

# Just Retirement

Interim results for the six months to 31<sup>st</sup> December 2014

24<sup>th</sup> February 2015

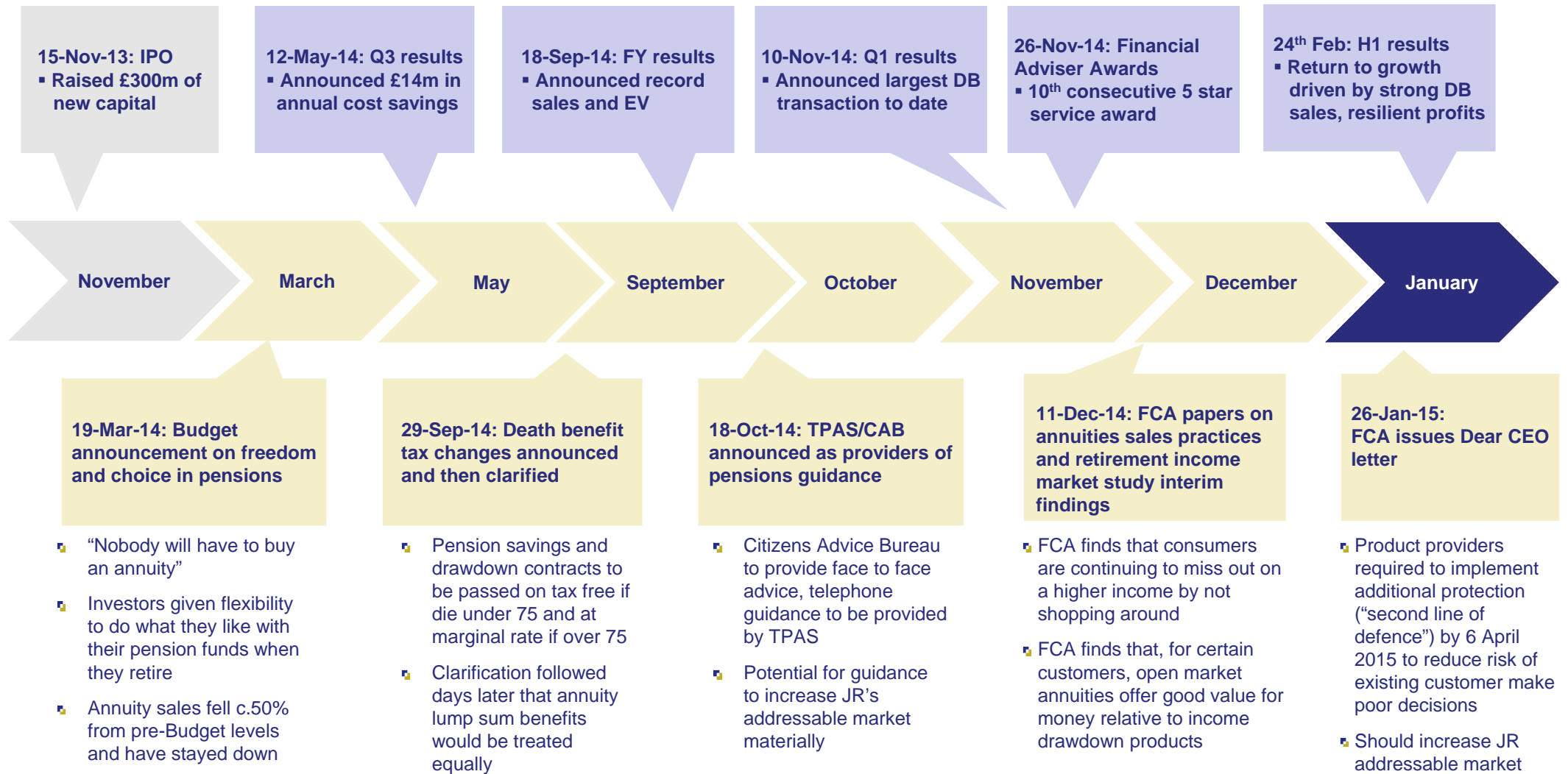
Rodney Cook

Group CEO

# Agenda

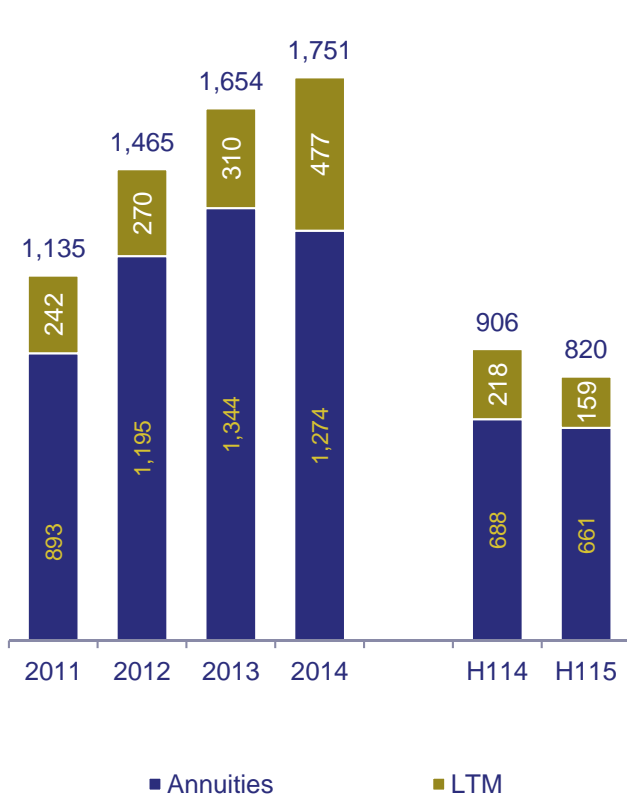
- Business Update – Rodney Cook
- Financials – Simon Thomas
- Our products in the new world – David Cooper
- Outlook – Rodney Cook
- Q&A

# A year of unprecedented change

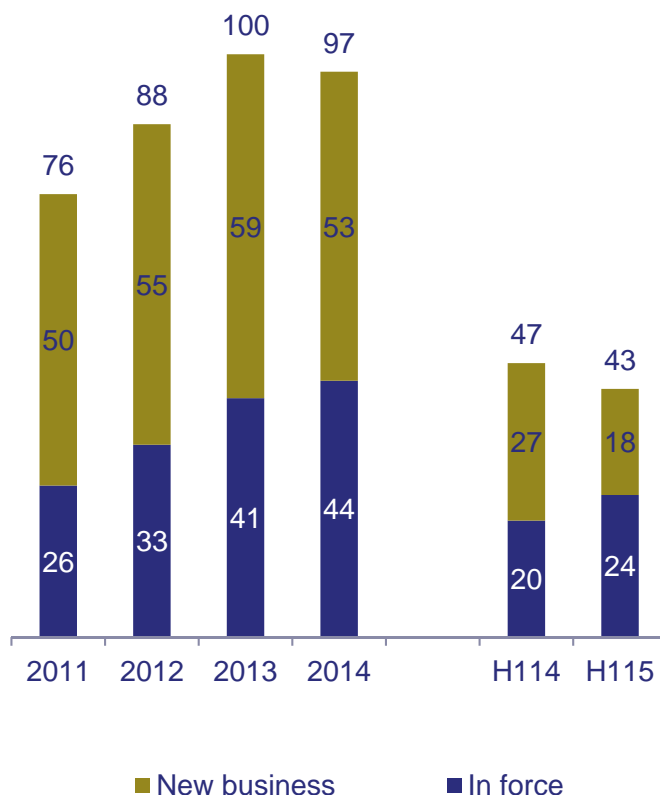


# Resilient sales and operating profits, record embedded value

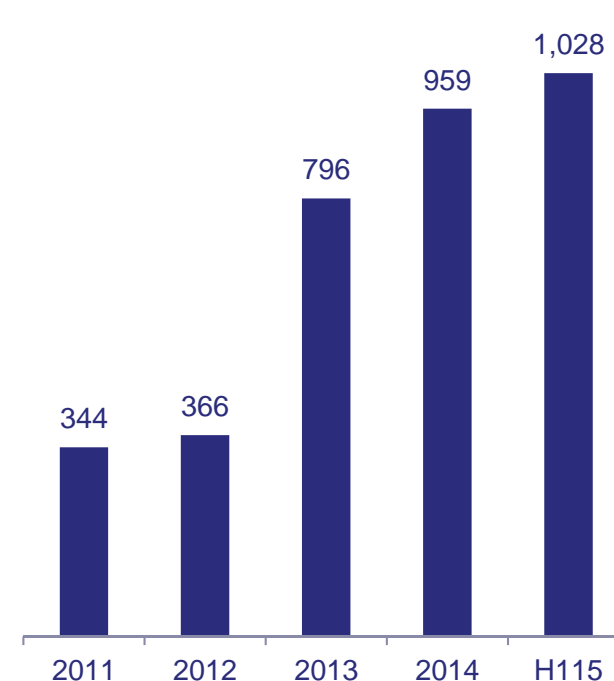
**New business sales<sup>1</sup>, financial year £m**



**IFRS underlying op profit<sup>2</sup>, financial year £m**



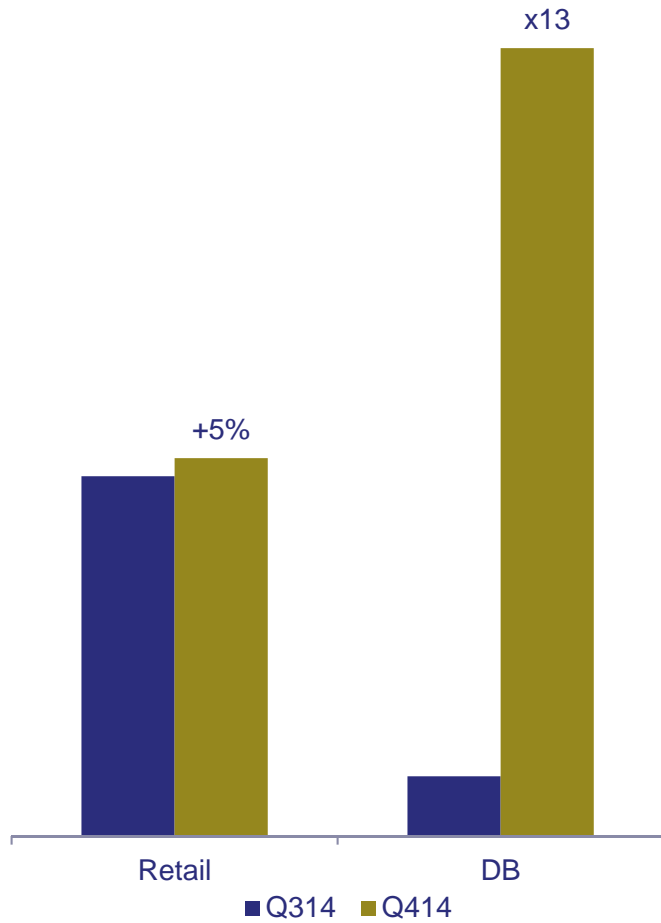
**Embedded value<sup>3</sup>, financial year £m**



