Loan"), and a profit participating instrument ("PPI").

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The nominal value of equity and debt capital in JRGHL (immediately prior to the reorganisation) is as follows:

Equity / Debt	£m
A and A1 Ordinary Shares	5.6
A Preference Shares	3.7
A Loan Notes	13.6
B Ordinary Shares	70.6
B Preference Shares	45.0
B Loan Notes	164.8
Shareholder Loan	2.3
PPI	1.7
C1 and C2 Ordinary Shares	3.8

### Immediately prior to Admission:

- the A Loan Notes, previously issued by JRGHL, (including any accrued and unpaid coupon) were exchanged on a pound-for pound basis for the allotment and issue of 8,040,043 new JRGHL Ordinary Shares for a value of £18.1m;
- the B Loan Notes, previously issued by JRGHL (including any accrued and unpaid coupon) and the Shareholder Loan (including any accrued and unpaid interest) were assigned from Avalire Limited to Avallux;
- the B Loan Notes, previously issued by JRGHL, were exchanged on a pound-for pound basis for the allotment and issue of 104,667,407 new JRGHL Ordinary Shares for a value of £235.5m;
- the Shareholder Loan and the PPI, previously issued by JRGHL, (including any accrued and unpaid interest or coupon in respect of each instrument) were exchanged on a pound-for pound basis for the allotment and issue of 2,121,904 new JRGHL Ordinary Shares for a value of £4.8m;
- the A, A1, B, C1 and C2 Ordinary Shares (including any accrued and unpaid dividend) were reclassified into 215,918,221 new JRGHL Ordinary Shares for a value of £26.8m together with a residual class of Deferred Shares for a value of £58.4m, and Preference Shares of £49,998.
- the A and B Preference Shares (including any accrued and unpaid dividend) were reclassified into 35,918,843 new JRGHL Ordinary Shares for a value of £3.6m together with a residual class of Deferred Shares for a value of £45.1m.
- Avallux received Preference Shares for a value of £49,998 as a result of the reclassification so as to mirror the shares it held in JRG which it subscribed for on incorporation.
- The new JRGHL Deferred Shares had a negligible market value and were repurchased by JRGHL immediately prior to the share for share exchange. The preference shares held by Avallux were also repurchased following Admission.
- All new JRGHL Ordinary Shares were exchanged on a share for share basis for new JRG Ordinary Shares for a value of £36.7m. A reorganisation reserve amounting to £347.4m, net of transaction costs of £8.2m, arises in the JRG Group consolidated accounts. As a result of this exchange, JRG is the holder of all issued share capital of JRGHL.

### Following the admission of JRG on 15 November 2013:

- JRG issued 133,333,582 ordinary shares raising gross sales proceeds of £300m.
- £125m of the proceeds were invested in Just Retirement Limited, the Life company, comprising equity investment of £50m and a tier 2 loan for £75m through Just Retirement (Holdings) Limited.
- £18.4m of the proceeds were used to fund transaction costs.
- The remaining £156.6m were held for general corporate purposes

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- In addition, the company issued 831,070 SIP shares, an “all-employee” share ownership plan to staff.

### 9 Loans and Borrowings

	31 December 2013 £m	31 December 2012 £m	30 June 2013 £m
Bank borrowings	51.6	35.4	55.2
	<b>51.6</b>	<b>35.4</b>	<b>55.2</b>

On 25 September 2012, Just Retirement (Holdings) Limited entered into a £35.0m five year term loan agreement provided by Royal Bank of Scotland.

On 9 May 2013, Deutsche Bank AG and Nomura International plc acceded to the loan agreement under the terms of an accordion feature, with each providing loans of £10.0m to Just Retirement (Holdings) Limited.

On 11 October 2013, £3.6m of the loan was repaid.

The fair value of the bank borrowings is £51.6m (31 December 2012: £35.4m, 30 June 2013: £55.2m).

### 10 Financial Liabilities

The Group's financial liabilities are summarised by measurement category as follows:

	Note	31 December 2013 £m	31 December 2012 £m	30 June 2013 £m
<b>Amortised cost:</b>				
Class A loan notes	(a)	-	13.6	13.6
Class B loan notes	(a)	-	164.8	164.8
Class A Preference Shares	(b)	-	3.7	3.7
Class B Preference Shares	(b)	-	45.0	45.0
Other loans	(c)	-	4.0	4.0
<b>Fair value through profit or loss:</b>				
Derivative financial instruments	(d)	67.4	87.0	66.6
<b>Liabilities measured using insurance rules:</b>				
Deposits received from reinsurers	(e)	3,235.2	3,280.1	3,313.3
Reinsurance finance	(f)	98.6	87.2	94.4
<b>Total financial liabilities</b>		<b>3,401.2</b>	<b>3,685.4</b>	<b>3,705.4</b>

All financial liabilities at fair value through profit or loss are designated as such on initial recognition.

#### 10a) Financial Liabilities – Loan Notes

Class “A” loan notes for £11.2m and Class “B” loan notes for £141.7m were issued on 27 November 2009 with a further £2.4m Class “A” loan notes issued on 18 December 2012 and £23.1m Class “B” loan notes on 25 September 2012. Interest accrues on the loan notes at 10% per annum compounded including rolled up interest from the quarterly payment dates.

The Class “A” and Class “B” loan notes are unsecured and rank *pari passu* in right of payment to all existing and future unsubordinated indebtedness of the Company and without preference amongst themselves.

The loan notes are repayable on the earlier of the 10th anniversary of the issue of the notes, on a listing of the company or sale of the Company.

Immediately prior to admission, the Class “A” and Class “B” loan notes were exchanged on a pound-for-pound basis to the Company in exchange for the allotment and issue of 8,040,043 ordinary shares in the Company for a value of £0.8m for the Class “A” loans and 104,667,407 ordinary shares in the Company for a value of £10.5m for the Class “B” loans.



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### 10b) Financial Liabilities – Preference Shares

Class “A” Preference Shares for £3.1m and Class “B” Preference Shares for £38.6m were issued on 27 November 2009 with a further £0.6m Class “A” Preference Shares on 18 December 2012 and £6.4m Class “B” Preference Shares issued on 25 September 2012.

Immediately prior to admission, the Class “A” and Class “B” Preference Shares were exchanged on a pound-for-pound basis to the Company in exchange for the allotment and issue of 2,694,799 ordinary shares in the Company for a value of £0.3m for the Class “A” Preference shares and 33,224,044 ordinary shares in the Company for a value of £3.3m for the Class “B” Preference shares.

