ISSUED
24 December 2014

COMPANY PROFILE & FINANCIAL STRENGTH

REPORTS

Just Retirement

AKG

Accessible - Comparative - Independent

Analysis by AKG Actuaries & Consultants Ltd

Background

AKG's Company Profile & Financial Strength Reports are designed to meet the information needs of advisers in assessing the relative strengths of UK long term Insurers/Providers. Two different styles of report are published by AKG - FULL reports and SHORT reports. A FULL report is produced for each of the leading Provider companies in the market, which participate in the production of the reports. For each remaining Provider company which is covered, a SHORT report is produced.

This is a FULL report.

Each report collates relevant information from a range of sources such as a company's returns to the PRA, its Report & Accounts and material provided by the companies themselves, and incorporates expert independent assessment. For FULL report companies, the process is augmented by regular meetings and other communications with AKG.

PLEASE NOTE: This report should be read in conjunction with AKG's User Guide to AKG's Company Profile & Financial Strength Reports, a copy of which is available on-line at www.akg.co.uk.

About AKG

AKG is an actuarially based consultancy specialising in the provision of ratings, information and market assistance to the financial services industry.

Assistance to Provider Companies
AKG assists Providers in: Financial Strength analysis, ratings and presentation, Data and information provision, Actuarial consultancy, Distribution consultancy.

Assistance to Financial Intermediaries
AKG assists intermediaries in: Financial Strength analysis, Best Advice panel services, Data and information provision, Actuarial and technical support.

Regular Reports
AKG publishes the following additional reports to assist Providers and Intermediaries:

AKG Offshore Profile & Financial Strength Reports - covering offshore life assurance companies.

AKG Platform Profile & Financial Strength Reports - covering platform operations.

AKG UK Life Office With Profits Reports - providing further depth in the assessment of with profits funds.

For further details, please contact AKG: Tel: +44 (0)1306 876439 or email akg@akg.co.uk

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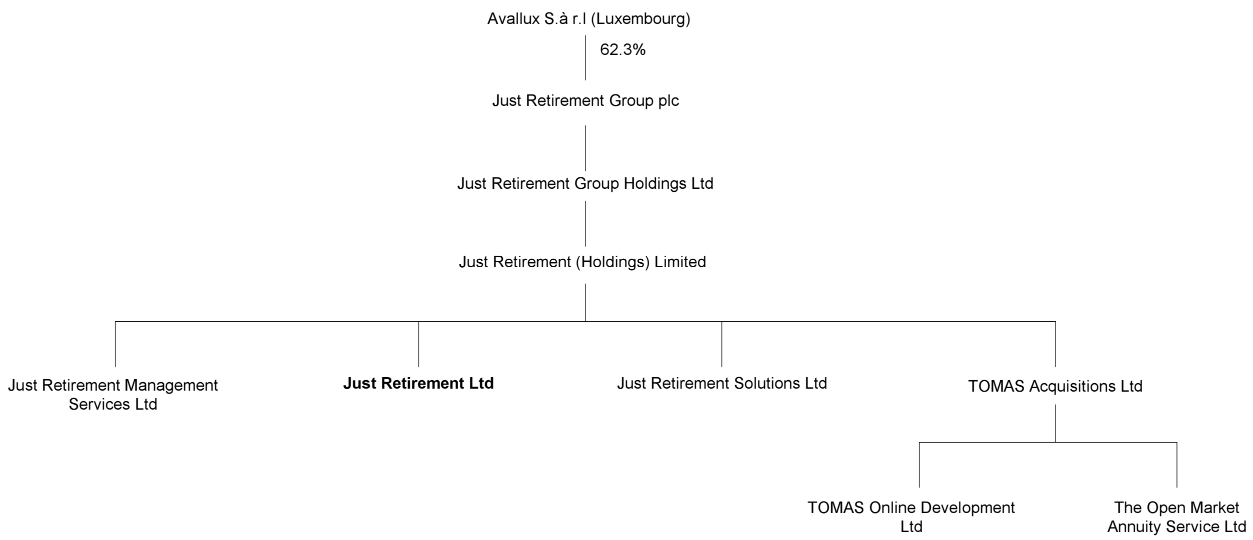
Group Overview

Just Retirement Ltd was launched in August 2004 as a provider of niche products for people at-or-in-retirement, having been established with financing from Langholm Capital Partners LLP (Langholm Capital), a private equity capital fund. In December 2006 the group carried out a successful IPO, with just over 20% of its issued shares being placed on AIM, raising an additional £56m in capital. At the same time the group launched its distribution business, Just Retirement Solutions Ltd. In October 2010 the group acquired The Open Market Annuity Service Ltd (TOMAS), a move designed to improve Just Retirement's presence in the annuity platform space.