Source: Just Retirement. Note: 1. including DB 2 Normalised new business operating profit for the year ended 30 June 2011 shown (excludes exceptional profit of £14m).  
3 Chart shows JRH up until FY12, JRG plc pro forma for 2013 including IPO proceeds

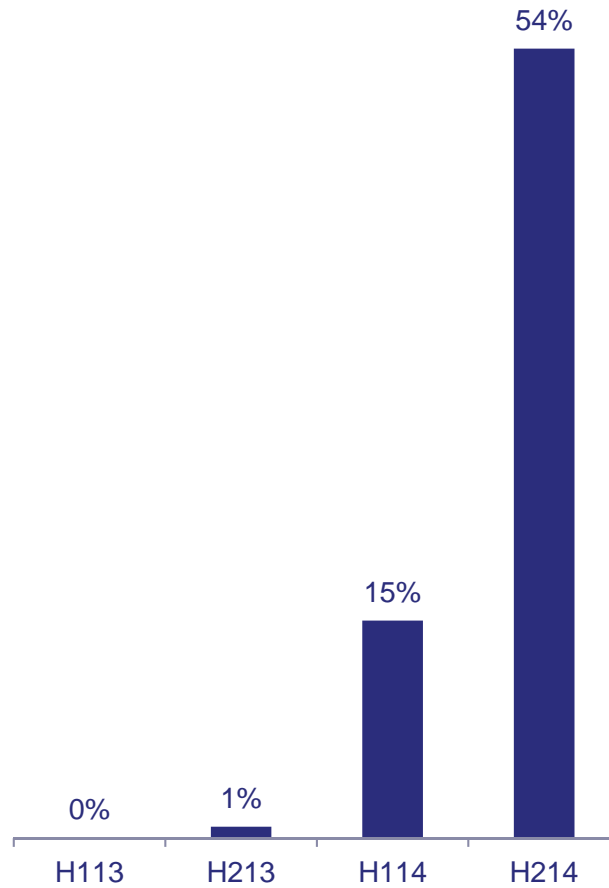
# Diversifying at pace, growing again

## Growth resumes for IUA's, accelerates for DB

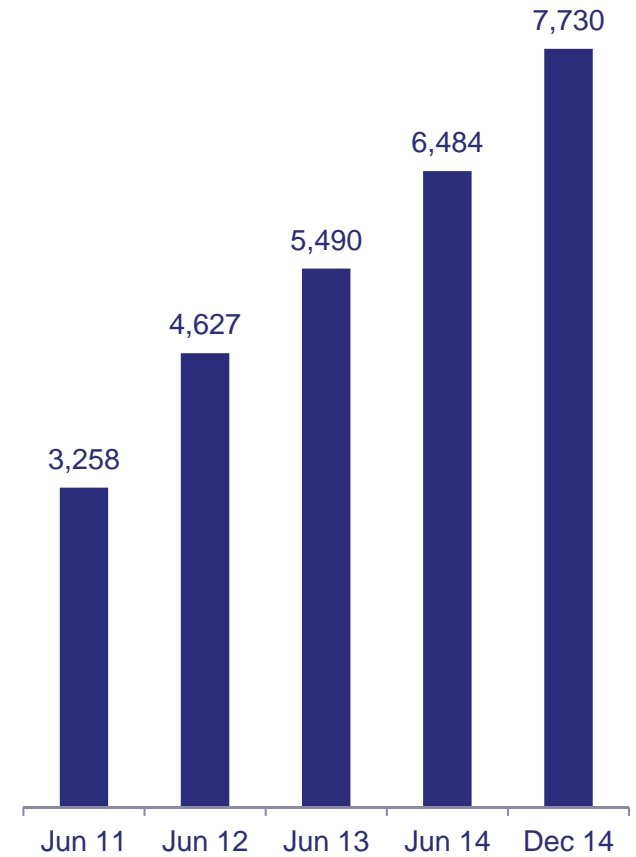


## Transforming our business mix

### DB % total annuity sales



## Continued growth in liabilities (£m)

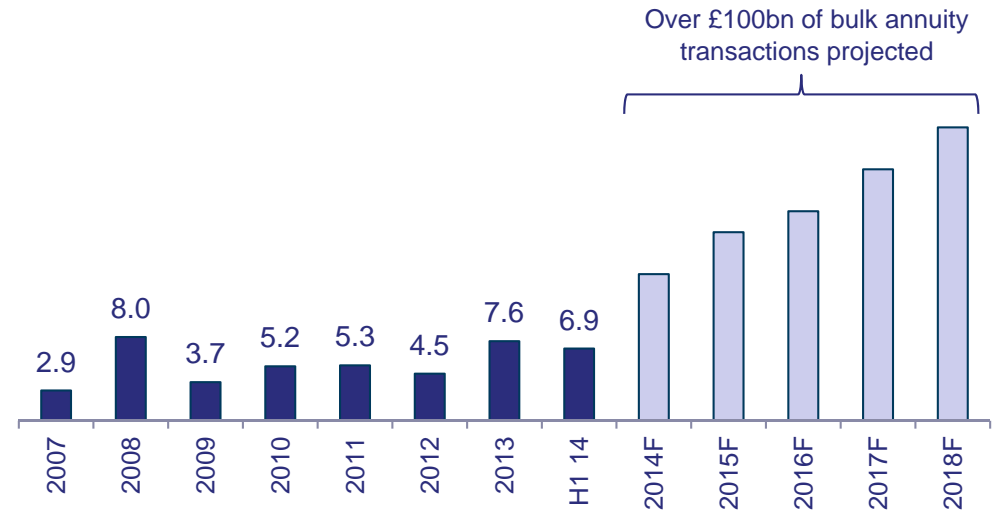


# DB de-risking: significant market potential

- UK is one of the largest private DB markets in the world
  - over 6,000 pension plans with liabilities of c.£1.7trillion
- Market forecasts expect over £100bn of bulk annuity transactions from 2014-2018F
- The medically underwritten DB de-risking market is growing rapidly and has been unaffected by the Budget
  - Growing interest from pension schemes of all sizes
  - Hymans Robertson expect medically underwritten buy-ins to reach £500m by the end of 2014
- Just Retirement targets schemes with fewer than 300 lives, and AUM below £200m, but has the flexibility to top-slice larger schemes
  - Whilst small schemes represent a relatively modest proportion of total pension scheme liabilities, the absolute size of liabilities is substantial and the number of schemes in need of de-risking solutions is large

(1) Source: Hymans Robertson, Oliver Wyman, KPMG  
 (2) Source: The Purple Book 2014

Projected bulk annuity transactions (£billion)<sup>(1)</sup>



Profile of UK pension scheme assets and liabilities (buy-out basis)<sup>(2)</sup>

Members by size band	Number of schemes	Assets (£bn)	Liabilities (£bn)	No. of members	% of pensioner members	
5 to 99	2,188	13	18	95,917	38%	Core target market
100 to 999	2,684	102	154	942,986	35%	
1,000 to 4,999	802	175	266	1,790,736	36%	Top slicing and selective annuitisation
5,000 to 9,999	188	139	204	1,315,962	38%	
10,000 and over	208	708	1,049	6,952,069	39%	
<b>Total</b>	<b>6,070</b>	<b>1,138</b>	<b>1,690</b>	<b>11,097,670</b>		

Simon Thomas

Group CFO



# Summary IFRS results

<b>IFRS operating profit (£m)</b>	<b>H1 2015</b>	<b>H1 2014</b>	<b>+/-%</b>
IFRS new business operating profit	18.2	27.1	-33%
IFRS in-force operating profit	24.4	20.2	21%
<b>IFRS underlying operating profit</b>	<b>42.6</b>	<b>47.3</b>	<b>-10%</b>
Operating variances and assumption changes	-1.2	-0.3	300%
Reinsurance and bank finance costs	-6.5	-7.0	-7%
<b>IFRS operating profit</b>	<b>34.9</b>	<b>40.0</b>	<b>-13%</b>
Non-recurring and project expenditure	-9.9	-4.4	125%
Investment and economic profits/(losses)	-32.3	8.5	N/M
<b>Profit before corporate costs</b>	<b>-7.3</b>	<b>44.1</b>	<b>N/M</b>

