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### **STRICTLY NOT TO BE FORWARDED TO ANY OTHER PERSONS**

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THIS ELECTRONIC TRANSMISSION AND THE ATTACHED DOCUMENT MAY ONLY BE DISTRIBUTED IN “OFFSHORE TRANSACTIONS” AS DEFINED IN, AND IN RELIANCE ON, REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) OR WITHIN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS (“QIBs”) AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED DOCUMENT, IN WHOLE OR IN PART, IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. NOTHING IN THIS ELECTRONIC TRANSMISSION OR THE ATTACHED DOCUMENT CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

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This electronic transmission, the attached document and the Offer, when made, are only addressed to and directed at persons in member states of the European Economic Area (“Member States”) who are “qualified investors” within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC) (“Qualified Investors”). In addition, in the United Kingdom, this electronic transmission and the attached document are only being distributed to, and are only directed at, (i) Qualified Investors who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “Order”), (ii) Qualified Investors who fall within Article 49(2)(a) to (d) of the Order, and (iii) other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”). This electronic transmission and the attached document must not be acted on or relied on (i) in the United Kingdom, by persons who are not relevant persons and (ii) in any Member State other than the United Kingdom, by persons who are not Qualified Investors. Any investment or investment activity to which this document relates is available only to (i) relevant persons, in the United Kingdom, and (ii) Qualified Investors, in any Member State other than the United Kingdom, and will be engaged in only with such persons.

**Confirmation of Your Representation:** This electronic transmission and the attached document are delivered to you on the basis that you are deemed to have represented to the Company and Nomura International plc, authorised by the Prudential Regulation Authority (the “PRA”) and regulated by the PRA and the FCA in the United Kingdom, and Deutsche Bank AG, London Branch (together with Nomura International plc, the “Joint Global Co-ordinators”), authorised under German Banking Law by BaFin (the Federal Financial Supervisory Authority) and authorised and subject to limited regulation by the FCA, and Espírito Santo Investment Bank (which conducts its UK investment banking business through Execution Noble Limited), Keefe, Bruyette & Woods Limited, and Panmure Gordon (UK) Limited, each authorised and regulated by the FCA in the United Kingdom, (together with the Joint Global Co-ordinators, the “Underwriters”) that (i) you are (a) a QIB acquiring such securities for your own account or for the account of another QIB or (b) acquiring such securities in “offshore transactions” as defined in, and in reliance on, Regulation S under the Securities Act; (ii) if you are in the United Kingdom, you are a relevant person, and/or a relevant person who is acting on behalf of relevant persons in the United Kingdom and/or Qualified Investors, to the extent you are acting on behalf of persons or entities in the United Kingdom or the European Economic Area; (iii) if you are in any Member State other than the United Kingdom, you are a Qualified Investor and/or a Qualified Investor acting on behalf of Qualified Investors or relevant persons, to the extent you are acting on behalf of persons or entities in the European Economic Area or the United Kingdom; and (iv) you consent to delivery by electronic transmission.

You are reminded that you have received this electronic transmission and the attached document on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located, and you may not, nor are you authorised to, deliver this document, electronically or otherwise, to any other person. This document has been made available to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission, and consequently neither the Company, the Underwriters nor any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version. By accessing the linked document, you consent to receiving it in electronic form. Neither the Underwriters nor any of their respective affiliates accepts any responsibility whatsoever for the contents of this document or for any statement made or purported to be made by them, or on their behalf, in connection with the Company or the Shares. Each Underwriter and each of its affiliates accordingly disclaims all and any liability whether arising in tort, contract or otherwise which it might otherwise have in respect of such document or any such statement. No representation or warranty, express or implied, is made by any of the Underwriters or any of their respective affiliates as to the accuracy, completeness or sufficiency of the information set out in this document.

The Underwriters are acting exclusively for the Company and no one else in connection with the Offer. None of the Underwriters will regard any other person (whether or not a recipient of this document) as a client in relation to the Offer and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients or for the giving of advice in relation to the Offer or any transaction, matter, or arrangement referred to in this document.

# Prospectus

12 November 2013



This document comprises a prospectus for the purposes of Article 3 of EU Directive 2003/71/EC, as amended (the “Prospectus Directive”) relating to Just Retirement Group plc (the “Company”) prepared in accordance with the Prospectus Rules of the Financial Conduct Authority (the “FCA”) made under section 73A of the Financial Services and Markets Act 2000 (the “FSMA”). The Prospectus will be made available to the public in accordance with the Prospectus Rules.

Application has been made to the FCA for all of the ordinary shares of the Company (the “Shares”) issued and to be issued in connection with the proposed offer to certain institutional and professional investors (the “Offer”) to be admitted to the premium listing segment of the Official List of the FCA and to London Stock Exchange plc (the “London Stock Exchange”) for all of the Shares to be admitted to trading on the London Stock Exchange’s main market for listed securities (together, “Admission”). Conditional dealings in the Shares are expected to commence on the London Stock Exchange on 12 November 2013. It is expected that Admission will become effective and that unconditional dealings in the Shares will commence on 15 November 2013. Dealings on the London Stock Exchange before Admission will only be settled if Admission takes place. **All dealings before the commencement of unconditional dealings will be of no effect if Admission does not take place and such dealings will be at the sole risk of the parties concerned. No application is currently intended to be made for the Shares to be admitted to listing or dealt with on any other exchange. The new Shares issued by the Company will rank *pari passu* in all respects with the existing Shares.**

The directors of the Company (the “Directors”), whose names appear on page 88 of this document, and the Company accept responsibility for the information contained in this document. To the best of the knowledge of the Directors and the Company (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

**Prospective investors should read this document in its entirety. See “Risk Factors” in Part 1 for a discussion of certain risks and other factors that should be considered prior to any investment in the Shares.**

## **Just Retirement Group plc**

(incorporated under the Companies Act 2006 and registered in England and Wales  
with registered number 8568957)

**Offer of 152,534,950 Shares of 10 pence each  
at an Offer Price of 225 pence per Share  
and admission to the premium listing segment of the Official List  
and to trading on the main market of the London Stock Exchange**

*Joint Sponsors, Joint Global Co-ordinators and Joint Bookrunners*

**Deutsche Bank**

**Nomura**

*Co-lead Managers*

**Espírito Santo  
Investment Bank**

**Keefe, Bruyette & Woods**

**Panmure Gordon & Co**

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### **ORDINARY SHARE CAPITAL IMMEDIATELY FOLLOWING ADMISSION**

Issued and fully paid

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<u>Number</u>	<u>Nominal value</u>
500,000,000	10 pence

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In connection with the Offer, Deutsche Bank AG, London Branch, as Stabilising Manager, or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot Shares or effect other stabilisation transactions with a view to supporting the market price of the Shares at a higher level than that which might otherwise prevail in the open market. The Stabilising Manager is not required to enter into such transactions, and such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of the commencement of conditional dealings of the Shares on the London Stock Exchange and ending no later than 30 calendar days thereafter. However, there will be no obligation on the Stabilising Manager or any of its agents to effect stabilising transactions, and there is no assurance that stabilising transactions will be undertaken. Such stabilisation, if commenced, may be discontinued at any time without prior notice. Except as required by law or regulation, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offer.

In connection with the Offer, the Stabilising Manager may, for stabilisation purposes, over-allot Shares up to a maximum of 15 per cent. of the total number of Shares comprised in the Offer (the “Over-allotment Option”). For the purposes of allowing the Stabilising Manager to cover short positions resulting from any such over-allotments and/or from sales of Shares effected by it during the stabilising period, it is expected that Avallux S.à r.l. (“Avallux” or the “Over-allotment Shareholder”) will grant the Stabilising Manager the Over-allotment Option, pursuant to which the Stabilising Manager may purchase or procure purchasers for additional Shares up to a maximum of 15 per cent. of the total number of Shares comprised in the Offer (the “Over-allotment Shares”) at the Offer Price. The Over-allotment Option will be exercisable in whole or in part, upon notice by the Stabilising Manager, at any time on or before the 30<sup>th</sup> calendar day after the commencement of conditional dealings of the Shares on the London Stock Exchange. Any Over-allotment Shares made available pursuant to the Over-allotment Option will rank *pari passu* in all respects with the Shares, including for all dividends and other distributions declared, made or paid on the Shares, will be purchased on the same terms and conditions as the Shares being issued or sold in the Offer and will form a single class for all purposes with the other Shares.

Nomura International plc is authorised by the Prudential Regulation Authority (the “PRA”) and regulated by the PRA and the FCA in the United Kingdom, and Deutsche Bank AG, London Branch (together with Nomura International plc, the “Joint Global Co-ordinators”) is authorised under German Banking Law by BaFin (the Federal Financial Supervisory Authority) and authorised and subject to limited regulation by the FCA. Espírito Santo Investment Bank (which conducts its UK investment banking business through Execution Noble Limited), Keefe, Bruyette & Woods Limited and Panmure Gordon (UK) Limited (together with the Joint Global Co-ordinators, the “Underwriters”) are each authorised and regulated by the FCA in the United Kingdom. Each Underwriter is acting exclusively for the Company and no one else in connection with the Offer.

None of the Underwriters will regard any other person (whether or not a recipient of this document) as a client in relation to the Offer and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients or for the giving of advice in relation to the Offer or any transaction, matter, or arrangement referred to in this document. Apart from the responsibilities and liabilities, if any, which may be imposed on the Underwriters by the FSMA or the regulatory regime established thereunder or under the regulatory regime of any jurisdiction where exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, none of the Underwriters nor any of their respective affiliates accepts any responsibility whatsoever for the contents of this document including its accuracy, completeness and verification or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Shares or the Offer. Each of the Underwriters and each of their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract or otherwise (save as referred to above) which they might otherwise be found to have in respect of this document or any such statement. No representation or warranty, express or implied, is made by any of the Underwriters or any of their respective affiliates as to the accuracy, completeness, verification or sufficiency of the information set out in this document, and nothing in this document will be relied upon as a promise or representation in this respect, whether or not to the past or future.

This document does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, any securities other than the securities to which it relates or any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, such securities by any person in any circumstances in which such offer or solicitation is unlawful.

### **Notice to Overseas Shareholders**

The Shares have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”). The Shares offered by this document may not be offered or sold in the United States, except to qualified institutional buyers (“QIBs”), as defined in, and in reliance on the exemption from the registration requirements of the Securities Act provided in, Rule 144A under the Securities Act (“Rule 144A”) or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Prospective investors are hereby notified that the sellers of the Shares may be relying on the exemption from the provisions of section 5 of the Securities Act provided by Rule 144A. No actions have been taken to allow a public offering of the Shares under the applicable securities laws of any jurisdiction, including Australia, Canada or Japan. Subject to certain exceptions, the Shares may not be offered or sold in any jurisdiction, or to or for the account or benefit of any national, resident or citizen of any jurisdiction, including Australia, Canada or Japan. This document does not constitute an offer of, or the solicitation of an offer to subscribe for or purchase, any of the Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

The Shares have not been approved, disapproved or recommended by any U.S. federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not passed upon the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

### **NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA 421-B”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

### **Available Information**

For so long as any of the Shares are in issue and are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which it is not subject to section 13 or 15(d) under the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, make available to any holder or beneficial owner of a Share, or to any prospective purchaser of a Share designated by such holder or beneficial owner, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

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## SUMMARY INFORMATION

*Summaries are made up of disclosure requirements known as “Elements”. These Elements are numbered in Sections A-E (A.1-E.7).*

*This summary contains all the Elements required to be included in a summary for this type of security and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.*

*Even though an Element may be required to be inserted in the summary because of the type of security and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of “not applicable”.*

### Section A—Introductions and warnings

Element	Disclosure Requirement	Disclosure
A.1	Warning	<p>This summary should be read as an introduction to this document.</p> <p>Any decision to invest in the securities should be based on consideration of this document as a whole by the investor. Where a claim relating to the information contained in this document is brought before a court, the plaintiff investor might, under the national legislation of the member states of the European Economic Area (“Member States”), have to bear the costs of translating this document before the legal proceedings are initiated.</p> <p>Civil liability attaches only to those persons who have tabled the summary including any translation thereof, and applied its notification, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this document or it does not provide, when read together with the other parts of this document, key information in order to aid investors when considering whether to invest in such securities.</p>
A.2	Subsequent resale of securities or final placement of securities through financial intermediaries	Not applicable. No consent has been given by the Company or any person responsible for drawing up this document to the use of this document for subsequent resale or final placement of securities by financial intermediaries.

### Section B—Issuer

Element	Disclosure Requirement	Disclosure
B.1	Legal and commercial name	Just Retirement Group plc (the “Company”)
B.2	Domicile and legal form	The Company is a public limited company, incorporated on 13 June 2013 in the United Kingdom with its registered office situated in England and Wales. The Company operates under the Companies Act 2006.
B.3	Key factors affecting current operations and principal activities	Established in 2004, Just Retirement is a specialist UK financial services group focusing on high growth segments of the UK retirement income market. Just Retirement is a leading and established provider of individually underwritten annuities (“IUAs”) and equity release lifetime mortgages (“LTMs”) in the United Kingdom (source: ABI, ERC, Group accounts, Just Retirement analysis). In the IUA market it offers better annuity rates compared with standard annuity providers to customers, who, as a result of one or more pre-existing medical conditions or lifestyle factors, are likely to have a reduced life expectancy. Just Retirement utilises its unrivalled proprietary intellectual property (“IP”) based on over 600,000 person-years of experience collected over nine years of operations, data capture



capabilities, underwriting practices, statistical analysis and an understanding of annuity purchase behaviour, alongside a capital efficient business model, to drive profitable growth. To date, having underwritten over 66 per cent. more IUAs than any other provider (source: Just Retirement analysis), Just Retirement has helped close to 200,000 annuity customers achieve a better income in their retirement than if they had taken annuities from standard annuity providers and has helped close to 50,000 LTM customers release equity from their properties.

Just Retirement has focused primarily on the core segments of the IUA market (medically enhanced and lifestyle), which the Directors believe are the larger and the faster growing segments of this market, whilst also achieving a growing volume of business in the smaller impaired segment. In the year ended 31 December 2012, the medically enhanced and lifestyle segments accounted for 71 per cent. and 17 per cent., respectively, of Just Retirement's total consolidated sales for IUAs, with the remaining 12 per cent. attributable to the impaired segment. As a result of this focus, Just Retirement has built a more extensive database on both medical and lifestyle factors compared to any other annuity provider (source: Just Retirement analysis). The Directors believe that the combination of the Group's (as defined below) unrivalled proprietary IP and its real-time, automated quoting capability has provided Just Retirement with a significant competitive advantage in terms of distribution and customer pricing for those risks selected by the business in the core segments of the IUA market.