In November 2009 Avalon Acquisitions Ltd (renamed Just Retirement Group Holdings Ltd in August 2013), a newly incorporated company owned by private equity funds advised by Permira Advisers LLP, acquired the entire issued and to be issued capital of Just Retirement Holdings plc, valuing the group at £228m. Avalon subsequently injected a further £25m into the group. At the same time the AIM listing was withdrawn. In June 2013, Just Retirement Group plc was established as the new group holding company in anticipation of an IPO. On 15 November 2013 the group was admitted to the London Stock Exchange, valued at around £1.1bn. Permira and other shareholders sold 19m shares equal to 3.8% of the shares on offer and the group raised around £280m after costs, to be used to strengthen its balance sheet and fund its growth strategy.

Permira was founded in 1985 as a number of country-specific separate businesses operating under the Schroder Ventures brand. In 1996, the UK, French, German and Italian teams joined together to create Schroder Ventures Europe and raised their first pan-European fund. In 2001, the firm was renamed Permira - a Latin word meaning 'surprisingly different'. Since the firm was founded the Permira funds have invested in the following three broad sectors - Consumer, Industrials, and Technology, Media & Telecoms (TMT), extended since then to include two international sector teams focusing on pursuing investment opportunities in the Financial Services and Healthcare industries. Permira also has a 21% shareholding in Acromas Holdings Ltd, which now owns 72% of Saga (the AA having been separately listed). Permira has made around 200 private equity investments and now has a global reach, with offices in Frankfurt, Guernsey, Hong Kong, London, Luxembourg, Madrid, Menlo Park, Milan, New York, Paris, Stockholm and Tokyo. Permira is currently invested in 28 companies around the world.

Corporate Structure (simplified)



Ratings

Company	Financial Strength Ratings				Supporting Ratings		
	Overall	With Profits	Non Profit	Unit Linked	Service	Image & Strategy	Annual Review
Just Retirement Ltd	B	▤	★★★★	★★★★	★★★★★	★★★	★★★★

Just Retirement Ltd

Corporate Data

Company Type	Life Insurer
Ownership	Avallux Sàrl (Luxembourg)
Open to New Business?	Yes
Year Established	2004
Head Office	Vale House Roebuck Close Bancroft Road Reigate Surrey RH2 7RU
Tel:	01737 233296
Website	www.justretirementgroup.com

Key Personnel

Chairman	T Cross Brown
Chief Executive	R Cook
Group Finance Director	S Thomas
Group Chief Actuary	S Deighton
Group Regulatory & Audit Director	S Kyle
Group Chief Operating Officer	C Berryman
Group Distribution & Marketing Director	D Cooper
Chief Risk Officer	A Duncan
Group HR Director	A Ridge
Medical Director	Dr T Crayford
Managing Director, Just Retirement Ltd	H McKee
Group Director, Business Development	P Turner
Actuarial Function Holder	P M Whitlock (Towers Watson)

Company Background

The company was established in 2004 with an initial capitalisation of £25m from private equity fund managers Langholm Capital. The group was floated on AIM in December 2006, raising an additional £56m. November 2009 saw the group acquired by Avalon Acquisitions Ltd, a company established by private equity advisers Permira and now renamed as Just Retirement Group Holdings Ltd.

Overall Financial Strength — B

The year ending June 2014 saw the company continue to grow, with long term assets increasing to £7.8bn, up by 20% from the previous year. The 2013 IPO raised £280m net of costs, £175m of which was made available to the company, £50m as equity [2013: £25m] and £125m as Tier 2 debt [2013: £54m]. This increased the CRR coverage from 170.5% in 2013 to 235.7% in 2014. Financial engineering, through reinsurance financing, remains an important part of the company's strategy. The company continued to trade profitably.

This healthy position was somewhat overshadowed by the March 2014 Budget statement with its significant implications for the decumulation market and the role of annuities within it; and resulting in significant share price falls for annuity providers. Time will tell how successful the company has been in reacting to the strategic challenge that this presents.