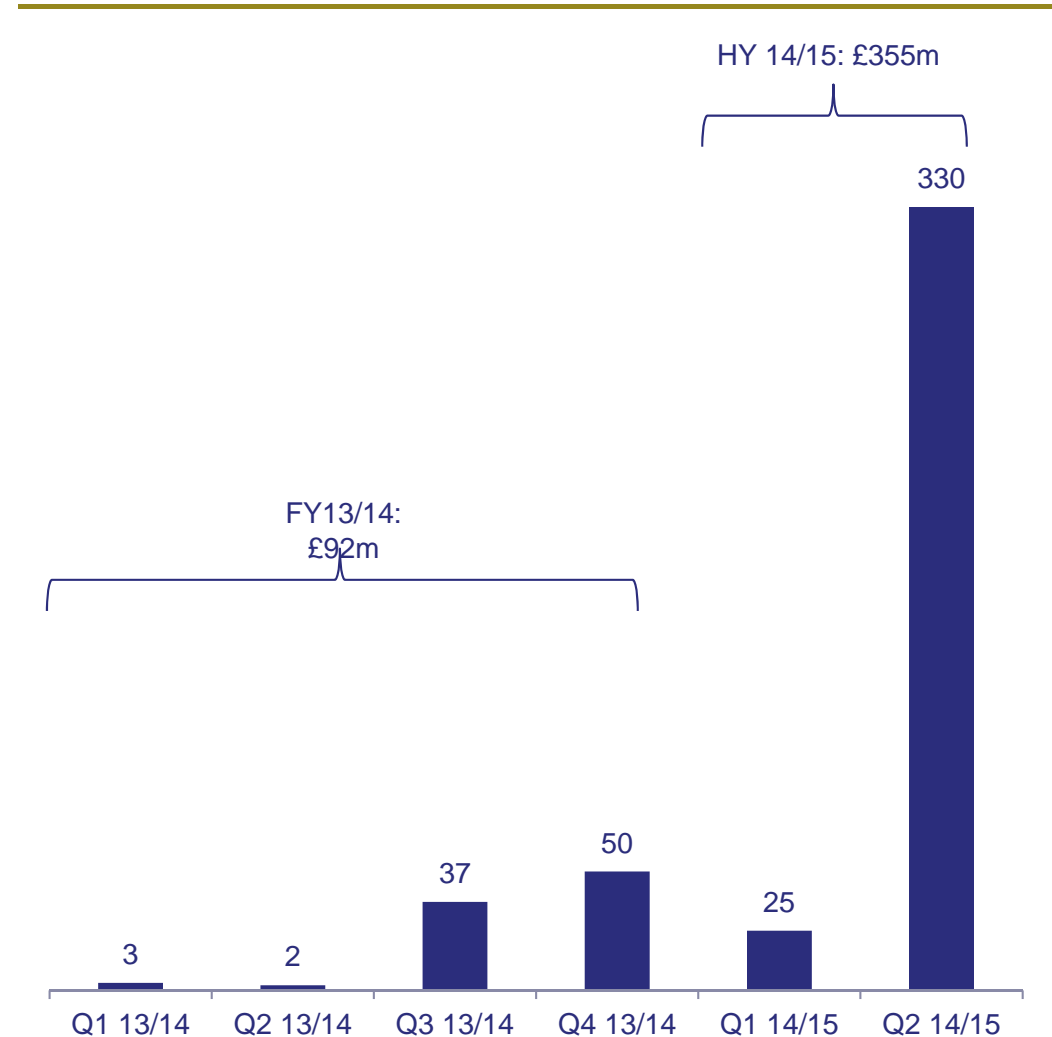
# Q2 sales: return to growth

	New business premiums £m	2Q 14/15	2Q 13/14	% change	
<b>IUAs</b>	Individually underwritten annuities	141.9	332.5	(57)	<ul style="list-style-type: none"> <li>In line with the rate of year on year decline in the previous quarter</li> </ul>
<b>FTAs</b>	Fixed term annuities	15.1	16.2	(7)	<ul style="list-style-type: none"> <li>Stability reflects success of one year FTA</li> </ul>
<b>DB</b>	Defined benefit solutions	329.9	2.2	n/m	<ul style="list-style-type: none"> <li>Strong momentum in DB sales includes two schemes of £75m and £76m, reflecting lumpy nature of market</li> <li>Prospects remain positive for this growing market</li> </ul>
	<b>Total annuities</b>	<b>486.9</b>	<b>350.9</b>	<b>39</b>	<ul style="list-style-type: none"> <li>Return to growth in annuity sales driven by DB</li> </ul>
<b>LTMAs</b>	Lifetime mortgage advances	78.2	113.2	(31)	<ul style="list-style-type: none"> <li>Advances back in line with 25% of annuities target</li> </ul>
	<b>Total new business sales</b>	<b>565.1</b>	<b>464.1</b>	<b>22</b>	<ul style="list-style-type: none"> <li>Market expectations for full year sales look increasingly conservative, given first half volumes</li> </ul>

# DB de-risking: a core activity with strong momentum

- Just Retirement utilises both underwriting data and leading service proposition to enable market penetration in our selected segment
- We achieved sales of £92m in FY13/14 (FY12/13 - £nil) and wrote £355m in 1H 14/15 (1H 13/14 - £5.4m). DB sales surpassed the level of IUA sales in H1 14/15
- Q2 14/15 was exceptional, but prospects remain positive for this growing market
- We estimate that of the £7.6bn total DB market in 2013, c.£1.0-1.5bn would have been suitable targets, suggesting real room for growth
- DB pension indexation also means these liabilities are usually an excellent match for our longer duration LTMs, supporting the opportunity to grow our LTM sales

DB sales quarterly progression (£m, FY)

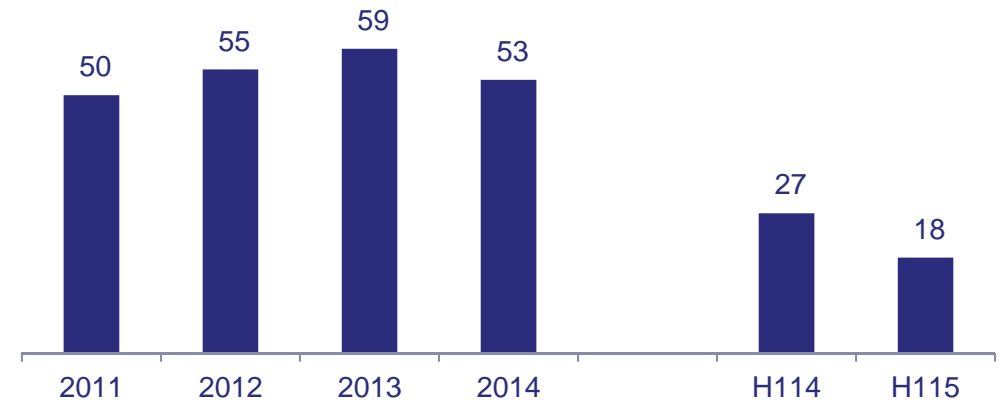


# IFRS new business operating profit

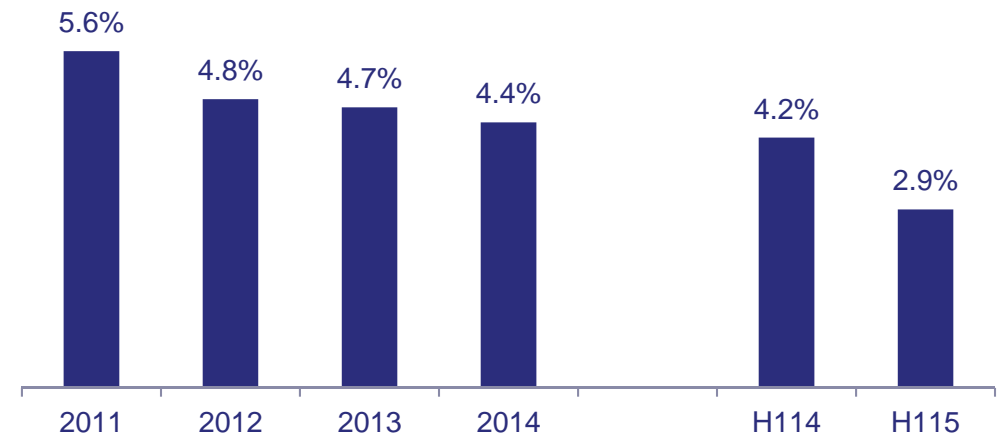
## As expected, margins have remained under pressure

- IUA pricing has been competitive, with a similar amount of capital chasing a smaller pool of demand
- IUA margin pressure has been partly offset by the beneficial mix effect of writing DB
- Mortgage pricing remains attractive and has supported the overall margin
- Cost reductions have helped to offset lower volumes

## New business profit has followed sales (£m, FY)



## Margins (FY)

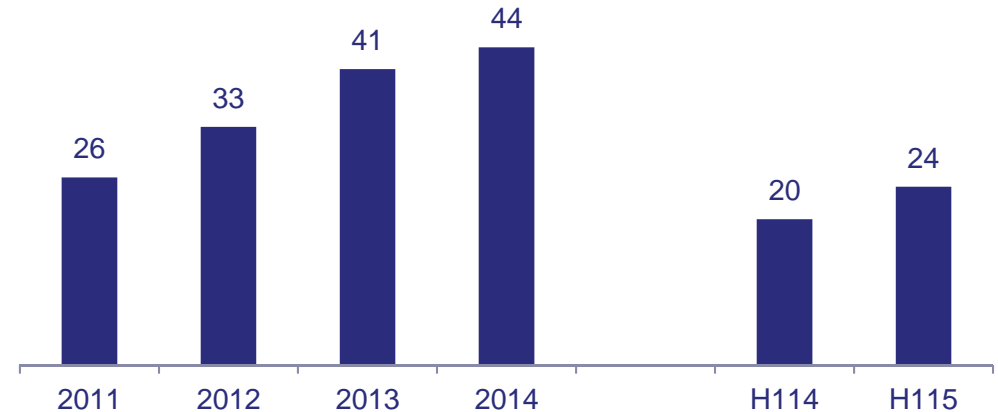


# Growing IFRS in-force profit

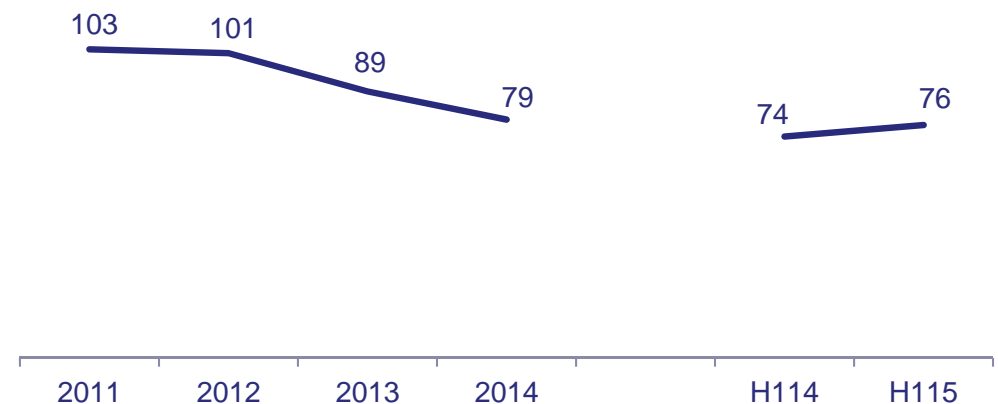
## In force profit growth driven by a maturing book

- In-force profit has grown 21% due to strong growth in opening liabilities, but also due to slightly higher in force margins.
- We continue to have positive net inflows
- Increases in credit spreads have modestly increased the in-force margin
- The Budget has had no effect on in-force results
- In force profits represent a high quality, predictable and growing earnings stream

