

25 February 2015

JUST RETIREMENT GROUP PLC
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**Just Retirement
Interim Results for 6 Months to December 2014
Analyst Call Transcript**

**25 February, 2015
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 everyone. I'm Rodney Cook, Group CEO of Just Retirement. For those of you on the phone, I am joined by Simon Thomas our CFO, Shayne Deighton our Group Chief Actuary, and David Cooper our Group Director for distribution and marketing. I'd like to thank Nomura for the use of their conference facilities this morning and welcome all of you joining us today. We appreciate your continued interest.

So here is today's agenda.

First I'll give you a brief update on the events of the last six months, and Simon will go through the numbers in more detail.

At the September meeting you asked us to give some view of what the future might look like. David Cooper will give you a perspective by talking about how the retirement income market may develop after consumers get the greater freedoms granted to them by last year's Budget, together with our response to these changes.

I will then talk about the outlook, and we'll finish by trying to answer your questions.

Once again please allow me to remind you that we have a June 30 year end, which means that December represents our half year end rather than full year. As ever, we will try to highlight clearly the occasions when we refer to calendar years rather than financial years.

Each time I look at this slide I am astonished at the amount of change we have faced over the last year or so.

Even though our IPO feels like ancient history, it was less than eighteen months ago. The figures we are announcing today therefore directly benefit from our strengthened balance sheet, particularly in the Defined Benefit (DB) market, where capital strength matters. The DB sales

that we are announcing today for the last six months are more than three times what we wrote in the whole of the 2013/14 year.

Although last September we announced record sales and embedded value, the consequences of the Budget have still dominated our thoughts. This was particularly so for our individual business, and the IUA landscape probably won't be completely clear for another year. However, we remain number one in the IUA market, received our tenth consecutive five star service award, are on track to launch our more flexible products from April, and are already benefiting from our next generation medical underwriting tool, Prognosis™. We believe few will have a better starting point than we do for adapting to the new world of retirement income.

We were particularly pleased with the Financial Conduct Authority's (FCA) announcements in December, not just in respect of the benefits of shopping around, but also their clear view that for many customers a guaranteed retirement income for life is more appropriate than drawdown. We also welcome their January Dear CEO letter introducing a requirement on product providers to create what's become known as a *second line of defence*. The purpose of this is to ensure people accessing their defined contribution pension savings do not inadvertently make poor decisions – as has been the case all too frequently over the last decade. This should, for example, ensure people who would benefit from underwriting do not inadvertently purchase poor value standard products. I can also confirm that we have NOT been asked by the FCA to investigate our back book, so we can focus on the future, not legacy issues.

So calendar 2014 delivered relentless change, even if the second half was not as momentous as the first.

That brings me to today's results, and I am pleased to be announcing resilient sales and operating profits, and another record EV figure.

Indeed our embedded value has grown by 7% in the first half of our financial year, and now equates to 205p per share. Obviously this only captures the value of business we have already written, not the value we will add in years to come.

As for sales and profit, total new business sales fell by 9% compared to the comparative period and underlying operating profit by 10%.

Within this our total annuity sales were down by only 4% and given we wrote more than our target 25% of mortgages in the prior year, rebalancing this has acted as a further brake on total sales.

Under the circumstances of a more than 50% fall in individual annuity sales, I believe these are very creditable results, reflecting the benefits of our diversification into DB as well as the relative resilience of our IUA business.

Simon will tell you more about the numbers in a moment, but before he does I want to highlight my conviction that we remain a growth business.

First, can I highlight the dramatic growth in DB volumes, admittedly from a very small base. It's also worth noting that calendar Q4 sales of individual annuities were up modestly compared to calendar Q3.

Although we don't expect to grow DB at anything like this pace in future as we will face tougher comparatives, we do have a robust pipeline of business. The DB unit will continue to grow, is here to stay and is an excellent match for our LTM business.

This dramatic surge in DB business meant that it eclipsed the size of our IUA new business in the second half of calendar 2014, and we clearly have a more diverse revenue base now than we did a year ago. Although the middle chart only shows new business, if we maintain the current mix for a few years then our in-force profits will be more evenly split between IUA and DB too.

Our growth trajectory is confirmed if we look at the third chart on the page, which shows continued strong growth in insurance liabilities, helped by positive net inflows and market movements. Unlike more mature insurers, we don't need to write billions in new business merely to make up for maturing policies, and our net flows remained firmly positive in the first half despite the falls in IUA volumes. Our liability growth momentum should help us return to a growth trend in profits, assisted by rising in-force profits and stable or perhaps growing new business profits.

So this is why we continue to be a growth business, even if the growth drivers have changed.

Before Simon goes into details on the numbers I want to talk a little more about DB de-risking.