Reinsurance

Approach

The company paid reduced reinsurance premiums totalling £220m in 2014 [2013: £549m].

The company has historically reinsured 66% of the mortality risk under its individually underwritten annuity product. The lead reinsurer is Hannover Ruckversicherung AG, who are continuing to take 70% of the reinsurance, amounting to reserves of £2.6bn, £2.4bn of which was deposited back and premiums of £154.7m paid in 2014. The balance of the reinsurance, for business written up to 30 June 2012, when the treaty was closed to new business, has been provided by Achmea Reinsurance Ireland Ltd (previously called Eureko Reinsurance Ireland Ltd) but novated to Achmea Reinsurance Company N.V. (reserves ceded of £740.5m, deposited back of £697.0m and premiums refunded of £83.5m). For business written after 30 June 2012, the balance is now provided by RGA Americas Reinsurance Company Ltd (28.5% - reserves ceded of £345.5m, deposited back £325.1m and premiums paid of £141.5m) and RGA International Reinsurance Company Ltd (1.5% - reserves ceded of £18.2m, deposited back £17.1m and premiums paid of £7.4m).

These treaties provide for a capital contribution of 4.5% based on the premiums reinsured. At 30 June 2014 the company had utilised reinsurance financing of £98m [2013: £94m].

Analysis of Reserves	2012 £000's	2013 £000's	2014 £000's
Gross reserves	5,121,199	6,243,855	7,455,788
Reinsurance ceded - external	3,079,761	3,522,325	3,681,792
Reinsurance ceded - internal	0	0	0
Net mathematical reserves	2,041,438	2,721,530	3,773,996

Non Profit Business

General

Non profit business represents the overwhelming majority (96%) of net reserves. As at 30 June 2014 it related entirely to annuities in payment, with gross reserves of £7.2bn.

Non Profit Reserves	2012 £000's	2013 £000's	2014 £000's
UK Life	5,929	7,280	8,789
UK Pensions	1,993,189	2,660,154	3,623,906
Overseas	0	0	0
Total net NP reserves	1,999,118	2,667,434	3,632,695

Non Profit Financial Strength ★★★★

As the major business line, non profit business enjoys the support of the reinsurance arrangements in addition to the capital resources within the company and the group, boosted by the additional capital raised through the IPO.

Unit Linked Business

Approach
The company does not write property linked investment business. However, there is a small amount (£214.6m gross and £141.3m net as at 30 June 2014) of index linked business, relating entirely to index linked annuities in payment.

Linked Reserves	2012 £000's	2013 £000's	2014 £000's
UK Life	0	0	0
UK Pensions	42,320	54,096	141,301
Overseas	0	0	0
Total net linked reserves	42,320	54,096	141,301

Unit Linked Financial Strength ★★★★
The index linked business represents a small fraction of the company's liabilities. AKG considers that similar considerations apply as to the more dominant non profit line.

With Profits Business

The company does not have any With Profits business, so this section does not apply.

Key Financial Data (for y/e: 30/06/14)

Long Term Business Admissible Assets	2012 £000's	2013 £000's	2014 £000's
Fixed Interest	2,958,665	3,695,140	4,118,335
Equities	0	0	0
Property	0	0	0
Linked	42,321	54,096	137,201
Other	2,360,052	2,733,019	3,536,149
Total Assets	5,361,038	6,482,255	7,791,685

Assets are primarily fixed interest (reflecting the nature of the liabilities), with the majority of the balance, shown under Other in the table above, comprising some £3.3bn [2013: £2.5bn] of lifetime mortgages.

LT Capital Resources	2012 £000's	2013 £000's	2014 £000's
Core tier one capital	297,228	404,710	562,669
Tier one waivers	0	0	0
Other tier one capital	0	0	0
Tier one deductions	-36,574	-41,191	-57,589
Total tier one capital	260,654	363,519	505,080
Tier two capital	0	54,000	179,000
Adjustments and deductions	0	-6,152	-8,527
Total Capital Resources	260,654	411,367	675,553
CR outside the fund	11,017	87,549	256,245

Capital resources again increased significantly, up £264m in 2014, boosted by retained statutory profits of £108m, a £50m capital injection and a loan of £125m.

