



JUST RETIREMENT GROUP PLC

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**Just Retirement
Results for the twelve months ended 30 June 2014
Analyst Call Transcript**

**September 18, 2014
9:30 a.m.**

Rodney Cook, CEO
Simon Thomas, CFO
Shayne Deighton, Group Chief Actuary
David Cooper, Group Director for Marketing and Distribution

Rodney Cook: Good morning, everybody. I'm Rodney Cook, the Group Chief Executive of Just Retirement. For those listening in on the phone, today I have with me Simon Thomas, our CFO; Shayne Deighton, our Group Chief Actuary; and David Cooper, our Group Marketing and Distribution Director.

Welcome and thank you again to Deutsche Bank for the use of their conference facilities this morning. And we do really appreciate your interest in the Company for those who've joined us today.

Our agenda, it won't surprise you. First I'd like to walk you through the issues and opportunities facing our company, briefly describe our results for the 30th of June, 2014. And Simon, of course, will go through those financial results in detail. I'd like to wrap it up at the end before your questions, of course, with an outlook for us in the marketplace.

May I please remind you that, of course, we're one of the few companies with the 30th of June financial year-end. And therefore, most of the references you'll see in the documentation and you'll hear about are for that financial year for the 30th of June. And we will try and highlight clearly where we're talking about calendar years rather than financial years.

So, indeed what a year it was. It's very difficult to summarize in one sentence. But maybe the phrase "it was a game of two halves" would come closest. Clearly there were positives. We've delivered some record results.

We've raised 300 million pounds in an IPO. And we have helped more customers than ever. But those achievements have rather been overshadowed by the Chancellor's fundamental reforms to allow people more freedom and choice in how they use their pension savings; which were announced on the 19 of March in the budget.

Our job now is to transform our business rapidly in order to maximize shareholder value in this new environment as it unfolds. Now, I firmly believe that Just Retirement has what it takes to build on its sector leading individually underwritten annuities foundation. And then extend its reach into the broader retirement income market; which is very definitely fit to grow.

So, before we address our approach in this changed marketplace, I'd like a short moment to grab some time in the sun, so to speak, to show you that in fact, we were delivering good results before the Budget changed the game. So, despite including 2.5 months of lower post budget trading, we actually had a record year for total sales, at £1.751 billion.

And our operating profits held up well also. More importantly, our embedded value has grown particularly strongly to further enhanced of course, by the IPO (proceeds), which were net £282 million. Our model is working. And with our intellectual property led pricing, giving great value to customers, and driving into new market share gains.

And we must not forget the critical importance of our market leading service when it comes to retaining advisers support. That is even more important at the current time. So, I'm particularly pleased to let you know that we achieved our ninth consecutive five star award for service. And to top that off, our fifth consecutive entry in the Sunday Times (Best 100 Companies To Work For).

We're actually putting the strength of that (IFA) relationship to work at this very time as we seek to create the new customer propositions for the future. Getting advisor feedback as to what customers want is critical. And I believe no one has stronger advisor relationships than we do. This adds to our expectation that we can respond positively to the environmental changes.

Thank you. But like you, I cannot ignore the fact that our volumes have at least halved post the budget.

Foremost in your mind and in ours too is the question of how we adapt. We'll talk more about that later. However, I would wish to point out to you that the government's insistence that Guaranteed Guidance should be truly independent.

It looks like it an important step in the right direction. So, maybe the future could indeed turn out better than some have predicted. And we do intend to do all that we can to ensure that.

So, let's touch on a few of the numbers. This is the slide headed (resilient) sales, profits and EV for those on the phone. I imagine you may be a little surprised to hear me say that we actually had a record year for two out of our three key measures.

But for sales and embedded value, that is indeed the case as you can see in the charts. Although, individual annuity sales obviously did suffer during the post Budget period and in the final quarter, mortgage sales powered ahead. And overall, we have never witnessed more volume than this.

As a matter of fact, our second half annuity sales, and that is the latest half that you've recently been covering on behalf of our competitors and their reporting season of late. They actually rose eight percent compared to last year. This, of course, was helped by the launch of our defined benefits de-risking.

So, I'll repeat that. Our second half total annuity sales rose eight percent compared to the equivalent period in 2013. Likewise, as I mentioned, our embedded value grew strongly. And that was before the new capital (raised) in the IPO. But facing facts, unfortunately, the drop in individual annuity sales has driven a small fall in our underlying IFRS operating profit.

However, the scale of our back book meant that our in-force profit grew a little. And that partially offset the fall in the new business profits confirming as we pointed out at the IPO, our higher earnings quality as our model matures.

I will allow you to be the judge as to whether a three percent fall in underlying operating profits feels like a reasonable outcome given the circumstances.

Simon, indeed will take you through the numbers in more detail shortly. But I wanted to make sure that it would not be forgotten that despite all that happening in our 2013/14 year, it was pretty productive for our Group.

On this overhead buoyant market share, most of the numbers here are calendar year. The annuity markets started out tough, as you'll see in the top right-hand chart; and then, deteriorated significantly post the budget. And there, you'll see the individually underwritten annuity numbers in blue for the market and standard annuities above in gold.

Year-on-year comparisons were already difficult in the first half shown here as H2 2013, in that top right chart, given the exceptional volumes that resulted from the pull through into Calendar 2012. I think you're all very much aware this was caused by gender neutral pricing, and of course, the RDR pull through.

Unfortunately, almost as we had lapped through the tough comparator from the prior year, the Budget comes along and the current financial year as a whole has become a whole lot more challenging. As you will recall from our recent Q3 IMS, individual annuities sales in the first calendar quarter of 2014 were in fact up strongly against a weaker 2013. However, helped by our prebudget pipeline, our individual annuity sales in the three months until the end of June fell by roughly a third.

So as not to be confused, while the market is down at least 50 percent, because we had an established pipeline at the time of the Budget that flows through into the April, May, June quarter. And therefore, that quarter was down by a third.

So, overall, our individual annuity sales excluding defined benefits for the whole financial year to June were 13 percent lower than the prior period. And perhaps that's not unexpected given 2012, which was [inaudible] significantly as you can see in the graph.

Now, for what it's worth, our individually underwritten annuity sector share also grew during the financial year. But I'd remind you that our focus is on growing profits, and shareholder value, and market share looks after itself, albeit positive change this time.

Now, fortunately, our entry into the defined benefit de-risking area is really starting to kick in now. And that partially offset the decline in individual

sales. So, you'll see two entries in the top left; five million in our first half of financial year. And then, 87 million for the second part; it is shown there – in gold colour. Our team leader for defined benefits, Tim Coulson and the team are really hitting their stride having launched the service only in 2013. A very commendable £92 million of production in their first year.

I do worry when people tell us about large pipelines. But in this case, I think the volumes really could show further growth from the 2014 level achieved.