In 2011, Just Retirement commenced development of its own automated underwriting system, Prognosis™. Phase I of the Prognosis™ development programme is now complete and the system is now capable of assessing over 70 of the most important categories of conditions (such as diabetes, cancer and the risk factors for heart disease) that have commonly affected individuals by the time they retire, as well as over 1,500 variations, including disease severity, medication and combinations of conditions. Just Retirement has already started using key insights from phase I to refine its pricing and acceptance criteria, supporting the Group's confidence in the delivery of future profits. In 2013, Just Retirement initiated phase II of the Prognosis™ programme. When complete, Prognosis™ will deliver an individual mortality curve for each customer, which will show the probability of any given customer's death at any time in the future and which the Directors believe will be a powerful tool for pricing and reserving and will further enhance the Group's significant competitive advantage.

Just Retirement has consistently reinsured a substantial part of its annuity portfolio (approximately 66 per cent. of the longevity risks under its qualifying IUA new business). This strategy has enabled Just Retirement to transfer a portion of its longevity risk and has provided relief from statutory capital constraints, allowing the Group to optimise its capital position and support strong growth.

In the LTM market, Just Retirement has been a leading proponent of drawdown LTMs (source: ERC). The LTM product provides an effective longevity hedge and a high risk-adjusted yield, whilst supporting the strong credit profile of Just Retirement's investment portfolio. The LTM product is complementary to the IUA product as the yield uplift (compared to corporate bonds), together with reinsurance and capital financing, significantly reduces the capital required for its IUA products at the point of sale, a reflection of Just Retirement's capital efficient business model.

The Group continuously looks to leverage its unrivalled proprietary IP to increase its share in those segments of the IUA market assessed to be attractive and to develop new products, such as defined benefit (“DB”) pension de-risking solutions and care annuities, and to participate in the broader retirement income market to secure further growth opportunities. The Group has also established itself as the second largest provider in the fixed term annuity (“FTA”) market in the United Kingdom (source: ABI, Just Retirement estimates). These products are expected to grow in importance in the coming years as more people exercise their open market option (“OMO”) rights (which allow an individual to use pension savings from any defined contribution (“DC”) pension fund to purchase an annuity from any annuity provider).

Just Retirement has leveraged its well-known brand, automated and scalable underwriting system and reputation for high-quality service to develop an RDR-compliant multi-channel distribution strategy and secure long-term agreements with key partners who have supported the Group’s strong growth in recent years. Just Retirement’s products are typically distributed to individuals through financial intermediaries, employee benefit consultants, life insurance companies and platforms, banks and building societies, price comparison websites and affinity partners. The Directors believe that the strength of Just Retirement’s distribution relationships and the willingness of networks to engage with it are testament to the strength of its award-winning and differentiated service proposition for distributors and the Group’s commitment to offer a “just retirement” to its customers.

Just Retirement has enjoyed a strong track record of profitable organic growth.

- Total New Business Sales have increased from £297.9 million in the year ended 30 June 2006 to £1,653.6 million in the year ended 30 June 2013, representing a CAGR of 28 per cent.;
- New Business Sales for annuities have increased from £252.6 million in the year ended 30 June 2006 to £1,343.9 million in the year ended 30 June 2013, representing a CAGR of 27 per cent.;
- New Business Sales for LTMs have increased from £45.3 million in the year ended 30 June 2006 (the period in which the Group launched its LTM product) to £309.7 million in the year ended 30 June 2013, representing a CAGR of 32 per cent.; and
- European Embedded Value has increased from £38.0 million as at 30 June 2006 to £503.9 million as at 30 June 2013.

Just Retirement’s organic growth is also reflected in the increases in its KPIs during the period covered by the Historical Financial Information included in Part 12 “Historical Financial Information” that are highlighted below.

- New Business Sales have increased from £1,135.2 million in the year ended 30 June 2011 to £1,653.6 million in the year ended 30 June 2013, representing a CAGR of 21 per cent.;
- New Business Operating Profit has increased from £49.1 million (normalised, as described in footnote 1 to the table captioned “Key Performance Indicators” in Element B.7) in the year ended 30 June 2011 to £58.9 million in the year ended 30 June 2013, representing a CAGR of 10 per cent.;
- In-force Operating Profit has increased from £26.4 million in the year ended 30 June 2011 to £41.1 million in the year ended 30 June 2013, representing a CAGR of 25 per cent.;

- Underlying Operating Profit has increased from £75.5 million (normalised) in the year ended 30 June 2011 to £100.0 million in the year ended 30 June 2013, representing a CAGR of 15 per cent.; and
- European Embedded Value has increased from £343.8 million as at 30 June 2011 to £503.9 million as at 30 June 2013, representing a CAGR of 16 per cent (excluding £44 million of capital injections between 2011 and 2013).

Just Retirement is based in Surrey and had 819 employees as at 30 June 2013. The Group's management team has over 100 years of combined experience in the retirement income industry, and the majority have been part of Just Retirement for a significant period of time. Members of the Group are authorised and regulated in the United Kingdom by the FCA and/or the PRA. In particular, Just Retirement Limited is authorised by the PRA and regulated by the FCA and the PRA, while Just Retirement Solutions Limited is authorised and regulated by the FCA.

B.4a Significant trends affecting the Group and the industry in which it operates

Just Retirement competes in a number of high growth segments of the UK retirement income market.

Between 2008 and 2010, the total net non-pension assets held by individuals aged 65 years and older in the United Kingdom amounted to £1.2 trillion (source: HMRC). The assets of new people entering retirement has grown from £76 billion in 2009 to £104 billion in 2012 (source: Watson Wyatt, ABI and Just Retirement analysis), representing a CAGR of 11 per cent. This rate of growth was driven by the ageing population and increased accumulated lifetime savings.

In retirement, customers typically need financial products that convert their accumulated lifetime savings into income. This represents a sizeable and rapidly growing market opportunity for providers of retirement income products including IUAs and LTMs.

#### **Individually underwritten annuities**

In recent years, the IUA market has achieved faster growth than the standard annuity market, and the Directors expect this trend to continue. The IUA market increased in size from £1.4 billion (approximately 12 per cent. of the UK annuities market by premium value) in 2008 to £4.5 billion (approximately 32 per cent. of the UK annuities market by premium value) in 2012, representing a CAGR of 33 per cent. (source: ABI). Based on current market data, the Directors expect that the IUA market will reach £7.6 billion, or approximately 41 per cent. of the UK annuities market, by 2016, representing a CAGR of 22 per cent. between 2013 and 2016, with the majority of growth coming from the medically enhanced and lifestyle segments.

The end of 2012 and the beginning of 2013 saw the introduction of two significant regulatory changes, the Retail Distribution Review (the "RDR") and gender equalisation, which positively impacted sales in 2012 but negatively impacted them in 2013. The Directors believe that the combined effect of these two regulatory changes caused the acceleration of up to approximately £1 billion of new annuity business into 2012 and the delay of approximately a further £0.2 billion of new annuity business, as financial intermediaries adapt their business models to operate in the post-RDR environment. As a result, the Directors believe that the value of new annuity business written in 2013 will be approximately £1.2 billion lower than it would have been had RDR and gender equalisation not been implemented. The Directors believe this market discontinuity will result in single digit growth

in the IUA market until the middle of 2014, comparing the twelve months to June 2014 against the twelve months to June 2013. Notwithstanding this short-term impact, the Directors believe that the fundamentals supporting the growth of the annuity market remain sound and that the IUA market will return to strong double digit growth between June 2014 and the end of 2016.

The Directors believe that a number of secular trends will continue to drive long-term growth in the IUA market. These include:

- Strong growth in the total annuity market at a CAGR of 14 per cent. between 2013 and 2016 (source: Just Retirement estimates), driven by:
  - the increasing assets held by those in retirement, as described above;
  - a decreasing reliance on government funding of retirement income;
  - the switch from DB pensions to DC pensions; and
  - continued demand for annuities relative to other retirement income choices.
- Accelerated growth in IUAs outpacing the growth in the total annuity market driven by:
  - increased take-up of the open market option; and
  - increasing penetration of IUAs as a result of increased customer awareness, substantial regulatory support for increased awareness and acceptance of IUAs and increasing numbers of potential customers with lifestyle or medical conditions who could benefit from an IUA.

In other insurance markets, such as the UK personal motor insurance market, every customer receives a rate based on individually underwritten factors such as their driving history and model of car. It is not considered sustainable for insurers to provide a “standard” product in these markets since they will eventually suffer adverse selection which will result in a portfolio containing only the highest risk customers. The Directors believe that over time the same will become true in the UK annuity market since portfolios of standard annuity customers are gradually becoming higher risk due to the increasing average longevity of these customers, as those with shorter longevity are selected by Just Retirement and other IUA providers.

#### **Lifetime mortgages**

The UK LTM market comprises a range of products designed for individuals at or in-retirement who wish to realise some of the equity value in their home. It is estimated that property represented approximately 54 per cent. of the wealth of those moving into retirement in 2012 (source: Watson Wyatt, ABI and Just Retirement analysis). Given the need for retirees to supplement low rates of saving or inadequate retirement income, property is expected to represent an increasingly important means of funding retirement.

The Directors believe the structural drivers for growth in the LTM market are strong. The market remains significantly underpenetrated, with only approximately £926 million in annual LTM advances in 2012 compared to total home equity potentially available for release of approximately £300 billion (source: Pensions Policy Institute, Just Retirement analysis). Cumulative LTM advances since records began in

1991 are estimated at £12.5 billion which represents a penetration rate of less than 5 per cent. Other factors which are supportive of growth in the LTM market include:

- Support from the Government, parliamentarians and other policymakers for the role of housing equity in retirement provision;
- an insufficient level of income from pensions, annuities and other savings for a substantial proportion of individuals retiring now and in the future to meet their needs and aspirations in retirement. This problem has become particularly acute due to:
  - declining real retirement incomes due to the significant increase in the cost of living, estimated to have increased by approximately 26 per cent. since the beginning of 2008 as a result of price inflation (source: ONS); and
  - erosion in the level of income that retirees can expect from existing pension savings because of the decline in official interest rates from 5.5 per cent. to 0.5 per cent. over the same period, meaning that retirees are increasingly likely to seek to realise some of the value in their property in order to fund their retirement;
- the desire to pay down other outstanding debt and mortgages at retirement with limited or no access to alternative income to repay these liabilities;
- increasing expectations for people in later life to make significant contributions to the cost of their long-term care, with housing equity as the most accessible source for such contributions;
- changing attitudes towards retirement due to improved healthcare and the consequent health of people at and after retirement, which has increased their appetite and ability to enjoy a more active lifestyle, including travel and other hobbies;
- increased distribution of LTMs, some of which are from high-profile consumer brand names such as Saga and AgeUK, which has raised awareness amongst a wider section of the population; and
- the broadening of the product suite of LTMs over recent years (such as the introduction of the drawdown LTM) to provide tailored solutions to a wider proportion of the retiree population.

B.5 Group description

Prior to Admission, the Company is a non-trading and wholly-owned subsidiary of Avallux, which is wholly owned by certain funds that are advised by Permira Advisers LLP (collectively, the “Permira Funds”). Upon Admission, the Company will be the holding company of the JRGHL Group. The term “JRGHL Group” refers to Just Retirement Group Holdings Limited (formerly Avalon Acquisitions Limited, the acquisition vehicle which acquired Just Retirement (Holdings) Limited in November 2009) and each of its consolidated subsidiaries and subsidiary undertakings. Prior to Admission, the terms “Group” and “Just Retirement” refer to Just Retirement (Holdings) Limited and each of its consolidated subsidiaries and subsidiary undertakings; following Admission, the terms “Group” and “Just Retirement” refer to the Company and its consolidated subsidiaries (including Just Retirement (Holdings) Limited) and subsidiary undertakings from time to time. The term “Admission” refers to admission of the Shares to the premium listing segment of the Official List of the FCA (the “Official List”) and to trading on the London Stock Exchange’s main market for listed securities.



B.6 Major shareholders

As at the date of this document, to the extent known by the Company, the Company is owned or controlled by Avallux, which holds 100 per cent. of the voting rights attached to the issued share capital of the Company (and 87.9 per cent. upon completion of the Reorganisation). Immediately following the Offer and Admission, it is expected that Avallux will hold approximately 62.4 per cent. of the voting rights attached to the issued share capital of the Company, assuming no exercise of the Over-allotment Option, and 57.8 per cent., assuming the Over-allotment Option is exercised in full.

None of the Company's shareholders have or will have different voting rights attached to the Shares they hold.

On 12 November 2013, the Company and Avallux entered into the Relationship Agreement which will, conditional upon Admission, regulate the ongoing relationship between the Company and Avallux. The principal purpose of the Relationship Agreement is to ensure that the Company and its subsidiaries are capable of carrying on their business independently of Avallux, that transactions and relationships with Avallux (including any transactions and relationships with any member of the Group) are at arm's length and on normal commercial terms, and that the goodwill, reputation and commercial interests of the Company are maintained.

The Directors believe that the terms of the Relationship Agreement will enable the Group to carry on its business independently of Avallux and ensure that all transactions and relationships between the Company and/or the members of the Group (on the one hand) and Avallux and/or its associates (on the other) are, and will be, on arm's length terms and on a normal commercial basis.

B.7 Key financial information and narrative description of significant changes to financial condition and operating results of the Group during or subsequent to the period covered by the historical key financial information

The selected financial information set out below has been extracted without material adjustment from the Historical Financial Information relating to the JRGHL Group included in Part 12 "Historical Financial Information".