### 10c) Financial Liabilities – Other loans

Other loans relate to loan notes and profit participating instruments. The terms of these loan notes are the same as the Class “A” and “B” loan notes. The profit participating instrument was issued on 27 November 2009 and has a term of 99 years. The yield on the profit participating instrument is based on the adjusted profits of the Company. The yield for the period to 15 November 2013 was Nil% (31 December 2012: Nil%, 30 June 2013: Nil%).

Immediately prior to admission, the loan notes and profit participating instruments were exchanged on a pound-for-pound basis to the Company in exchange for the allotment and issue of 2,121,904 ordinary shares in the Company for a value of £0.2m.

### 10d) Financial Liabilities – Derivative Financial Instruments

The derivative financial instruments are classified at fair value through profit or loss. All financial liabilities at fair value through profit or loss are designated as such on initial recognition.

### 10e) Financial Liabilities – Deposits from reinsurers

Deposits received from reinsurers are measured and valued in accordance with the reinsurance contract, which takes into account an appropriate discount rate for the timing of expected cash flows.

### 10f) Financial Liabilities – Reinsurance finance

The reinsurance finance has been established in recognition of the loan obligation to the reinsurers under the Group's reinsurance financing arrangements, the repayment of which is contingent upon the emergence of surplus under the Pillar 1 valuation rules.

## 11 Derivative Financial Instruments

The Company uses various derivative financial instruments to manage its exposure to interest rates, and foreign exchange risk, including interest rate swaps, interest rate swaptions and foreign currency asset swaps.

	<b>Asset Fair Value £m</b>	<b>Liability Fair Value £m</b>	<b>Notional Amount £m</b>
<b>Derivatives</b>			
GBP USD asset swaps	7.1	-	97.5
Sterling Interest Rate swaps	28.8	67.4	702.0
Sterling Interest Rate swaptions	0.5	-	565.0
<b>Total at 31 December 2013</b>	<b>36.4</b>	<b>67.4</b>	<b>1,364.5</b>

	<b>Asset Fair Value £m</b>	<b>Liability Fair Value £m</b>	<b>Notional Amount £m</b>
<b>Derivatives</b>			
GBP USD asset swaps	0.9	-	19.4
Sterling Interest Rate swaps	46.5	87.0	557.0
Sterling Interest Rate swaptions	3.0	-	295.0
<b>Total at 31 December 2012</b>	<b>50.4</b>	<b>87.0</b>	<b>871.4</b>

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	<b>Asset Fair Value £m</b>	<b>Liability Fair Value £m</b>	<b>Notional Amount £m</b>
<b>Derivatives</b>			
GBP USD asset swaps	0.1	0.8	69.4
Sterling Interest Rate swaps	35.1	65.8	702.0
Sterling Interest Rate swaptions	1.9	–	695.0
Total at 30 June 2013	<u>37.1</u>	<u>66.6</u>	<u>1,466.4</u>

The above derivative financial instruments are not expected to be settled within 12 months of the Statement of Financial Position date. The maximum exposure to credit risk at the reporting date is the fair value of the derivatives in the Statement of Financial Position.

The interest rate swaps are not designated as a hedge and changes in their fair value are included in profit or loss. Derivatives are used to manage the Group's European Embedded Value and regulatory capital, which is affected by a surplus of long dated fixed interest securities when liabilities are measured on a realistic basis.

All over-the-counter derivative transactions are conducted under standardised ISDA (International Swaps and Derivatives Association Inc.) master agreements and the Group has collateral agreements between the individual group entities, of which the Company is one, and relevant counterparties in place under each of these market master agreements.

As at 31 December 2013, the Company had pledged £32.6m (31 December 2012: £35.0m, 30 June 2013: £34.3m) of which £10.3m were Gilts (31 December 2012: £10.5m, 30 June 2013: £17.2m).

Amounts recognised in profit or loss in respect of derivative financial instruments are as follows:

	<b>Half year ended 31 December 2013 £m</b>	<b>Half year ended 31 December 2012 £m</b>	<b>Year ended 30 June 2013 £m</b>
Movement in fair value of swaps	(1.5)	5.1	11.4
Realised losses on interest rate swaps closed	-	-	(4.6)
Net derivative cost of new trades	-	-	(2.4)
	<u>(1.5)</u>	<u>5.1</u>	<u>4.4</u>

### 12 Share Capital

Immediately prior to admission, the Company exchanged 366,666,418 ordinary shares of £0.10 nominal with the shareholders of JRGHL.

The allotted and issued Share capital of JRGHL, the Ultimate holding in the United Kingdom prior to the exchange is detailed below:

	<b>Number of shares</b>	<b>Share Capital £m</b>	<b>Share Premium £m</b>
B Ordinary Shares	706,231,572	70.6	4.3
A Ordinary Shares	55,962,922	5.5	0.5
A1 Ordinary Shares	1,583,440	0.1	-
C1 Ordinary Shares	1,583,440	0.2	-
C2 Ordinary Shares	71,597,994	3.6	0.4
	<u>836,959,368</u>	<u>80.0</u>	<u>5.2</u>

JRG was incorporated on 13 June 2013 and the allotted, called up and fully paid up share capital is detailed below.

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As detailed in note 8, immediately prior to admission, all the A, A1, B, C1 and C2 Ordinary Shares, A and B Preference Shares (including any accrued and unpaid dividend), A and B Loan notes, the Shareholder Loan and the PPI (including any accrued and unpaid interest or coupon in respect of each instrument) were exchanged for new JRGHL Ordinary Shares. The new JRGHL Ordinary Shares were exchanged for new JRG Ordinary Shares as follows:

- 215,918,201 new JRGHL Ordinary Shares in respect of the A, A1, B, C1 and C2 Ordinary Shares were exchanged for 215,918,221 new JRG Ordinary Shares for a value of £21.6m.
- 35,918,843 new JRGHL Ordinary Shares in respect of the A and B Preference Shares were exchanged for 35,918,843 new JRG Ordinary Shares for a value of £3.6m.
- 8,040,043 new JRGHL Ordinary Shares in respect of the A Loan Notes were exchanged for 8,040,043 new JRG Ordinary Shares for a value of £0.8m;
- 106,789,311 new JRGHL Ordinary Shares in respect of the B Loan Notes, the Shareholder Loan and the PPI were exchanged for 106,789,311 new JRG Ordinary Shares for a value of £10.7m;