## Growing in force profit (£m, FY)



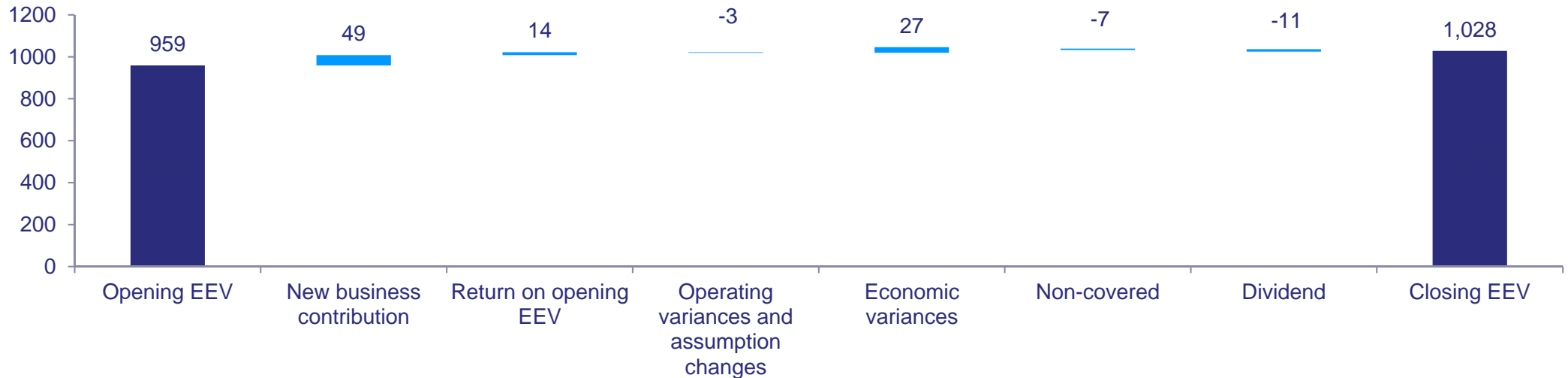
## In force margins (bp)



# Group embedded value increased further to £1.03bn

- EEV has risen to just over £1.0bn
- This represents an annualised growth rate of c.15%.
- This has mainly been driven by a strong new business contribution due stable new business volumes, good mortgage investment returns, and changes in investment markets.

Net of tax movements in EEV, £m



# Capital and dividends

- We principally manage our business using the Economic Capital basis
- Economic capital at 171% is comfortably ahead of our 140% minimum target, but very low interest rates have had an effect
- Interim dividend of 1.1p per share represents 1/3 of the notional full year dividend had we been quoted for the whole of 2013/14
- The directors keep the amount and mix of capital under constant review. We intend to maintain our capital strength, particularly given the opportunity to grow DB volumes
- Solvency 2 preparations continue ahead of January 2016. While significant principles are still to be agreed in 2015, the Group is making good progress towards implementation

## Group economic capital

	Dec-14	Jun -14
Surplus (£m)	387	440
Coverage	171%	178%

## JRL Pillar one

	Dec 14	Jun-14
Surplus (£m)	254	389
Coverage	173%	236%

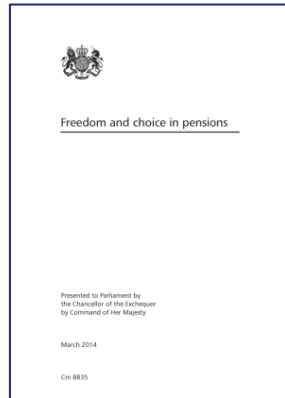
David Cooper

Group director, distribution and marketing



# Reform: legislation and regulation

1



- Death tax abolished: Annuity & drawdown tax status aligned and significantly improved
- HMRC rules enable providers to create modern, more flexible, guaranteed income for life solutions

2



- Thematic review into annuity sales practices concludes changes will be made to ensure customers achieve better outcomes
- Interim market study identifies a range of measures to improve the way the retirement income market operates
- FCA paper *The value of annuities and other retirement income strategies* concludes annuities represent good value for money especially for retirees who shop around.
- Dear CEO letter places tougher rules on product providers to create a *second line of defence* and ensure inappropriate products are no longer purchased
- Government guaranteed guidance must now be recommended to customers by product providers under new FCA rules and Pension Regulator guidance
- Pension wise should stimulate more people to shop around

3

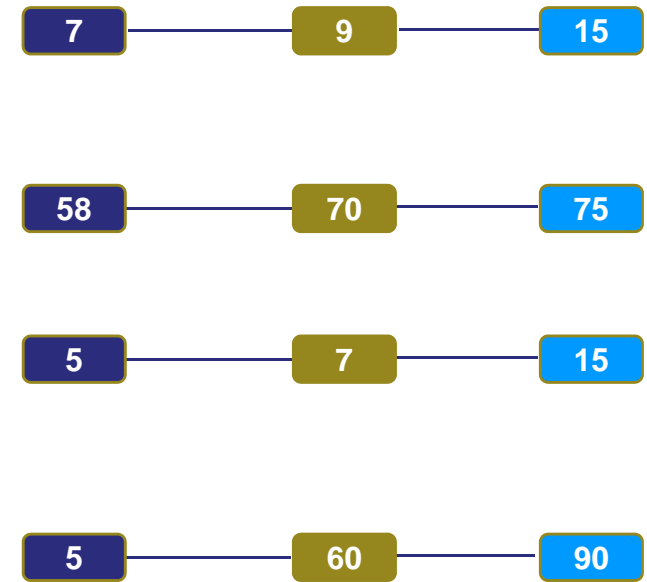


# Consumer Insight - guaranteed retirement income remains key

Lowest %      Consensus %      Highest %



- 1 Take entire pension pot as cash
- 2 Guaranteed income for life to pay regular bills
- 3 Prepared to take investment performance risk with pension pot
- 4 Will use the government guaranteed guidance service



Source: PWC, The International Longevity Centre, Hymans Robertson, Hargreaves Lansdown, Scottish Widows and Just Retirement

# From April 2015: Just Retirement's new capabilities - advice & support

## Software tools

1



- Information and planning tools
- Reaching out to all UK retirees with new on-line support
- Support to help with expenditure planning , tax, longevity

## Modern simplified advice

2



- Innovation to reach out to the underserved middle Britain consumer
- Initially used to support our corporate partnerships who want to extend advice to their customers
- Our subsidiary TOMAS will deploy with corporate pension schemes seeking to extend advice to their members

# From April 2015: Just Retirement's new capabilities – new products

## State of the art investment platform

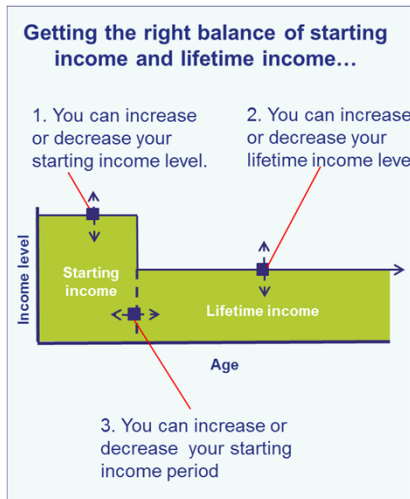
3



- Flexible retirement account enabling people to hold spare assets tax efficiently inside the pension environment
- State-of-the-art platform capability
- Focused range of low-cost funds designed for the target audience

4

## Modern guaranteed income for life solutions

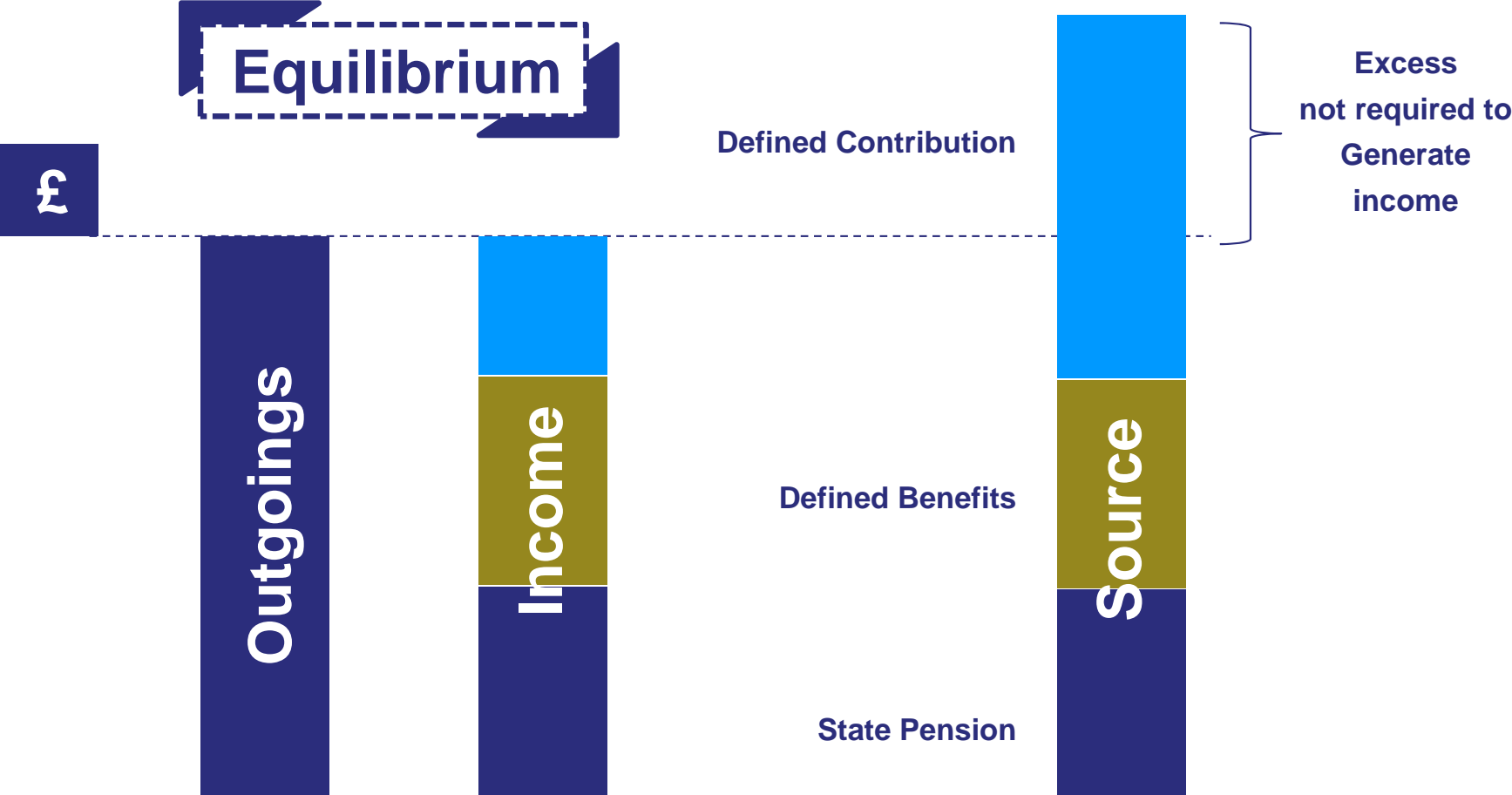


- Modern solutions with additional features enabled by the new post-Budget legislation
- Minimum payment periods extended – enabling money-back guarantees for additional peace-of-mind
- Additional lump-sum payment capability beyond tax-free cash