<b>Statement of Comprehensive Income Information</b>	<b>Year ended 30 June</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Total revenue . . . . .	965.2	825.1	558.2
Other operating income . . . . .	5.6	4.5	4.4
Net claims incurred . . . . .	(149.1)	(114.7)	(88.2)
Net change in insurance and investment contract liabilities . .	(461.4)	(434.6)	(258.2)
Acquisition costs, operating expenses and amortisation . . . .	(153.7)	(139.1)	(112.6)
Finance costs . . . . .	(128.3)	(116.5)	(101.1)
<b>Profit before tax . . . . .</b>	<b>78.3</b>	<b>24.7</b>	<b>2.5</b>
Income tax . . . . .	(20.5)	(10.7)	(2.3)
<b>Profit for the year . . . . .</b>	<b>57.8</b>	<b>14.0</b>	<b>0.2</b>

Total revenue and profit before tax have grown at CAGRs of 31 per cent. and 460 per cent, respectively, from 30 June 2011 to 30 June 2013, with the former primarily due to the Group's new business growth and the latter due to changes in investment and economic conditions. The Group's profitability was significantly influenced by changes in interest rates due to financial market volatility over the period, which impacted the value of the Group's financial assets and liabilities.

As a result of the sensitivity of the JRGHL Group's operational results to changes in interest rates, corporate bond credit spreads and factors influencing the housing market, the Board has adopted the following metrics, which are considered to give an understanding of the Group's underlying performance. These measures, which have been extracted

without material adjustment from the Historical Financial Information included in Part 12 “Historical Financial Information”, together with the Group’s New Business Sales (as discussed above in Element B.3), are referred to as key performance indicators (“KPIs”).

Key Performance Indicators	Year ended 30 June		
	2013	2012	2011
	£m	£m	£m
New Business Operating Profit <sup>(1)</sup>	58.9	54.5	49.1
In-force Operating Profit	41.1	32.7	26.4
Underlying Operating Profit <sup>(1)</sup>	100.0	87.2	75.5

Note:

- (1) New Business Operating Profit for the year ended 30 June 2011 reflects normalised margins and product mix. In the year ended 30 June 2011, the Group experienced strong demand for LTMs from which unusually high margins were achieved. To allow for a more appropriate comparison with later years with respect to new business operating profit, an adjustment has been made to reduce new business operating profit by £13.8 million to £49.1 million and to increase the operating experience and assumption changes by £13.8 million to £(0.9) million.

New Business Operating Profit has increased from £49.1 million (normalised) in the year ended 30 June 2011 to £58.9 million in the year ended 30 June 2013, representing a CAGR of 10 per cent., reflecting increased new business volumes.

In-force Operating Profit has increased from £26.4 million in the year ended 30 June 2011 to £41.1 million in the year ended 30 June 2013, representing a CAGR of 25 per cent., reflecting the release of prudent reserves above best estimates. A large and growing in-force book of business, reflecting increased new business volumes in previous financial years, creates a high level and relatively predictable earnings stream that is expected to increase over time.

Underlying Operating Profit accordingly increased from £75.5 million (normalised) in the year ended 30 June 2011 to £100.0 million in the year ended 30 June 2013, representing a CAGR of 15 per cent.

Statement of Financial Position Information	As at 30 June		
	2013	2012	2011
	£m	£m	£m
Intangible assets & equipment	84.9	90.1	99.7
Financial assets	6,044.7	4,964.3	3,507.4
Reinsurance assets	3,476.8	3,079.8	2,145.7
Cash and cash equivalents	40.6	19.9	12.8
Insurance liabilities	(5,490.3)	(4,626.7)	(3,257.6)
Financial liabilities	(3,705.4)	(3,312.4)	(2,403.5)
Other net assets / (liabilities)	(301.2)	(135.4)	(39.7)
<b>Total net assets</b>	<b>150.1</b>	<b>79.6</b>	<b>64.8</b>

Net assets have grown by £85.3 million from 30 June 2011 to 30 June 2013, reflecting increases in financial assets and reinsurance assets attributable to premiums received from new business, the effects of which were partially offset by increases in insurance liabilities and financial liabilities.

Cash Flow Statement Information	Year ended 30 June		
	2013	2012	2011
	£m	£m	£m
Net cash inflow / (outflow) from operating activities	41.1	(58.7)	21.0
Net cash (outflow) from investing activities	(3.6)	(3.5)	(2.6)
Net cash inflow from financing activities	98.5	0.2	3.5
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>136.0</b>	<b>(62.0)</b>	<b>21.9</b>

Premiums received from the Group's customers in connection with the provision of IUAs and, to a lesser extent, FTAs are invested in financial assets, such as fixed income securities and LTMs, so as to match cash inflows from such investments against expected future cash outflows in respect of IUAs. The Group's principal cash inflows from operating activities comprise such premiums received, the repayment of fixed income securities and LTMs, coupon payments made on fixed income securities and early redemptions of LTMs. The Group's principal cash outflows from operating activities, on the other hand, comprise the purchase of fixed income securities, payments to annuitants, mortgage advances, commissions, expenses and taxation.

Net cash outflow from investing activities primarily consists of capital expenditure.

Net cash inflow from financing activities relates primarily to increased bank borrowings, loan notes and issuances of ordinary and preference share capital. In the year ended 30 June 2013, new funds were raised consisting of (i) £55.0 million of bank borrowings, and (ii) £25.5 million of loan notes and a £19.0 million capital injection from Avallux, the JRGHL Group's principal shareholder, together with the JRGHL Group's minority shareholders.

Since 30 June 2013, the Group has traded in line with the Board's expectations as a whole. The Group's results of operations for the quarter ended 30 September 2013, compared to the corresponding quarter in 2012, reflected the disrupted pattern of annuity sales in 2012 and 2013, driven by the significant regulatory changes from the RDR and gender equalisation, which pulled significant volumes of new business forward into the final two quarters of the 2012 calendar year as advisers sought to meet December implementation deadlines. The Group expects the total market for annuities to decline in 2013 compared to 2012 because of this significant one-off pull-through and expects double digit IUA market growth to return from June 2014. The lifetime mortgage market continues to benefit from short-term consumer demand and favourable longer-term growth prospects, based on the structural fundamentals arising from economic and demographic factors and attitudinal changes amongst those approaching retirement compared to previous generations of retirees.

**B.8 Key pro forma financial information**

<b>Key pro forma financial information</b>	<b>Note</b>	<b>£m</b>
Net assets of Just Retirement Group plc . . . . .	1	0.0
Net assets of the JRGHL Group . . . . .	2	150.1
Conversion of loan notes, shareholder loan and PPI . . . . .	3	250.2
Conversion of preference shares . . . . .	4	76.8
New share issue . . . . .	5	280.0
<b>Pro forma net assets as at 30 June 2013 . . . . .</b>		<b>757.1</b>
<b>Just Retirement Limited Pillar 1 capital</b>		
Just Retirement Limited's excess of available capital resources . . . . .		345.1
Just Retirement Limited's cover ratio . . . . .		243%

**1. Source of Company Historical Financial Information**

The Company is a dormant company with no trading history and initial share capital of £50,000, divided into 20 ordinary shares of 10 pence each and 49,998 preference shares of 100 pence each.

## **2. Source of JRGHL Group Consolidated Historical Financial Information**

The financial information for the JRGHL Group (including Just Retirement Limited) as at 30 June 2013 has been extracted without material adjustment from the “Historical Financial Information” as set out in Part 12 of this document.

## **3. Conversion of Loan Notes, Shareholder Loan and PPI**

Before Admission, A Loan Notes, with a nominal value of £13.6 million, B Loan Notes, with a nominal value of £164.8 million, the PPI, with a value of £1.7 million, and a shareholder loan, with a nominal value of £2.3 million, held by Just Retirement Group Holdings Limited, will be converted into new ordinary shares in Just Retirement Group Holdings Limited, reducing financial liabilities by £182.4 million and increasing total equity by £182.4 million.

Interest accrued on A Loan Notes, B Loan Notes, and the shareholder loan of £5.0 million, £62.1 million and £0.7 million, respectively, owed by Just Retirement Group Holdings Limited, will be converted into new ordinary shares in Just Retirement Group Holdings Limited, reducing insurance and other payables by £67.8 million and increasing total equity by £67.8 million.

## **4. Conversion of Preference Shares**

Before Admission, A Preference Shares, with a nominal value of £3.7 million, and B Preference Shares, with a nominal value of £45.0 million, held by Just Retirement Group Holdings Limited, will be converted into new ordinary shares in Just Retirement Group Holdings Limited, reducing financial liabilities by £48.7 million and increasing total equity by £48.7 million.

Dividends on A Preference Shares and B Preference Shares of £2.1 million and £26.0 million, respectively, owed by Just Retirement Group Holdings Limited, will be converted into new ordinary shares in Just Retirement Group Holdings Limited, reducing insurance and other payables by £28.1 million and increasing total equity by £28.1 million.

## **5. New Share Issue**

The Offer adjustment has been calculated as follows:

	<u>£m</u>
Cash proceeds from issuance of new ordinary equity . . . . .	300.0
Estimated net transaction costs from the Offer . . . . .	(20.0)

The excess of available capital resources of Just Retirement Limited will be increased by £175.0 million following the Offer.

B.9	Profit forecast	Not applicable. There is no profit forecast or estimate.
B.10	Description of the nature of any qualifications in the audit report on the historical financial information	Not applicable. There are no qualifications to the auditor’s report on the historical financial information.
B.11	Insufficient working capital	Not applicable. In the opinion of the Company, taking into account the net proceeds receivable by the Company from the New Shares (as defined below in Element C.1) available in the Offer, the working capital available to the Group is sufficient for the Group’s present requirements, that is for the next 12 months following the date of this document.

**Section C—Securities**

<b>Element</b>	<b>Disclosure Requirement</b>	<b>Disclosure</b>
C.1	Type and class of securities	<p>Pursuant to the Offer, the Company intends to issue 133,333,747 new ordinary shares (the “New Shares”), raising proceeds of approximately £280.0 million, net of underwriting commissions and other estimated fees and expenses of approximately £20.0 million. The New Shares will represent approximately 26.7 per cent. of the expected issued ordinary share capital of the Company immediately following Admission.</p> <p>The Selling Shareholders (as defined below in Element E.5) expect to sell 19,201,203 existing ordinary shares (the “Existing Shares”). In addition, a further 22,880,243 ordinary shares are being made available by the Over-allotment Shareholder (the “Over-allotment Shares”) pursuant to the Over-allotment Option.</p> <p>When admitted to trading, the ordinary shares of the Company (the “Shares”) will be registered with ISIN number GB00BCRX1J15 and SEDOL number BCRX1J1.</p>
C.2	Currency	United Kingdom pounds sterling.
C.3	Number of securities to be issued	As at the date of this document, the issued share capital of the Company was £50,000, comprising 20 ordinary shares of 10 pence each and 49,998 preference shares of 100 pence each (all of which were fully paid or credited as fully paid). Immediately following completion of the Offer, the issued share capital of the Company is expected to be £50,000,000 comprising 500,000,000 ordinary shares of 10 pence each (all of which will be fully paid or credited as fully paid).
C.4	Description of the rights attaching to the securities	<p>The rights attaching to the Shares will be uniform in all respects, and they will form a single class for all purposes, including with respect to voting and for all dividends and other distributions thereafter declared, made or paid on the ordinary share capital of the Company.</p> <p>On a show of hands every Shareholder who is present in person shall have one vote, and on a poll every Shareholder present in person or by proxy shall have one vote per Share.</p> <p>Except as provided by the rights and restrictions attached to any class of shares, Shareholders will under general law be entitled to participate in any surplus assets in a winding up in proportion to their shareholdings.</p>
C.5	Restrictions on the free transferability of the securities	There are no restrictions on the free transferability of the Shares.
C.6	Admission	Application has been made to the FCA for all of the Shares, issued and to be issued, to be admitted to the premium listing segment of the Official List of the FCA and to the London Stock Exchange for such Shares to be admitted to trading on the London Stock Exchange’s main market for listed securities.
C.7	Dividend policy	The Board intends to adopt a progressive dividend policy having regard to the future earnings of the Group and its ongoing capital requirements. Dividend payments will be made on an approximate one-third : two-thirds split for interim and final dividends, respectively. The Board intends to commence dividend payments with a dividend in respect of the six months to 30 June 2014, which will represent a full final dividend for the year to 30 June 2014, payable in the second half of calendar year 2014. The initial dividend payment for the year to 30 June 2014 is expected to be set at a level consistent with the Group’s strategy of future growth.



By way of illustration, if the Company had been listed during the full year to 30 June 2013 (having benefited from the net proceeds of the Offer from 1 July 2012), the Directors would have declared a dividend in aggregate of £15.0 million.

#### Section D—Risks

Element	Disclosure Requirement	Disclosure
D.1	Key information on the key risks specific to the issuer and its industry	<p><b><i>Insurance risks</i></b></p> <ul style="list-style-type: none"> <li>• The Group’s results depend on whether assumptions relating to the occurrence, amount and timing of cashflows, in particular relating to the timing of deaths and investment experience, are consistent with the assumptions and pricing models it has used in underwriting and setting prices for the IUAs and LTMs it has written. A divergence between actual experience and assumptions may necessitate an increase in the Group’s reserves and could, ultimately in the medium to long term, increase the risk that the cash to be realised from its investments is unavailable to pay IUA liabilities as they fall due.</li> <li>• The Group is subject to the risk that its IUA-related reinsurance treaties may be terminated, not renewed or renewed on terms less favourable than those under the existing treaties or that its reinsurers could default on their obligations. If these treaties are terminated for cause (including as a result of a material change in Just Retirement Limited’s ownership, management or control), Just Retirement Limited could be required to reassume the entirety of the risk on the annuities reinsured to date. The reassumption of liabilities could have a material adverse effect on Just Retirement Limited, both by increasing the amount of capital required to be set aside for regulatory capital purposes (which would then not be available for shareholders and general corporate purposes) and exposing the Group to increased longevity risk.</li> <li>• The Group is subject to reputational risk if, as a result of the unanticipated utilisation of the undrawn portion of drawdown LTMs, it restricts further drawdowns (as permitted under the terms of its LTMs), which could in turn have a material adverse effect on the Group’s business, results of operations, financial condition and prospects.</li> </ul> <p><b><i>Market risks</i></b></p> <ul style="list-style-type: none"> <li>• The Group is subject to the risk of defaults by the issuers of the fixed income securities in its financial asset portfolio. If the issuers of such securities default on their obligations the Group could suffer significant losses on account of such defaults, which could materially adversely affect the Group’s business, results of operations, financial condition and prospects. Such losses may also adversely impact the Group’s regulatory capital ratios.</li> <li>• The value of the Group’s LTM assets is subject to fluctuations in housing market values. A substantial decline in UK housing market values could adversely affect (i) the origination of new LTM business by reducing demand for such mortgages both by reducing consumers’ propensity to borrow and by reducing the amount they are able to borrow as a function of the Group’s “loan-to-value” limits, (ii) the Group’s returns on existing LTMs by increasing the provisions required to be held for the no-negative equity guarantee (“NNEG”) or by giving rise to actual losses if the prices realised on the sale of the properties securing such loans fall below the amount of outstanding principal and accrued interest at redemption and/or (iii) the Group’s cash inflow from LTMs by delaying sales of the</li> </ul>

properties securing such loans, any of which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

- Changes in the financial markets may have a significant adverse effect on the market value and/or present value of the Group's financial asset and financial liability portfolios. The market value or present value of the Group's financial assets and liabilities may be affected by changes in (i) interest rates; (ii) credit ratings of, or the credit spreads in respect of, the issuers of fixed income securities; and (iii) liquidity in the bond markets. Any of these factors could affect returns on, and the market values of, UK and international fixed income investments in the Group's financial asset portfolio as well as the present value of its LTMs and financial liabilities.