The comparative share capital and share premium presented in these financial statements represents that of JRGHL restated to reflect the exchange of JRGHL Ordinary Shares as though the reorganisation had taken place at the start of the comparative period. The effect of this is the creation of a reorganisation reserve for the difference in value of shares exchanged, as follows:

	Share Capital £m	Share Premium £m	Reorganisation Reserve £m
Balance at 30 June 2013 as previously presented	80.0	5.2	-
Restated balance at 30 June 2013	<u>21.6</u>	<u>-</u>	<u>63.6</u>
Balance at 1 July 2012 as previously presented	73.0	0.2	-
Restated balance at 1 July 2012	<u>19.7</u>	<u>-</u>	<u>53.5</u>

The allotted and issued ordinary share capital of JRG at 31 December 2013 is detailed below:

	Number of shares	Share Capital £m	Share Premium £m
On incorporation, ordinary shares of £0.10	20	-	-
Prior to admission:			
Share exchange to existing shareholders	215,918,201	21.6	-
Share exchange for A and B Preference shareholders	35,918,843	3.6	-
Exchange of A Loan notes	8,040,043	0.8	-
Exchange of the B Loan notes, the shareholder loan and the PPI	106,789,311	10.7	-
On 15 November 2013:			
New Shares issued	133,333,582	13.3	286.7
Share issue costs	-	-	(7.6)
Share based payments	831,070	0.1	1.1
<b>As at 31 December 2013</b>	<b><u>500,831,070</u></b>	<b><u>50.1</u></b>	<b><u>280.2</u></b>

### 13 Related Parties

The Group has related party relationships with its immediate parent and ultimate parent company. All transactions with related parties are carried out on an arm's length basis.

Key management personnel comprises the Directors of the Company, Directors of subsidiary undertakings

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and certain members of senior management.

There were no material transactions between the Group and its key management personnel other than those disclosed below.

Key management compensation is as follows:

	Half year ended 31 December 2013	Half year ended 31 December 2012	Year ended 30 June 2013
	£m	£m	£m
Short-term employee benefits	2.2	1.6	3.4
Long-term employee benefits	-	0.1	0.1
Share based payments	0.1	-	-
	<u>2.3</u>	<u>1.7</u>	<u>3.5</u>

In relation to the long term incentive scheme referred to in note 4, certain Key management personnel had loan agreements with the Just Retirement Employee Benefit Trust and Just Retirement Services Limited, both of which are related parties. The aggregate value of the loans and amounts outstanding are shown below. All loans including accrued interest were repaid as part of the share reorganisation.

	Maximum amount of loan £000	Amount outstanding at 31 December 2013 £000	Amount outstanding at 31 December 2012 £000	Amount outstanding at 30 June 2013 £000
Loans to Key management personnel	2,736	-	2,673	2,692

### 14 Post Balance Sheet Events

There have been no material events between 31 December 2013 and the date of this report that are required to be brought to the attention of shareholders.

European Embedded Value

Supplementary Financial Statements

Just Retirement Group Plc has prepared supplementary financial statements for the Group on a European Embedded Value (“EEV”) basis. The EEV basis results have been prepared in accordance with the European Embedded Value Principles issued by the CFO Forum of European Insurance Companies in May 2004 and disclosure guidance issued in October 2005. Life insurance products are, by their nature, long term and the profit on this business is generated over a significant number of years. Accounting under IFRS alone does not, in the Group’s opinion, fully reflect the value of future cash flows. The Group considers that embedded value reporting provides investors with a measure of the future profit streams of the Group’s in-force long-term business and is a valuable supplement to statutory accounts.

Summarised Statement of Comprehensive Income for the half year ended 31 December 2013

		Half year ended 31 December 2013 £m	Half year ended 31 December 2012 £m	Year ended 30 June 2013 £m
Operating profit for covered business	Note 7	65.1	100.0	87.5
Operating loss of Distribution Company		(0.2)	(0.7)	(1.1)
Operating loss from other Group companies		(16.6)	(16.4)	(37.0)
Operating profit		48.3	82.9	49.4
Economic variance	7	51.2	94.0	45.2
Profit before tax		99.5	176.9	94.6
Tax				
Covered business	7	(26.0)	(46.0)	(31.2)
Other		-	1.6	4.0
Total Comprehensive Income		<b>73.5</b>	<b>132.5</b>	<b>67.4</b>

The distribution company is considered to be a stand-alone business and its activities do not relate to the sale of Just Retirement Limited products alone. Therefore its losses have not been included on a look-through basis as expenses of the covered business.

Group Statement of Changes in Equity for the half year ended 31 December 2013

	Half year ended 31 December 2013 £m	Half year ended 31 December 2012 £m	Year ended 30 June 2013 £m
Balance at start of period	188.8	108.7	108.7
Total Comprehensive Income for the period	73.5	132.5	67.4
Exchange of preference shares	80.8	-	-
Exchange of loans and loan notes	258.4	-	-
Shares issued for cash	300.0	-	-
Share issue costs*	(13.0)	-	-
Capital injections	-	12.0	12.0
Share-based payments	3.8	0.3	0.7
<b>Balance at end of period</b>	<b>892.3</b>	<b>253.5</b>	<b>188.8</b>

\* Total share issue costs incurred were £18.4m, consisting of £13.0m recognised directly in reserves in the current period, £2.3m recognised in comprehensive income for the current period, and £3.1 recognised in the prior period.

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### Group Statement of Financial Position as at 31 December 2013

	31 December 2013 £m	31 December 2012 £m	30 June 2013 £m
<b>Assets</b>			
Value of in-force business	182.0	189.6	133.8
Intangible assets	5.5	4.3	5.6
Equipment	1.2	1.9	1.6
Financial assets	7,278.1	6,270.1	6,475.7
Current tax assets	-	-	-
Deferred tax assets	3.6	4.4	4.6
Reinsurance assets	3,436.7	3,435.9	3,522.3
Prepayments and accrued income	118.4	103.5	84.4
Insurance and other receivables	3.5	3.3	18.1
Cash and cash equivalents	21.0	26.0	40.6
<b>Total assets</b>	<b>11,050.0</b>	<b>10,039.0</b>	<b>10,286.7</b>
<b>Equity</b>	<b>892.3</b>	<b>253.5</b>	<b>188.8</b>
<b>Liabilities</b>			
Insurance liabilities	6,597.5	6,010.3	6,243.8
Financial liabilities	3,465.0	3,599.7	3,611.0
Loans and borrowings	51.6	35.4	55.2
Other provisions	4.0	0.5	4.0
Insurance and other payables	15.4	116.9	159.6
Current tax liabilities	9.4	14.1	7.9
Accruals and deferred income	14.8	8.6	16.4
<b>Total liabilities</b>	<b>10,157.7</b>	<b>9,785.5</b>	<b>10,097.9</b>
Total equity and liabilities	<b>11,050.0</b>	<b>10,039.0</b>	<b>10,286.7</b>

The notes pages 47 to 57 form an integral part of these supplementary financial statements.