# Modern, balanced, flexible retirement income solutions

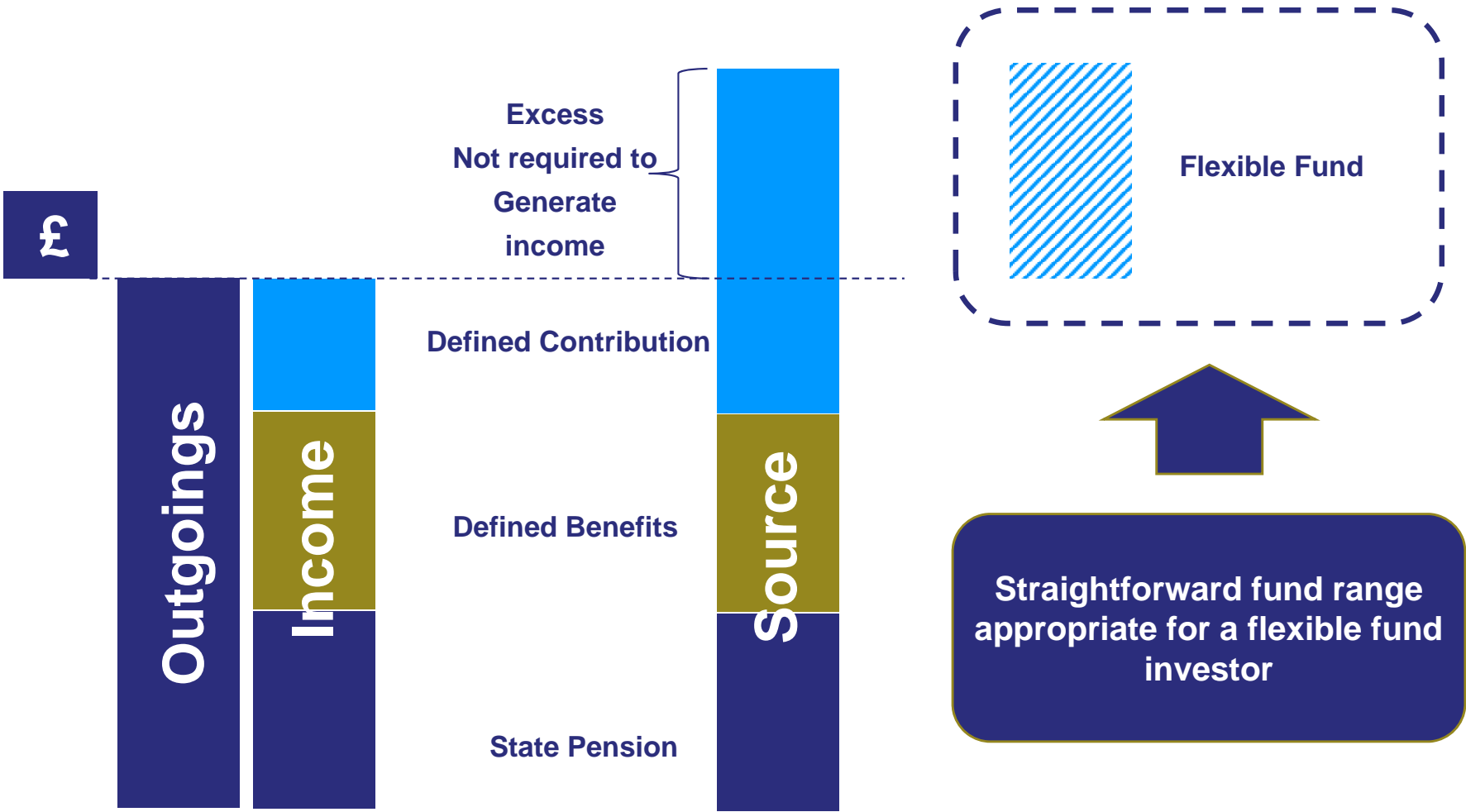
*designed to align to how consumers think and want to behave*

**7 in 10 people clearly describe their want and need for a guaranteed income for life to cover their regular bills**



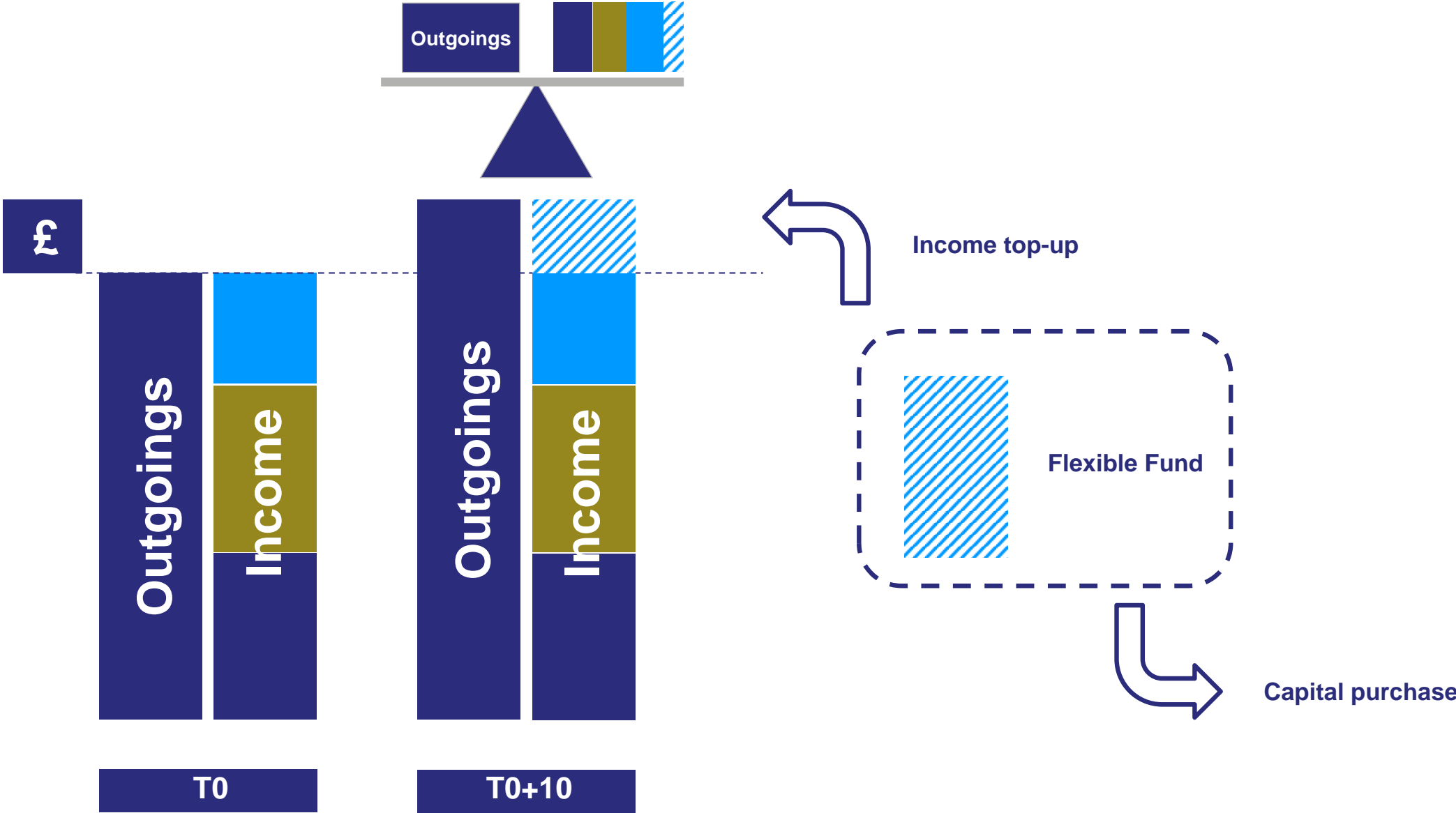
# Modern, balanced, flexible retirement income solutions

*designed to align to how consumers think and want to behave*



# Modern, balanced, flexible retirement income solutions

*designed to align to how consumers think and want to behave*



# Outlook

**Rodney Cook – Group CEO**



# Post Budget strategy: long term opportunity remains

Area	Impact of Budget	Response
<b>Individual retirement income products</b>	<ul style="list-style-type: none"> <li>■ Fewer people are likely to buy an annuity</li> <li>■ Continued need for longevity protection</li> <li>■ Opportunity to develop new products</li> <li>■ Guidance could encourage more shopping around</li> <li>■ Increased DC pensions will extend universe of customers</li> </ul>	<ul style="list-style-type: none"> <li>■ Product innovation: Launched 1 year Fixed term Annuity</li> <li>■ Cost saving programme fully implemented. Added £5m to development budget</li> <li>■ Clear ongoing need for guaranteed income for life from most customer segments</li> <li>■ Developing new products for the individual retirement income market</li> <li>■ Medical underwriting means our products will remain competitive</li> </ul>
<b>DB de-risking</b>	<ul style="list-style-type: none"> <li>■ Not directly impacted by Budget</li> <li>■ Significant market potential remains</li> </ul>	<ul style="list-style-type: none"> <li>■ Continued focus on small schemes which offer most scope for medical underwriting</li> <li>■ Strong and growing pipeline of opportunities</li> <li>■ Continued development of DB de-risking proposition</li> </ul>
<b>LTM</b>	<ul style="list-style-type: none"> <li>■ Not directly impacted by Budget</li> <li>■ Individual annuities have been providing funding. DB liabilities even better match than IUAs for LTMs</li> <li>■ Long term growth drivers remain</li> </ul>	<ul style="list-style-type: none"> <li>■ Delivering targeted levels of LTM advances, supported by DB funding</li> </ul>

# Outlook

- While considerable uncertainty remains in the IUA segment, the outlook is positive for both the DB and LTM markets
- In 2Q 14/15 we returned to growth thanks to the significant success of our DB business. DB sales surpassed the level of IUA sales in H1 14/15
- We have a good track record of product innovation
- We have a strong team and believe we are well-equipped to capitalise on our IP by offering compelling products and exceptional service