I think we may have surprised you earlier by pointing out that DB was our biggest revenue generator in the second half of calendar 2014, in only its second year of trading. Although this may not be the case in every quarter, I expect it to remain a very material revenue generator over the years ahead.

Within Just Retirement we weren't surprised, and frankly given the 179 years or so of experience of DB de-risking within Tim Coulson's 22 strong team of experts, we would have been disappointed if they hadn't made an impact. But they are delivering more than we expected, ahead of schedule.

We have consciously aimed for a larger number of medium sized deals and wrote 17 schemes in this half year. For larger schemes, we are able to help trustees by top-slicing the liabilities, rather than de-risking the whole scheme, and this concept is gaining ground too. We believe this approach mitigates some of the inherent lumpiness of the product, ensures scalability, and reduces risk. Taken together we believe it makes for a more sustainable business model. This is mirrored in our distribution approach, and we work with virtually all of the employee benefit consultants who manage flows in this segment.

As the chart shows, there is significant scope for the DB market to grow, and we expect the medically underwritten percentage to continue to increase. So we should be able to compete for a growing percentage of a growing market place. Although our addressable market is really only

schemes in a financial position to de-risk, many years of asset liability matching initiatives by trustees mean that the demand doesn't just disappear after a bad week in financial markets, like it used to in the past.

Standard writers can focus on larger schemes where mortality is in line with the general population, and the medical underwriters like us will give trustees a fair price if they have below average longevity among their members.

On margins, Simon will confirm the current relative attractiveness of DB.

So we remain optimistic that our DB product will continue to develop positively. Anyway, enough of that, now Simon is going to take you through the numbers in more detail.

Simon Thomas: IFRS operating profit fell 13% to £34.9m. This feels like a reasonably good result given the aftermath of the Budget. Declines in new business profit were partly offset by growth in in force profitability.

The 33% fall in new business profit actually compares favourably to the 57% fall in Individual annuity volumes. This was due to the very timely fruition of our DB business plan, which offset much of the decline in our individual sales.

I would note that even the 57% fall in individual sales, is some way better than the most bearish forecasts after the budget.

I'll talk about margins more in a moment, where as expected, the fall in IUA volumes has led to some margin pressure, partly offset by slightly better DB margins.

Nevertheless, measured by new business profitability, with around half of our overall operating profits coming from this source, -,.... we believe there is significant value in our ability to generate new business, and that shareholder value doesn't reside solely in our back book. Rodney has already highlighted the growth in insurance liabilities, and this has been the main driver of the 21% increase in the in-force profits. Again we'll look at this in more detail in a moment, but the key point is that in force profits account for an increasing share of our bottom line, underpinning our profit momentum.

So overall Operating profit has fallen by only 13%, despite this being our first set of post Budget results.

Below the operating profit line, we saw increased project expenditure in this half -year, as we developed our new products for the post Budget environment, and incurred continued expenditure on Solvency 2.

In terms of the economic variances, the majority of this loss relates to two main items – firstly the mark to market effects of changes in credit spreads which, for our portfolio, have widened from 130b.p. to 161b.p over swaps, and the impact of falling interest rates which affect the the HPI curve.

Total sales were up 22% against the comparative quarter. Rodney is right – we remain a growth business

Obviously, Individual annuity sales, were sharply lower - given that the comparative was pre-Budget. The year on year fall in Q2 sales was similar to the fall we already disclosed for Q1.

I would note, that although Q2 sales were slightly up compared to Q1, I think it is still too early to call a bottom in the IUA market. Consumer behaviour after April, and the effect of Guaranteed guidancejust make it too uncertain.

In sharp contrast... we enjoyed a significant pick up in our DB sales momentum. Moreover we have a robust pipeline, and there is strong interest in this product.

However, as ever, I would remind you that this is lumpy business and the underlying rate is probably closer to £200m per half year - once you exclude the two large cases of £75 & £76m.

So overall Q2 total annuity sales were actually up 39% compared to the prior year comparative and total annuity sales were up 13% in the second half of 2014 compared to the first half.

You can see that we have also now reset our lifetime mortgage volumes, closer to our optimal point of 25% of annuities, and volumes should track broadly in line with this level of annuities over time. Yields on this product - continue to be attractive.

In the first half of our financial year - we wrote almost four times the DB premiums written for the whole of FY13/14, amounting to £355m across 17 schemes.

We believe that medically underwritten DB-de-risking, is a product whose time has now come - We can help trustees save money, especially in small schemes with below average life expectancy.

We do also have the capability to write on a non-underwritten basis, where our unique investment mix can enable us to compete effectively.