LT Free Assets	2012 £000's	2013 £000's	2014 £000's
Available Capital Resources	260,654	411,367	675,553
Capital Resources Req't (CRR)	192,866	241,294	286,585
Free Assets (Published)	67,788	170,073	388,968
Financial Engineering	86,809	94,380	98,194
Free Assets (Exc Fin Eng)	-19,021	75,693	290,774

LT Free Asset Ratios	2012 %	2013 %	2014 %
FAR (Published)	1.3	2.6	5.0
FAR (Exc Fin Eng)	-0.4	1.2	3.7

LT CRR Coverage Ratios	2012 %	2013 %	2014 %
CRRCR (Published)	135.1	170.5	235.7
CRRCR (Exc Fin Eng)	90.1	131.4	201.5

Both the free asset ratio and CRR coverage increased significantly in 2014, with a CRR coverage of 235.7%. The group economic capital ratio increased from 124% to 178%, considerably exceeding the target of 140%.

Long Term Business Liabilities & Margins	2012 £000's	2013 £000's	2014 £000's
Non Linked Non Profit	1,999,118	2,667,434	3,632,695
Non Linked With Profits	0	0	0
Accum'lg With Profits	0	0	0
Linked	42,320	54,096	141,301
Surplus c/f	249,637	323,818	419,308
Other liabilities	3,069,962	3,436,907	3,598,381
Investment Reserves	0	0	0
Total Liabilities/Margins	5,361,037	6,482,255	7,791,685

The extent, albeit reducing, to which the company makes use of reinsurance is clear, with "Other liabilities" including £3.5bn of reinsurance deposited back, which represents 44% of the total liabilities and margins [2013: 51%]. The year saw a further reduction in the company's Pillar 1 default assumptions (83bps to 64bps). The company has experienced no defaults to date. The company has been granted a PRA waiver allowing it to use an asset valuation rate more appropriate to its matched position.

Key Revenue Items	2012 £000's	2013 £000's	2014 £000's
INCOME			
Premiums	514,222	794,484	1,054,073
Investment Income	138,166	175,600	204,506
Investment Increase	541,996	117,913	419,552
EXPENDITURE			
Commissions	36,263	35,354	25,662
Policy claims	116,009	153,896	215,665
Expenses	65,952	78,358	86,999
Transfer to P&L	-43,641	0	0
Increase in fund	708,668	754,273	1,147,956

New business volumes reduced by 5% in 2014, with gross premiums also reducing by 5% to 1.3bn. Net premiums grew by 32.7% to £1.1bn. Commissions reduced by 27.4%. Expenses rose by 11%, however, as one off expenses increased by 146% from £5.8m to £14.4m. The transfer into the long term fund in 2012 was to support changes to the valuation basis. Claims relate almost entirely to annuity payments and are growing in line with the underlying business.

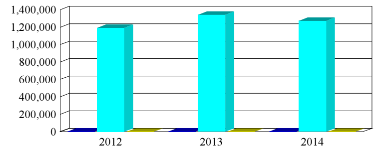
Expense Ratios	2012	2013	2014
New business (% APE)	69.4	69.8	66.7
Renewal (% reg premiums)	n/a	n/a	n/a
Renewal (% p.a. of mean fund)	0.42	0.34	0.39

The new business expense ratio reduced a little in 2014, whilst the renewal expense ratio, expressed as a percentage of the mean fund, similarly increased.

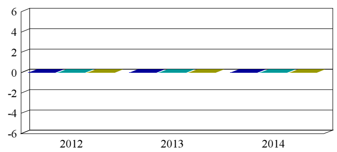
New Business Data (for y/e: 30/06/14)

		Single £000's	Regular £000's
Investment			
Bonds	With Profits	0	0
	Unitised WP	0	0
	Unit Linked	0	0
Endowment	With Profits	0	0
	Unitised WP	0	0
	Unit Linked	0	0
Guaranteed Bonds		0	0
ISA / tax exempt		0	0
Annuities		0	0
Miscellaneous		0	0
Total Investment		**0**	**0**
Protection			
Whole Life	With Profits	0	0
	Unitised WP	0	0
	Unit Linked	0	0
Term	Ordinary	0	0
	Pension	0	0
IP	Individual	0	0
Critical Illness		0	0
Long Term Care		2,181	0
Miscellaneous		0	0
Total Protection		**2,181**	**0**
Pensions			
Individual	With Profits	0	0
	Unitised WP	0	0
	Unit Linked	0	0
CPA		20,345	0
CPA (Impaired Life)		1,085,802	0
Bulk Transfer Annuities		92,181	0
Miscellaneous		73,680	0
Total Pensions		**1,272,008**	**0**
Group Business			
Pension		0	0
Life		0	0
IP		0	0
Critical Illness		0	0
Miscellaneous		0	0
Total Group Business		**0**	**0**
TOTAL DIRECT BUSINESS		**1,274,189**	**0**
Overseas Direct *(incl above)*		0	0
External Reins *(excl above)*		0	0
Intra-Group Reins *(excl above)*		0	0
Industrial Branch *(incl above)*		0	0