# Questions?

# Appendix – Introduction to Just Retirement

# Overview of Just Retirement

## What we are

- Market leading provider of Individually Underwritten Annuities (“IUA”), Defined Benefit de-risking (DB), and Lifetime Mortgages (“LTM”) in the United Kingdom
  - IUA: Offer better rates (compared to standard annuities) to those who suffer from conditions which may detrimentally impact life expectancy
  - DB: Allows trustees to move pension risks off balance sheet: JR offers particularly competitive rates for smaller schemes with below average life expectancy
  - LTM: Designed for individuals in retirement who wish to realise some of the equity value in their home
- Established in August 2004, acquired by funds advised by Permira LLP in November 2009, IPO November 2013
- **Office:** Reigate, United Kingdom
- **Employees:** 834 as at 30 June 2014
- **Customers:** Over 280,000 customers
- **Management:** Over 100 years of combined relevant experience

## Award winning product and service propositions

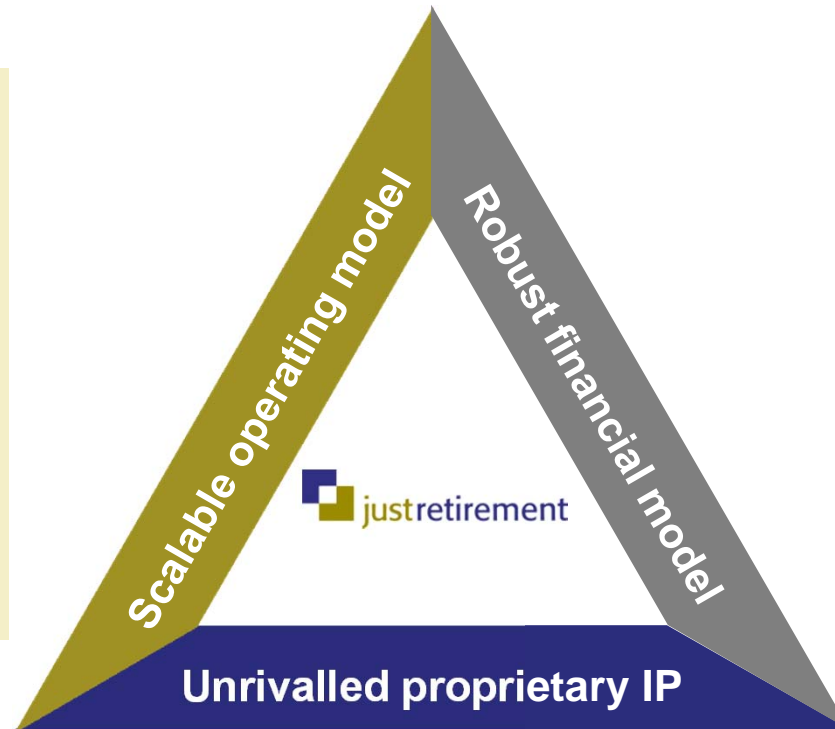


## Key financials (year ended June 2014)

Total annuity premiums	£1,275m
Lifetime mortgage advances	£476m
IFRS new business operating profit	£53m
IFRS in-force operating profit	£44m
Total IFRS underlying operating profit	£97m
Assets under management	£7,490m

# Differentiated business model providing significant competitive advantage

- Highly automated processes
- Multi-channel distribution
- Leading service
- Experienced and motivated team
- Strong operational risk management



- Capital efficient model
- Sophisticated investment management strategy
- Fully embedded financial risk management

- Unrivalled proprietary data in the core IUA segments
- Experienced medical team
- Next generation underwriting system: Prognosis™

# Company history

2004-  
2005

- **Just Retirement commences operations**
- Mission: "**To be recognised and trusted as the provider of financial solutions for people at and in retirement**"
- Launches lifetime mortgage plans
- Staff numbers close to 100; revenue grows to over £100m
- Voted '5 star' in Annuities for the first time

2006-  
2008

- Launch Just Retirement Solutions – offering advice on equity release in conjunction with inaugural partner Saga
- **Lists on the AIM valued at £422m**
- Revenue grows to £500m per year
- Voted '5 star' in the Mortgage Lenders and Packagers category for the first time

2009-  
2010

- **Permira (Avalon Acquisitions) acquires Just Retirement for £228m, injects £25m for growth**
- Rodney Cook named CEO of Just Retirement
- **New vision: "To be the leading retirement brand known and trusted for enriching our customers' lives"**
- Acquires The Open Market Annuity Service (TOMAS) from Kerr Henderson
- Voted as one of the best companies to work for by The Sunday Times

2011

- Core medical team recruited
- Launches Fixed term annuity with unique conversion feature
- Total annual volume of new business annuity policies sold by Just Retirement passes £1bn

2012

- Mortality curves recalculated using PrognoSys™
- Launches its defined benefit de-risking solutions proposition in the market
- Total financial assets reach c.£5.0bn

2013

- PrognoSys™ being used alongside JR Merica and other reinsurers during development phase
- Signs partnership deals with Origen Financial Services and NFU Mutual
- Enters long term care and individually underwritten LTM markets
- IPO raising £300m of new capital

2014

- Chancellor announces major annuity market reform
- Launches 1-year Fixed Term Annuity
- Completes major defined benefit de-risking transactions for £75m and £76m

# What are annuities and lifetime mortgages?

## Annuities

- Typically offered to people at retirement but can be taken from age 55
- Premium is large up-front payment (funded from annuitant's accumulated pension fund)
- Insurer provides a series of guaranteed regular payments until death

### ■ Individually Underwritten Annuities (“IUAs”)

- **Enhanced annuities:** medical and / or lifestyle factors (e.g. smoking) which may lead to shortened life expectancy, and;
- **Impaired annuities:** significant medical conditions that impair life expectancy (e.g. heart attacks or cancer)

- **Care annuities:** guaranteed income to pay residential care home fees (tax free if paid to care home)

- **Defined Benefit de-risking:** medically underwriting DB annuity liabilities allows trustees to de-risk at lower cost if their pensioners have above average levels of health issues

## Lifetime mortgages

- Allow home owners to release cash from home ownership

- **Lifetime mortgages**, where cash advanced is secured against the equity in the property

- **Roll Up:** the original advance and any subsequent advances are rolled up at a fixed rate of interest. The loan is payable on death or upon vacation of the property into nursing care

- **Individually Underwritten LTM:** provide customers with the opportunity to achieve a higher loan value compared to a standard roll-up LTM

- **Interest Choice:** similar to roll up, except customers can choose to pay part of the interest in cash per month and over what term

- Both roll up and interest choice products are available as lump sum and draw down variants

- No Negative Equity Guarantee protects heirs

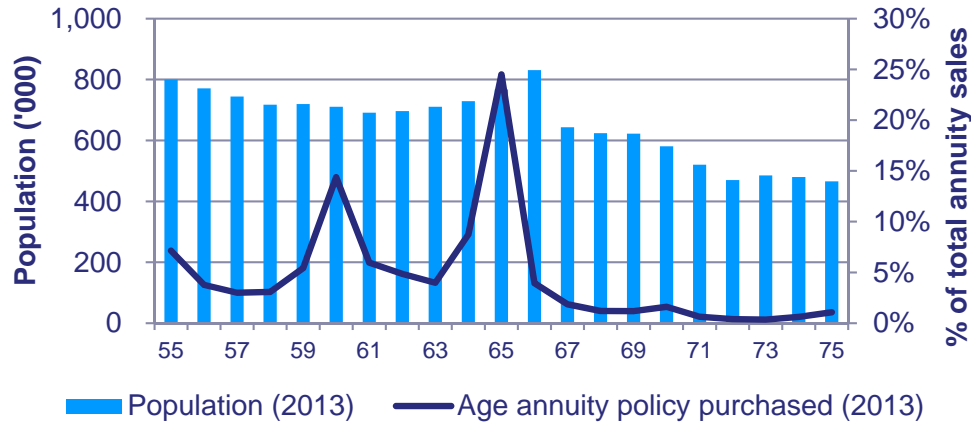


# Real outcomes: our customer rates vs. standard providers

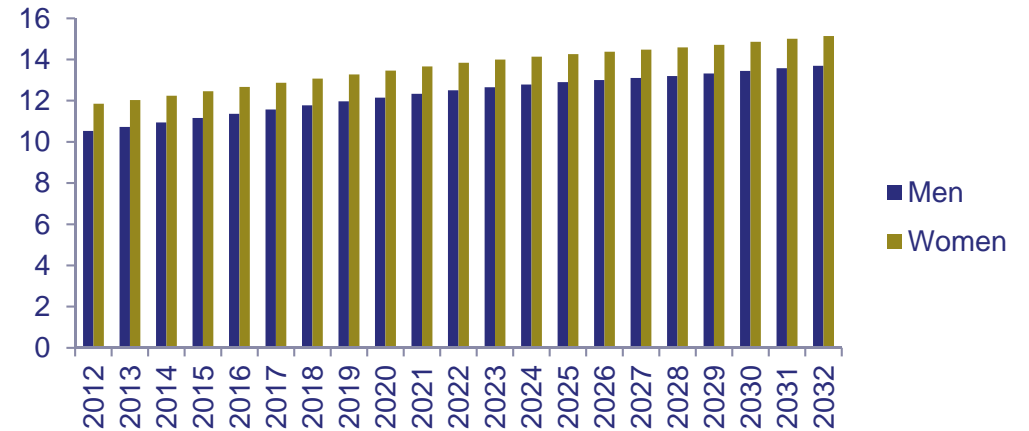
	Illustrative example	Provider	Annual income	Enhancement if chose Just Retirement
Lifestyle	65 year old with high blood pressure and high cholesterol, 1 medication for both conditions	<b>Just Retirement quote</b>		<b>£2,804</b>
		Best standard quote	£2,686	+4%
		Worst standard quote	£2,238	+20%
Medically Enhanced	65 year old with heart attack within the last 5 years and admitted to hospital, 1 medication daily	<b>Just Retirement quote</b>		<b>£2,964</b>
		Best standard quote	£2,686	+10%
		Worst standard quote	£2,238	+27%
Impaired	65 year old with end stage renal failure diagnosed more than 10 years ago, hospitalised in the last 12 months, bedridden with dialysis	<b>Just Retirement quote</b>		<b>£3,621</b>
		Best standard quote	£2,686	+35%
		Worst standard quote	£2,238	+56%