DB is now established as a core and strategically important product for the Group going forward, there is a significant market opportunity, and although volumes are lumpy - we have a robust pipeline and good momentum.

We believe that eventually it'll become standard practice for all small DB schemes to be medically underwritten.

As expected, margins for individual annuities deteriorated in first half, as the laws of supply and demand asserted themselves. Put bluntly - you can't experience a halving of market volumes, without seeing a fall in IUA margins - unless you see significant withdrawal of capacity

Margins on DB, as we expected, were slightly better than those for individual Annuities, with no equivalent driver of margin pressure on medically underwritten DB business, and this beneficial mix effect meant overall IFRS new business margins fell to just shy of 3%.

I have to say that I wouldn't expect to see any driver for an improvement in margins in 2H, given the continued uncertainty in the individual market.

In contrast to new business, in force profits grew 21% against the comparative six months to December.

Obviously, the fact that opening liabilities were 18% larger than the prior year - was the dominant driver.

In force margins equated to an annualised rate of c76b.p. per annum, slightly up from 74b.p. in H1 13/14. This modest increase was a function of the widening of credit spreads which has slightly increased the amount of spread available, which also increases the level of default reserves emerging into in force profit.

As we saw before, on the face of the P&L Account, the valuation effect of the change in spreads comes out in the Economic variance line.

I'm pleased to announce that for the first time it exceeds £1bn - This equates to about 205p per share. We saw a 15% annualised rate of growth in EV, which was helped by new business contribution of £49m net of tax, the return on the opening embedded value and net economic effects, particularly caused by the significant falls in interest rates.

As the figures show, our capital position remained comfortably in excess of our target cover ratio. We continue to primarily focus on economic capital and on that basis, our coverage ratio of 171% remains well above our 140% internal target. The fall in the ratio mainly reflects the significant falls in interest rates, bond spread widening, and a small impact relating to the writing of new business offset by some asset optimisation as we focus more on our Solvency 2 position.

I'll briefly mention Pillar 1 here, where we have here seen a fall in the coverage ratio. For the avoidance of doubt..... We do not manage the business on a Pillar 1 basis - and - in fact - in the last 6 months as I said, we have started to move the Balance sheet to 'tune' it in relation to both Economic capital and the expected forthcoming Solvency 2 position (both of these bases are essentially calculated on the 1 in 200 year stresses).

This tuning has included selling certain corporate bonds and undertaking hedging activity that preserves our Economic capital. Now these activities are inefficient for Pillar 1 - the impact of which, when combined with the significant falls in interest rates, have led to about a 45 percentage point drop in that ratio.

Now turning to dividends, we are today announcing a 1.1p interim dividend, in line with our 1/3 : 2/3 approach, as applied to our notional full year pay-out.

Given the level of interim profits, and the uncertainty around the Budget, the Board felt this was the appropriate level. We fully appreciate that the dividend represents a very direct contribution to shareholder value and we understand its significance.

Solvency 2 is now nearly upon us, and our Internal model application is well advanced. I note here on the slide that some significant principals are still yet to be agreed - we have however noted the apparently helpful news on LTMs issued on Friday.

Well that ends my part of the presentation today. I'll now hand over to David, who will tell you more of our plans for the new world of retirement income.

David, over to you.

David Cooper: As Rodney explained there has been a near constant flow of communiques from market influencers during the past year.

The top 5 take outs for us are:

First - Draw-down, when used to generate a sustainable income stream, is not appropriate for a significant numbers of retirees

Second - Draw-down and guaranteed income for life solutions operate on a level playing field for taxation treatment

Third - From April, legislation will enable increased flexibility to make guaranteed income for life solutions more attractive

Fourth - Customers will be provided with additional protection - product providers and pension schemes will be mandated to work harder to ensure customers do not continue to make poor choices – choices that could be avoided with active intervention by the provider or scheme.

And finally – fifth - the government's Guaranteed Guidance, known as Pension wise will be delivered on time.

During the year countless research exercises have been undertaken to determine the likely behaviours of retiring consumers in the new world. We have assimilated the output from a number of these studies which have been conducted by a wide range of credible organisations as shown in the footnote to the slide.

We have gathered together similar questions and answers from these studies with the following results

First - The proportion of retirees who intend to take their entire pension fund as cash was between 7% and 15%. This clearly supports the belief that most pension savers associate their funds with producing some benefits for them in later lifeand perhaps not purchasing the infamous fast sports car.

Second - The proportion of retirees who stated that a guaranteed income for life was an important or a crucial part of what they intended to use their pension savings for ranged from between 58% and 75%.

Third - The segment of people prepared to subject their pension savings to investment risk is relatively small, ranging from 5 to 15 %.