## Notes to the European Embedded Value

### Supplementary Financial Statements

#### 1) Basis of Presentation

The Group's primary financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The Group has also prepared these supplementary financial statements that have been prepared in accordance with the European Embedded Value ("EEV") Principles.

As explained in note 1 to the IFRS consolidated financial statements, during the period the Group has performed a reorganisation whereby Just Retirement Group Holdings Limited (JRGHL) has been replaced by Just Retirement Group plc (JRG) as the group holding company and has subsequently completed a premium listing on the London Stock Exchange. These supplementary financial statements are presented as a continuation of the supplementary financial statements of JRGHL, the previous group holding company.

The EEV Principles were issued in May 2004 by the European Insurance CFO Forum (the "CFO Forum"), a high level discussion group formed and attended by the Chief Financial Officers of major European listed, and some non-listed companies, and subsequently supplemented by Additional Guidance on EEV Disclosures issued by the same body in October 2005.

In June 2008 the CFO Forum published the European Insurance CFO Forum Market Consistent Embedded Value Principles – the "MCEV Principles" – © Stichting CFO Forum Foundation 2008. The basis defined in the MCEV Principles was designed to eliminate the diversity of approaches under EEV and further improve disclosures.

Against the background of the then economic environment, the CFO Forum issued further statements in 2008 and 2009 regarding the significant challenges faced by companies adopting the MCEV Principles, in particular in the areas of volatilities and premia for illiquidity. The CFO Forum has also acknowledged the developments on the Solvency II framework and the need to consider these alongside their own work. In October 2009 the CFO Forum published an amendment to the MCEV Principles to recognise formally the use of an illiquidity premium where appropriate.

In March 2010 the Committee of European Insurance and Occupational Pensions Supervisors, "CEIOPS", in conjunction with the CFO Forum and the CRO Forum (a professional risk management group that focuses on developing and promoting industry best practices in risk management primarily in the insurance industry) published a paper on the subject of liquidity premia.

This paper was published mainly in the context of developing an appropriate method for calculating liquidity premia for the purposes of Solvency II. It set out an approach to calculate a liquidity premium that was based on the iBOXX Sterling Corporate Bond Index. From 30 June 2010 the Group has adopted in its embedded value calculations a method for calculating a liquidity premium based on this approach.

The Group has not adopted the MCEV Principles at this reporting date but as at the previous year end it has prepared a set of supplementary statements that it believes appropriately reflects its underlying profitability whilst continuing to adhere to the EEV Principles and the spirit of the additional statements subsequently issued by the CFO Forum.

The Directors' view is that embedded value reporting provides shareholders with additional information on the financial position and current performance of the Group than is otherwise provided in the primary financial statements. Under the EEV method, the total profit recognised over the lifetime of a policy is the same as that recognised under alternative reporting bases, but the timing of recognition is different.

The Group uses EEV methodology to value the business transacted by Just Retirement Limited ("JRL", or "the Company"). This value is consolidated with the results for the operating activities of the other companies within the Group, which are reported in accordance with IFRS.

The Directors of the Group are responsible for the preparation of these supplementary financial statements.

## JUST RETIREMENT GROUP PLC

### 2) Methodology

The following methodology applies to the covered business of JRL.

#### A. Embedded Value Overview

In reporting under the EEV Principles, the Group has chosen to adopt a “bottom-up” approach to the allowance for risk. The approach makes an explicit allowance for part of the spread (that part being referred to as “liquidity premium”) expected to be earned on corporate bonds. This has been achieved by increasing the discount rate used for valuing annuity liabilities by that liquidity premium.

The Embedded Value has been calculated as the sum of shareholders’ net assets and the value of in-force business.

The shareholders’ net assets in respect of JRL have been derived from the annual regulatory returns submitted to the Prudential Regulatory Authority (“PRA”). They represent the market value of the assets of JRL in excess of the insurance and non-insurance liabilities of JRL as assessed on the regulatory basis. The shareholders’ net assets therefore comprise:

- Required capital, representing assets required to support the written business, and
- Free surplus, representing excess assets potentially distributable to shareholders immediately.

The value of in-force business is the present value of projected after-tax profits emerging in future from the current in-force business less the cost arising from holding the required capital to support the in-force business. The future cash flows are projected using best estimate assumptions for each component of the cash flow.

The value of new business is the present value of projected after-tax profits emerging in future from new business sold in the period less the cost arising from holding additional capital to support this business. The figures shown also include the additional expected return between the point of sale and the reporting date.

#### B. Covered Business

The business to which the EEV Principles have been applied is defined as the covered business. The covered business includes all business written by JRL. In particular:

- Long-term business operations. This is business falling under the definition of long-term insurance business for UK regulatory purposes and principally comprises lifetime and fixed term pension annuity contracts. JRL has also written some purchased life annuity business, but these have not been written in significant volumes. Although they have been allowed for in the calculations, they have not been explicitly modelled. The impact of this approximate treatment is not material.
- Lifetime mortgages. These are held as investments to back the pension annuity contracts.

#### C. New Business

All of the covered business is written on a single premium basis. New business is defined to be all single premiums received in the period in respect of annuity policies completed in the period and all cash advances made during the period in respect of lifetime mortgages. No allowance is made in the embedded value for the value of any future new business written after the reporting date.

For the value of new business, the Group has used economic assumptions determined at point of sale and has generally used opening period non-economic assumptions. The Group considers point of sale economic assumptions, rather than economic assumptions determined at either the opening or closing dates, to be more appropriate given the nature of its business.

Any changes to non-economic assumptions and methodology in respect of new business are introduced at the reporting date. The impact of these changes on the value of new business at the end of the year is therefore included within the analysis of the embedded value profit in the operating assumption changes.



**2) Methodology (continued)**

**D. Components of Value**

The values of in-force business and new business each comprise four components:

- Certainty equivalent value; less
- Time value of financial options and guarantees; less
- Allowance for non-market risk; less
- Cost of capital.