So, I will conclude there. Simon will now take you through the financial numbers in detail. And I'll come back later to answer your questions then, discuss outlook on the (inaudible). Simon.

Simon Thomas: After the IPO I thought things might calm down a bit.

[inaudible]

So let's move straight to the IFRS P&L account.

The overall message here is that fortunately the Budget reforms came too late in the year to significantly undermine our 2014 profitability.

The headlines are that Underlying operating profit fell only 3%, while operating profit actually increased by 2%

Within our operating profit, new business profit fell 10%, which is relatively respectable given the drop in annuity volumes which Rodney has just taken you through.

In force profits were modestly up at £44m compared to £41m last time.

I will elaborate a little bit further in a moment on both the new business and the in-force margins.

Moving down the profit and loss account, it's good to see the fall in operating variances and assumption changes where we saw no repeat of last year's charges for annuitant mortality.

And (reinsurance) and bank finance costs grew in line with our expectations. Below the operating profit line, you can see that we've expensed the five

million of restructuring costs in relations to the headcount reductions that we – and which we announced after the Budget.

And finally, we enjoyed a 44 million pound investment and economic profits mainly as a result of lower credit spreads, which I'll come back to in a second, and house price gains. Although this obviously affects the future in-force profits expectations too.

Overall, I hope you agree that our IFRS results were resilient.

So, I'm just moving on to the next slide and covering the annuity sales. As Rodney has already touched on, our Calendar Q2 sales turned down after the Budget announcement. Before the budget, it's fair to say that we've actually seen strong sales. And indeed, you can see here, our Calendar H1, actually beat the prior year results by about eight percent.

Although the whole of the Calendar Q2 was in the post Budget environment, I think it's too soon to say if the Q2 volumes now represent any sort of normal, new normal. Indeed, we've seen continued weakness in the markets indicating a fall to slightly below 50 percent of the pre-Budget volumes.

We suspect that large numbers of retirees with smaller pots have taken advantage of the trivial commutation rules where the limits have risen from 18 to 30,000. And at the other end of the spectrum, large cases have been taken out.

So, the market was immediately pruned back at both the bottom and the top end. However, during the IPO, you'll remember that we said that our typical case size was about 47,000 pounds, putting it firmly in the mid-market and well away from those small and those larger cases that were directly hit by the Budget. In which case, you may well ask; well, why is that we've seen activity levels fall by about a half?

Well, we believe that the answer lies in deferral. Advisors are telling us at the moment that many of their customers are simply waiting until next April to make their minds up. At that point, they may have a wider choice of retirement income products perhaps implying better value for money. After all, many of them can certainly live off the tax free lump sums while they make up their minds about whether to annuitize.

Rodney is going to cover the outlook in a moment. But it's worth flagging that the deferral could become an increasingly important part as the likely launch of the products in April, 2015 approaches.

Now on a slightly brighter note, our DB business is developing quite nicely. The first thing I should flag is that the DB market is broadly unaffected by the Budget. And our medical – medically underwritten proposition is really starting to gather some momentum as you can see here.

We started the last financial year from very, very low levels of business. And we thought that we might get to about 80 million for the full year. In fact, we came in at 92 million pounds. This has really picked up nicely in the (last two quarters) with our final quarter topping (50) million pounds of new business in the new sales.

We've got a growing pipeline and have now transacted with a broad range of EBCs. It shows that our capabilities are becoming more widely recognized and accepted by the marketplace.

This is attracted business. It's very lumpy, I think as we discussed before. But as I mentioned at the interim results, they have slightly better margins than the IUA business [inaudible]. And in many cases, due to the indexed linked measures nature, it's an even better match to our lifetime mortgages.

Now, moving on to our lifetime mortgages; well, once again it's surpassed our expectations, and equated to about 35 percent of the annuity volumes growing in 2014. The high percentage is a function of the combination of the strong mortgage demands we've seen in the market and the fall in our annuity volumes in the last quarter as a result of the Budget.

It's almost a bit of an embarrassment of riches. And the intention is to bring the lifetime mortgage volumes back down towards 25 percent for annuity volumes over time. And that intention has not gone away.

There are three ways we can do this. We can either write (a lot) more annuities, including DB. Or, we can write fewer mortgages becoming less (invested) and therefore [inaudible] margins. Or, thirdly, we could use external funding sources.

Which one we'd choose, it really remains to be seen. But the choice is going to be driven by a mix of price and market conditions. But one way or another, we're working on this at the moment.

In contrast to the IUA markets, the lifetime mortgage markets continues to grow strongly. It's stimulated by rising house prices and inadequate pension savings.

As you can see here, the loan to value ratios of our portfolio actually fell to a very (comfortably and) reassuring 25 percent, mainly as a result of (of increasing) house prices. Yields from the products remain healthy. And we've tactically, as you can see here, allocated more capital into this area.

Now, I wanted to touch briefly on the costs. As you're aware, the drop in annuity volumes meant that we have to review our operating capacity promptly. We felt it is important to take swift management action to keep our costs within allowance levels assumed within the EV computation and the pricing assumptions for our (expected) levels of new business in the following year.

And that's precisely how we calibrated our cost savings programme. Now, unfortunately, that necessitated a headcount reduction of around 90 people; which is now complete. And in fact, as you can see here, our headcount has now fallen further as a result of natural turnover.

On the chart, you can see that approximately a third of the benefit or a third of the cost savings was actually from the reduction of staff members. We also reduced the benefits for remaining staff and directors, significantly reducing the wage bill. And when you come to see the remuneration report shortly, you'll see that our non-executive directors and our Chairman, has also taken cuts in their fees as well.

The other costs in the final third include reductions in other areas including distributions [inaudible]. And I want you to be in no doubt that we'll manage the capacity in line with business volumes. And ensure that the expense allowances within our embedded value, it will remain consistent with the environment in which we're operating in.

Now, just turning to IFRS new business profit; as you've already seen, the new business profit, it fell from 59 million to 53 million for the full year. The total volume of annuity sales, it fell by about five percent in the period due to

the substantial falling sales in the final quarter of the year caused by the Budgets discontinuity.

Overall margins for the year fell by approximately 0.3 of a percent down from 4.7 percent to 4.4 percent for the financial year of 2014. This is a result of a number of factors. The first half of the year, we saw margins very low or lower due to the general competition in the marketplace.

And you may recall, the first half of [inaudible]. But then as we trailed in our interim results, the second half margins in 2014, it saw a small pick up as a result of market pricing discipline; which we had seen in the first three months; high yields on the lifetime mortgage business, which was also partially assisted by a slowing in the volume; and slightly higher margins on the DB business compared with the individual business - where, as you've seen, we've started to write some meaningful levels of business in the second half of the year.

Now after the Budget change, and indeed into the first few months of this year, I'd describe the pricing as becoming more competitive.