And finally - The proportion of consumers that stated that they intended to use the government's guaranteed guidance service was between 5% and 90%. That one isn't particularly helpful – we'll just have to wait and see. We expect the telephone service delivered by TPAS to be the channel of choice.

So the Key take out is don't expect a revolution..... more an evolution in the way people behave.

So to our response, there are 4 key components which make up our new solution, which will be launched starting in April.

Firstly - In the next two weeks we will launch a comprehensive on-line resource which guides users through the various stages of planning and their options at each stage. This resource will be available to all UK consumers and is part of our strategy to build the awareness of the Just Retirement brand. We have also developed a range of planning tools to help people understand among other things;

- the impact of tax,
- the effects of longevity and the potential to run out of money,
- and also the way to calculate their essential expenditure and how to ensure that this is covered under any circumstances.

Secondly - We are developing an in-house simplified advice service. This is designed to assist the many thousands of retirees who have never traditionally used full advice services and who have therefore tended to buy, often poor value, annuity solutions from their ceding provider. This service will initially be used by customers of our corporate partners who will promote the service. It will also be used by our subsidiary business TOMAS, for the retiring members of their corporate pension scheme customers.

Protecting people from making inadvertent poor choices and helping them to find good value will continue to be a high priority for the industry. We expect to be at the forefront in developing and launching a credible simplified advice solution.

Thirdly - We have developed a state-of-the-art Just Retirement investment platform working with a leading platform provider. In the next few slides I'll show you how a customer will use this Flexible Pension Plan. But in summary this is a solution that enables customers to keep a sum of money within the tax-efficient pension environment for future access. The Flexible Pension Plan will initially have a focused range of passive funds designed for the target audience.

Our focus continues to be on middle Britain customers and our Flexible Pension Plan will be used in conjunction with the next generation of guaranteed income products which finally takes me to our guaranteed income for life solutions which have been modernised to take advantage of the flexibility that will be available when the laws change in April. We will be able to facilitate minimum periods of payment extending to any number of years to comfort those worried about early death and in doing so create a moneyback guarantee which will be attractive to many advisers and their clients. We will be able to facilitate the payment of taxable lump sums in addition to tax free cash for those who want more than 25% but wish to preserve the remainder for income purposes.

Overtime, and where we identify material customer interest, we will add further features to our guaranteed income for life solutions. These will reflect the HMRC rule changes that permit for example, guaranteed payments to increase or fall, or that start at a date in the future.

Our retail guaranteed income for life solutions will all be individually underwritten via Prognosys™ our IP which we have told you about in the past. This means that no person will be turned away - every retiree will be offered an illustration providing an income rate including those that have no medical conditions or adverse lifestyle factors.

Right, I'll now show you how this all works in practice. Perhaps I should add, this isn't just how we see it working – we have undertaken our most ambitious customer research and testing to inform our proposition development.

This revealed that a significant proportion of retirees value both flexibility and guaranteed income. To date the industry has tended to offer draw-down to those that want flexibility and annuity to those that can't risk having flexibility.

By combining a simple fund proposition from our platform with our leading individually underwritten guaranteed income solutions, retirees really can have the best of both worlds. Let me try and bring to life the logical thought process that people tend to go through:

Firstly – framing is very important – people think more logically about how to use their assets when they start by figuring out what their essential regular expenditure is.

Then they start weighing up their separate money pots – State Pension, any defined benefit pensions, then any defined contribution pots.

They then start to match these assets against their expenditure – starting with the guaranteed income from the State Pension, then any DB and then DC.

Their target – equilibrium and peace of mind, when the income generated from the money pots equals their regular expenditure.

Some middle Britain retirees will have pension assets in excess of those required to match equilibrium – I'll address this in a moment.

We discovered, and this is consistent with the other studies I referenced earlier – that three quarters of people describe wanting to use some or all of their pension savings to generate a guaranteed income for life to ensure they can pay their regular bills.

For people who have excess assets. They have a number of choices: They can withdraw them from the pension environment; (but of course this exposes the customer to the risk of paying excessive income tax); Or they can purchase more guaranteed income; Or they can keep them flexible within the tax efficient pension environment for use in the future.

I've called this a flexible fund on the slide or as I described earlier the Flexible Pension Plan.

This is a simple storage solution, with a focused range of passive funds designed for the cautious middle Britain target audience.

I want to distinguish our Flexible Pension Plan from traditional drawdown - where people attempt to generate a sustainable income directly from their investments and subject their pension savings to performance risk.

The Flexible Pension Plan is an essential component of the customer proposition – people have become very interested in keeping some money aside – you might call it a “just-in-case” fund.