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

- The Group and its regulated subsidiaries are required to maintain a minimum margin of solvency capital in excess of the value of their liabilities to comply with a number of regulatory requirements relating to the Group's and such subsidiaries' solvency and reporting bases. The Group's capital position can be adversely affected by factors that erode the Group's capital resources and/or which impact the quantum of risk to which the Group is exposed. If the Group is unable to meet applicable regulatory capital requirements in any of its regulated subsidiaries, it would have to take other measures to protect its capital and solvency position, which may be difficult or costly or result in a significant loss; require the Group to reduce or eliminate dividends paid to shareholders; and subject the Group to a range of regulatory actions, any of which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.
- The Group is exposed to risk from the failure to ensure compliance with regulations, and the introduction of new regulations, relating to the Group's operations, reporting and taxation. Regulatory agencies, including the PRA and the FCA, have broad powers over many aspects of the business, and regulatory action, whether arising from EU, UK or other local laws and regulations, against a member of the Group could result in fines and losses or a requirement to raise additional capital, as well as adverse publicity for, or negative perceptions regarding, the Group, any of which in turn could have an adverse effect on the Group's business, results of operations, financial condition and prospects.

D.3 Key information on the key risks specific to the securities

- There is no existing market for the Shares and an active trading market for the Shares may not develop or be sustained.
- Even if a market develops, the Shares could be subject to market price volatility and the market price of the Shares may decline in response to developments that are unrelated to the Company's operating performance, or as a result of sales of substantial amounts of Shares, for example, following the expiry of the lock-up period, or the issuance of additional Shares in the future, and Shareholders could earn a negative or no return on their investment in the Company.

Section E—Offer		
Element	Disclosure Requirement	Disclosure
E.1	Net proceeds and costs of the offer	Pursuant to the Offer, the Company intends to issue 133,333,747 New Shares, raising proceeds of approximately £280.0 million, net of underwriting commissions and other estimated fees and expenses of approximately £20.0 million.
E.2a	Reasons for the offer and use of proceeds	The Company intends to allocate £175 million of the net proceeds from the issue of New Shares in such a way as to strengthen regulatory and economic capital ratios in Just Retirement Limited, thereby supporting growth in new business, with the remaining £105 million to be used for Group solvency and liquidity and for general corporate purposes. The Directors believe that, following the Offer, Just Retirement Limited will also be better positioned to accommodate any future changes to the UK capital regime, including those changes required by the implementation of the EU Solvency II proposals.
E.3	Terms and conditions of the offer	<p>The Offer consists of an institutional offer only. In the Offer, Shares will be offered (i) to certain institutional investors in the United Kingdom and elsewhere outside the United States and (ii) in the United States only to QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.</p> <p>The Shares allocated under the Offer have been underwritten, subject to certain conditions, by the Underwriters. Allocations under the Offer will be determined at the discretion of the Company and Avallux following consultation with the Underwriters, subject to certain conditions. All Shares issued or sold pursuant to the Offer will be issued or sold, payable in full, at the Offer Price.</p> <p>It is expected that Admission will become effective, and that unconditional dealings in the Shares will commence on the London Stock Exchange, at 8.00 a.m. (London time) on 15 November 2013. Settlement of dealings from that date will be on a three-day rolling basis. Prior to Admission, conditional dealings in the Shares are expected to commence on the London Stock Exchange at 8.00 a.m. on 12 November 2013. The earliest date for such settlement of such dealings will be 15 November 2013.</p>
E.4	Material interests	There are no interests, including conflicting interests, that are material to the Offer, other than those disclosed in B.6 above.
E.5	Selling Shareholders and Lock-up	<p>The Selling Shareholders comprise Avallux; certain Directors and certain members of Senior Management (the “Director and Senior Management Selling Shareholders”), Michael Fuller, Ogier Employee Benefit Trustee Limited (acting in its capacity as trustee of the Just Retirement Employee Benefit Trust (the “EBT”)), Ogier Nominee Holdings Limited (acting in its capacity as nominee for certain Director and Senior Management Selling Shareholders) and Ogier Employee Benefit Trustee Limited (acting in its capacity as trustee of the EBT acting in its capacity as nominee for certain Director and Senior Management Selling Shareholders).</p> <p>Pursuant to the Underwriting Agreement, the Company has agreed that, subject to certain exceptions, during the period of 180 days from the date of Admission, it will not, without the prior written consent of the Joint Global Co-ordinators (acting on behalf of themselves and the other Underwriters), issue, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce an offer of any Shares (or any interest therein or in respect thereof) or enter into any transaction with the same economic effect as any of the foregoing.</p>

Pursuant to the Underwriting Agreement, the Directors and certain members of Senior Management have agreed that, subject to certain exceptions, during the period of 365 days from the date of Admission, they will not, without the prior written consent of the Joint Global Co-ordinators (acting on behalf of themselves and the other Underwriters), offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce an offer of any Shares (or any interest therein or in respect thereof) or enter into any transaction with the same economic effect as any of the foregoing.

Pursuant to the Underwriting Agreement, Avallux has agreed that, subject to certain exceptions, during the period of 180 days from the date of Admission, it will not, without the prior written consent of the Joint Global Co-ordinators (acting on behalf of themselves and the other Underwriters), offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce an offer of any Shares (or any interest therein in respect thereof) or enter into any transaction with the same economic effect as any of the foregoing.

E.6	Dilution	Pursuant to the Offer, existing Shareholders will experience a 26.7 per cent. dilution from the issue of 133,333,747 New Shares (i.e., its, his or her proportionate interest in the Company will drop by 26.7 per cent.).
E.7	Expenses charged to the investor	Not applicable. No expenses will be charged by the Company or the Selling Shareholders to any investor who subscribes for or purchases Shares pursuant to the Offer.

## PART 1

### RISK FACTORS

*Any investment in the Shares is subject to a number of risks. Prior to investing in the Shares, prospective investors should carefully consider risk factors associated with any investment in the Shares, the Group's business and its industry, together with all other information contained in this document including, in particular, the risk factors described below.*

*Prospective investors should note that the risks relating to the Group, its industry and the Shares summarised in the section of this document headed "Summary Information" are the risks that the Directors and the Company believe to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Shares. However, as the risks which the Group faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in the section of this document headed "Summary Information" but also, among other things, the risks and uncertainties described below.*

*The risk factors described below are not an exhaustive list or explanation of all risks which investors may face when making an investment in the Shares and should be used as guidance only. Additional risks and uncertainties relating to the Group that are not currently known to the Group, or that the Group currently deems immaterial, may individually or cumulatively also have a material adverse effect on the Group's business, results of operations, financial condition and prospects and, if any such risk should occur, the price of the Shares may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Shares is suitable for them in the light of the information in this document and their personal circumstances.*

#### **1. Risks Relating to the Group's Business and Industry**

##### **1.1 Insurance risks**

*The Group may suffer adverse experience compared with the assumptions used in pricing products, establishing reserves and reporting business results.*

The Group's results depend on whether the actual timing of deaths and the investment income experience, in terms of income and timing of cash flows, are consistent with the assumptions and pricing models it has used in underwriting and setting prices for the individually underwritten annuities ("IUAs") and lifetime mortgages ("LTMs") Just Retirement has written. These assumptions are based on a variety of factors, including historical data, estimates and individual expert judgments in respect of known or potential future changes, as well as statistical projections of what the Group believes will be the costs and cash flows of its assets and liabilities.

Although the Group monitors its actual experience (over 600,000 person-years of experience collected over nine years of operations) against the assumptions it has used and refines its long-term assumptions in the light of experience, the nature of the risks underlying its business, as detailed in the following paragraphs, means that it is not possible to determine precisely (i) the amounts which the Group will ultimately pay to meet its IUA liabilities or (ii) the return on, or the repayment of, its LTMs. Amounts payable under the Group's products may vary from estimates, particularly as the liabilities under the IUAs written by the Group may extend further into the future than expected, and the income and timing of cash flows from investments, including the LTMs which it has provided, may be different to that assumed.

The following paragraphs summarise the risks relating to pricing of IUAs and LTMs. These risks largely arise from a divergence between actual experience and assumptions and, should any of these risks occur, they could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

##### Individually underwritten annuities (excluding fixed term annuities)

The accurate pricing of the Group's IUA products is dependent on a detailed understanding of the impact on the longevity of homogeneous groups of prospective customers of the various lifestyle and medical factors that are relevant to an assessment of the longevity of persons in such groups. To date, the Group has used JR Merica EA—Just Retirement Ltd. ("JR Merica"), an automated underwriting system licensed from COR Infexpert AG ("Infexpert") with the consent of Hannover Rueck SE ("Hannover Re") (one of the Group's reinsurers) and fully integrated into its new business platform, to inform its annuity pricing model. Just Retirement uses JR Merica to determine the appropriate level of medical or lifestyle



enhancement of a given customer and then, using its own experience and models, calculates the actual annuity rate for such customer. In 2011, Just Retirement commenced development of its own automated underwriting system, Prognosys™, and expects to increasingly rely on its outputs. See “Information on the Company and the Group—Prognosys™—Just Retirement’s next generation underwriting approach” for further information about Prognosys™. There is a risk that historical data and/or assumptions applied to it may not provide an accurate indication of future longevity trends and could lead to inaccurate assumptions in respect of the pricing of Just Retirement’s IUA products. Inaccurate estimation of the impact on longevity of relevant lifestyle and medical factors, failure to anticipate changes in future longevity as a result of lifestyle changes and medical advances, and inaccurate reporting of medical conditions by pricing/underwriting applications could result in the mispricing of the Group’s IUA products, and, by resulting in higher than anticipated payouts for a given premium, to the extent such payouts are in excess of the amounts reinsured, could have a material adverse effect on the Group’s business, results of operations, financial condition and prospects.

The Group measures its mortality experience monthly and reviews its underwriting and reserving basis for its liabilities every six months, comparing the assumptions underlying such liabilities against actual mortality experience. Due to the risk of future mortality improvements occurring at a faster rate than expected, there can be no assurance that the reserves that have been established for the Group’s annuity business are sufficiently conservative to meet policy commitments. If actual mortality experience is different from the underlying assumptions, it may be necessary to increase reserves in anticipation of longer lifespans and to set aside additional capital. Such adverse developments could materially adversely affect the Group’s business, results of operations, financial condition and prospects.

#### Lifetime mortgages

The Group uses its LTM assets to match some of its liabilities arising from the sale of its IUAs. A key assumption relating to pricing and the subsequent valuation of the Group’s LTMs assets relates to the expected tenure of the mortgage (which is directly impacted by longevity assumptions) and the timing of repayment (typically triggered by the death of the mortgagor or his or her move into a retirement home). In the event early repayments in a given period are higher than anticipated, less interest will have accrued on such mortgages and the amount repayable under such mortgages will be less than had been assumed at the time of their sale. In the event of an increase in longevity (i.e., mortgagors live longer than expected or move into a retirement home later than expected), although more interest will have accrued on such mortgages and the amount repayable under such mortgages will be greater than had been assumed at the time of their sale, the cash inflows associated with the repayment of such mortgages will be received later than had originally been anticipated. As the Group’s LTMs make up a significant proportion of the assets supporting the Group’s IUA liabilities (34 per cent. as at 30 June 2013), a general increase in longevity and/or higher than expected early repayments could ultimately give rise to the risk of a cash flow mismatch in the medium to long term whereby IUA liabilities materialise and the cash to be realised from investments in LTMs is unavailable to pay such liabilities as they fall due, which would accordingly require the Group to rely on its other available cash resources. In addition, a general increase in longevity would have the effect of increasing the total amount repayable, which would, in turn, increase the Group’s average LTV ratio and could increase the risk of the Group failing to be repaid in full as a consequence of the no-negative equity guarantee (“NNEG”) that the Group provides in connection with all of its LTMs (the guarantee that no borrower will owe more than the value of the property securing his or her LTM and no debt will ever be left to his or her estate as a consequence of such mortgage). Any of these events could have a material adverse effect on the Group’s business, results of operations, financial condition and prospects.

In addition, any adverse change relating to house price valuations or expected repayment rates may give rise to a reduction in the value of the Group’s LTM portfolio, which could have a material adverse effect on the Group’s business, results of operations, financial condition and prospects.

***The Group is subject to the risk that its IUA-related reinsurance treaties may be terminated, not renewed or renewed on terms less favourable than those under the existing treaties.***

Through Just Retirement Limited, the Group is party to reinsurance treaties with Hannover Re, RGA International Reinsurance Company Limited (“RGA International”) and RGA Americas Reinsurance Company, Ltd. (“RGA Americas” and, together with RGA International, “Reinsurance Group of America”) (with respect to business written from 1 July 2012) and Achmea Re (with respect to business written prior to 1 July 2012), whereby the Group has agreed to transfer approximately 66 per cent. of its

IUA longevity risk on qualifying IUA new business to the above reinsurers, with 70 per cent. of the reinsured amount being reinsured by Hannover Re and the remaining 30 per cent. being reinsured by Reinsurance Group of America (for business written from 1 July 2012) and Achmea Re (for business written prior to 1 July 2012). See paragraph 12.5 of Part 17 “Additional Information” for further details of the Group’s IUA-related reinsurance treaties.