Now, judging by the consensus margin, the market and the analysts appear on average to have understood the impact which competition and lower volumes will have in our new business margins in the next year.

Now, turning to in-force profit, the modest growth in the in-force results from 41 to 44 million reflects the interplay of two opposite sources. Opening liabilities increased by about 19 percent; which other things it would being equal, would have improved the in-force returns commensurately.

However, in-force margins fell from 89 basis points of opening liabilities down to 79 basis points over the year mainly due to the credit spreads falling from 182 basis points to 130 basis points. So, a fall of about 50 basis points over the period. So, this meant that the healthy liabilities growth is partially offset by this movement.

However, it's important to remember that the effective capitalised benefit of the spread tightening emerges through the economic variances in the IFRS P&L accounts. And it boosts the tangible net asset value.

And that was included in the 44 million investment gain that I mentioned earlier in the P&L account. The final thing I flagged for clarity is the Budget again. It doesn't directly affect the impact the release from the in-force book, which is good.

Now turning to one of our other key metrics, embedded value. On embedded value's growth in 959 million, that's excluding the effect of the IPO proceeds, and underlying growth in the embedded value was approaching 20 percent. As you can see, the new business contribution was particularly strong at 115 million.

Now, once it's flagged that this is flattered by the high weighting of mortgages within the year. And after allowing for the one-off deal with Grainger and for a mix closer to our longer term outlook. We would have expected the new business results been – to have been somewhere between 65 and 75 million [inaudible].

The operating variances and assumption changes primarily represent assumption changes related to the experience on mortgages redemptions; which we think are probably being driven by recent improvements in house prices.

Annuitant mortality experience, which was in line with our assumptions. And no assumption changes were made in that regard. We saw a significant positive economic variance, as you can see there. And which was driven by a combination of credit spreads and the house price inflation.

So, this all adds up to an embedded value of 959 million pounds, or an equivalent of 191 (fees per a share). Now finally, and turning to capital; our capital position remains strong at the end of June, (although the) pillar (one on an) economic and capital basis.

The pillar one capital of 236 percent is a touch lower than the prior year but clearly not a constraint on us. And as you know the Board is more focused on the economic capital, which at 178 percent is well above our 140 percent target.

In fact, you'll note that our surplus rose by about 50 million over the year. There's been a small pro forma fall in the percentage over the years. And you'll recall that we always planned in the IPO to raise sufficient capital to

allow our surplus to fall as a result of writing our business at around a hundred percent of capital [inaudible].

And therefore, there was always dilutive effect from our new business. Because it's been [inaudible] all the smaller effects this year; which is the effect of the higher than expected weight in the [inaudible] due to the lower volumes of annuities.

Also, it reflects (these) stronger levels of DB de-risking that's coming through - which do not benefit in the financial reinsurance that IUA contracts do - and are therefore marked slightly more capital intensive, together interest rates falls and switched [inaudible] rate as well.

Just turning to dividends, you'll see there that we're declaring a dividend of 2.2p per share. And given that our policy is to pay a final dividend of two-thirds of the full year amount, you can reasonably infer that this would have equated to a notional full year of 3.3p, if can quote it for the whole year. And that's up about ten percent from the notional levels for 2013, [inaudible].

In terms of future dividends in the policy, as you can imagine, we'll have to wait until there's more certainty as to the levels of new business and the potential for growth before we can be clearer.

OK, I will now hand it back to Rodney who will cover the outlook.

Rodney Cook: Thank you Simon. Some recently good numbers and now a look into the future. So, what is the outlook for Just Retirement given everything that's going on? Well, firstly can I bring us back to the demographics and the overall retirement income markets?

In the first point here, as you can see from the top two charts. It doesn't matter how hard the government tries, they can't stop people getting older. And the demographic demand for at and in retirement financial products remains favorable as you see in the top two charts.

And then, on the bottom left, the U.K. population is getting older. You can see clearly, the factoring in of the planned increase in the State age of retirement, and pension age for both men and women. But over time, the U.K. will deliver consistent growth in the total retired population.

Now this is particularly so among men. And as you might remember, the majority of retirement savings are still held by men. And that comes through retirement rather than women. Now, although, low interest rates and other factors such as the end of the normal retirement age within employment contracts have encouraged more employees to defer their retirement or take part time retirement.

In the bottom right-hand charts, you'll see the current flow into the retirement income markets of 17 billion. And that's by the way, is the defined contribution retirement income markets. The present value of people retiring with defined benefits, it would be somewhere around 40 billion on, on top of that each year in present value terms.

So, if we expect that 17 billion annual flow to grow according to Towers Watson's most recent survey, the defined contribution to around 50 billion by 2023. And, of course, they're taking clearly into account the trend from defined benefits to defined contribution [inaudible] over that period increasing.

Now, the more difficult question is how much of that 17 or 50 billion will create demand and flow into products, which offer guarantee income given the changes that the Chancellor has just announced? I'll talk about that next. But here I can't make any promises about the future.

So the question I've posed at the top of this slide. What will the new retirement income market look like? I would have to observe that there are many views as the answered posed by that question. The reforms in the last March budget represent a once in a lifetime upheaval for retirement and income products.

As we've already touched upon, even now the transitional rules introduced on the 27th of March have reduced demand for individual annuities amongst those with – as Simon mentioned, very small pots. Because people are now allowed to cash up with 30,000. And also, for very large savings pots; here people seeking flexible [inaudible] benefits that are required to have a guaranteed income of 20,000 pounds per annum to assess the balances of their pension account. And of course, they were purchasing some part of that through, through an annuity. So, that was immediately reduced to 12,500 on the 27th of March. Now, along with the deferrals that Simon mentioned, this has led to roughly just over a halving of demand in the open market for

annuities. And as you know we adjust retirement in an open market [inaudible].

Starting in April 2015, consumers will have even more freedom than to deal with their funds regardless of the size of their pension pots. So, the 30,000 will stop being relative. Some commentators have boldly suggested that everyone will take all of their pension in cash.

I sincerely hope that some of the commentators would also consider reminding consumers of the very significant tax consequences of doing so. After all, if HMRC has taken nearly 50 percent of your life savings, I'm sorry, you cannot spend them later on.

But it is also hard to know how the new world will look until we have a clearer idea of precisely what the guaranteed guidance will deliver. Because that process hasn't been finalized as we speak. And even when we do know the details of what TPAS and Money Advice Service, and so on are intending to deliver under that guidance. We don't know consumers' reaction to it. And how many will take it up seriously.

Now, guidance could actually significantly increase the number of cases that we at Just Retirement can quote for. As you know we only quote on customers coming to the open market. So, we are speaking and strongly guiding the Financial Conduct Authority on two points here.