# Demographics remain favourable

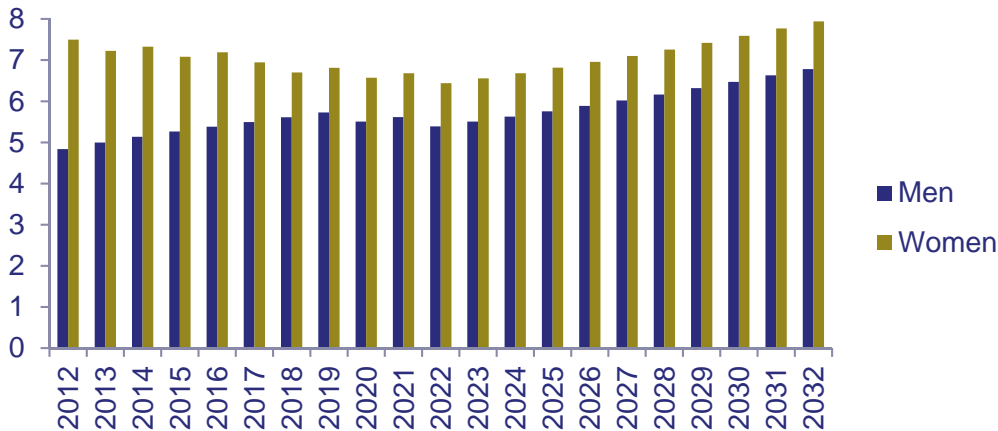
Large numbers reaching State Pension Age (SPA), key annuitisation trigger



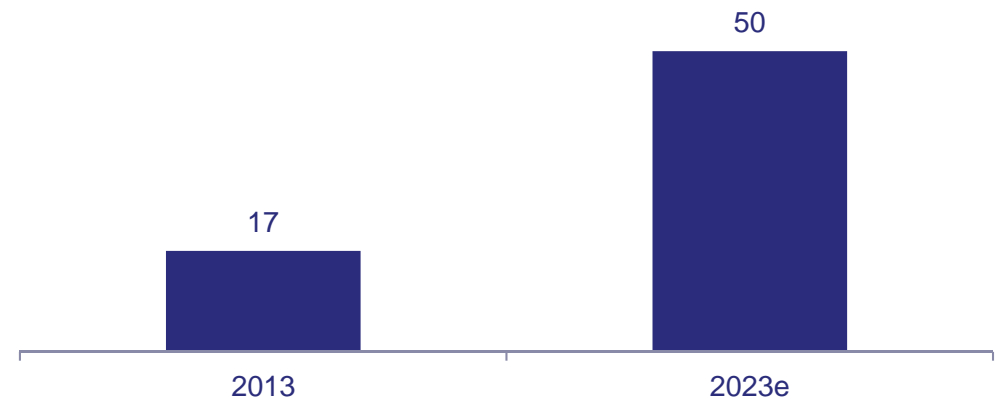
The population of over 50's is inexorably increasing (m lives)



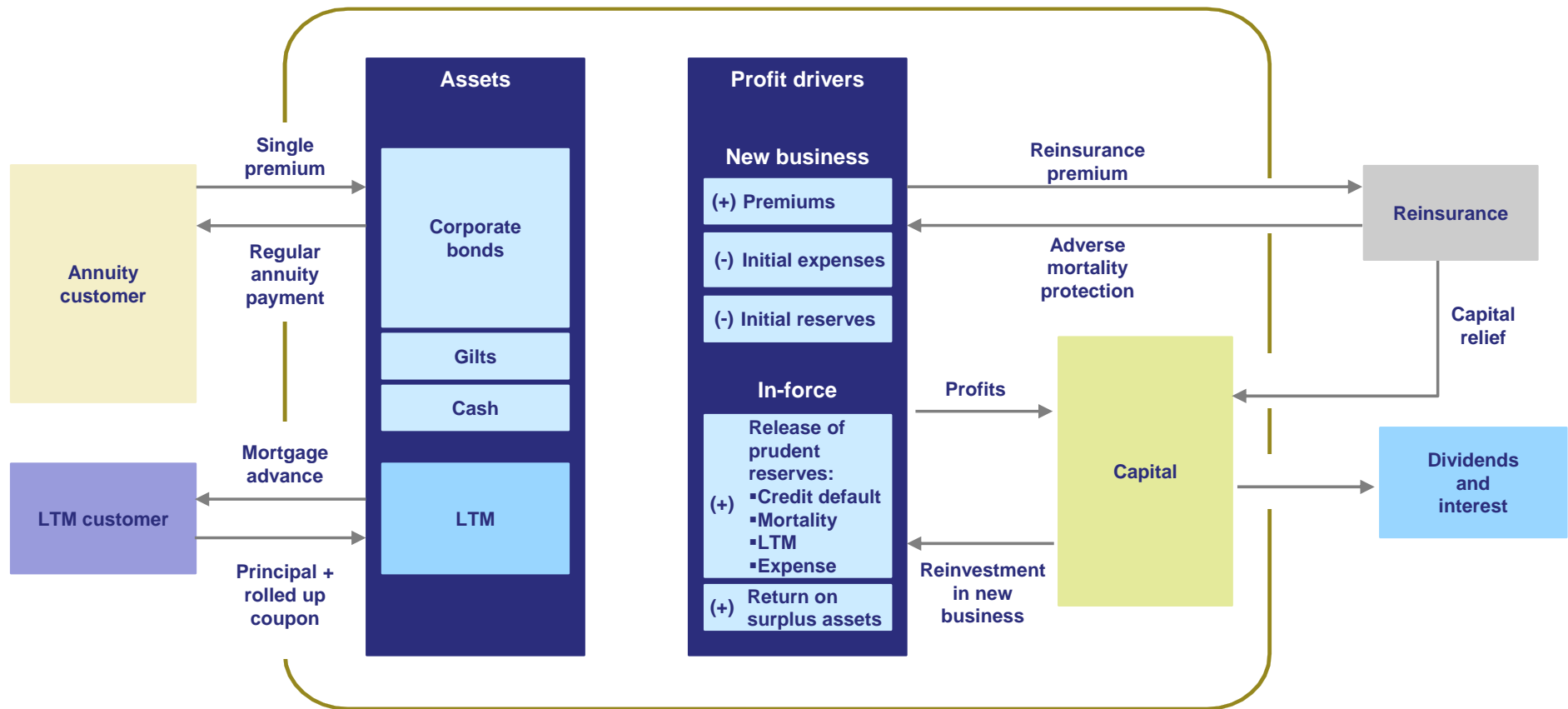
The number of men above SPA will gently increase, the number of women will rise again after SPA equalises in 2022 (m lives)



Structural drivers of DC pension market remain intact (DC Retirement income market CAGR 12%, 2013-2023e (£bn))