*(i) Certainty Equivalent Value*

The certainty equivalent value is the value of the future cash flows, excluding the time value of financial options and guarantees. It is calculated assuming assets earn the reference rate and the cash flows are discounted at the reference rate.

The future cash flows are those arising from the assets backing the liabilities as assessed on a regulatory basis and from the liabilities themselves. The projection of the regulatory liabilities assumes the continuation of the bases used to calculate the liabilities at the valuation date.

The regulatory equivalent of the value of the provision for the guarantee described in (ii) below is included in the shareholders' net assets and this is reversed out in the certainty equivalent value.

*(ii) Time Value of Financial Options and Guarantees*

The only material financial options and guarantees within the covered business arise from the no-negative equity guarantee under the lifetime mortgage business. Under this guarantee, the amount recoverable by the Company on termination of the mortgage is generally capped at the net sale proceeds of the property. Circumstances where this guarantee does not apply are those where the mortgage redemption is not accompanied by a sale of the underlying property. This could occur when, for example, the property is re-mortgaged with another provider.

This guarantee is explicitly allowed for in the calculations. The value of this guarantee has been estimated using a variant of the Black-Scholes option pricing formula. The formula incorporates a number of assumptions, including those for risk-free rates, future property growth and property volatility.

The value of the financial option and guarantee shown in the presentation is the total value of this guarantee, net of tax, assessed on a realistic basis (it includes any intrinsic value in the option).

*(iii) Allowance for Non-Market Risk*

The key non-market (or diversifiable) risks faced by the Company are mortality (including longevity), early redemptions on lifetime mortgages and operational risks. In principle no explicit adjustment is required for non-market risks because the capital markets do not require an additional return for risks which can be diversified away. However, this is only true if the assumptions made as regards future experience are set so as to give the mean of the expected outcome (including allowing for the tails of the distribution) and that all cash flows have been allowed for.

The Company has set the assumptions in respect of mortality and lifetime mortgage early redemptions with the intention that they give the mean of the expected outcome, including allowing for the tails of the distribution. As such, no further adjustment has been made in respect of these risks.

However, the certainty equivalent value and the time value of financial options and guarantees make no allowance for the cost of possible operational risks and the Company has made an explicit allowance for these risks.

In the valuation approach used, the market (or non-diversifiable) risks faced by the Company are allowed for directly in the valuation of the cash flows.

### 2) Methodology (continued)

#### *(iv) Cost of Capital*

In addition to holding assets to back the covered business, the Company also has to hold additional shareholder capital to support the business. The amount of capital has been assessed taking into account the Company's own internal assessment of its capital requirements and the amount required under the UK regulatory environment.

The cost of capital represents the frictional costs of having to retain this capital. The Group has taken these frictional costs to be any tax payable in respect of future investment returns earned on this capital and the associated investment management costs.

The required capital is provided by the retained surplus in the long-term business fund and the retained earnings and issued share capital in the shareholder fund.

#### **E. Valuation of Cash Flows**

Within the calculation of the value of in-force business and value of new business, the reference rate used for valuing the annuity cash flows has been set equal to the mid-market swap rate plus a liquidity premium adjustment. The same rate has been used to value the lifetime mortgage cash flows deemed to be backing the annuity business. All other cash flows (including those from the lifetime mortgages that are not deemed to back the annuity business and those underlying the calculation of the cost of capital) have been valued using the mid-market swap rate, as the reference rate.

#### *(i) In-force Business*

For the in-force business the liquidity premium adjustment has been derived from the iBOXX Sterling Corporate Bond Index. The liquidity premium is calculated as 50% of the Index Asset Swap Margin at the relevant reporting date less 40bp, with that result then subject to rounding.

#### *(ii) New Business*

For new business written during the financial year the liquidity premium varies by the month of policy inception. The liquidity premium adjustment applied to each month's new business is consistent with the approach adopted for in-force business except that the value of the Index Asset Swap Margin for each month's new business is a weighted average for the month using the amounts of annuity premium received each day as the weights.

In the calculations it has been assumed that each month's new lifetime mortgage business is available to match part of that month's new annuity business and the remaining new annuity cash flows are backed by bonds.

#### **F. Reinsurance**

The Group has put in place reinsurance arrangements in respect of the annuity business, whereby part of the mortality risk is transferred to the reinsurers. In addition the Group receives an initial financing payment which is repayable out of future surplus emerging. Some associated initial and renewal fees are also payable to the reinsurers.

The face value of the amount owed to the reinsurers at the relevant reporting date together with all Management Fees expected to be paid in the future has been explicitly allowed for in the value of the in-force business at the reporting date.

The risk transfer is not reflected in the EEV because, on the assumptions used, the Group expects to recapture the treaty once remaining financing has been repaid.

#### **G. Taxation**

The projected cash flows take into account all tax which the Company expects to pay. The calculations are undertaken assuming current tax legislation and rates continue unaltered.

Embedded value profits have been calculated on an after-tax basis and have then been grossed up at the full corporation tax rate to arrive at a pre-tax level for reporting in the Summarised Statement of Comprehensive Income.

## JUST RETIREMENT GROUP PLC

### 3) Assumptions

#### A. Economic Assumptions

##### Reference Rates

The term structure of the reference rates has been derived from mid-market swap rates. The resulting rates reflect the shape of the swap rate curve. For new business the rates have been derived from the swap rates applicable on the date each payment was received for annuity policies or the date each mortgage advance was completed as appropriate.

Sample mid-market swap rates at 31 December 2013, 31 December 2012 and 30 June 2013 are shown in the following table.

Swap rates (at sample terms, %)

Term (years)	1	5	10	20	30
<b>31 December 2013</b>	<b>0.7</b>	<b>2.1</b>	<b>3.0</b>	<b>3.4</b>	<b>3.4</b>
31 December 2012	0.7	1.0	1.9	2.8	3.0
30 June 2013	0.7	1.5	2.6	3.2	3.3

The in-force liquidity premium adjustment as at 31 December 2013 was 56bp (31 December 2012: 85bp, 30 June 2013: 77bp). The liquidity premium adjustment for each month's new business has varied over the financial year but the effect is equivalent to an average adjustment of 63bp (previous financial year: 84bp) for each month's new business.

##### Residential Property Assumptions

When calculating the value of the no-negative equity guarantee on the lifetime mortgages, certain economic assumptions are required within the variant of the Black-Scholes formula.

Unlike most other financial markets, the market against which to assess these assumptions and calibrate the cost of the no-negative equity guarantee at any point in time is neither deep nor liquid. The Group has therefore set these assumptions taking into account information available to it from within the capital markets linked to the assessment of the indicative costs of hedging out such exposures and published UK residential property historic price movements.