One, that they should use terminology that customers will relate to such as you have the right to shop around and buy your products from anybody and not use terminology like open market options; which (no one in the) industry actually has understanding of.

And secondly, that for those people who don't take up any form of guidance, that there be a second line of defense that the regulators requires pension providers to give additional support to those customers who have perhaps unwisely have chosen not to take advantage of independent guidance.

But clearly, those, those propositions could be very helpful to us, and could increase the numbers of customers that seek out an external quote. That however is one scenario. In truth, we do not know what the final guidance regime will look like. And as I mentioned, we can't predict exactly how consumers will respond to guidance [inaudible].

So, as Simon mentioned, this could mean some people will sit on their hands until April of next year once the new environment is clearer. We could easily see a market where people take their tax free cash and leave the remainder of their retirement money at work in some form of investment. The market [inaudible], and perhaps eking out their incomes with some part-time work. And then eventually purchasing a lifetime income when they're slightly older.

But we could see a pick up in older aged. And that's [inaudible]. But unfortunately for them, of course, at that later age, they will perhaps be less healthy. And here, the silver lining is that we can then offer them a higher standard of living due to Prognosis, our state of the art medical underwriting system. That allows us to offer those customers higher rates of income, taking account that their health and lifestyle rather than just wondering where they live.

Currently, we predominately underwrite unhealthy lives as I think you all know. But ultimately, we may become competitive for healthy lives also; and remembering that's at least half of the total markets. We still predict that the whole market will become totally underwritten medically. And that cross subsidies that now exist in the standard market become unviable as a pricing approach.

We're currently working on products for customers who don't actually want to annuitise the totality of their pension savings up front. In other words, they'd like some guaranteed income. And they'd like to hold some assets in reserve.

We'll talk more about those products as we get closer to launch in 2015. But, I think you can see from our record over the last ten years, we're quite proud of our product and innovation skills. And you can be well assured that we are doing plenty of market research currently utilizing those excellent IFA relationships to test out our new product ideas as we plan to launch them throughout 2015.

And it's important to make that point throughout the [inaudible]. It will be not possible for the markets [inaudible] every new product that is launched on the first of April.

So, we think that the budget changes represent a huge opportunity for both retirees and for the savings industry. And we plan to play a full part in that new and innovative future. So, our product range could serve increasing

numbers of consumers who wish to take advantage of those new freedom. And I include here the healthy and the unhealthy, the 50 percent that we've been dealing with to date.

We're including some people who would like to keep and take some investment risk, as well as those who would like the security and safety of a guaranteed income; which lasts for as long as they live. And it doesn't run out.

Although the Budget has been tough for us. We can certainly envisage a annuity market which will regrow once a new base level has been established. Like you, we cannot quantify exactly the effects of all of this. But we believe by this time next year we should have much greater clarity to share.

On the positive front, the news with respect to defined benefits and lifetime mortgages is unequivocally positive. Simon has touched upon lifetime mortgages in detail. So, if I can give you a little bit more background to our defined benefit annuities.

So, we have a defined benefit de-risking team that has delivered nothing but good news; which as you might imagine, has been well received over these past few months. As the leader of our team, Tim Coulson, has assembled a group of 15 strong who are as experienced as any other who are participating in this segment of the market and the fruits of their labor are beginning to become clear.

We have or are in the process of completing 60 underwriting processes. Most employee benefit consultants, which you know are the gatekeepers for large pension schemes and medium sized pension schemes trustee, have become involved. And at the current time, there are three to four providers participating in this market.

Now, we at Just Retirement focus on schemes where liabilities are compensated either amongst a relatively small pool of members. And here, I mean, by underwriting, say 20 percent of the members. You're covering 80 or more percent of the liability. These have, of course, typically focused on the management in those companies.

We are also targeting schemes where the trustees may already be aware of health issues amongst their members. Or where the overall mortality based on the companies and their operations happens to be above market average.

Now, we are almost as nervous about giving you a forecast with respect to defined benefit volumes just as we are, and Simon was, with respect to volumes for individual annuities. But I must stress that this is more a function of the lumpiness of that market and not because we don't see fundamental growth in the defined benefit and de-risking market overall; which I believe you've also heard from a number of large competitors. Nor about our capabilities to play in the space.

When I talk about our 15 strong team, this does not include administration. So there are people on the ground who are both pricing, and participating, and presenting to EBCs and trustees. So, in fact, our pipeline continues to grow.

And most pleasingly, the medically underwritten assigned benefits sector is also gaining traction. So, on balance, we think we can service good growth above the results in 2014, which has been established. But as you know trustees tend to meet quarterly. They make binary decisions on whether or not they are going to de-risks or not. Then they make a binary decision on who is going to be awarded for this or not. And therefore, it is not possible or appropriate for me to predict future sales on a quarter by quarter basis.

We are particularly pleased to see the trends have now emerging. That either very large schemes are considering medically underwriting the highest value pensioners in their schemes. This is the concept the industry is calling "top slicing". And this means that as an underwriter Just Retirement, we can now participate in tenders we wouldn't have even been advised of previously.

So, this could be in multibillion pound scheme – of which we just top slice a group of members. This is a market that we are skilled and able to participate in. And that aspect we expect the consulting [inaudible] to drive further growth of.

So, we expect the structural growth in the overall DB markets, and in our particular segment thereof as more and more members are moving into the pension phase. And as I mentioned, well, as I will mention. Our administration is provided by JLT. That gives us full scalability in terms of business volumes.

Finally, to the outlook, so after all of that discussion, where does it lead us? And what does it add up to? Unfortunately, like you, we are having to work in an environment of considerable uncertainty particularly as the period up until April 2013 approaches.

I don't believe you would have believed me, if I had told you anything different. But we are realistic about the challenges that we face. And as our prompt announcement of cost savings in our May IMS, it clearly demonstrated we are not going to just shy away from taking difficult decisions. However, given the uncertainties in the market, we won't be making any specific comments about earning guidance in addition to the ones that Simon [inaudible] to cover with you earlier today.

You might observe that forecasts of the markets themselves span a very wide range at the moment. But we are well aware as our responsibilities to you and the markets to keep an eye on market expectations. And, and we will do that.

So, in conclusion I'm proud to be leading the Just Retirement Group which has shown itself capable of delivering results like those we've just presented against what have been in some of the toughest of backgrounds and situations. And I want to record my thanks publicly to the management team and all of the staff for their hard work.

I know that if we continue to work together the way we have done at Just Retirement since the budget announcement on the 19th of March, then no one will have a better chance of delivering for both our customers and for shareholders in this new pensions environment. Thank you for your attention.

Andy Hughes: Hi, Andy Hughes Exane BNP Paribas. I'd just like to talk about three subjects that I don't think you talked about very much in the presentation. First of all, I think maybe comment about the deaths being in line with your expectations over the last year. This is very surprising given that, across the population as a whole, deaths fell significantly over the last year. So, could you just tell us, was that already in your assumptions? If so, why didn't you tell people like Dignity who issue profit warning on the share?