The Group currently derives a number of benefits from its reinsurance treaties with Hannover Re, Reinsurance Group of America and Achmea Re, including (i) the reinsurance of a significant portion of IUA-related longevity risk (approximately 66 per cent. of the Group’s qualifying IUA new business); (ii) the receipt of financing from Hannover Re, Reinsurance Group of America and Achmea Re, the repayment of which is subject to the emergence of profits and which provides additional capital that contributes to meeting the Group’s regulatory solvency requirements (as at 30 June 2013, such financing accounted for 22.9 per cent. of Just Retirement Limited’s capital resources); (iii) the option to “recapture” business of previous underwriting years if the mortality experience in respect of those years is developing favourably, and thus enabling Just Retirement to recover the majority of the benefit of future mortality profit arising from those years and (iv) in the case of Hannover Re, consent to Just Retirement Limited’s exclusive UK access to JR Merica, which is licensed from Infexpert.

Termination of these treaties by Hannover Re, Reinsurance Group of America or Achmea Re for cause (including as a result of a material change in Just Retirement Limited’s ownership, management or control) could lead to Hannover Re, Reinsurance Group of America or Achmea Re exercising their option to require Just Retirement Limited to reassume the entirety of the risk on the annuities reinsured to date, as well as, in the case of Hannover Re and Reinsurance Group of America, cancelling the treaty in respect of qualifying IUA new business. This reassumption of liabilities could have a material adverse effect on Just Retirement Limited, both by increasing the amount of capital required to be set aside for regulatory capital purposes (equivalent to £37.5 million), which would then not be available either for shareholders or general corporate purposes, and exposing the Group to increased longevity risk. In addition, if Hannover Re were to terminate its treaty for cause, the Group would be at risk of ceasing to have access to JR Merica after a three-month notice period.

The Group could also face difficulties in entering into an agreement on similar terms with benefits equivalent to those described above or at all, with other reinsurers, particularly as there is only a limited number of reinsurers with credit ratings satisfactory to Just Retirement who are able to provide equivalent protection for risks of the type written by Just Retirement. Reinsurance terms and pricing can be adversely affected by a number of factors, including the cyclical nature of the reinsurance market, reinsurers’ risk appetite and changes in regulation.

The termination of the reinsurance treaties with Hannover Re, Reinsurance Group of America and/or Achmea Re or failure of these treaties to continue on terms similar to those presently in force, could have a material adverse effect on the Group’s business, results of operations, financial condition and prospects.

***Any determination to restrict further drawdowns of the undrawn portion of drawdown LTMs could adversely affect the Group’s reputation, sales of IUA and LTM products and brand.***

The Group’s drawdown LTM product enables borrowers to draw down the principal amount of the loan at a time of their choosing, subject to certain terms and conditions. Further LTM advances under pre-existing drawdown LTMs accounted for 14, 16 and 18 per cent. of total LTM advances in the years ended 30 June 2011, 2012 and 2013, respectively. As a result of the unanticipated utilisation of the undrawn portion of drawdown LTMs, however, the Group may not be able to honour these drawdowns. Although under the terms of its drawdown LTMs the Group may restrict drawdowns as a result of certain events (including the liquidity needs of the Group), such an eventuality could adversely affect the Group’s reputation, sales and brand, which could in turn have a material adverse effect on the Group’s business, results of operations, financial condition and prospects.

## **1.2 Market risks**

***The realisation of systemic risk could adversely affect consumer confidence in the insurance industry as well as the Group’s ability to transact business through the banking system.***

In the global financial system, financial institutions are interdependent, including with respect to reinsurers. The interdependence of financial institutions means that the failure of a sufficiently large and influential financial institution or other major counterparty, for whatever reason, could materially disrupt

markets. This risk, known as “systemic risk”, could adversely impact the Group in several ways, some of which may be unpredictable, including increased default or counterparty risk. It may also adversely impact future sales as a result of reduced confidence in the insurance industry or difficulties encountered in clearing premiums and payments through the banking system. The Directors believe that, despite increased focus by regulators with respect to systemic risk, this risk remains part of the financial system and dislocations caused by the interdependence of financial market participants could materially adversely affect the Group’s business, results of operations, financial condition and prospects.

***The Group is subject to the risk of defaults by the issuers of the fixed income securities in its financial asset portfolio.***

Premiums received from the Group’s customers in connection with the provision of IUAs are invested in financial assets, such as fixed income securities and LTMs, so as to match cash inflows from such investments against expected future cash outflows in respect of its IUAs. The majority of the Group’s investment portfolio comprises corporate bonds (62 per cent. as of 30 June 2013) and LTM assets (34 per cent. as of 30 June 2013), with index-linked gilts, cash and derivatives making up the remainder. The majority of the Group’s corporate bonds and fixed-income securities are rated A, AA and AAA, with 5 per cent. rated BBB+, 8 per cent. rated BBB, 7 per cent. rated BBB– and less than 1 per cent. rated below BBB–, as of 30 June 2013. The Group actively monitors the quality of its overall bond portfolio, which has no particular concentration by sub-sector or instrument and no direct exposure to Ireland, Greece, Portugal or Cyprus. Nevertheless, the Group is exposed to default risk with respect to these securities in the event of adverse market conditions or other factors affecting the bond market as a whole. If the issuers of such securities default on their obligations the Group could suffer significant losses on account of such defaults, which could materially adversely affect the Group’s business, results of operations, financial condition and prospects.

***The value of the Group’s LTM assets is subject to fluctuations in housing market values.***

The Group’s LTMs, which are wholly funded by the Group’s IUA business, comprise a significant proportion of the financial assets supporting IUA liabilities (34 per cent. as at 30 June 2013). In connection with these mortgages, the Group provides an NNEG. Although the Group’s average loan to value ratio as at 30 June 2013 was 26 per cent., given that such mortgages are secured by a borrower’s equity interest in a particular property—typically such borrower’s house, a substantial decline in UK housing market values could adversely affect (i) the origination of new LTM business by reducing demand for such mortgages both by reducing consumers’ propensity to borrow and by reducing the amount they are able to borrow as a function of the Group’s “loan-to-value” limits, (ii) the Group’s returns on existing LTMs by increasing the provisions required to be held for the NNEG, (iii) the Group’s returns on existing LTMs resulting in actual losses if the prices realised on the sale of the properties securing such loans fall below the amount of outstanding principal and accrued interest at redemption and/or (iv) the Group’s cash inflow from LTMs by delaying sales of the properties securing such loans. Inaccurate property valuations at the time of issuing new loans and, to the extent the Group purchases previously written LTM books to supplement the LTMs that it originates (bulk acquisitions of LTMs accounted for 2 per cent. of the LTMs sourced since inception), insufficient due diligence by the originators of such previously written LTMs or by the Group in connection with the purchase of such books could also expose the Group to lower-than-expected returns on its LTMs. Any of these eventualities could have a material adverse effect on the Group’s business, results of operations, financial condition and prospects.

***Changes in the financial markets may have a significant adverse effect on the market value and/or present value of the Group’s financial asset and financial liability portfolios.***

Although the Group generally holds its financial assets to maturity, the value of the Group’s financial assets and liabilities are determined at each period end, with the movements in market value and present value in each period being reflected in the Group’s statement of comprehensive income. The market value or present value of the Group’s financial assets and liabilities may be affected by changes in (i) interest rates; (ii) credit ratings of, or the credit spreads in respect of, the issuers of fixed income securities; and (iii) liquidity in the bond markets. Any of these factors could affect returns on, and the market values of, UK and international fixed income investments in the Group’s financial asset portfolio as well as the present value of its LTMs and financial liabilities. For instance, when the credit rating of a given issuer of fixed income securities falls, or the credit spread with respect to such issuer increases, the market value of such issuer’s fixed income securities may also decline, and such decreases in value would be recognised in the Group’s statement of comprehensive income for such period. Changes in the market value and/or

present value of the Group's financial assets and liabilities can have a material adverse effect on the Group's results of operations and/or financial condition.

***The Group's IUA business could be adversely affected by periods of consistently low interest rates and/or periods of rapidly decreasing interest rates.***

The prices charged for, and the returns associated with, the Group's IUAs are, in part, dependent upon the current interest rate environment existing at the time IUAs are sold and the financial assets supporting such liabilities are purchased. Changes in such environment affect the returns on financial assets purchased and thus can impact the prices charged for its IUAs. Moreover, as the Group's financial assets and financial liabilities are marked-to-market or discounted to present value at the end of each reporting period, interest rate fluctuations can impact the market value or present value of such assets and liabilities, with such movements being reflected in the Group's statement of comprehensive income. The Group's IUA business can be adversely affected by (i) periods of consistently low interest rates and (ii) periods of rapidly decreasing interest rates. In a period of consistently low interest rates, as is currently the case, new annuity business volumes may be affected as alternative retirement income products may become relatively more attractive to customers. In addition, risk free interest rates (as measured by swap rates) are a component of the discount rate that the Group uses to determine the present value of its IUAs and LTMs when calculating the margins on such products. Although decreasing swap rates positively impact LTM margins, they adversely affect IUA margins. The overall impact will, therefore, depend on the product mix of new sales, but could be negative.

The Group allows IUA customers to accept a quote within 14 days from receipt of the quote and to pay the corresponding premium within a total period of 45 days from the same date. During this 45-day period it will adhere to those quotations. Separately, there is a regulatory "cooling-off" period of 30 days during which an annuity holder is able to cancel his or her IUA (commencing from the date such holder receives notification of their right to cancel, which is usually the date on which he or she accepts the quote). Periods of rapidly decreasing interest rates could expose the Group to the risk of being unable to match an IUA liability with a financial asset providing the return which was assumed in making the quotation, which could necessitate setting aside additional reserves over those assumed at pricing. As a result, periods of consistently low interest rates and/or periods of rapidly decreasing interest rates could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***Fluctuations in the value of the U.S. dollar and other foreign currencies against the British pound could adversely affect the Group's profitability.***

From time to time, the Group acquires fixed income securities denominated in U.S. dollars or other foreign currencies for its financial asset portfolio. As the British pound is the currency of the primary economic environment in which each Group member operates, the British pound is the functional currency of each Group member and consequently is the currency in which each Group member prepares its stand-alone financial accounts. In connection with the preparation of such accounts, each Group member's assets and liabilities denominated in currencies other than its functional currency are translated into its functional currency at the exchange rate prevailing at the end of the relevant reporting period. Although the Group uses derivative financial instruments to hedge its foreign currency risk, in the event that such hedges prove ineffective (for example, as a result of early bond calls or bond defaults) fluctuations in the value of the U.S. dollar or another foreign currency against the British pound—in particular, a weakening of the U.S. dollar or another foreign currency against the British pound—could result in a mismatch between cash inflows denominated in foreign currencies and IUA-related cash outflows denominated in British pounds, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

### **1.3 Liquidity risk**

***The Group's failure to post additional collateral pursuant to its collateral agreements could increase its exposure to interest rate and/or foreign exchange rate movements.***

In order to manage its exposure to interest rate and foreign exchange rate movements, the Group uses various derivative financial instruments. In connection with these transactions, the relevant Group entities have entered into collateral agreements with the relevant counterparties, pursuant to which the Group had pledged as collateral £34.3 million as at 30 June 2013 (2012: £48.1 million; 2011: £15.2 million). Depending on the fluctuations in the market value of such derivative financial instruments, Group entities may be



required to post additional collateral pursuant to the above-mentioned collateral agreements. Whilst collateral agreements are a feature of these contracts, they can be exited at any time, subject to some loss of value. In the absence of appropriate instruments to post as collateral, the Group would therefore close the relevant derivative position. This could increase the Group's exposure to interest rate and/or foreign exchange rate movements, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. See also “—Market risks—Fluctuations in the value of the U.S. dollar and other foreign currencies against the British pound could adversely affect the Group's profitability” in this Part 1.

#### ***1.4 Counterparty credit risk***

***The Group is exposed to counterparty risk, particularly in relation to other financial institutions including reinsurers.***

The Group is exposed to counterparty risk in relation to third parties from reinsurance counterparties (in particular, Hannover Re), derivative counterparties, policyholders, brokers, distribution partners and other supplier contracts, as well as financial institutions holding its cash deposits. The Group's business could suffer if the Group's counterparties fail to honour their obligations. In particular, in the event that a reinsurance counterparty fails, the collateral deposited by that counterparty with the Group at the outset of qualifying IUA contracts may ultimately be insufficient to pay for claims actually experienced on the business previously reinsured by that counterparty. This consequence, as well as others resulting from counterparties' failure to honour obligations and payments could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. See also “—Insurance risks—The Group is subject to the risk that its reinsurance treaties may be terminated, not renewed or renewed on terms less favourable than those under the existing treaties” in this Part 1.

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

***Ensuring compliance with capital adequacy requirements and with a number of other regulations relating to the Group's operations, solvency and reporting bases could have a material adverse impact on the Group's business.***

The Group and its regulated subsidiaries are required to maintain a minimum margin of solvency capital in excess of the value of their liabilities to comply with a number of regulatory requirements relating to the Group's and such subsidiaries' solvency and reporting bases. These regulatory requirements apply to individual regulated subsidiaries on a stand-alone basis and in respect of the Group as a whole and apply to different levels within the Group and on different bases. The amount of regulatory and economic capital required also depends on the level of risk facing the insurance and other subsidiaries in the Group, and as such correlates to economic market cycles. The Group company Just Retirement Limited must assess its capital resources on both a Pillar 1 (regulatory capital) and a Pillar 2 (individual capital assessment) basis and must hold sufficient qualifying regulatory capital to satisfy both tests. Pillar 1 capital requirement is calculated by applying fixed percentages to reserves in accordance with Chapter 1 of the PRA's Interim Prudential Sourcebook for Insurers (“INSPRU”), whereas the Pillar 2 capital requirement is determined following an individual capital assessment by the Group, which is then reviewed by the PRA. The Group may also be required by the PRA to hold capital over and above that required to satisfy the Pillar 1 and 2 requirements and its Group risk profile. These can be through application of Individual Capital Guidance (“ICG”) under the Pillar 2 regime, or through the PRA's own internal benchmarking assessments.

The Group's capital position can be adversely affected by a number of factors, in particular, factors that erode the Group's capital resources and/or which impact the quantum of risk to which the Group is exposed. In addition, any event which erodes current profitability and is expected to reduce future profitability and/or make profitability more volatile could impact the Group's capital position, which in turn could have a negative effect on the Group's results of operations.