New Single Premiums	2012 £000's	2013 £000's	2014 £000's
UK Life	2,312	2,122	2,181
UK Pensions	1,192,564	1,341,758	1,272,008
Overseas	0	0	0
Total (Direct + External Reins)	1,194,876	1,343,880	1,274,189
Growth Rate	33.8%	12.5%	-5.2%
Reins Accepted (Intra-Group)	0	0	0



New Regular Premiums	2012 £000's	2013 £000's	2014 £000's
UK Life	0	0	0
UK Pensions	0	0	0
Overseas	0	0	0
Total (Direct + External Reins)	0	0	0
Growth Rate			
Reins Accepted (Intra-Group)	0	0	0



Total sales in the year, including lifetime mortgages, increased by 6% to £1.75bn.

Annuity sales shown in the tables reduced by 5.2%, from a previous year's record performance of £1.3bn to £1.2bn. This included for the first time £92.1m of defined benefits de-risking solutions. Sales of fixed term annuities reduced by 6.5% from £78.8m to £73.7m.

At 33%, the company claims the largest share of the individually underwritten annuity market, the second largest share (around 20%) in the Open Market Option (OMO) market and the third largest share (11%) in the overall annuity market.

New lifetime mortgage advances, not shown here, included a single wholesale transaction of £59.6m and increased by 54% from £309.7m to £476.4m, representing 40% of annuity premium (ahead of the company's target of 25%, with steps being taken to address this). The company is the UK's second largest lifetime mortgages provider, with a market share of around 28%.

Distribution

Method

The primary focus remains on the intermediary market although the company is seeking, and will continue to seek, to widen and re-balance its distribution through the development of other complementary channels. In particular this widening has seen a successful entry into the Defined Benefit de-risking market. Buy-out and Buy-in support delivered in this sector is a key avenue for growth, particularly post March 14 Budget.

Within the 'mainstream' intermediary channel the company feels that it is now well placed to take advantage of many of the changes that have resulted from the Retail Distribution Review (RDR). Other external distribution is also being targeted with initial new relationships with aggregators and media organisations being positive indications in this respect. Within its two core product sectors Just Retirement maintains a spread of distribution outlets. In the individually underwritten annuity market it is seeking to maintain its connection with Networks and Specialists whilst growing the relationships with Regional intermediaries and EBCs (where the new DB offering will provide further impetus). In the lifetime mortgage market again Specialists will remain key whilst the Regional Intermediaries and Networks will be targeted for growth.

Underpinning development has been the increasing use of technology, including tele-interviewing and electronic CQF (Common Quotation Form). The acquisition of The Open Market Annuity Service (TOMAS) is also seen as a prime enabler.

2006 saw the group launch Just Retirement Solutions Ltd, its distribution arm now used to support the wider distribution capabilities referred to above.

Distribution Split	Regular Premium %	Single Premium %
IFAs	0.0	100.0

Image and Strategy ★★★

The company's strategy remains focused firmly on the at and in-retirement market where it seeks to leverage its experience, specific expertise and intellectual property. The individually underwritten annuities and lifetime mortgages sectors continue to be the prime emphasis but the group is intent on some diversification around, and building on, this market focus. An example having been the launch of a buy-out/buy-in proposition for small DB schemes in 2012, which contributed £92m in 2013/14. In Q1 2014/15 DB sales were £25m, excluding a £75m deal, which was announced in October 2104. In 2013, Just Retirement launched its long term care and immediate needs annuity proposition.

Following the March 2014 Budget, the company has a clear imperative to adjust and develop its proposition in the light of implications for annuity volumes. A cost base reduction has been implemented to reflect reduced annuity new business volumes in the short to medium term whilst additional budget has been allocated to development work. Its ability to prosper as an independent entity in the long term, will be determined by this strategical proposition reaction to this changed landscape.