I describe it as essential because there will be some people that are not prepared to commit all of their pension savings to generate a guaranteed income for life (regardless of whether they meet full equilibrium) so having this capability will ensure that we continue to meet the needs of our heartland customers, as well as reaching out to customers who want to de-risk their drawdown investments.

Finally in our research and development we explored how people might use the Flexible Pension Plan going forwards. We used various techniques but the one I'm going to show you here is to assume the customer is now 10 years post their initial purchase.

People recognise the price of bread and milk will have increased and therefore they have now created disequilibrium.

They recognised, that they could use some of their Flexible Pension Plan to regain equilibrium by purchasing further chunks of guaranteed income.

We found this very interesting. We know people don't like purchasing inflation linked annuities –but when in a position of being out of balance – effectively they are creating a new day 0 – they want to reach a balanced position again. Another observation here is that they will also benefit from increased age and possibly poorer health when they top up.

The other use of the Flexible Pension Plan is more obvious – unplanned, irregular expenditure – a solution to the “just in case” need.

Overall we believe that this approach will discourage retirees from encashing all of their funds because they don't want to commit everything at a point in time. It will be attractive to those who historically purchased annuities and to those who wish to continue with drawdown. It can be accessed by all retirees regardless of health or wealth.

I hope that is clear to you all and I will now hand you back to Rodney

RC: Thanks David. Before we open it up to Q&A, I want to speak a bit about what the future may hold but I hope through our results today you have some insight to our resolve and how we have achieved growth during adversity.

The market for individual, guaranteed retirement income for life remains hard to predict. But David has just given you a taste of our product plans, and I am sure we will be as well positioned as anyone to give customers in our markets what they want. And although some future retirees say they don't want annuities, the majority of them do want a guaranteed income for life. Because of our medical underwriting we can offer many of them a better rate, whatever you choose to call it. And for those with surplus assets having secured their guaranteed income, we can offer a flexible product which allows them to leave some of their money at work in the market until they need to draw on it in the future - or convert additional chunks into further guaranteed income .

As for the DB market, it was largely unaffected by the Budget. Likewise, the lifetime mortgage market was not impacted by the chancellor's announcements.

So for two of our three products we have not suffered any regulatory disruption, and the outlook is very positive for them. For IUAs the outlook is less clear, but if anyone is going to succeed, I believe it will be us.

So to sum up the outlook:

While the IUA market appears yet to have found a stable level, we are optimistic that growth in DB and mortgages will propel our overall sales, although perhaps not at former growth rates until the individual market starts to grow back.

We have invested a considerable amount in developing new individual products and are optimistic that our customer-led strategy will drive growing retail volumes.

As Simon has shown, we have a nice balance between profit driven by our growing back book, and profit driven by new business, and I remain convinced that we have a strong and valuable new business franchise in addition to our embedded value.

We are not giving any formal guidance today but I think Simon's comments on "normal" levels of DB volumes, together with our sales to date, may encourage you to review your revenue figures a little.

But my key message is that we have returned to growth in both revenues and liabilities, and that this should flow through into profit growth in due course.

Before we move onto questions, I want to conclude by saying that we believe these are strong results achieved in a highly challenging market, allowing us to look forward with renewed confidence.

So, to Q&A please, when we have a microphone, and after the Q&A from the room we'll move to the telephone. If you could just, for the benefit of the people on the phone, say who you are? Thank you very much.

Gordon Aitken: It's Gordon Aitken from RBC. Just three quick questions please. One of your competitors said it will only write new business if there's no new business strain. I just wondered where you are on that? Secondly, you talked about the competition from Aviva and Legals and the newer space, in both individual and bulk, and also on buy-ins. I mean, buy-ins are a massive feature of the standard, I suppose, de-risking market, and longevity swaps, how do they work on a medically underwritten basis?

RC: Right, so with regard to new business strain, as Shayne will be able to confirm, our business largely washes its face. We covered that with you in terms of the IPO and post-the IPO. However, very clearly it doesn't cover at the 140% level which is our economic risk capital, so there is no surprise that new business over time will start to consume that economic capital ratio until the releases from the back book take over. So at the current time our business is also just above the capital consumption point that our competitor is referring to. For the avoidance of doubt, if you ask them I don't believe they would say that their writing is 140% or more of the capital requirement either.

In terms of competitors, it is a very competitive market. Just Retirement's success over the last ten years has entirely been achieved from the open market. We haven't had advantage of existing customers that we could make offers to like the large seeding providers do. So we do experience continued competition, and, as Simon said, that competition has remained. When the individual market halved in size those competitors were still there, and that has had margin pressure and you saw the resulting fall in the margin.