The Directors are accountable for the management of the Group's capital position. In the event that regulatory capital requirements are, or may be, breached, the supervisory authorities are likely to require the Group or its regulated subsidiaries to take remedial action, which could possibly include measures to restore the Group's or the individual subsidiary's capital and solvency positions to levels acceptable to such authorities, for the purposes of ensuring that the financial resources necessary to meet obligations to policyholders are maintained. In addition, for a variety of reasons, including a continuation of the current economic downturn, changes in life expectancy or amendments to assumptions in respect of the same, an increase in the risk profile of peer companies of the Group, business model types and the industry as a whole, or adverse changes in the specific current or potential future risk profile of the Group's individual



businesses, the supervisory authorities could decide to increase the regulatory capital requirements of the Group or any of its regulated subsidiaries in excess of amounts currently held by the Group. The Directors may also determine to hold higher surplus above regulatory capital requirements. For example, in September 2012 and May 2013, the Group undertook a series of transactions funded by an equity subscription by Avalon Acquisitions Limited (since renamed Just Retirement Group Holdings Limited) in Just Retirement (Holdings) Limited and a loan facility provided by RBS, Deutsche Bank and Nomura, whereby Just Retirement (Holdings) Limited provided an aggregate of £25 million in equity capital and £54 million in tier 2 capital to Just Retirement Limited, the Group's principal regulated subsidiary.

The ability of the Group to raise additional capital on favourable terms or at all cannot be assured and if the Group is unable to meet applicable regulatory capital requirements in any of its regulated subsidiaries, it would have to take other measures to protect its capital and solvency position, which might include redeploying existing capital from elsewhere in the Group, increasing prices, reducing the volume of or types of business underwritten, increasing reinsurance coverage, altering its investment strategy, or divesting parts of its business, any of which may be difficult or costly or result in a significant loss, particularly in cases where such measures are required to be undertaken quickly. In addition, the Group and/or its regulated subsidiaries might have to reduce the amount of dividends they pay to their shareholders, or possibly cease paying any dividends to meet their regulatory capital requirements.

If the regulatory capital requirements are not met, the Group could be subject to a range of regulatory actions, including losing key licences, and hence be forced to cease some of its insurance and/or business operations. In such circumstances, the Company would not be allowed to pay dividends, and the Group may be limited in its ability to draw upon the resources of, or satisfy intra-group arrangements with respect to, its regulated subsidiaries.

If the Company is required to take any of the foregoing measures, the Group's business, results of operations, financial condition and prospects could be materially adversely affected.

***The European Union is currently in the process of introducing a new regime, Solvency II, governing solvency requirements, technical reserves and other requirements for insurance companies, the effect of which is uncertain.***

The European Union is in the process of developing and implementing a new regime in relation to solvency requirements and other matters, affecting the financial strength of insurers and reinsurers within each Member State ("Solvency II"). It is intended that the new regime for insurers and reinsurers domiciled in the European Union will apply more consistent risk sensitive standards to capital requirements, bringing European insurance regulation more closely in line with banking and securities regulation with a view to avoiding regulatory arbitrage, aligning regulatory capital with economic capital, and enhancing public disclosure and transparency. In particular, the European Union is reviewing the capital regime of companies providing long-term guarantees such as annuities and the assets they hold (e.g., callable bonds). The European Insurance and Occupational Pensions Authority ("EIOPA") carried out an impact study and technical assessment (known as the Long Term Guarantees Impact Assessment ("LTGIA")) on this subject which was published in June 2013. The results of this have been provided to the "Trialogue" parties (the European Parliament, the European Commission and the Council of the European Union) and will now be subject to further negotiation between the parties to finalise the Omnibus II text.

The Solvency II regime is also expected to require changes to business operations, including the organisation of internal processes, the roles and responsibilities among certain key officers and external reporting obligations. The significant changes to the presentation of financial information for insurers on a Solvency II basis may also pose increased risk of misinterpretation by the market, third parties, stakeholders and consumers. Whilst the overall intentions and process for implementing Solvency II have been outlined, the future landscape of EU solvency regulation is still evolving, and the interpretation of the rules is still being developed. In particular, the PRA has, in recent announcements, made clear their expectation that the new regulations will not come into force before 2016 at the earliest, and the Chairman of EIOPA has reported the same timescales. In an opinion published by EIOPA on 20 December 2012, EIOPA outlined the actions national supervisors should be taking in the interim period before Solvency II comes into force, including the pre-application of internal models and supervisory reporting. On 27 September 2013, EIOPA published guidelines addressed to national supervisors on preparing for Solvency II, which set out in detail how national supervisors should meet the expectations described in the opinion, including by implementing certain important aspects of Solvency II covered by the guidelines in their own national frameworks from 1 January 2014. National supervisors are required to make every

effort to comply with the guidelines. If a regulator does not comply or intend to comply with the guidelines, then it must inform EIOPA and explain the reasons for this.

Given the uncertainty surrounding the requirements of Solvency II, including the date of its implementation and the capital regime for companies providing long-term guarantees such as IUAs and LTMs, there can be no assurance that the Group will not need to strengthen its solvency capital position, change the details of its reporting, amend the form of its capital resources or modify its business operations and processes if and when Solvency II comes into force, which could result in negative publicity for the industry and other adverse impacts to the Group's business, such as reduced sales volumes and increased costs. The Group intends to submit an application to be permitted to use its "internal model" for determining capital adequacy under Solvency II; however, with Solvency II being delayed, the PRA are providing "application" slots and introducing an ICAS+ regime to transition firms to the future Solvency II regime. If the Group's internal model is rejected by the PRA, after the Solvency II regime comes into force, Just Retirement will be required to calculate its capital requirements using the Solvency II standard formula, which may require the Group to hold more capital than it would have been required to hold if it had been permitted to use its internal model. Compliance with Solvency II could also lead to higher expenses than those currently required to run the business, which could reduce the profitability of the Group and its ability to pay dividends. In such circumstances, the Group's business, results of operations, financial condition and prospects could be materially adversely affected.

In addition, to the extent that the regulatory capital requirement under Solvency II is higher than that required currently, there is a risk that the Group may need to raise additional capital, resulting in further exposure to the risks relating to capital requirements described above in "—Ensuring compliance with capital adequacy requirements and with a number of other regulations relating to the Group's operations, solvency and reporting bases could have a material adverse impact on the Group's business". If Solvency II leads to any of the above issues, this could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***The Group and its products are subject to extensive regulatory supervision and legislation, including requirements to maintain certain licences, permissions and/or authorisations.***

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

The terms on which products are entered into or sold by the Group must comply with various 'fairness' and 'reasonableness' requirements under UK law, some of which implement European law. Concepts such as these involve an important element of judgement and there can be no assurance that the European Court of Justice or the FCA will not determine at some point in the future that certain product features or terms presently in use do not meet the relevant standard. Where products of the Group have those terms or features, the effect could be to prevent their use, including retrospectively in respect of existing products held by the group's customers, which may adversely affect the Group's underlying profitability, its product range, distribution channels, investment strategy, capital requirements and, consequently, results and financing requirements.

In order to conduct their business, certain members of the Group must obtain and maintain certain licences, permissions and authorisations (such as permission from the FCA and PRA to conduct insurance activities in the United Kingdom under Part 4A of the FSMA) and must comply with relevant rules and regulations. Failure to comply with the promulgated regulations, applicable laws and public approvals and policies may lead to legal or regulatory disciplinary action, the imposition of fines or the revocation of licences, permissions or authorisations, which could have a material adverse impact on the continued conduct of their respective businesses.

The Group may be subject to measures imposed by the PRA in furtherance of its regulatory objectives. The PRA's two statutory objectives are to promote the safety and soundness of the firms it regulates and to contribute to the securing of an appropriate degree of protection for policyholders.

The Group may be subject to measures imposed by the FCA in furtherance of its regulatory objectives. The FCA's strategic objective is to protect and enhance confidence in the UK financial system. Its operational objectives include consumer protection, protecting the integrity of the UK financial system and promoting efficiency and choice. The Group is also subject to competition and consumer protection laws enforced by the Office of Fair Trading ("OFT"), the UK Competition Commission and the European Competition Commission, such as laws relating to consumer credit as well as price fixing, collusion and other anti-competitive behaviour in the United Kingdom. This regime is to be supported by the FCA which is required to discharge its functions in a way which promotes competition.

Regulatory action, whether arising from EU, UK or other local laws and regulations, against a member of the Group or a determination that the Group has failed to comply with applicable regulation, including, without limitation, any of the examples discussed herein, could result in fines and losses as well as adverse publicity for, or negative perceptions regarding, the Group. This in turn could have an adverse effect on the Group's business, results of operations, financial condition and prospects, or otherwise divert management's attention from the day-to-day management of the business, potentially impacting its ongoing or future performance.

***Changes in government policies, laws, regulations or their enforcement and interpretation could adversely affect the Group.***

Changes in government policy, legislation or regulatory interpretation or enforcement (at a national and/or EU level) applying to companies in the financial services industry in any of the markets in which the Group operates may occur in future and/or be applied retrospectively, and may adversely affect the Group's underlying profitability, its product range, distribution channels, capital requirements and, consequently, results and financing requirements. Examples of recent or future legislation or regulation which may have or has had such an effect include the reorganisation of the former Financial Services Authority ("FSA") into two successor bodies, the PRA and the FCA, the implementation of gender-neutral pricing at the end of 2012, the Retail Distribution Review (the "RDR") at the start of 2013, the impact of historical and future changes in the Financial Services Compensation Scheme ("FSCS") in the United Kingdom, including the risk of failure in other financial services sectors impacting the levies on insurers, amendments to UK insurance contract law, government initiatives to improve transparency and customer confidence in insurance pricing and new EU solvency requirements.

The financial consequences of any such future change cannot be estimated before further detail becomes available. In addition, new powers have been introduced allowing the FCA to intervene to ban new products, place caps on profit margins and review insurance distribution models, which could impact the Group's ability to sell certain products and/or reduce their expected profitability, or may involve significant liabilities in relation to historical business underwritten by the industry as a whole. At the EU level, the European Parliament created EIOPA, which will have extended powers to develop the detailed aspects of the Solvency II regime, regulate marketing activities and provide guidelines and recommendations to national supervisors, including those in the United Kingdom. The new regulatory bodies in the United Kingdom and European Union have recently been established, and it remains unclear how they will apply their powers or how the application of their powers may impact the Group.

Changes in the enforcement of laws, regulations or government policies in future and/or with retrospective application as a result of political developments, worsening economic conditions or, in certain cases, introduction of government austerity measures, or otherwise, could result in an increase in the frequency or quantum of fines or other adverse government intervention, and, in turn, reputational and other adverse impacts to the Group's business, such as censure by the regulators. The Group may also face increased compliance or compensation costs due to such changes to financial services legislation or regulation, or due to the need to set up additional compliance controls. Any such changes could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***The Group is subject to the "treating customers fairly" principle, which is central to the regulatory approach of both the FCA and the PRA.***

The Group has a regulatory responsibility to pay due regard to the interests of its customers and to treat them fairly. The "treating customers fairly" principle was central to the regulatory approach of the predecessor to the FCA and the PRA, the FSA, and the FCA and the PRA are taking this position forward with the stated aim of putting in place customer focused regulation. If the Group is unable to demonstrate that its customers are being treated fairly, it may become subject to increased regulatory scrutiny and, ultimately, enforcement action, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***The FCA is reviewing annuity sales practices in the United Kingdom and the outcome may be further regulatory action.***

In January 2013, the predecessor to the FCA and the PRA, the FSA, announced that it would be reviewing annuity pricing data to determine whether and to what extent prospective customers were not purchasing the best value annuities, or exercising the open market option (“OMO”) to buy their annuity from a firm other than the one providing the pension policy. The FCA plans to perform its own pricing research to determine which groups of consumers are most likely to be affected. This will involve a pricing survey of all annuity providers, and will compare the rates available through a range of distribution channels, including rates available through the OMO and those only available to existing pension policyholders.

The consequences of the review are uncertain but could include the imposition of greater obligations on annuity providers to treat customers fairly and provide the best price possible. This review may also lead to more policyholders exercising the OMO. In response to these requirements, some standard annuity providers could attempt to enter the IUA market, for example, in a partnership relationship with existing IUA providers, or to price their annuities more aggressively, which could in turn lead to greater competition for the Group and could have a material adverse effect on the Group’s business, results of operations, financial condition and prospects.

***Changes to IFRS generally or specifically for insurance companies may materially adversely affect the reporting of the Group’s financial results.***

Changes to IFRS for insurance companies have been proposed in recent years and further changes may be proposed in the future. The International Accounting Standards Board has published proposals in its IFRS 4 Insurance Contracts Phase II for Insurers Exposure Draft (“Phase II”) that would introduce significant changes to the statutory reporting of insurance entities that prepare financial statements according to IFRS. The accounting proposals, which are not expected to become effective before 2015, will change the presentation and measurement of insurance contracts, including the effect of technical reserves and reinsurance on the value of insurance contracts. It is uncertain whether and how the proposals in the Phase II exposure draft will affect the Group should they become definitive standards. Current proposals under Phase II may have an adverse effect on the manner in which the Group reports provisions and therefore identifies and reports revenues and costs and could also have an effect on the Group’s financial performance through changes affecting the calculation of taxation. These and any other changes to IFRS that may be proposed in the future, whether or not specifically targeted at insurance companies, could materially adversely affect the Group’s reported results of operations and its financial position.

***Changes in taxation laws may negatively impact the Group and/or decisions of customers.***

Changes in corporate and other tax rules could have both a prospective and retrospective impact on the Group’s business, results of operations, financial condition and prospects. In general, changes to, or in the interpretation of, existing tax laws, or amendments to existing tax rates (corporate or personal), or the introduction of new tax legislation may materially adversely affect the Group’s business, results of operations, financial condition and prospects, either directly or indirectly, for example by effecting changes in the insurance purchasing decisions of customers. Changes to legislation that specifically governs the taxation of insurance companies might adversely affect the Group’s business. Whilst changes in taxation laws may affect the insurance sector as a whole, changes may be particularly detrimental to certain operators or certain products in the industry. The relative impact on the Group will depend on the areas impacted by the changes, the mix of business within the Group’s portfolio and other relevant circumstances at the time of the change.