In the formula the risk-free rate used is the mid-market swap rate.

In the absence of a reliable long-term forward curve for UK residential property price inflation, the Group has assumed that residential property will grow in line with a bespoke house price inflation curve. This has been derived by reference to mid-market UK retail price inflation swap rates together with an explicit term dependent house price inflation spread.

Sample mid-market house price inflation rates at 31 December 2013, 31 December 2012 and 30 June 2013 are shown in the following table.

House price inflation rates (at sample terms, %)

Term (years)	1	5	10	20	30
<b>31 December 2013</b>	<b>(0.3)</b>	<b>1.3</b>	<b>3.7</b>	<b>4.3</b>	<b>4.3</b>
31 December 2012	(0.3)	1.9	3.7	4.2	4.3
30 June 2013	(3.9)	1.0	3.3	4.3	4.3

In deriving an assessment of long-term UK residential property price volatility, the Group has used house price data published by the Nationwide Building Society. The Group has adjusted the derived value to allow for the additional volatility expected to be observed in the Company's portfolio compared with the market as a whole. The volatility assumption used at 31 December 2013 was 9.8% p.a. (31 December 2012: 10.0% p.a., 30 June 2013: 9.9% p.a.). The volatility assumption used for new business was 9.9% p.a.

##### Expense inflation

For the annuities, the assumed future rate of increases in per policy maintenance expenses is 3.7% p.a. (31 December 2012: 3.6% p.a., 30 June 2013: 3.7% p.a.).

For the lifetime mortgages, the assumed future rate of increases in maintenance expenses is 4.0% p.a. (31 December 2012: 3.7% p.a., 30 June 2013: 4% p.a.).

The difference reflects the difference in average duration of the cash flows and the shape of the RPI curve at the valuation date.

### 3) Assumptions (continued)

#### Taxation

The rate of corporation tax assumed is 22.5% throughout being the effective weighted average tax rate for the financial year (31 December 2012 23.75%; 30 June 2013: 23.75%).

#### B. Operating Assumptions

Operating assumptions have been reviewed as part of the reporting process.

#### Mortality

The mortality assumptions have been set by the Group taking into account the Company's own mortality experience together with relevant studies undertaken by the Continuous Mortality Investigation Bureau of the Institute and Faculty of Actuaries ("CMI"), population studies undertaken by offices of the UK government, published research materials, input from the Group's lead reinsurer and the management's own industry experience.

For the annuity policies the mortality assumptions are based on the PCMAOO (males) and PCFAOO (females) mortality tables and the CMI 2012 model improvement factors. These base factors are overlaid by a series of underwriting factors applied to the base mortality rates. These adjustments are made to reflect the nature and likely incidence of the underlying risks inherent within the business written. These assumptions are unchanged from those used as at 30 June 2013.

For Defined Benefit annuity policies the mortality basis is set with reference to the base table and mortality improvement rates provided by RGA (i.e. the reinsurer with whom each DB scheme is reinsured).

For Immediate Needs annuity policies the mortality basis is provided by Gen Re (i.e. the reinsurer with whom each INA policy is individually underwritten).

For the lifetime mortgages the mortality assumptions are based on the PCMAOO and PCFAOO mortality tables and the CMI 2012 model improvement factors. These assumptions are unchanged from those used as at 30 June 2013.

For Lump Sum Plus mortgages on standard terms the same mortality basis applies as used for the normal roll up business. The underlying basis for the underlying mortgages is the same, with adjustments applied to reflect the nature and likely incidence of the underlying risks.

#### Mortgage Repayments

Assumptions are made about the number of future mortgage repayments resulting from individuals moving into long-term care or through voluntary repayments. When deriving appropriate assumptions the Group has taken into account its own experience together with other relevant available information.

The decrement for moving into long-term care is expressed as a proportion of the underlying mortality assumption for the relevant lives. The decrement for voluntary repayments is expressed as annual percentages of the portfolio in force and exhibits a term structure based on duration in force.

#### Expenses

The expense levels are based on internal expense analysis investigations and are appropriately allocated to the new business and policy maintenance functions. Acquisition expenses have been fully allocated to the values of new business for each product.

JRL has set maintenance expense allowances for each product which it considers to be realistic.

In calculating the embedded value, an adjustment has been made equal to the net present value of any expected future maintenance expense overruns.

Investment expenses have been set by reference to the expenses payable under the investment management arrangements.

Some of the expenses incurred in the financial period to 31 December 2013 have been considered exceptional and one-off in nature. These exceptional expenses have been identified separately and have not been included in the calculation of the value of in-force business or in the value of new business although they have been reflected in the operating profit. Total exceptional expenses for the period ended 31 December 2013 were £3.6m (period ended 31 December 2012: £3.9m, year ended 30 June 2013: £5.8m).

## JUST RETIREMENT GROUP PLC

### 3) Assumptions (continued)

The look-through principle has not been applied to the losses in the Distribution Company arising from the sale of JRL products, and so these losses have not been included as a deduction against the value of new business. The Distribution Company is considered to be a stand-alone business and its activities do not relate solely to the sale of JRL products. The recognised loss in the Distribution Company has been accounted for on an IFRS basis, separately to the results of JRL.

The remaining expenses are included within operating results of the Distribution and other Group companies and have been accounted for on an IFRS basis.

#### Non-Market Risk

At 31 December 2013 the provision for non-market risk has been established as 0.22% of the mathematical reserves in respect of all annuity business. This is unchanged from the assumption used as at 30 June 2013. For the value of new business in the period to 31 December 2013, a deduction of 0.22% of gross statutory reserves at point of sale has been applied.

#### Required Capital

The assumed level of required capital to support the business at both reporting dates represents 140% of JRL's long-term insurance capital requirement ("LTICR") together with 140% of the resilience capital requirement ("RCR"), as set out in PRA regulations.

### 4) Group Embedded Value

The following table sets out the Group embedded value as at the current and previous reporting dates:

	31 December 2013 £m	31 December 2012 £m	30 June 2013 £m
Just Retirement Limited Shareholders' net assets	448.7	349.5	357.4
Value of in-force business			
• Certainty equivalent value	265.4	270.1	214.6
• Time value of financial options and guarantees	(45.6)	(50.4)	(46.1)
• Allowance for non-market risk	(11.2)	(10.4)	(10.2)
• Cost of capital	(26.6)	(19.7)	(24.5)
Value of in-force business	<u>182.0</u>	<u>189.6</u>	<u>133.8</u>
Embedded value of Just Retirement Limited	630.7	539.1	491.2
Net assets of other companies	261.6	(285.6)	(302.4)
<b>Group embedded value</b>	<b><u>892.3</u></b>	<b><u>253.5</u></b>	<b><u>188.8</u></b>

Net assets of other companies exclude investments in subsidiary companies.