In terms of the defined benefit space, our principal competitor in the underwritten bulk annuity space is Partnership Assurance although both Legal & General and Aviva will participate. This is our expertise. As I indicated to you, I recruited a team which is now 22-strong over the last-, which is now three years from when we started, so we've brought expertise from our competitors. They're fully capable of writing on a non-underwritten basis, and what we have added to their skillset is the ability to underwrite. So perhaps in that sense we have slightly less competition than in the individual market.

It is, Gordon, the normal process of going firstly to buy-in where the trustees have the relationship with our company, and we provide them with a bulk settlement every month, and then later on they move to buy-out where the relationship is direct with the individual members. Then of course they have full security for their benefits. So although we've only been going a year, we have already had a couple of our plans move to that second phase. So it is our expectation, and it is also the trustees' expectation that we will make those two steps, but as far as I know we haven't had any that came in with the concept of buying out on day one. It has been in those two stages. Shayne, just a quick comment on the 'washing its face' expression?

Shayne Deighton: Not much to add to what you said, Rodney. I think particularly in the individual market it will be very difficult for anybody to claim their writing business without any

new business strain where that means literally just looking at the balance sheet and the relationship between premium reserves. Obviously the important thing is how the overall capital position works out, and as Rodney says, as we've said before, our business, broadly speaking, washes its face on both a Pillar I basis - although we are less concerned about that now, and the economic capital basis. It's at somewhere between 100 and 140 and therefore you do get dilution over time.

Barrie Cornes: It's Barrie Cornes from Panmure Gordon. I've got three questions also if I may. First of all, David, you mentioned about Pensions Wise being up to speed on 6 April. I just wondered how come you're so confident given that a lot of people are very suspicious about what system would be in place. Secondly, platform provider. Can you tell us who it is and how it works, relationship, and how they're remunerated? Is it JV? Is it policy or whatever? The third question is, one of your competitors is looking to move its underwriting expertise overseas in the US, I think. I just wondered if you've got any plans to work internationally?

DC: On Pension Wise, I'll be honest. I'm principally reiterating what the government has stated, which HMT has stated. I think it's fair to say they will be ready. The question is what volume they can actually handle over what period of time and will consumers need to wait for their appointments and so on?

RC: So in terms of the platform provider we can't announce today the name of the company, but it is behind some of the biggest companies operating platforms

DC: What we can say though is, what we have done is a software deal with a provider, not an existing commercial platform provider, so we're effectively paying software license fees and created our own personal pension plan on that software.

RC: So we have brought their software in-house. We are proposing them to connect it into all of our systems so that we can give customers longer term, a joined-up view and we believe that that will be a longer term competitive advantage because other companies with perhaps more legacy systems will find that a major challenge. Just as some are finding it a challenge to be ready for the new legislative rules that come in on 6 April, especially if you have more than-, I mean, I do feel for them, they do have more than one platform and as a newer company we have one platform. In terms of international-, forgive me, the RNS is 51 pages long, but in there we did announce to the market that we have successfully received a license to transact retirement income businesses in South Africa. I did share with you at the IPO that we had a small, beautifully formed team looking at international opportunities and that we had a specific opportunity in mind, and clearly over the last couple of years we've built that up. So we have a full team of experts in their market in South Africa, about twelve-strong, and we have now received a full subsidiary license from the South African regulator. That market has a number of unique characteristics in it that we observed back in 2004 when Just Retirement entered the market in the UK. At the current time you might say that their market is about a sixth of the size of the previous £14 billion annuity market in the UK. Perhaps after April that percentage will be higher than a sixth. They are also proposing both TCF principles, treating customers fairly principles, which is Just Retirement's expertise, and more importantly, retail distribution review

is being carried out in South Africa. So we saw a unique combination of similar characteristics to the UK that we felt we could exploit. Next question?

Alan Devlin: Thank you, Alan Devlin from Barclays. A couple of questions. First of all on the pipeline for bulk annuities. Would you say it is healthy? What are the funding levels of those pensions in the pipeline? They tend to be already de-risked, so the big fall in interest rates doesn't impact their decision to do you buy in or buy out? Secondly, on the new business strain. Is there any difference between the new business strain on the DB business and the individually underwritten business? I know you said the margins are slightly higher in the DB business. Then the final question on your flexible pension plan. How are people going to access this platform? Is it going to be recommended through IFA? Is it going to be direct? How do you expect people to actually get on to this platform?