The second thing is on the solvency of the group. You haven't talked about this at all in the presentation, but there are a couple of things on solvency I think it would be worthwhile touching on. The first one is the press comments from the ABI about the PRA tightening of the solvency rules on

annuities particularly. Second one is on Solvency II, obviously we know the city [inaudible] have failed Solvency II and therefore was forced into a share sale. If I look at your economic capital there, £400 million surplus and £2.4 billion in equity release mortgages, which are now pre-paying. So could you tell me what the Solvency II position is with and without the matching adjustment on the equity release please? That's pretty much it. Thanks.

Rodney Cook: Right. I'll just comment on the deaths and our chief actuary, Shayne Deighton can cover the Solvency II position. We most certainly will not be giving you capital numbers with and without matching adjustments, but we can certainly tell you the position with respect to mortgages. Which I'll make the introductory comment that our friends in Europe are not against mortgages being a part of assets to back annuities. So Shayne will explain the issue of matching adjustments and fixed dates.

Coming to the deaths, we're not familiar with the comments that you've mentioned. That's not consistent with ONS statistics. We are aware that Dignity had a lower trading period. I think they represent a quarter of the market. That's unfortunate for them but the Institute of Actuaries is not recording, and nor are our experiences consistent with Dignity's. So on that one we certainly haven't had that experience. So when we were talking about annuitants, it's not the right term, but you'll respect the fact that they're dying according to the actuarial assumptions. So, no, the Institute of Actuaries are not reporting, or are proposing any changes at the current time. The other assumption changes were with respect to our mortgages. Shayne, would you cover Solvency II and mortgages?

Shayne Deighton: Yes, just finishing on the mortality we didn't build into one thing in particular, declining this year but we had no reason to expect that, but obviously our basis has got all sorts of other factors and various directions. Just to back up what Rodney says, it's difficult not to sound morbid here but obviously I look at this all the time and in the last four months of the financial year, two of those months were records by a considerable margin, in terms of the numbers estimated through the various processes. So we remain comfortable with where we pitched the reserves last year.

The ABI position on annuities, I think, is actually the position on two things. One, longevity and the other the freedom credit. Obviously I'm not party to what went on at [inaudible], but my understanding is that it's more in terms of

paying on the current regimes, rather than Solvency II. You know, those discussions that they would have had would have been some while ago now as, indeed, were ours. So we went through a full ICA process in the UK, in the earlier part of last year, obviously conveniently timed in relation to the IPO, apart from my team, of course, who didn't think it was very convenient.

We went through all those questions at that point in time, we reached a satisfactory position, clearly, otherwise we wouldn't be where we are now and we do understand that those conversations have continued around the rest of the industry and basically they're catching up with where we are, rather than something which is coming down the tube at us.

If we then turn to Solvency II and apologies I'm going to have to repeat a couple of things that I've already spoken to you about this morning. There's no specific text for mortgages, but the words around matching adjustment were not what we hoped for following the lobbying that had been done by us and the industry, but they don't specifically exclude equity release. They do allow the PRA some discretion and they haven't yet come off the fence, but we're hoping for some announcements at a conference in October. We are obviously going ahead with contingency plans in case they come down on the wrong side of the fence, and we have continued to polish structure that we began developing in 2012, which we have discussed with the PRA on a couple of occasions and we have been taking detailed advice from a big four firm on as well. What that structure effectively does, without going into the detail, is to take the mortgages, to some extent, off the balance sheet of the life company and replace them with, effectively, bond cash flows, bond cash flows that do match the rules of matching adjustment. So that, effectively, we capture the vast majority of the spread in mortgages back to the liability side of the balance sheet.

Andy Hughes: Can I ask a small question on the lifetime mortgages? I think you said, given that you're above the 25%, you're looking at funding options of equity release mortgages. I'm just wondering who, how, why would anyone fund these things? I mean the only transaction I'm aware of involving equity release mortgages was the sale of [inaudible] building society who went into partnership. I think that was done at around par value maybe a little bit higher and that was a seasoned portfolio of, presumably, much higher interest rates than today's portfolio. So I'm just wondering, why would someone want to fund your equity release portfolio? Thank you.

Shayne Deighton: Others agree with us, that it's a very attractive asset so we need long dated liabilities. So to some extent, the demands come from other life companies who, despite the obstacles being put in the way by Solvency II, are still keen on acquiring some of this very long dated, very reliable cash flow. So they've had some conversations with other companies and pension schemes themselves and they believe this is a particularly attractive asset because, as everyone knows, they've been struggling for a long while to find the appropriate assets to meet their long liabilities which had an additional problem of being indexed. Which, as Simon alluded to, is actually a great combination. The indexation within the DB brings the matching against mortgage cash flows in an even better shape than [inaudible] individual annuities, which are largely not indexed. So a lot of the demand is coming from pension schemes, but clearly that will need some form of intermediary to package them up in a way that pension schemes can then access. Again, we're talking to a couple of players there.

Rodney Cook: To be clear, our first priority will be to grow our annuity business. We will look at the two other options of scaling back and taking slightly wider margins and the third one, which we are certainly also looking at currently, which is that external party fund. Next? Greg, you should have sat closer.

Barry Cornes: Morning, it's Barry Cornes at Panmure Gordon. I've got three questions, if I may. First of all you mentioned that new products would be released during the year, suggesting that it won't all happen early April. Can you explain why, when you actually have a [inaudible] key product out in April? That's the first question. The second one, when you talked about the products going forward perhaps being a mix of maybe in savings and longevity product, on the savings side, is it something you are likely to offer, or are you going to get together with somebody else, a fund management group perhaps, to offer the combined product? The last question I had was, international. You mentioned looking overseas but one of your competitors has made noises in that direction. I was just wondering if that's something you'd looked at.

Rodney Cook: Well, if we go from the first, backwards and I'll ask David to comment more specifically on the products. So, international, yes, we included it in our prospectus, we included it in our IPO discussions, we have a small, beautifully formed team, who are exploring opportunities in other countries. Clearly the UK is not the only country that has ageing population and retirement income

challenges, so we do see potential openings in other countries. I'd hasten to add that we don't see those as significantly capital consumptive in the near future, but we are encouraged by what we've seen there. I don't intend to say anything more about the country-specific areas until we're ready to make a more formal announcement about what we've done.