Overall, Just Retirement can point to a track record of success in its designated areas with a substantial market share in its chosen markets.

Products/Proposition

Overall Product Philosophy

With its strategy firmly focused on the at-and-in-retirement market, the company has two core products; individually underwritten annuities and lifetime mortgages. Its first product launched was an enhanced pension annuity backed by a streamlined underwriting process. The company adopts a 'relatively active' pricing policy focusing on optimising margins and volumes while remaining competitive. The company subsequently launched its lifetime mortgage products in October 2005.

A capped drawdown product, known as a fixed term annuity (FTA), was launched in June 2011. Having introduced the UK's first 'enhanced annuity conversion feature' into the FTA, allowing customers who become ill during the fixed term to convert into an individually underwritten annuity, the company subsequently extended the flexibility of the conversion feature in response to competition.

The company sees potential in extending its product reach whilst retaining its focus around its core offerings. Possible product variations include long term care, immediate needs annuities, as well as lifetime mortgages variations and investment linked annuities.

In late 2012 the company launched its Defined Benefit offering, targeted at small defined benefit schemes looking for de-risking solutions, with the first scheme completed in September 2013.

The More2Life Interest Serviced Mortgage was launched in December 2012, the same month in which sales of Just Retirement's Lifetime Income Plan ceased.

In August 2013 Just Retirement entered the long term care market, initially providing care annuities to financial intermediaries and strategic partners. It has also extended its proposition into underwritten lifetime mortgages.

A one year fixed term annuity was launched in response to the 2014 Budget.

Products Currently Marketed

Pension Products

Individually Underwritten Immediate Annuities
Fixed Term Annuities

Group Products

Bulk Purchase Annuities

Other Products

Lifetime Mortgages

Product Awards and Benchmarks

The company has won a number of product focused awards since its launch, including recently a Moneyfacts 5 star rating for its Roll Up Life Time Mortgage Plan and a Moneywise 2013 award for best individually underwritten annuity Provider.

Service

★★★★★

Approach

Since launch the management's philosophy is that it believes the quality of service to the intermediary is a key driver to its long term success. The RDR has accentuated the need for cost-efficient and transparent service offerings and Just Retirement believes that it is well placed, having constructed the appropriate infrastructure and developed a strong reputation, to thrive in the changed environment.

The strategy is to utilise the benefits of technology to improve the quality of its service and proposition whilst also controlling costs. Overall the company regards service quality and customisation to be key factors for selection in its chosen markets.

All areas of operations have published and measured service standards. The company compares well against these whether judged by customer satisfaction rates or by independent research.

e-Business

As above the use of technological solutions is seen by the company as a key part of enabling the development of the market and its own growth. As well as its own web presence the company continues to develop links with portal services and is keen to meet the requirements of its distributors as they evolve.

2006 saw the launch of a real-time annuity service for intermediaries, in partnership with the Exchange. 2009 saw the development of a web based annuity service and in 2010 the company acquired TOMAS.

The company continues to make enhancements in areas such as form design and tele-underwriting to ensure its service remains at the forefront of the sector in this respect. Internally it has invested heavily in its systems for appropriate underwriting, with current activity now able to make use of Prognosys systems to which significant developmental effort has been directed in recent years.

Service Standards & Awards

The company has a clear emphasis on service and reputation and it is committed to delivering an excellent level of service and views Service Awards and benchmark ratings as a crucial element in illustrating and underlining its position. Service awards to date support this aim.

The company is well recognised in service awards and measures, and continues to win 5 Star Financial Adviser Service Awards, plus Money Marketing Awards for Service in the annuity sector specifically and FT Adviser awards for the online component of its service offering. A strong performance is also recorded in external benchmark studies such as the LAMRA customer satisfaction survey and extensive internal exercises; a number of which were updated recently to capture new feedback at a transactional level.

Outsourcing

Whilst there is no significant outsourcing of administration processes in respect of individually underwritten annuities, the company does outsource aspects of lifetime mortgages administration; specifically title insurance and elements of post offer/completion work. Administration of acquired Defined Benefit schemes is outsourced to JLT.

Investment

Overall Approach

Since outset, the company had used Robeco, an investment house based in the Netherlands and experienced in the matching of liabilities with appropriate fixed interest investments, as the sole manager of the bond portfolio. This changed in 2012, when Just Retirement appointed an additional fund manager, BlackRock. BlackRock has since taken on further responsibility for specific sectors such as industrials and utilities within the public bond portfolio. Blackrock manages approximately £1.5bn in assets. In June 2014, MetLife was appointed to manage £250m in private bond issues.