Based on the appropriate year-end assumptions, as set out above, the amount of required capital as at 31 December 2013 was £365.1m (31 December 2012 and 30 June 2013 was £313.7m and £337.8m respectively). The free surplus in Just Retirement Limited at 31 December 2013 was £83.6m (31 December 2012 and 30 June 2013 was £35.8m and £19.6m respectively).

### 5) After-tax Value of New Covered Business

The following table sets out the after-tax value of the new business for the financial years ending 31 December 2013, 31 December 2012 and 30 June 2013.

	Half year ended 31 December 2013 £m	Half year ended 31 December 2012 £m	Year ended 30 June 2013 £m
Certainty equivalent value	55.5	63.6	114.8
Time value of financial options and guarantees	(3.8)	(3.6)	(6.7)
Allowance for non-market risk	(1.2)	(1.4)	(2.3)
Cost of capital	(3.1)	(3.1)	(5.3)
<b>Value of new business</b>	<b><u>47.4</u></b>	<b><u>55.5</u></b>	<b><u>100.5</u></b>

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### 5) After-tax Value of New Covered Business (continued)

During the period ended 31 December 2013 the amount of required capital for new business was £38.9m (31 December 2012 £43.4m; 30 June 2013 £69.3m).

### 6) Analysis of Change in Embedded Value of Just Retirement Limited

The change in embedded value over a period, adjusted for any capital injections or dividends paid, represents the embedded value profit for that period.

	Half year ended 31 December 2013 £m	Half year ended 31 December 2012 £m	Year ended 30 June 2013 £m
Opening embedded value	491.2	366.2	366.2
Closing embedded value	630.7	539.1	491.2
Increase in embedded value	139.5	172.9	125.0
Capital injections	(50.0)	(25.0)	(25.0)
<b>Embedded value profit after tax</b>	<b>89.5</b>	<b>147.9</b>	<b>100.0</b>

### 7) Analysis of Embedded Value Profit of Just Retirement Limited

The following table sets out an analysis of the embedded value profit for the six month period ended 31 December 2013 together with the comparative figures for the six month period ended 31 December 2012 and year ended 30 June 2013. In order to explain better the movement in capital flows, the composition of the embedded value profit for the current year is shown separately between the movement in the shareholders' net assets and the value of in-force business.

	Free Surplus £m	Required Capital £m	Value of in-force business £m	Total for half year ended 31 December 2013 £m	Total for half year ended 31 December 2012 £m	Total for year ended 30 June 2013 £m
Opening embedded value	19.6	337.8	133.8	491.2	366.2	366.2
Expected return on opening embedded value	(1.7)	-	20.2	18.5	28.4	56.8
Expected surplus from in-force business	6.0	(6.1)	0.1	-	-	-
New business contribution	(19.3)	38.9	41.5	61.1	72.8	131.8
Operating experience variance	(4.6)	0.1	(12.7)	(17.2)	(4.9)	(18.2)
Operating assumption changes	-	-	2.7	2.7	3.7	(82.9)
<b>Operating profit for covered business</b>	<b>(19.6)</b>	<b>32.9</b>	<b>51.8</b>	<b>65.1</b>	<b>100.0</b>	<b>87.5</b>
Economic variance <sup>(1)</sup>	45.6	(5.6)	10.4	50.4	93.9	43.7
<b>Embedded value profit before tax</b>	<b>26.0</b>	<b>27.3</b>	<b>62.2</b>	<b>115.5</b>	<b>193.9</b>	<b>131.2</b>
Tax	(12.0)	-	(14.0)	(26.0)	(46.0)	(31.2)
Profit after tax	14.0	27.3	48.2	89.5	147.9	100.0
New capital	50.0	-	-	50.0	25.0	25.0
<b>Closing embedded value</b>	<b>83.6</b>	<b>365.1</b>	<b>182.0</b>	<b>630.7</b>	<b>539.1</b>	<b>491.2</b>

<sup>(1)</sup> The economic variance of £51.2m (December 2012: £94.0m; June 2013: £45.2m) reported in the Group Statement of Comprehensive Income includes £0.8m (December 2012: £0.1m ; June 2013: £1.5m) in respect of the fair value movement on the interest rate swap derivatives held by Just Retirement (Holdings) Limited.

The "expected return on opening embedded value" is the expected change in the embedded value resulting from a projection of the assets and liabilities over the period using expected "real world" investment returns.

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### 7) Analysis of Embedded Value Profit of Just Retirement Limited (continued)

The “expected surplus from in-force business” represents the surplus expected to emerge during the period from business that was in-force at the beginning of that period. The effect is a transfer of value between the value of in-force business and shareholders’ net assets, with the overall effect on the embedded value being zero.

The “new business contribution” is the value of new business at the point of sale, together with the expected return on this value between the point of sale and the end of the period.

The “operating experience variance” represents the profits and losses caused by differences between the actual experience during the period and that expected on the operating assumptions, relating to both the business in-force at the start of the period and new business written.

The “operating assumption changes” reflect changes in the assumptions in respect of future operating experience between the start and end of the period.

The “economic variance” arises from the impact of differences between the actual investment returns in the period and the expected investment returns, and the impact of the change to the end of period future economic assumptions. Further impacts have arisen between the shareholders’ net assets and value of in-force business figures due to changes in the economic assumptions used in the regulatory reserving bases. All of these impacts are calculated in relation to the start of period economic assumptions for business in-force at the start of the period and point of sale economic assumptions for new business sold in the period.