RC: Right, if I can take the first one. So, the important point of course is, it has taken some while to encourage the employee benefit consultants to understand the advantages for their clients with respect to underwriting. We believe that that has now been achieved, and the Hymans Robertson independent survey of that marketplace is predicting percentage growth in medically underwritten, especially at the smaller end. In terms of our pipeline, we have a robust pipeline which has grown every half year, so it continues to grow. As you are aware, there are three different stages of a pipeline. There are trustees who are starting to consider a buy-in. There are those that actually go out to proper broking, in other words they're getting formal quotes. Then there's the third part where you either lose the contract, if you like, or you become exclusive and then you negotiate with the employee benefit consultant and the trustees to conclude the legal documentation. So we have cases at all three of those levels. We're not going to say precisely the size of the pipeline, because at this early stage in our development we don't have a conversion factor that is established and known. As I said, we see two developments. One, the DB de-risking market is going to grow in itself, and you saw on slide seven or whatever, that, but also the percentages that will be underwritten that therefore is addressable to us, will go up. The strain, Shayne, can you just clarify the difference between the individual and the DB because of the reinsurance financing?

SD: Yes, well, the simple answer is, there's not much difference, but as ever there's a lot going on behind the scenes because they do differ in the product itself. The DB has got more escalation and therefore to the extent we don't have the exact amount of index-linked gilts. There might be some inflation exposure and so on, but the main differences are in the reinsurance structures where we use a completely different approach for DB via a longevity swap. So a slightly more effective risk transfer than we have on the individual but no financing. Put all of those things in the mix, together with the margin difference, which is very slight, and the difference is very, very small actually, but complicated behind the scenes.

RC: So, we would say, writing £100 million of DB business would affect that ratio by under 1% to the negative, forgive me. Sorry, all other things being equal in the background. David, just quickly, IFA and partners.

DC: Yes, I think it's important to note that the proposition we are marketing to distributors is actually the combined, as opposed to just the flexible, so to this point we're not trying to compete

with full-blown drawdown providers. We will be offering it to financial intermediaries for their low-end customers, and then also through our own distribution channel which is supported by branded partners and life companies.

RC: Right, one more question before we go to the phones, perhaps?

Oliver Steele: Oliver Steele, Deutsche Bank. Three questions. There have been quite a lot of questions on strain, so if I can just ask the question in a different way? The ROE you've got is actually quite low. What is the ROE you're expecting to earn on the new business you're taking on at the moment? Second question is, how different is this sort of combined flexible pension fund offering from what you think is potentially going to be offered elsewhere on the market? Then the third question I've got is really just looking at the sort of breadth of the DB wins you've had over the last six months. So excluding the two big schemes, I think it's fifteen schemes that you've won. How many employee benefit consultants have you won those through? What are the arrangements you've got in terms of how you bring them on to your own book, and can your systems cope with that?

RC: Right, if I do the second one, I'll come back to Shayne in terms of the return on equity, Shayne. So the combined product in terms of some sort of guidance with respect of margin, we are expecting to at least make on the guaranteed income part the same or better margins than we're making in the current annuity market, because we expect perhaps less competition, especially in the early days, because we do think the combination product will be an early leader. In terms of the component that's respect for the assets within that wholly flexi-account, as David referred to, we're seeking to break even approximately on that. Obviously some of that will leave us, because people will spend it, but also there's the opportunity for them to top up, and then in future years we would capture the greater margins on further guaranteed income streams.

As I said, our business model for defined benefit was to write a larger number of smaller deals, so the real benefit to us of writing seventeen deals is that we have touched more than once all of the top four players in the distribution space. There is in total about twenty actuarial and, if you regard them and say professional IFA firms that work in the corporate market that also may be involved in this. The critical thing for any new player is to gain the credibility of the employee benefit consultants, so what we are happy about is that now that we have completed seventeen deals in a half year, and we're not sure how that will compare to how many deals another company does, but each of them is a complete relationship building with the consultant, which is positive. We have completed the business on time and we are gaining a very good reputation and credibility, and in fact we have already had one customer come back and ask for us to do another tranche of their business without further broking to the market because they were pleased with how it all went. So we see that writing the seventeen as being much more valuable than if we'd written two, if that makes sense. Shayne, can you help me with the return on equity question, please, in terms of the strain?

SD: Yes, I'm probably not totally helpful on-, I'd answer in terms of return on capital, which is probably the metric that we might apply to new business. The issue is all wrapped up in the new business strain because most of the time there is very little strain. In fact, sometimes it is positive, depending on exactly where the margins are in the market. We find it not to be a

helpful metric for pricing on. We don't use it for pricing, so I can't quote you numbers off the top of my head because sometimes they will be infinite, sometimes if there is a small amount of strain you will see numbers that are sensible or otherwise. So it's very difficult to give you a single answer, I'm afraid.