Lifetime mortgages products complement the annuity business, with a controlled proportion of annuity proceeds being invested in lifetime mortgages. In essence lifetime mortgages products are an investment of annuity funds on more favourable terms than normally available through corporate bonds, the more conventional investment medium for annuities. Whilst potentially providing a higher return, this diversifies the investment portfolio and is therefore beneficial from an ICA and a Solvency II perspective. A small proportion of the funds are invested in index-linked gilts to match indexed annuities.

Funds Under Management

As at 30 June 2014, the company had gross funds under management of £7.5bn [2013: £6bn].

Annual Review

★★★★

The year to June 2014 saw total new business volumes increase by 6%, reaching a new record of £1.75bn, with the company retaining its number one market share in the individually underwritten annuity market There were capital injections and loans totalling £175m, taking solvency levels above management's target solvency level.

The company retained its 5 star service ratings amongst other positive measures and was ranked 74 in the Sunday Times 100 best companies to work for in 2014.

The company declared increased pre-tax profits of £132.7m [2013: £104.5m] and again did not declare a dividend for the year [2013: nil].

Just Retirement Group plc reported a 3% fall in underlying pre-tax operating profit of £97m [2013: £100m]. The group embedded value increased from £796m to £959m, including the proceeds of the IPO.

The successful listing in November 2013 saw the group raise around £280m net of costs, so improving its capital position, whilst also giving Permira the mechanism for an orderly exit. This has been overshadowed to some extent by the 2014 budget, which has led to the group implementing £14m of targeted savings. A one year fixed term annuity was also launched. The group is undeniably facing significant challenges; dominated by the prospect of a radically different decumulation landscape from 2015, which has seen a fall in share price and a scaling back of operations. Further strategic adjustment to this new reality will be crucial.

Financial Strength Ratings - Introduction

The aim of AKG's financial strength ratings is to assist advisers and others to assess the relative strengths of individual provider companies. AKG's concept of 'financial strength' starts with the fundamental issue of a company's ability to meet all of its guaranteed payments to policyholders, but extends beyond this by aiming to factor in the degree to which a policyholder's expectations are likely to be met - or even exceeded - in the long-term. For performance-related products, where the eventual return generally depends largely upon a company's success in consistently delivering superior investment performance, and in containing expense charges, a company's ability to meet expectations is likely to be heavily dependent upon whether or not it is able to sustain its operations in the relevant market, and whether or not it can maintain, or improve, its competitive position.

As a result, AKG believes that, ideally, the evaluation of 'financial strength' should depend upon the type of product under consideration. A particular company may be judged as very strong in the context of one particular product line, but it may be weaker in another context. An illustration of this concept is a company that currently only markets unit linked business, but which has a very small closed block of with profits business, written many years ago. Such a company may be judged as 'good' for unit linked business, whilst considered 'poor' in respect of with profits business.

Since the inception of AKG's Company Profiles and Financial Strength Reports, AKG has consistently promoted and developed the concept of providing financial strength ratings separately for each of the three major product categories - With Profits, Non Profit and Unit Linked.

All AKG's financial strength ratings should be used with care, since even the more detailed approach described above represents something of a simplification. To illustrate this point, for example, the 'Non Profit' category covers a multiplicity of different products. It is clear that slightly different criteria should be used for, say, short-term policies with fully guaranteed terms (e.g. Guaranteed Bonds), than for longer-term policies with terms that can be varied at the company's discretion (e.g. Renewable or Reviewable Term).

AKG assesses financial strength using consistent methodology and objective measures wherever possible, and based on the detailed analysis of the company's particular strengths and weaknesses. The objectives and criteria for each of the financial strength ratings are summarised below:

With Profits Financial Strength Rating

The objective is to assess the overall strength of the company's with profits funds. The initial concern is the company's ability to meet its ongoing guaranteed, or promised, commitments, i.e. existing sum assured and bonuses. However, the company's ability to continue to compete successfully in the with profits market is also particularly relevant, given that closed funds are sometimes bad news for policyholders. In such situations, overall expenses tend to increase as a proportion of the fund and investment performance may well deteriorate. These, together with other factors, may make it difficult for companies in such situations to maintain competitive bonus rates at future declarations, although existing declared bonuses are not affected (other than possibly by MVRs).