The critical part, just to start you off on the products, is, we see very clear opportunities for our intellectual property of underwriting people and more appropriately pricing their longevity risk. So that's point number one. That will be at the heart of the things that we deliver. We also believe that people want certainty and security, so we will continue to use high yielding assets such as lifetime mortgages, to support a higher yield for customers who take our secure income streams, be they either temporary or for the whole of their lives. As you know, that is one of the factors that makes us more competitive in the marketplace over standard writers currently. David, if you can just explain what sort of melee it will be next April and how advisors are coping. I think one of the other critical things, Barry, is that there are two groups of customers. We're going to have a whole group of customers who deferred from last April for the year and then new retirees coming onto the market as they normally would have in 2015. So, I think it's going to be a huge time for advisors and I think we're well placed, given that we have a number one rating with respect to the advisors' service and relationship. David.

David Cooper: Barry, I think it's worth remembering that the fastest growing segment in the distribution industry, has been and still is, and suffer the setback like everyone else, is the retirement specialists. These are the guys that will be targeting the mass market individuals who are looking for help with their retirement. They need simple, straightforward products, albeit it that they would expect them to be tailored now, to make the most of the flexibility that new rules allow. So in discussions with them, we've agreed that we won't bombard them in April with masses of options, but come to them with one very clear proposition and that's been welcomed. You asked about the capability. We have been looking intensively at the way that we would create simple additions throughout securing some capabilities. You'll be aware that there's plenty of capability in the space you've alluded to, capacity in the space and we believe we can secure at value, either by licence in outsourcing or partnering with existing players. It will probably be a mixture of some of those. So we won't play everything from scratch, but we are very much targeting April for the first [inaudible].

Rodney Cook: We see a lot of people who will want to create a certain proportion of guaranteed income to pay their bills. I think we mustn't forget that, despite the government's announcement on the single-tier pension, there are plenty in the community not see 7,000 as being sufficient to meet their costs of annual living and in addition, to remind everybody that that requires 35 years of NI contributions to get that and it's proportionally reduced down. So people will want to have something that pays all of their bills and the council tax and all of those good things, but we also recognise that, in addition to taking their 25% tax free cash, they may desire to hold a rainy day, or a holding account. Which they may consider in five years thereafter buying further guaranteed income. So we're focusing on designing those additional holding accounts.

No, we're not going to become an investment manager. There are more than enough of those in the market and, as you know, some of the key platform providers are not investment managers themselves. They opt out. We are not seeking to compete in the open SIPP market and we are still focusing on our strategy, which has always been at and in retirement. So we're not launching a, forgive me if I use the word 'savings account'. Someone used the word 'savings account'. Just to be clear, we're not building a savings account for someone to start contributing from age 30. We're focusing on giving the people at retirement that wider flexibility.

Barry Cornes: Thank you.

Rodney Cook: Greg?

Greg Patterson: Thank you. Morning. Greg Patterson. Three questions. One is, your competitor made an interesting point that, just in terms of new product development, the run-up until April next year, the opportunity costs of someone actioning a retirement plan now increases quite dramatically. I don't know what your experience is month on month [inaudible], but it should be pencilling lower volumes in the three quarters running up to April next year because of this one-off fact, just in terms of psychology and market [inaudible]. The second one is, I noticed on the slide on prognosis, you mentioned it three or four times, if I recall back to the IPO you were talking about the ability to move from discreet mortality boxes to continuous benefits around [inaudible] and also around putting the panel of reinsurers at the bottom and moving to the lowest common denominator. I was wondering if that's happened? If it has, how far we are. Shall we factor in some gross margin boost from this, etc.? Where we are with that story. Then the third one, I know you mentioned it but it wasn't answered, because of other points

being raised but I see there was a negative operating assumption change, quite a big one, associated with mortgages and I was wondering if you could just talk us through what's going on there?

Rodney Cook: Very good. If I do the first one. April. I think, though, that both Simon and I mentioned and I think Simon's words were, 'The potential deferral would become increasingly important in the lead up to April.' So while we don't have any clearer crystal ball than any of the rest of the people in this room, we do understand that that planning period may be more difficult as you might imagine. I think I mentioned, we have put extra effort into our defined benefit business, post the budget and, of course, we will continue to do that in the lead up to April and because they're very clearly distinct themes, we have the capability of one not to interfere in our preparations for April.

To be clear, we have experienced, apart from, as I mentioned, having the pipeline at the date of the budget, the activities were down just over 50%. They have continued at that level. There's the normal August, Greg, where everybody goes on holiday, so we still expect to have the normal season changes. Christmas and August are periods that go up and down. Activity levels, David, are certainly still around 50% post everyone's holidays, but I wouldn't say that it's imprudent for you not to consider the period of the first quarter next year would be even a more uncertain time. As I said, people are still deciding to buy guaranteed incomes. They might just not put as much of their pension pot into them at that time. Shayne will cover prognosis. In terms of the assumption change, Simon, can you just take the guys through? This is the total redemptions, Greg, from all courses for mortgages.

Simon: Yes, certainly. Well, what we've been seeing is that there's been a slight pick up in the level of mortgage redemption. Mainly caused by optional redemptions, but also deaths coming from the actual mortgage property sale. Indications are that that might have something to do possibly with the movement of house prices just recently, but it's very, very difficult to say. There was certainly a charge put through in terms of embedded value for the impact of increasing redemptions coming through. I have to say on an IFRS basis, because, of course, IFRS doesn't look that far into the future, it doesn't take account of those future cash flows to the extent that an embedded value does. It doesn't [inaudible]. Shayne, do you want comment on that?

Shayne Deighton: The grand total of redemptions per annum is still a tiny percentage [inaudible] figures per annum from all three types of redemption.

Rodney Cook: So, Greg, I think we're a long way away from, you know, normal bank redemptions and turnovers, but we have slightly increased the overall percentages and we've created a structure that takes into account the number of years you've held the product. Redemption it's not the same every single year post purchase.

Greg Patterson: Sorry, just on that 2% per annum. I mean, that's an aggregate number for you. Is it suddenly spiking up and it's going to be 3%, 4%, 5%? What should we think?

Shayne: No, not particularly. The history around the redemption, which is probably the largest of the three, the three being redemption, death and transfer to long term care, is that we started out way back when with a relatively simple math assumption. We watched that and observed the experience against it for the first five years or so, five or six years after. Two years ago we introduced a term-dependent shape and we're getting more sophisticated as we are obviously with the annuities in terms of clarity, but that was a virtually no actual cost. This is the first time in the eight-year history that we've had to tinker in a way that involves any sort of material cost but to some extent we are catching up on experiences we've seen over the last couple of years. It's not a sudden spike in this year. That said, we do see quite a lot of volatility from month to month, so it does move up and down quite a lot.

The other thing I'd say is that we do have access to a private ABI survey that was done a couple of years ago, obviously at our instigation and actually the experience is quite stable across the whole market. Everybody has experienced, what I would say, very similar term structure and clearly the advantages of that are that we can see companies in there that have got much longer experience than us, because we've only been in this market since 2006, but other people have been around for much longer. Our rates are showing exactly the same pattern as theirs but, actually, are quite a lot lower. So our redemption rates are lower than other companies and the primary reason for that is the fact that we have a fairly substantial further redemption charge, but there is a penalty if they do redeem it, not on death but on redemptions and that gives us some protection.