Greg Patterson: Just four quick questions. One is, the in-force margin, that is obviously a key driver of earnings. I wonder if you could give us some guidance for that for the full year, please? On your income top-ups, will the client have guaranteed terms, or will they have to be re-underwritten at each point? I noted your sensitivities didn't work-, lower interest rates that should employ a positive but you had a negative, and you mentioned your changes at ALM. I wonder if you could just discuss what you actually did, and just give us some comfort that the sensitivities you are now providing actually are useful to us? Then there's, sort of, a fourth question. South Africa, I wonder if you could just give us a feel for-, whether there are competitors out there in that market and just maybe you want to talk about AIDS a little bit, how you think about that in that market?

RC: Yes, although I accept that it probably hasn't caused people to live longer.

GP: Yes, but could I just make a point, like for instance, Old Mutual has made a fortune out of what they call the-, it used to be called group schemes, they now call it Mass Affluent because they charge X and the client sees that the more-, sees the utility of the product, but the reality of AIDS has turned out to be very predictable and a much lower cost, so I'm just wondering how they had done, and how it could play into your business model?

RC: Right, so Simon, just quickly, the in-force margin, and can you say anything with respect to the full year?

ST: Yes, I'll try, Greg. Morning. Clearly you saw that the in-force margin on an annualised basis picked up to about 76 basis points, as I presented on the slide. Gut reaction for the remainder of this year, well, it's a little bit difficult because of course credit spreads will probably change, but if they stay broadly where they are, I think that the 76 basis points around that sort of figure would be the full year equivalent as well. So I wouldn't expect any dramatic change coming through there, but obviously that's predicated upon the bond market.

RC: The easy answer to the second one is, no, we're not offering guaranteed annuity rates, so if a customer comes in ten years' time we will give them of course a very fair and competitive market quote at that point in time.

In terms of asset liability matching, we have, as Shayne indicated, made fundamental changes to our investment and hedging portfolio over the last six months, and continue to do so which, as Simon indicated, is not as effective in the Pillar one area. Of course, we are required very clearly to have a focus on the Solvency II environment and the one in 200. Shayne, just a couple of words on what you've been doing there?

SD: Effectively it's all to do with, as you say, with preparation for Solvency II which uses IFRS fundamentally as its base accounting, whereas in the past our regulatory capital, both pillar one

and pillar two and our economic capital, have used a fair value approach to mortgages, wherein when you then look at the liability side of the balance sheet they are discounted at swap rate. So as we switch in to IFRS and look at the mortgages that are actually contributing yield rather than balance sheet value, it becomes far more effective for us to use the mortgages to the maximum extent that we can to back liabilities rather than corporate bonds because the spreads are much higher. So effectively that's what we've been starting to do, and that means in this view of the world we've had some surplus short-term credit which, in terms of its contributions to the balance sheet is inefficient compared with its contribution to the credit risk capital requirement. So we've been selling quite a lot of short-dated, low-spread credit, so if you look in detail within the pack you will see that the amount of gilts on our balance sheet has gone up significantly over the period, and we've also been placing some of those gilts into the longer part of the yield curve in order to help with some of our interest rate matching.

The sensitivities have moved significantly because the interest rates have moved significantly. We're now in a world which is over 150 basis points different at the long end from where we were at the time of the IPO. More insidiously, behind that, there has been a significant twist, so if you plot interest rates for ten-year and the 25-year, you will see that there was a significant gap between the two at around the time of the IPO, and that has closed quite significantly, actually predominantly in the period, up to around June of last year but it's continued to drift slightly closer ever since. Now, because of the way that our hedges were designed, has quite a significant impact in the way that it changes the interest rate behaviour our balance sheet. I can't really go into any more detail on that.

RC: I think if you need more detail you'd best do that offline.

SD: So the world has shifted.

GP: The key question is that you provide sensitivities. I don't know if you provide it now, but if you have, well, can we use them or was it just, sort of, a random thing? I mean, I had +30 in and it ended up as -30 million in the profit, so, I mean, how reliable are the sensitivities you are providing now?

RC: We have provided sensitivities on an embedded value basis, so we haven't at this point provided them on an economic capital basis.

So just quickly moving on to South Africa, there is a standard annuity market and clearly, as I said, we would like to have a positive impact on that market by introducing underwriting. We have a full reinsurer there with South African experience, so that's effectively, Greg, what we are doing. We're bringing the UK experience of underwriting guaranteed incomes for life and combining it with the reinsurer's South African experience. We're not assuming that everything we've learned in the UK is directly applicable, so it will take us a little time to combine those two efforts. Although we don't see anything in South Africa that's suggesting that their population will live longer than the UK population, which of course for an annuity provider is positive. There is one very small private firm offering some underwriting, but clearly we want to develop that market further. Time has got away. Is there one last burning question in the room before we

close? Okay, ladies and gentlemen, thank you very much to those on the phone and here in London. Thank you very much.