☆☆☆☆☆	Excellent
☆☆☆☆	Very good
☆☆☆	Good
☆☆	Adequate
☆	Poor
▤	Not rated

The main criteria taken into account are: capital base and free asset position, with profits realistic balance sheet position, the amount of with profits business in-force, parental strength (and likely attitude towards supporting the company), and image and strategy.

NOTE: More detailed analysis of with profits companies is included in AKG's UK Life Office With Profits Report.

Non Profit Financial Strength Rating

The objective is to assess the company's ability to meet all guaranteed payments arising from such contracts as term plans, annuities etc.

☆☆☆☆☆	Excellent
☆☆☆☆	Very good
☆☆☆	Good
☆☆	Adequate
☆	Poor
▤	Not rated

The main criteria taken into account are: free assets, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), and image and strategy.

Unit Linked Financial Strength Rating

Whilst this is essentially a non profit line, and the primary objective is to assess the company's ability to meet all guaranteed payments arising, AKG also seeks to take into account the extent to which the company is likely to be able to sustain its unit linked operations, and whether or not it is likely to be able to maintain, or improve, its competitive position. Thus strategic issues are also relevant, because of their bearing on the quality of investment management offered, and because of companies' rights to increase charges etc.

☆☆☆☆☆	Excellent
☆☆☆☆	Very good
☆☆☆	Good
☆☆	Adequate
☆	Poor
▤	Not rated

The main criteria taken into account are: free assets, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), typical fund performance achievements, and image and strategy.

Overall Financial Strength Rating

The objective is to provide a simple broad-brush indication of the general financial strength of a company. In addition to an assessment of the company's ability to meet all of its guaranteed payments to policyholders, AKG also aims to factor in the degree to which policyholders' expectations are likely to be met - or even exceeded - in the long-term. This involves an assessment of a company's ability to survive in its current form for the long term. The overall rating inherently reflects the mix of business in-force within the company, since different types of policyholder have different expectations, and the company's particular strengths and weaknesses in respect of its key product areas.

A	Superior
B+	Very strong
B	Strong
B-	Satisfactory
C	Weak
D	Very Weak

The rating takes into account those of the following criteria which are relevant (depending upon the company's mix of business in-force): capital base and free asset position, with profits realistic balance sheet position, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), typical fund performance achievements, and image and strategy.

Supporting Ratings - Introduction

Supporting ratings are provided only in full reports, and are assessed at the brand level. AKG assesses three key supporting areas, using consistent methodology and objective measures wherever possible. The aim is to assist advisers and others to consider the relative merits of the brands that they deal with. AKG's objectives and criteria for each of these ratings are summarised below:

Service Rating

The objective is to assess the quality of the organisation's service to the intermediary market in respect of the brand concerned.

Criteria taken into account include: performance in surveys, awards and benchmarking exercises (external and internal), the organisation's philosophy, service charters, the extent of investments designed to improve service, and feedback from intermediaries.

☆☆☆☆☆	Excellent
☆☆☆☆	Very good
☆☆☆	Good
☆☆	Adequate
☆	Poor
▤	Not rated

Image and Strategy Rating

The objective is to assess the effectiveness of the means by which the organisation currently positions itself to distribute its products for the brand concerned and the plans it has to maintain and/or develop its position.

Criteria taken into account include: overall trends in the company's market share position, brand visibility and reputation, feedback from intermediaries and industry commentators, and AKG's view of the company's general strategy.

☆☆☆☆☆	Excellent
☆☆☆☆	Very good
☆☆☆	Good
☆☆	Adequate
☆	Poor
▤	Not rated

Annual Review Rating

This is an end of year view for the last year for which Report and Accounts, returns to the PRA, etc., are available, together with comment on any significant post-balance sheet events. It is an assessment of how the brand has fared against its peers, and how it is perceived externally.

Criteria taken into account include: increase/decrease in market shares, expense containment, publicity - good or bad, press or market commentary, regulatory fines, and competitive position.

☆☆☆☆☆	Excellent
☆☆☆☆	Very good
☆☆☆	Good
☆☆	Adequate
☆	Poor
▤	Not rated

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AKG is an actuarially based consultancy specialising in the provision of ratings, information and market assistance to the financial services industry