### 8) Components of Operating Experience Variance (Pre-tax) of Just Retirement Limited

An analysis of the key operating experience variances is set out in more detail in the following table:

	Shareholders’ net assets	Value of in-force business	Total for half year ended 31 December 2013	Total for half year ended 31 December 2012	Total for year ended 30 June 2013
	£m	£m	£m	£m	£m
Reinsurance arrangements	6.3	(7.2)	(0.9)	(3.1)	(0.1)
Maintenance and investment expenses	(4.0)	-	(4.0)	1.6	(7.0)
Exceptional expenses	(3.6)	-	(3.6)	(3.9)	(5.8)
Tax variances	1.6	-	1.6	7.0	(0.5)
Closed Fund Reserve	-	-	-	(1.7)	-
Experience variances	(4.8)	(5.5)	(10.3)	(4.8)	(4.8)
<b>Total</b>	<b>(4.5)</b>	<b>(12.7)</b>	<b>(17.2)</b>	<b>(4.9)</b>	<b>(18.2)</b>

### 9) Components of Operating Assumption Changes (Pre-tax) of Just Retirement Limited

An analysis of the operating assumption changes item is set out in more detail in the following table:

	Shareholders’ net assets	Value of in-force business	Total for half year ended 31 December 2013	Total for half year ended 31 December 2012	Total for year ended 30 June 2013
	£m	£m	£m	£m	£m
Annuitant mortality assumptions	-	-	-	-	(82.3)
Maintenance expenses	-	-	-	-	(0.1)
Mortgage assumption	-	-	-	-	(4.0)
Tax	-	2.7	2.7	3.7	2.9
Non-market risk	-	-	-	-	0.6
<b>Total</b>	<b>-</b>	<b>2.7</b>	<b>2.7</b>	<b>3.7</b>	<b>(82.9)</b>

The tax item reflects the change from the effective tax rate used at the previous reporting date (23.75%) to the rate used at this reporting date 22.5%.

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### 10) Sensitivities

The Group embedded value at 31 December 2013 and the value of new business for the year to 31 December 2013 have been recalculated to show the sensitivity of the results to changes in certain of the assumptions discussed above.

Most of the sensitivities are as prescribed by the additional guidance provided by the CFO Forum in October 2005. There is no lapse/ surrender risk for the annuities and so no sensitivity to this assumption has been shown for this business. The sensitivities chosen do not represent the boundaries of possible outcomes, nor are they intended to represent events of equal likelihood, but rather illustrate how certain alternative assumptions would affect the results.

For each of the sensitivities all the other assumptions remain unchanged, unless otherwise stated. In all of the sensitivities, the statutory reserving basis was left unchanged, except for the first two where the valuation rate of interest was changed to reflect the sudden change in economic conditions.

The sensitivities tested were:

- Interest rates 1% lower than in the central case with resulting changes in asset values and reference rates. The impact for the values of new business has not been calculated for this sensitivity as the Group actively reviews its premium rates and in the event of such a sudden change in economic conditions the Group would change its rates.
- Interest rates 1% higher than in the central case with resulting changes in asset values and reference rates.
- Reference rates 10bp lower than in the central case, with no change in asset values. The purpose of this sensitivity is to illustrate the impact of using a different definition of the reference rate than basing it on mid-market swap rates.
- Credit spreads (represented by the difference between corporate bond yields and swap rates) 10bp narrower than in the central case. For this sensitivity there is no change to the liquidity premium.
- Credit spreads 10bp wider than in the central case. For this sensitivity there is no change to the liquidity premium.
- Liquidity premium 10bp lower than in the central case.
- Property market values 10% lower than in the central case.
- Implied property volatility assumption 125% of the assumption in the central case.
- Implied property volatility assumption 75% of the assumption in the central case.
- Annuitant base mortality 5% lower than in the central case (i.e. 95% of the central mortality rates).
- Lifetime mortgage base mortality 5% lower than in the central case (i.e. 95% of the central mortality rates). For this sensitivity, the allowance for moving into long-term care is also assumed to be 5% lower.
- Lifetime mortgage voluntary redemption assumption 10% lower than in the central case (i.e. 90% of the base case assumption).
- Maintenance expenses 10% lower than in the central case (i.e. 90% of base case costs) including the resulting reduction in the maintenance expense overrun.
- Corporation tax rate set to 21.5% (i.e. 1% lower than in the central case).
- Required capital equal to 100% of the LTICR plus 100% of the RCR.



## JUST RETIREMENT GROUP PLC

### Sensitivity of Values to Changes in Assumptions

	Embedded value at 31 December 2013 £m	Value of new business for year ended 31 December 2013 £m
Central value	892.3	47.4
Impact of:		
• 1% reduction in yield curves	89.0	n/a
• 1% increase in yield curves	(67.9)	n/a
• 10bp reduction in reference rate	(6.7)	0.4
• 10bp reduction in credit spreads	19.0	n/a
• 10bp increase in credit spreads	(18.8)	n/a
• 10bp reduction in liquidity premium	(16.4)	(1.9)
• 10% reduction in property values	(19.5)	(1.4)
• 125% of implied property volatilities	(37.0)	(3.4)
• 75% of implied property volatilities	25.1	2.1
• 5% reduction in annuitant base mortality	(62.5)	(4.3)
• 5% reduction in lifetime mortgage base mortality	21.0	1.7
• 10% reduction in lifetime mortgage voluntary redemptions	11.0	1.2
• 10% reduction in maintenance expenses	10.9	1.3
• 1% reduction in corporation tax rate	4.0	0.7
• Required capital equal to 100% of LTICR plus 100% of RCR	7.6	1.7

### 11) Reconciliation of Shareholders' Equity on IFRS Basis to Shareholders' Equity on EEV Basis

	Half year ended 31 December 2013 £m	Half year ended 31 December 2012 £m	Year ended 30 June 2013 £m
<b>Shareholders' equity on IFRS basis</b>	<b>802.1</b>	<b>135.1</b>	<b>150.1</b>
Asset valuation differences	454.2	301.6	397.0
Liability valuation differences	(575.6)	(410.4)	(528.8)
Deferred tax	29.6	37.6	36.7
Value of in-force business	182.0	189.6	133.8
<b>Shareholders' equity on EEV basis</b>	<b>892.3</b>	<b>253.5</b>	<b>188.8</b>
<b>Analysis of ordinary shareholders' equity</b>			
IFRS basis ordinary shareholders' equity	802.1	135.1	150.1
Additional retained profit on an EEV basis	90.2	118.4	38.7
	<b>892.3</b>	<b>253.5</b>	<b>188.8</b>

The asset valuation differences of £454.2m (31 December 2012: £301.6m; 30 June 2013: £397.0m) are caused largely by the different valuation of the lifetime mortgages under IFRS compared to EEV and the removal of intangible assets recorded under IFRS, which are not recognised on the EEV basis. The liability valuation differences of £(575.6)m (31 December 2012: £(410.4)m; 30 June 2013: £(528.8)m) are caused largely by the different discount rate used to value the annuitant liabilities. A higher discount rate arises in IFRS due to the lower value placed on the lifetime mortgages.