***The US Foreign Account Tax Compliance Act may impose a withholding tax on certain payments received by the Group unless the Group reports certain information, and may impose a withholding tax on payments received by certain Shareholders.***

Sections 1471-1474 of the U.S. Internal Revenue Code (the “Code”), which is known as the Foreign Account Tax Compliance Act (“FATCA”) generally imposes a new information reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to certain non-U.S. financial institutions (“FFIs”) (which includes members of the Group) that fail to enter into and comply with (i) an agreement entered into with the U.S. Internal Revenue Service (“IRS”) pursuant to Section 1471(b) of the Code (an “FFI Agreement”) undertaking certain reporting requirements, or (ii) an intergovernmental agreement (“IGA”) in respect of FATCA generally obligating FFIs to report certain information. Unless



the Group is entitled to an exemption under an FFI Agreement or an IGA, payments from U.S. sources (for US federal income tax purposes) and payments not from U.S. sources but attributable to U.S.-source payments (“foreign passthru payments”) are potentially subject to withholding under FATCA. The new withholding regime will be phased in beginning no earlier than July 2014 and, with respect to foreign passthru payments, no earlier than 1 January 2017. Any members of the Group that are FFIs intend to comply with the IGA between the United States and the United Kingdom, and the Company does not expect the Group to become subject to FATCA withholding.

The relevant rules have not yet been fully developed and the future application of FATCA to the Group is uncertain and although the Company believes that it will be able to comply with the United States-United Kingdom IGA, it cannot offer any assurance that it will be able to do so.

If the Company is a FFI within the meaning of FATCA, it may be required to withhold on foreign passthru payments paid in respect of beneficial owners or through intermediaries that (i) are other FFIs that have not entered into an FFI Agreement (or are not otherwise exempt from or in deemed compliance with FATCA under an applicable IGA) and (ii) do not provide sufficient information about themselves to determine the beneficial ownership of the Shares. Although the Company does not expect any distributions on the Shares to be foreign passthru payments, no rules have been issued defining what constitutes a foreign passthru payment and thus no assurance can be made that payments in respect of the Shares will not be subject to withholding under FATCA. However, under present law there will be no withholding on foreign passthru payments under FATCA prior to 1 January 2017, at the earliest. If an amount were required to be withheld from any payment on the Shares under FATCA, neither the Company nor any other person would be required to pay additional amounts as a result of such withholding.

#### **1.6 Distribution risks**

***The Group places substantial reliance on intermediaries, in particular financial intermediaries, employee benefit consultants, retirement specialists and key corporate partners in the United Kingdom, to sell and distribute its products.***

The Group sells its products through intermediary distribution channels, such as financial intermediaries, employee benefit consultants, retirement specialists and key corporate partners. The Group’s relationships with its intermediaries and certain key corporate partners could be terminated as a result of a variety of events, including breach of contract, disagreement between the Group and its partners and counterparty insolvency. The terms and conditions of the Group’s agreements with its distribution partners are also subject to change from time to time, and the Group may be unable to renew its agreements with such partners on similar terms, or at all and could subsequently be unable to secure agreements with new distribution partners. Termination or non-renewal of, or any other material change to, the Group’s relationships with its distribution partners could adversely affect the sale of its products and its growth opportunities in the United Kingdom. Termination of distribution relationships can also result in disputes over the dissolution or final settlement of distribution agreements, which can potentially lead to litigation. In addition, the Group could be required to fulfil the obligations of its agreements with distribution partners in the event of the termination of a relationship. The distribution agreements include various requirements on the Group, and the Group may have to pay damages under the arrangements if it fails to fulfil these obligations. Any of the foregoing events could have a material adverse effect on the Group’s business, results of operations, financial condition and prospects.

An element of the Group’s distribution strategy involves access to and participation in restricted panels operated by the Group’s distribution partners as a result of the RDR, where the distribution partner determines which products and, by extension, providers, are suitable for its panels by considering product features and price, as well as a provider’s financial strength and perceived stability. Any adverse change experienced by the Group relating to the factors considered for inclusion on a panel could result in its products not being featured on such panels. The Group competes with other financial institutions to attract and retain commercial relationships with distribution partners, and failure to appear on a panel or to maintain its existing relationships due to the failure to meet the criteria established by the relevant distribution partner, including confidence in the Group’s financial strength, would impede sales by the Group and could have a material adverse effect on the Group’s business, results of operations, financial condition and prospects.

The Directors consider that the number of financial intermediaries who have demonstrated a proactive approach to advising on LTM products has, to date, been limited. The Directors believe this is a result of



the relative complexity of the issues required to be considered when advising on such products and the perceived reputational risks to financial intermediaries, such as claims of potential mis-selling or provision of inappropriate investment advice. Continuing reluctance in the financial intermediary community to actively market LTM products could constrain the future growth in sales of these products by the Group, which could in turn have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

In addition, regulatory and other developments can have an adverse impact on the Group's relationship with its distribution partners and/or their expected financial performance. For example, the RDR undertaken in the United Kingdom by the predecessor to the FCA and the PRA, the FSA, has resulted in changes to the regulation of financial intermediaries with respect to adviser compensation and professional standards as of 31 December 2012. The revised regulations have necessitated increased training by distributors to ensure qualification and compliance, with the consequent risk of insufficient training of financial intermediaries, and the outcome of these changes could adversely affect the strategic importance of these financial intermediaries as a distribution channel for the Group. Distribution channels may also be adversely affected should the FCA, in any future review of the distribution model of the Group or the activities of the relevant distributor, consider that any of the agreements the Group has in place with distributors in respect of payments made and services provided by the Group, are at risk of non-compliance with the FCA's interpretation of the rules or the spirit of the RDR. In the event of any mis-selling of products by financial intermediaries or other distribution partners, the Group could face the risk of regulatory censure from the FCA, fines and related compensation costs. Any of these developments could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***The Group is subject to the risk of receiving complaints alleging the provision of unsuitable advice.***

The Group's distribution arm, Just Retirement Solutions Limited, provides advice to customers in relation to LTMs and, more recently, care annuities. There is a risk that the Group may be subject to complaints alleging the provision of unsuitable advice, as a result of which the Group may have to provide compensation. This could in turn result in reputational risk that could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***Failure of customers to take advantage of, or failure of financial intermediaries to advise their customers of, the OMO in the United Kingdom could have a material adverse effect on the Group's operations.***

Sales of IUAs are dependent, in part, on the availability of advice to consumers. However, the Directors believe that not all financial intermediaries and other intermediaries have as yet taken full advantage of the potential to offer their customers IUAs through the OMO available in the United Kingdom, which allows an individual to use pension savings from any pension fund to purchase an annuity from any annuity provider and effectively enables an individual to choose the best available retirement product from all providers. The Group's ability to grow its IUA business is dependent in part on raising consumer awareness, and on customers increasingly taking advantage, of the OMO, and, if they qualify, doing so through the purchase of an IUA. Should financial intermediaries fail to advise customers to take advantage of the OMO or fail to advise customers who so qualify to purchase an IUA, this could adversely affect the IUA market and, accordingly, materially adversely affect the Group's business, results of operations, financial condition and prospects.

***The Group faces competition from other insurance companies and others.***

The Group faces or may face significant competition (current and future) from domestic insurers, international insurance groups and others (in any such case whether established or new entrants to the market or start-up operations), which offer or may in the future offer the same or similar products and services as the Group. The Group operates in markets in which the most important competitive factors for products include product price, which in large measure is determined by the quality and extent of the relevant mortality data set and required returns on capital, brand recognition, the utilisation of various distribution channels, predicted investment return, the quality of customer services before and after a contract is entered into, product flexibility, product innovation and policy terms and conditions. The entry into, or the targeting of, the markets in which the Group operates, particularly selling IUAs in the United Kingdom, by traditional life insurers or other new entrants willing to accept higher risk or lower margins than the Group could adversely affect the Group's ability to obtain new customers, or its ability to adjust prices. For example, in the third quarter of the Group's 2013 financial year, the Group's market share

reduced as competitors revised the rates offered to annuity purchasers. Following corresponding rate increases by the Group in the fourth quarter of its 2013 financial year, the Group regained much of the market share that had fallen in the previous quarter.

In addition, the Group has responded to competitive pressures through greater use of price matching and special deals (e.g., targeted tranches of competitively priced lending) for its LTM products, which may adversely affect (and have historically affected) its pricing, operating margins, underwriting results and capital requirements, any of which could constrain growth or otherwise have a material adverse effect on its business, results of operations, financial condition and prospects.

***The Group is exposed to risks arising from further changes in distribution channels used by potential customers, in particular price comparison websites, the long-term implications of which are not yet fully understood.***

Competition for insurance products continues to intensify through the development of alternative distribution channels, such as price comparison websites. Price comparison websites are intermediaries that present multiple insurance quotes to a given buyer, allowing the buyer to make a comparison between insurance offerings based on a single set of information provided to the price comparison website. It is unclear whether price comparison websites will gain the level of consumer acceptance for sales of annuity products as seen in the general insurance market.

The long-term implications of the growth in price comparison websites cannot be fully predicted. A greater movement of customers to price comparison websites and away from traditional marketing channels could result in greater pricing pressure as well as a reduction in the Group's annuity market share, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***The Group is exposed to the risk of damage to its brand, the brands of its distribution partners, its reputation or a decline in customer confidence in the Group or its products.***

The Group's success and results are influenced by the financial strength and reputation of the Group and its brand. The Group and its brand are vulnerable to adverse market perception as the Group operates in an industry where integrity, customer trust and confidence are paramount. The Group relies on its brand, financial intermediaries, affiliate partner brands, specialists and price comparison websites. The Group is exposed to the risk that litigation (for example, with relation to mis-selling claims by customers against the Group or its distribution partners), employee misconduct, operational failures, the outcome of regulatory or other investigations or actions, press speculation and negative publicity, amongst others, whether founded or not, could damage its brand or reputation. The Group's reputation could also be harmed if products or services sold by the Group (or by any of its distribution partners or intermediaries on behalf of the Group) do not perform as expected (whether or not the expectations are justified) or customers' expectations for the products change.

Negative publicity could result, for instance, from an allegation or determination that the Group has failed to comply with regulatory or legislative requirements, from failure in business continuity or performance of the Group's information technology systems, loss of customer data or confidential information, fraudulent activities, unsatisfactory service and support levels or insufficient transparency or disclosure of information. Negative publicity adversely affecting the Group's brand or its reputation could also result from misconduct or malpractice by intermediaries, business promoters or other third parties linked to the Group (such as strategic partners, distributors and suppliers). In addition, to the extent that negative publicity or reputational damage regarding the Group adversely impacts one of the Group's partners, either in terms of reputational damage or sales of its products, the Group may be liable for damages payments to such parties.

Damage to the Group's brands or reputation could cause existing customers, partners or intermediaries to withdraw their business from the Group and potential customers, partners or intermediaries to be reluctant, or elect not, to do business with the Group. Such damage to the Group's brand or reputation could cause disproportionate damage to the Group's business, even if the negative publicity is factually inaccurate or unfounded. Furthermore, negative publicity could result in greater regulatory scrutiny and influence market or rating agencies' perception of the Group. The occurrence of any of these events could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***The Group's future success may depend on its ability to develop and market new products, or enter new geographical markets, successfully.***

The Group's operations are currently focused on the provision of IUAs, fixed term annuities ("FTAs") and LTMs in the United Kingdom, with the significant majority of its sales being IUAs. Over-reliance on those products could expose the Group to product and geographical concentration risks. Therefore, the Group's future success may depend on its ability to expand its product proposition to provide future growth or enter new geographical markets successfully, whilst avoiding any potential damage to its reputation as a result of diversification of its product portfolio or geographical coverage. Should the Group prove to be unable to do so or to diversify its product portfolio or geographical coverage successfully, such failure could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***Changes in lifestyle, medicine, technology, regulation, taxation or financial markets could reduce demand for the Group's products.***

The Group is exposed to changes in the behaviour of its customers and the markets in which it sells its products. For example, changes in lifestyle, medicine, technology, regulation, taxation or financial markets could significantly alter customers' actual or perceived need for annuity products. Changes in technology could also give rise to new types of entrants into the insurance and/or insurance sales markets, or the development of new distribution channels requiring further adaptation of the Group's business and operations. In addition, customers could opt for income drawdown rather than the purchase of an annuity, particularly if laws in the United Kingdom continue to become more permissive with respect to income drawdown. Additionally, declines in the financial markets, for instance equity markets, can reduce the value of a customer's pension funds available to purchase an annuity, which could influence the decision to purchase an annuity. Moreover, declines in annuity yields could make the purchase of annuities unattractive and inhibit market growth. Such changes could result in reduced demand for the Group's products and/or require the Group to expend significant energy, resources and capital to change its product offering, build new risk and pricing models, modify and renew its operating and IT systems and/or retrain or hire new people. Such changes could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

### ***1.7 Operational risks***

***The Group is subject to the risk of mismatches between the liabilities of the Group in respect of its IUAs and the financial assets held to support those liabilities.***

Premiums received from the Group's customers in connection with the provision of IUAs are invested in financial assets, such as fixed income securities and LTMs, so as to match cash inflows from such investments against expected future cash outflows in respect of its IUAs. This matching depends on the accuracy of its projections of cash inflows (premiums received, the repayment of fixed income securities and LTMs, coupon payments made on fixed income securities and early redemptions of LTMs) and outflows (the purchase of fixed income securities, payments to annuitants, mortgage advances, commissions, expenses and tax), which are subject to a number of assumptions, which are necessarily less certain the further into the future such projections are made. Accordingly, the Group is subject to the risk of cash flow mismatches in the longer term (being the period commencing 12 months from the date of this document) between its IUA-related financial liabilities and the financial assets held to support those liabilities, as a result of, amongst other things, inaccurate assumptions regarding the timing and duration of future cash inflows and/or cash outflows. In the event of such a mismatch, the Group may be unable to pay its IUA-related financial liabilities as they fall due on account of insufficient cash inflows, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***The Group is exposed to fraud risks.***

The Group is exposed to internal and external fraud from a variety of sources such as employees, suppliers, intermediaries, customers and other third parties. This includes both policy (i.e. application-related) fraud and claims fraud. Although the Group employs fraud detection processes to help monitor and combat fraud, the Group is at risk from customers, financial intermediaries or other distribution partners or employees, who misrepresent or fail to provide full disclosure of the risks or over-disclose medical or lifestyle risk factors before policies are purchased and from a range of other fraud-related exposures, such

as the fraudulent use of Group-related confidential information. These risks are potentially higher in periods of financial stress.