The other protection comes from the loan to value. So, unless house prices grow so that they then outstrip the accumulation of the mortgage amount, then the loan to value on the individual mortgages typically grows from inception and that makes it increasingly difficult for anybody to actually broker their mortgage around. So those protections together, depress the market. So clearly, when there is a surge in house prices you could get the instance of people that did take out mortgages during a depressed house price period could actually find that, temporarily, they were in a good loan to value position and can remortgage.

Shayne Deighton: So, I'm going to take the prognosis one.

Rodney Cook: Yes, please.

Shayne Deighton: Yes, you may recall that I talked last year about two stages of the prognosis development, the development of the IP and the system itself, which was largely complete when we were talking back in October last year. Of course, we have resisted the temptation to lift the lid and continue tinkering, but the big thing that's going on is a project run by David, which is now referred to as 'sorting out the plumbing'. So I described a very large project but then we had to take a look at business that was engineered around the way that America works and reengineer it around the way that prognosis works, which is not insignificant. That project was largely continuing on track for a July launch, as we'd indicated, but to be absolutely frank with you, following March we took some of the critical IP resource off and had to start focusing on development of a new role, what we've been talking about and we're happy to accept there will be a small delay in prognosis development. So that is now pretty much ready to go. The training of all staff has been completed. We're basically doing the final, final testing and expect it to go live definitely within the quarter four.

Shayne Deighton: Oh, the risk transfer. Apologies, Greg, I forgot that part of the question.

Greg: [Inaudible] buckets of risk to continue this and we could see some-,

Shayne Deighton: Let me deal with that one first. I think I covered this at the time of the IPO. We're very conscious that we don't want to destabilise the market by [inaudible]. So I would make a distinction between assessing longevity and pricing, two obviously linked but separate exercises. We've already been

forming our views based on where the market currently prices and where we see, shall we say, the true answer in terms of longevity. And planning out how, over time, we will effectively try and move our pricing and we do tend to find the market does follow us over time, to get the market to the right place. Clearly there are some differences in our views on prognosis of where the market is and if we were to come in and suddenly change all the pricing overnight, that would cause some destabilisation. So we will take it slowly.

Rodney Cook: I think a year ago, Greg, Shayne was talking about 0.1 in the margin, not a large amount. What is more comfortable for us is the future risk experience. It gives us much better confidence of the emerging future risks and, of course, the whole idea is you refer to about categories, or boxes, or, forgive me, which precise word you used, clearly we would like to pick the risks that are at the top end of each box and leave the ones at the bottom end. Or, if we write the ones at the bottom end of the box, we knowingly take a lower margin.

Shayne Deighton: On the reinsurance, we have been working with a number of reinsurers, including the existing ones, so Hannover in particular are fully aware, obviously, of the prognosis position and supportive of it, as are our other financing type reinsurers. The more interesting and exciting development is the move towards a pure longevity swap type structure and, again, we've been talking to several reassurers there. I can't give you any definite news at the moment but we would hope, to be in a position that we can let you know something in the not too distant future.

Greg Patterson: [Inaudible].

Shayne Deighton: Potentially.

Rodney Cook: Right. Oliver?

Oliver: I thought that conversation was never going to end. Oliver Steel, Deutsche Bank. Three questions. Moving away from sales for a second, can you just give us a little bit of guidance on outlook for the in force profit? I'm thinking here about the margin as a percentage of reserves going forwards because credit spread is down. I believe you've sold quite a lot on mortgages and you've got the IPO proceeds. Second question, which is linked to that is, the in force profits are almost half total profits and I guess in the coming year they'll be quite a lot more than half. That's a pretty stable and probably

growing source of earning [inaudible] single digits percent. How should we think about those in force profits supporting the dividend? Then the third question, coming back to sales, is, one of the areas of opportunity that you talk about is older people buying annuities. So, instead of buying annuities at 60, 65, buying them at 75. How big a market is that today? I guess the point here is, do we have to wait ten years for that, or is there actually a relevant market for that today?

Rodney Cook: If I do the latter one and then. Simon, if you can pick up on the in force. As you rightly said, if you look in the accounts, our total liabilities have grown from an early £6 billion to £7.4 billion in asset ratio. So, as you rightly say, the liabilities have grown. Older people. I think, for the actuaries in the room, you will know that what we call the mortality drag, or the cross subsidisation between people who survive getting a subsidy from those who die earlier, it has a very clear and positive return, effective return, vis-à-vis a simple invest. So what are the available client base? Can I remind everybody that it used to be compulsory to buy an annuity at age 75? So, unfortunately we do not have a big mass of people between 75 and 95 because they already have annuities and it was only three years ago that the age 75 rule was removed. However, we have got a growing customer base who are holding personal pension accounts between age 70 and 75 and increasingly, as you move up at that phase, it is increasingly difficult for when you do the critical yield calculation, for an advisor to show their customer that they're better off staying in an investment related income product. So, we see a significant opportunity for advisors sitting down with, I suppose, their SIPP clients, currently and defining what they would like to be sure to leave to their inheritance.

Of course, that's a new and exciting area that guaranteed incomes will also be able to put by under the new rules next April. Also, currently in the letters you receive on critical yields, none of the current providers, as far as I'm aware, take account of real market rates of annuities and, of course, no one takes account of underwriting. So I think, as this area comes into increasing focus, I believe the regulator will require advisors to make clear their opportunities. So, if you understood my critical point there, you are required to point out to your client what yield they need to get from their investment portfolio to beat an annuity, but currently they're doing it against the government actuaries' yield rates, rather than against the open market or, indeed, having any regard to your health. So we do see an opportunity in the

professional market for the underwriting annuity companies to assist those advisors to show a clear comparison, and we believe that will show that we have to take quite high risks with your investment portfolio in your late 70s. Then there's an obvious question for the advisor as to how comfortable they are in [inaudible].

David: [Inaudible] draw down was first created in 1996, so it's coming up to its twentieth anniversary, and I think it was Money Marketing that reported that £45 billion of SIPP money is currently post crystallisation in draw down. So those two numbers together suggest that there is a here and now opportunity for people of advanced age who are in draw down. It can't be the annual opportunity, but I think it's sizeable.

Rodney Cook: So, more importantly, Simon, the in force profit, which I think people have observed has gone up in the last five years, from 20 to 44, but what's next year?