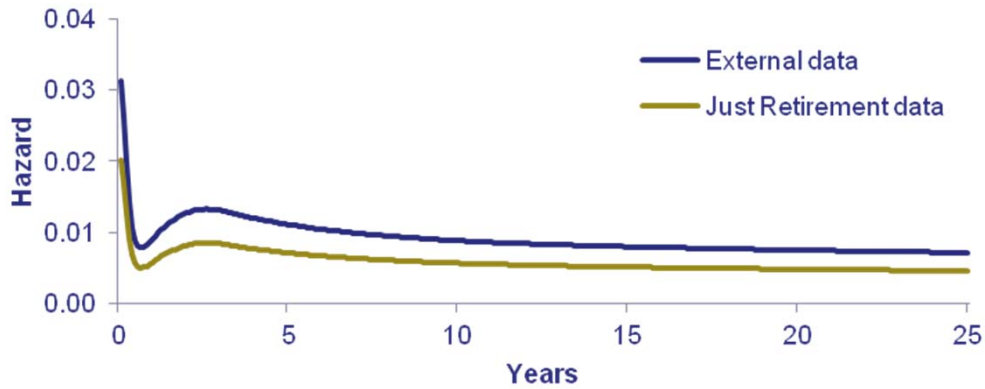


# Robust financial model: profit drivers

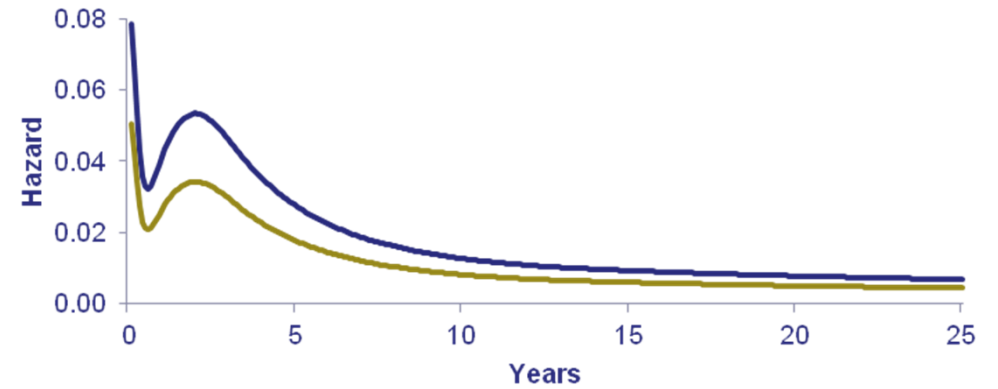


# PrognoSys™: colon cancer excess mortality

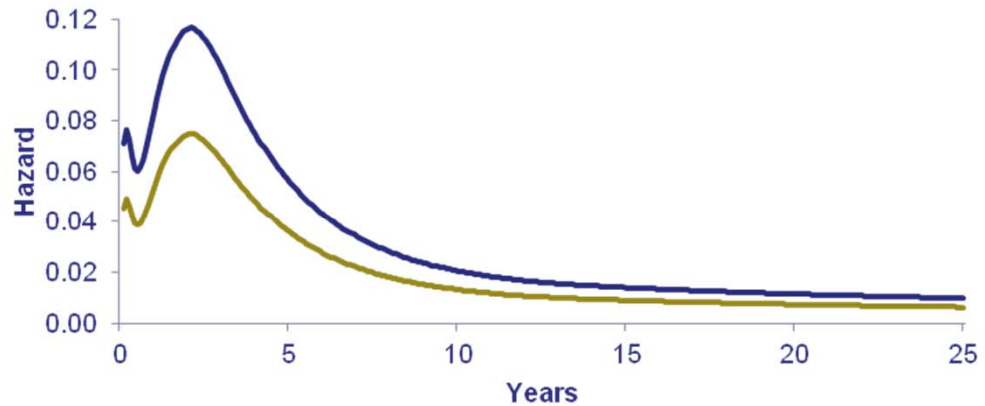
Stage 1



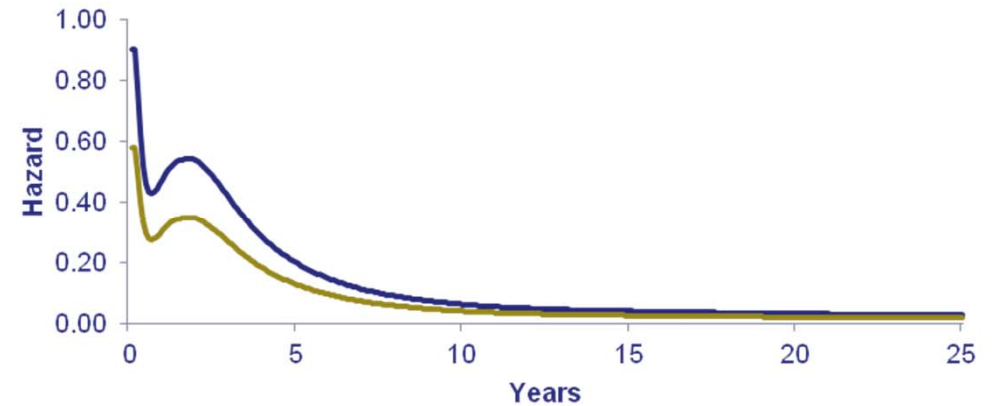
Stage 2



Stage 3



Stage 4

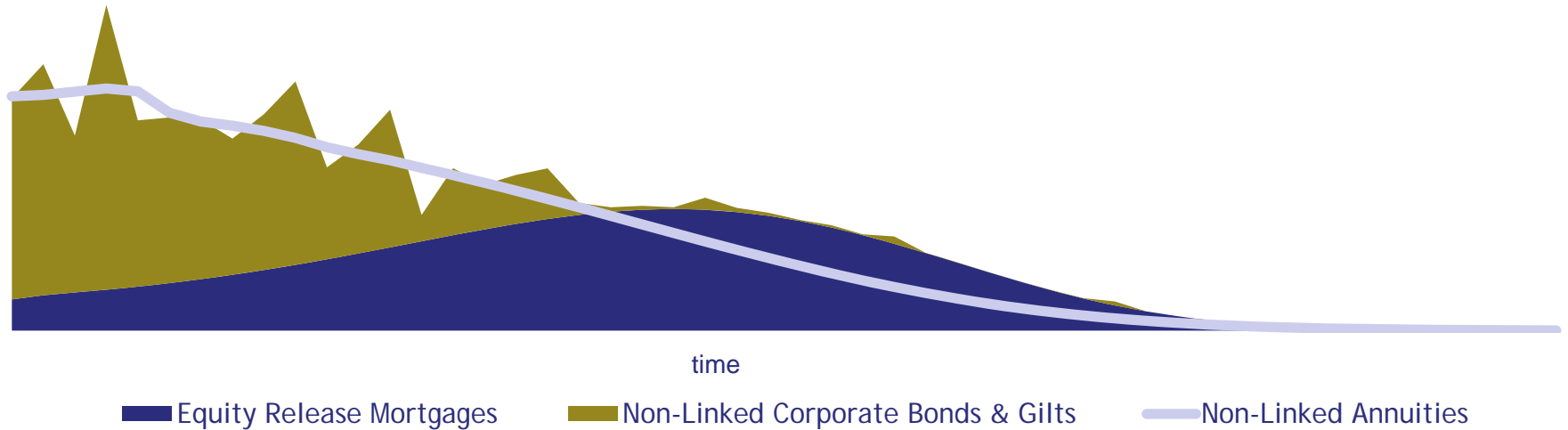


# Synergistic product suite

## Enhanced risk-adjusted yield

- Higher net yield than gilts / corporate bonds even after NNEG<sup>(1)</sup>
- High quality, low risk assets

## Long duration and good longevity hedge



## Efficient funding model

- Annuity business funds all our equity release lifetime mortgages
- Effective substitute for scarce, high yield, low risk, long dated assets

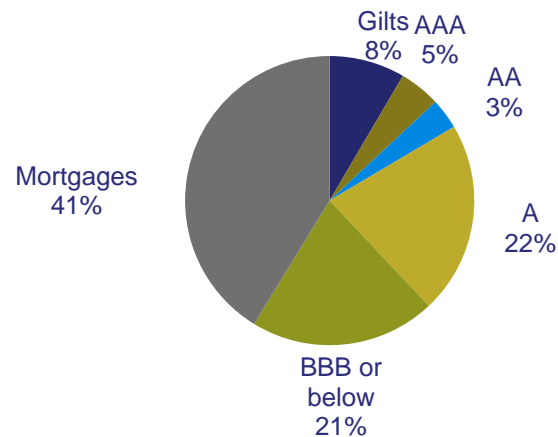
## Hedge on new business margins

- The IUA margin and LTM margin move in opposite directions with change in interest rates, thereby providing a natural hedge

1. NNEG (No Negative Equity Guarantee): A guarantee of Just Retirement's equity release plans that ensures that the customer will never owe more than the value of the property and no debt will ever be left to the estate.

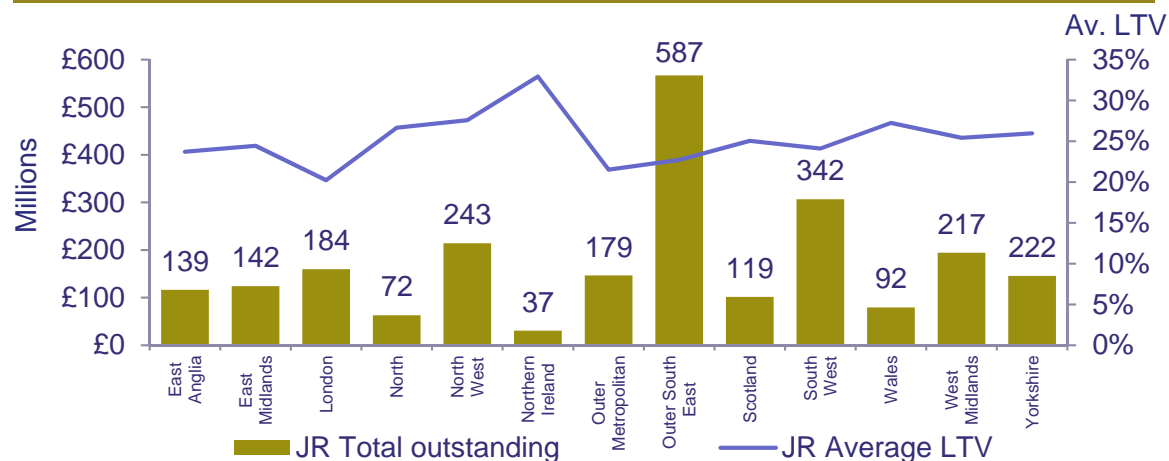
# Robust investment policy

## Financial assets by asset quality (Dec 2014)

























- No defaults on any of corporate bonds
- No exposure to Euro sovereign bonds, no equities, and no direct exposure to Ireland, Greece, Portugal or Cyprus
  - Exposure to Italy and Spain constitutes c.2.0% of total bond portfolio
- Asset / liability matching directed by Just Retirement
- “Buy and maintain” strategy
- Regular review of the market and investment performance with Blackrock, Robeco and Metlife

## LTM & LTV breakdown by geography<sup>1</sup>



- Average age of customer: 69 years at commencement, 72 years now<sup>1</sup>
  - Expected life expectancy on current book: 17 years
- Average LTV at commencement very prudent at 21%
- Even with mortgage interest, current average LTV still only 26%
- Very low collateral risk – average UK house price growth (y-o-y) over successive 18 year periods has not been below 5% in over 40 years
- Just Retirement has not had a mortgage case that has crystallised a NNEG
- Out of 41,786 mortgages, 20 have an LTV over 75%
- Average loan size<sup>1</sup> £48,599
- Average property value<sup>1</sup>: £243,712

	Channel	Outlook on future importance	% of JR premiums			Examples of JR relationships
			2012/13	2013/14	1H 14/15	
Traditional channels	Financial intermediaries	↔				
	- Networks		55.4%	47.9%	45.6%	   
	- Regionals		15.3%	15.3%	14.9%	 
	Specialists	↑↑	20.3%	23.4%	26.7%	   
	Employee benefit consultants	↑↑	4.1%	4.9%	6.5%	   
	Banks & building societies	↔	2.3%	4.1%	1.0%	  
Emerging channels	Life insurance companies	↑↑	1.7%	3.6%	3.6%	  
	Price comparison websites	↑	1.0%	0.7%	1.6%	 

# Strength and depth in senior leadership team

**Rodney Cook**  
Chief Executive  
Officer

- Joined in 2010
- Previously at LV, AMP, Pearl, Zurich and Prudential

**Simon Thomas**  
Group Finance  
Director

- Joined in 2006
- Previously at Canada Life and Nationwide

**Shayne Deighton**  
Group Chief Actuary

- Joined in 2008
- Previously at Aviva and Zurich

**Steve Kyle**  
Group Regulatory &  
Audit Director

- Joined in 2004
- Previously at Aviva and Britannic Retirement Solutions

**Chris Berryman**  
Group Chief Operating  
Officer

- Joined in 2004
- Previously at NPI, GE and Britannic Group

**David Cooper**  
Group Distribution &  
Marketing Director

- Joined in 2006
- Previously at GE Capital, Centrica plc and Bradford & Bingley

**Alex Duncan**  
Chief Risk Officer

- Joined in 2012
- Previously at Old Mutual

**Anne Ridge**  
Group HR Director

- Joined in 2010
- Previously at Marks & Spencer, BP and the Britannic Group

**Dr. Tim Crayford**  
Medical Director

- Joined in 2011
- Previously Chief Medical Adviser to The Department for Transport

**Hugh McKee**  
Managing Director,  
Just Retirement  
Limited

- Joined in 2014
- Previously at Royal London and Prudential

**Paul Turner**  
Group Director,  
Business  
Development

- Joined in 2014
- Previously at Swiss Re

Note: Blue shading represents Board member



# Contact and financial calendar

## **James Pearce**

Group Director of Strategy and Investor Relations

Just Retirement Group

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[www.justretirementgroup.com](http://www.justretirementgroup.com)

## **Next results**

12 May 2015 Q3 Interim Management Statement 2015

17 Sep 2015 Preliminary Results for the year ended 30 June 2015

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