Simon: Yes, well, as we've seen, the absolute overall basis point movement on this year has gone down from 89 to 79. The main driver there, Oliver, is the fall in credit spreads, which have moved by about 50 basis points, 180 down to 130 basis points over this year. Clearly the track that you see on the chart is obviously an amalgam of what's happened in credit spreads over the last few years, if you think about it, because it's an average of about [inaudible]. So if you think about, when you go back to 2012, it's 303 basis points, something of that sort of order, so it was extremely wide. Clearly the credit spread effect has affected the 79 basis points. Looking forward to next year, July and August we've seen a further slight tightening, but nothing dramatic, I'd suggest. But the averaging effect will come through into this next year as well. Offsetting that to some degree will be the full year effect of the assets that we took on board as part of the IPO, so that will be helpful, but really there is a bit of guessing ongoing as to where credit spreads are going to go over the next twelve months. Who knows what's going to happen today with the Scottish vote? We'll see but certainly from my perspective, I'd be disappointed if it wasn't in the 70s at least, next year, but I'll be able to update you.

Now, your second part of the question was the dividend capability. You're quite right. Obviously next year the in force business is becoming a bigger part of our [inaudible] from a financial perspective and the in force profit is

becoming a bigger part. From a dividend perspective, clearly this year we've decided to pay a dividend of 2.2 which, as we said, would be about 3.3 on a full year basis. Up about 10% on the previous notional dividend that we talked about in the IPO. I think it's fair to say that the Board will take some time understanding exactly what the environment is like after April next year, to understand what's happened from a growth perspective and what's happening to our business overall, before coming up with any clarity as to which way that's going to go in the future. I do recognise that the in force part is a good underpin to the capability to pay dividends in the future.

Oliver Steel: Thank you.

Rodney Cook: This gentleman first.

Gordon Aitken: Thanks. It's Gordon Aitken, from RBC. I have two questions please. First, there was always the threat that the larger annuity writers would reach into the underwritten market and particularly the enhanced end rather than the impaired end. How has this threat changed post the budget? Secondly, another one of the large annuity writes were very happy to jump into the DB market and that's more than offset anything in the decline in the individual market. How happy would you be with that? I mean, are you indifferent between DB and individual?

Rodney Cook: Perhaps if I do the first one and David the competitive market. I think we would observe in a broad sense on the competitive market that you'll see, that our market share in that space has remained robust. So without commenting on other competitors, we're at least pleased that our capabilities have continued to shone through and those concerns that you've raised haven't materialised. David will give you a bit more colour to the players. Certainly the market is competitive at the current time, as Simon indicated, because of the smaller size. Simon's slide was also quite clear that we've observed that a number of market participants have moved capital into the defined benefit space. Clearly some of our large competitors were active in defined benefits before we were, but to be very clear, we did not enter to defined benefits as a result of the budget, as you know. It took us a year to build the team, fifteen people from around the industry. We launched and gained traction from just over a year ago. So we were a player and we intend to be a more meaningful player. We are putting more effort into it post budget. We have both the capabilities to compete and the team to compete with those bigger players.

So, not only can we compete with the big players, but we've also got the added advantage of that underwriting and top slicing. So we think it's attractive and we'll put more capital into the DB space.

You're absolutely right, one of the largest competitors concluded an extremely large deal, in billions, and each company has capital available on a year by year basis. So I think you would be right to observe that that probably meant that the individual market wasn't quite as competitive because the defined benefit market has filled some of that hole. I think from Towers Watson and other commentators, we expect the total DB derisking market to be up very significantly from our previous years. So previous year, say total of £7.5 billion. Our sector of that would be £1.5-2 billion that we would play in, but we think the results this year, some of the consultants were talking well north of £10 billion in total deals. So we think that that is a growing and attractive market and we can cope with new competitors. David, what has happened this year and then the budget?

David: Yes, I can't add much to what you said, Rodney, but I mean, there are four large insurers that have been playing or operating in the enhanced space. Two very established that operate in standard rate annuities as well. They haven't made any greater inroads than they had prior to the budget, post the budget. I can't speak for exactly what they're doing but we're not seeing any change in the market presence. Two new players who have only been embryonic in their market activities and they haven't changed either. If you were asking me to suggest what I think is going on, I think they have been distracted by the budget and will be now looking at alternative ways of capturing income revenue from retirement funds that may not focus on enhanced annuities, that would be my guess.

Andy Hughes: Hi, it's Andy from Exane BNP Paribas. I just want to come back on your answer to Greg's question, because it sounded quite bad, so I just want to clarify that's exactly what you meant.

Rodney Cook: Sorry, on which question?

Andy Hughes: Yes, on the change to the assumptions for the equity release portfolio. I think he said you twisted the assumptions last year so that they didn't show up the cost. Surely that's not what you meant?

Rodney Cook: That's not what he said, either.

Andy Hughes: No, I think he said, 'We've changed the long term assumption in favour of short term assumptions but the cost didn't come through.' So, I mean obviously, I'd quite like to know exactly what you mean and when you said the assumption [inaudible] the prepayment, do you mean the long term assumption, or do you mean the short term assumption? Just run us through roughly what you imagine the assumptions are, were and the impact, that would be very helpful. Thank you.

Shayne: [Inaudible]. What I actually said is that we'd moved from a flat interest rate, so we just used X% per annum with a very simple start out from before my time in the organisation. Through tracking the experience it was very clear that there was actually a term strategy, so we introduced the flat redemption, but when we were introducing the terms structure, the overall experience was not out of line with that assumption that we were using. So all we were doing was becoming more sophisticated and the answer was a very small difference. Not the other way around. I didn't start from the answer and work backwards.

Andy: No, but the outcome is the same, right? The outcome is, you had a higher short term assumption and lower long term assumption?

Shayne: No, it's the other way around, the term structure that we say and, as I say, is repeated across the industry is very low redemption rates for the first few years, then growing up to, in our case, of the order of 1.5%, 1.8%, low percentages, staying there through to about ten years and then declining. So it has a curvage through it, effectively. As I say, that is repeated in the industry experience.

Simon Thomas: Could I just add one point as well? In terms of your comparative against some of the other providers, like Aviva, the experiences that they've seen in terms of their book have been obviously dependent upon the interest rate on the particular mortgages themselves. If you look at some of the older ones, their interest rates were up in the 9%, 8% and therefore, from a personal perspective, there was an opportunity for somebody to remortgage and get it down in the 6%. That's why you'll see a greater churn on those books than you would on ours, where you're seeing our typical rate is around 6% mark.

Rodney Cook: Right, I need to just check whether there's a last question on the phone because we haven't looked after our people who have dialled in. Otherwise I have been advised our time expires.

Operator: For the listeners on the telephone line, if you wish to ask a question please press star, one on your telephone keypad and wait for your name to be announced.

Rodney Cook: Given that there are no questions and our allotted time passed a short while ago, and thank you very much for the stimulating questions and interest which has caused that timing and we look forward to seeing you again in November when we announce our third quarter IMS. Thank you very much.