Additionally, the Group experiences risk from employees and staff members who fail to follow or circumvent procedures designed to prevent fraudulent activities. The occurrence or persistence of fraud in any aspect of the Group's business could damage its reputation and brands as well as its financial standing, and could have a material adverse effect on its business, results of operations, financial condition and prospects.

***The Group's operations support complex transactions and are highly dependent on the proper functioning of information technology and communication systems.***

The Group relies heavily on its operational processes and on IT systems to conduct its business, including the pricing and sale of its products, measuring and monitoring its underwriting liabilities, processing claims, assessing acceptable levels of risk exposure, setting required levels of provisions and capital, producing financial and management reports on a timely basis and maintaining customer service and accurate records. In 2013, the Group initiated phase II of the Prognosys™ programme. The Group began using key insights from phase I of the Prognosys™ programme to refine its pricing and acceptance criteria in 2012, and phase II is expected to be fully implemented by the end of 2014. The implementation of new IT projects, such as Prognosys™, is complex, time consuming and subject to delays and can fail to achieve the expected benefits. Any delay in the roll-out of, or failure in the realisation of the anticipated benefits of, Prognosys™ and related systems and processes could result in increased costs, increased exposure to insurance risk as described in "Risks relating to the Group's business and industry—Insurance Risk" above, and increase the risk of disruption or failures of the Group's systems. These processes and systems may not operate as expected, may not fulfil their intended purpose or may be damaged or interrupted by increases in usage, human error, unauthorised access, natural hazards or disasters or similarly disruptive events. Any failure of the Group's IT and communications systems and/or third-party infrastructure on which the Group relies could lead to costs and disruptions that could adversely affect the Group's business, results of operations, financial condition and prospects as well as harm the Group's reputation and/or attract increased regulatory scrutiny.

If the Group were to introduce new consumer products beyond its current offering, it may be required to develop new operational processes and information systems or to ensure current systems are adequate to support these products. Development of new systems or the expansion of current systems may require experience and resources beyond those the Group currently possesses. Failure to properly support new products with necessary resources could lead to costs or the failure of new product offerings.

The occurrence of a serious disaster resulting in interruptions, delays, the loss or corruption of data, or the cessation of the availability of systems, could, to the extent not mitigated by the Group's disaster recovery and business continuity contingency plans, have a material adverse impact on the Group's business, results of operations, financial condition and prospects.

***The Group is dependent on the use of third-party investment managers, IT software and internet service providers.***

To date, the Group has used JR Merica, an automated underwriting system licensed from Infexpert with the consent of Hannover Re, to inform its annuity pricing model. Until phase II of the Prognosys™ programme is fully implemented (expected by the end of 2014 as described above), the Group's annuity business is and will continue to be reliant on the continued availability and reliability of JR Merica. If the Group's contractual arrangements with Hannover Re or Infexpert in relation to JR Merica are terminated for any reason or JR Merica becomes otherwise unavailable or unreliable in accurately informing the pricing of the Group's annuity products, Just Retirement will be required to accelerate the implementation of the Prognosys™ programme or identify and implement alternative arrangements, which could cause a material disruption in the Group's operations and could have an adverse financial or reputational impact on the Group's business. In addition, certain of the Group's other functions are outsourced to third parties but remain critical to the Group's business, such as its investment management.

The Group is also dependent on the use of certain third-party software in order to conduct its business, particularly for its quotations and sales, finance, actuarial valuation, solvency analysis and operational risk management. The Group is reliant in part on the continued performance, accuracy, compliance and security of such software. If the contractual arrangements with any third-party providers are terminated, the Group may not find an alternative outsource provider or supplier for the services, on a timely basis, on



equivalent terms or without significant expense or at all, in which case the Group would need to handle such services in-house, which could involve potential additional costs and delays.

Any reduction in third-party product quality or any failure by a third party to comply with internal, contractual, regulatory or other requirements, including requirements with respect to the handling of customer data, could cause a material disruption to or adverse financial and/or reputational impact on the Group's business. Any of these events could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***The Group could be materially adversely affected by the loss of key employees, or by an inability to attract and retain, or obtain FCA or PRA approval for, qualified personnel.***

The Group depends heavily on the continued contributions of Senior Management, the Directors and other key employees. The loss of services of key employees could adversely affect its business. In addition, the Group may need to temporarily fill certain key roles with interim employees whilst recruitment of permanent staff remains ongoing. The Group's continued success also depends on its ability to attract, motivate and retain highly competent specialists, particularly those with financial, IT, underwriting, actuarial and other specialist skills. Competition for senior managers as well as personnel with these skills and proven ability is intense among insurance companies. The Group competes with other financial services groups for skilled personnel, primarily on the basis of its reputation, financial position, remuneration policies and support services, and may incur significant costs to recruit and retain appropriately qualified individuals.

The FCA and PRA also have the power to regulate individuals with significant influence over the key functions of an insurance business, such as governance, finance, audit and risk management. The FCA and PRA may not approve individuals for such functions unless it is satisfied that they have appropriate qualifications and/or experience and are fit and proper to perform those functions, and may withdraw its approval for individuals whom it deems no longer fit and proper to perform those functions.

The Group's inability to attract and retain, or obtain FCA or PRA approval for, Directors and highly skilled personnel, and to retain, motivate and train its staff effectively could adversely affect its competitive position, which could in turn result in a material adverse effect to its business, results of operations, financial condition and prospects.

***Failure to maintain adequately and protect customer and employee information could have a material adverse effect on the Group.***

The Group collects and processes personal data (including name, address, age, medical details, bank details and other personal data) from its customers, business contacts and employees as part of the operation of its business, and therefore it must comply with data protection and privacy laws and industry standards in the United Kingdom and the countries of residence of the Group's policyholders. Those laws and standards impose certain requirements on the Group in respect of the collection, use, processing and storage of such personal information. For example, under UK and EU data protection laws and regulations, when collecting personal data, certain information must be provided to the individual whose data is being collected. This information includes the identity of the data controller, the purpose for which the data is being collected and any other relevant information relating to the processing. There is a risk that data collected by the Group and its appointed third parties are not processed in accordance with notifications made to, or obligations imposed by, data subjects, regulators, or other counterparties or applicable law. There is a further risk that recent European Community proposals on data protection will impose a disproportionate burden on insurers and impact the ability of insurers to share information to prevent fraud and other financial crime. Failure to operate effective data collection controls could potentially lead to regulatory censure, fines, reputational and financial costs as well as result in potential inaccurate rating of risks or overpayment of claims.

In addition, the Group is exposed to the risk that the personal data it controls could be wrongfully accessed and/or used, whether by employees or other third parties, or otherwise lost or disclosed or processed in breach of data protection regulations. If the Group or any of the third-party service providers on which it relies fail to process, store or protect such personal data in a secure manner or if any such theft or loss of personal data were otherwise to occur, the Group could face liability under data protection laws. This could also result in damage to the Group's brand and reputation as well as the loss of new or repeat business, any of which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.



***The amounts the Group reserves for administrative and other expenses when it sells its products could prove to be inadequate.***

The Group allocates reserves when it sells products, not only for the expected payments under the Group's products, but also for administrative and other expenses in connection with the products. The Group also allocates reserves to cover the cost of closing to new business. In order to support the growth of the business, the Group has historically needed to provide additional reserves for the above expenses. In the year ended 30 June 2012, for example, the Group experienced a 26 per cent. increase in operating expenses as compared to the prior year resulting from increases in headcount to support future growth and out-of-date expense assumptions on special deals (e.g., targeted tranches of competitively priced lending) for LTMs. Although the Group has recently changed its expense allowances, there can be no assurance that any future overruns will not have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

### **1.8 Other risks**

***Downgrades or the revocation of the Group's financial strength rating could affect its standing in the market, result in a loss of business and/or reduced earnings.***

Just Retirement Limited has been assigned an insurer financial strength rating of "B" by the actuarial consulting firm AKG, as last confirmed in November 2012. Just Retirement Limited's insurer financial strength rating is subject to periodic review by, and may be revised downward or revoked at the sole discretion of, AKG.

Downgrade or revocation could have a negative impact on the Group's public reputation, ability to secure reinsurance, and competitive position in the market, especially in relation to its distribution arrangements and commercial business where partners or customers may not be willing or permitted to place their insurance with a lower rated insurer, which could result in reduced business volumes and income. The occurrence of any of the above could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***Avallux will retain a significant interest in and will continue to exert substantial influence over the Company following the Offer and its interests may differ from or conflict with those of other shareholders.***

Immediately following Admission and assuming no exercise of the Over-allotment Option, Avallux will continue to own beneficially 62.4 per cent. of the issued ordinary share capital of the Company (57.8 per cent. if the Over-allotment Option is exercised in full). As a result, Avallux will possess sufficient voting power to have a significant influence over all matters requiring shareholder approval, including the election of Directors and approval of significant corporate transactions. The Company and Avallux have entered into a relationship agreement, conditional on Admission, to regulate their ongoing relationship (see paragraph 12.2 of Part 17 "Additional Information" for a more detailed description of the Relationship Agreement). However, despite their agreement, the interests of Avallux may not always be aligned with those of other holders of Shares. In particular, Avallux may hold interests in, or may make acquisitions of or investments in, other businesses that may be, or may become, competitors of the Group.

***Applicable insurance laws may make it difficult to effect a change of control of the Company.***

In the United Kingdom, the prior approval of the PRA under Part XII of the FSMA is required of any person proposing to acquire control of a UK PRA regulated firm, including an authorised insurance company. A person is also regarded as acquiring control over the UK authorised person if that person exercises significant influence over the management of the UK authorised person or its parent. For these purposes, a person is deemed to acquire control over a UK authorised person (including an insurance company) if such person holds, or is entitled to exercise or control the exercise of, 10 per cent. or more of the voting power at any general meeting of the UK authorised person or of the parent undertaking of the UK authorised person. An acquisition of the beneficial ownership of ten per cent. or more of the Shares would need to be notified to the PRA and its approval obtained, even though there may have been no change in the legal ownership of the Shares. Similarly, if a person who is already a controller of a UK authorised person proposes to increase its control in excess of certain thresholds set out in Section 181 of the FSMA, such person will also require the prior approval of the PRA. The PRA has a period of three months from the date of notification of the proposed change of control to approve or refuse such proposed change of control.

These laws (and laws having similar effect in other jurisdictions) may discourage potential acquisition proposals and may delay, deter or prevent a change of control of the Company, including through transactions, and in particular unsolicited transactions, that some or all of the Shareholders might consider to be desirable.

## **2. Risks Relating to the Offer and the Shares**

*There is no existing market for the Shares and an active trading market for the Shares may not develop or be sustained.*

The Company does not know the extent to which investor interest in the Shares will lead to the development of a trading market following Admission, how liquid that market might be or, if a trading market does develop, whether it will be sustainable. If an active and liquid trading market does not develop or is not sustained, the liquidity and trading price of the Shares could be materially adversely affected and investors may have difficulty selling their Shares.

*Shares in the Company may be subject to market price volatility and the market price of the Shares in the Company may decline in response to developments that are unrelated to the Company's operating performance.*

The Shares may be subject to market price volatility and the market price of the Shares may decline in response to developments that are unrelated to the Group's operating performance. The Offer Price is expected to be fixed by agreement between the Joint Global Co-ordinators, the Company and Avallux and it may differ significantly from the market price for the Shares following the Offer. The Offer Price may bear no relationship to the price at which the Shares will trade following Admission. The market price of the Shares may be volatile and subject to wide fluctuations. The market price of the Shares may fluctuate as a result of a variety of factors, including, but not limited to, those referred to in these Risk Factors, as well as period-to-period variations in operating results or changes in revenue or profit estimates by the Group, industry participants or financial analysts. The market price of the Shares could also be affected by developments unrelated to the Group's operating performance, such as the operating and share price performance of other companies that investors may consider comparable to the Group, speculation about the Group in the press or the investment community, strategic actions by competitors, including acquisitions and/or restructurings, changes in market conditions and regulatory changes in any number of countries, whether or not the Group derives significant revenue therefrom. Investors may not be able to sell their Shares at or above the Offer Price.

*The market price of the Shares could be negatively affected by sales of substantial amounts of such shares in the public markets, including following the expiry of the lock-up period, or the perception that these sales could occur.*

Following completion of the Offer and assuming no exercise of the Over-allotment Option, Avallux and the Directors and Senior Management will own beneficially, in aggregate, 64.5 per cent. of the Company's issued ordinary share capital (60.0 per cent. if the Over-allotment Option is exercised in full). The Company, Avallux, the Directors and Senior Management are subject to restrictions on the sale and/or transfer of their respective holdings in the Company's issued share capital as described in paragraph 9 of Part 16 "The Offer". The issue or sale of a substantial number of Shares by Avallux, the Directors or Senior Management in the public market after the lock-up restrictions in the Underwriting Agreement expire (or are waived by the Underwriters), or the perception that these sales may occur, may depress the market price of the Shares and could impair the Group's ability to raise capital through the sale of additional equity securities.

*The issuance of additional Shares in the Company in connection with future acquisitions, any share incentive or share option plan or otherwise may dilute all other shareholdings.*

The Group may seek to raise financing to fund future acquisitions and other growth opportunities. The Group may, for these and other purposes, such as in connection with share incentive and share option plans, issue additional equity or convertible equity securities. As a result, the Company's existing Shareholders may suffer dilution in their percentage ownership or the price of the Shares may be adversely affected.

*Shareholders may earn a negative or no return on their investment in the Company.*

The Group's results of operations and financial condition are entirely dependent on the trading performance of the members of the Group. As a holding company, the Company's ability to pay dividends

in the future is affected by a number of factors, principally the Company's ability to receive sufficient dividends from its subsidiaries. The payment of dividends by subsidiaries is, in turn, subject to, among other things, any restrictions relating to regulatory capital in those subsidiaries, the availability of sufficient distributable reserves and cash in those subsidiaries, the requirements of the Group's reinsurance treaties and certain restrictions in the Company's debt financing arrangements. These restrictions could limit or prohibit the payment of dividends to the Company by its subsidiaries, which could restrict the Company's ability to pay dividends to Shareholders.

***Shareholders in the United States or other jurisdictions may not be able to participate in future equity offerings.***

The Articles of the Company provide for pre-emptive rights to be granted to Shareholders, unless such rights are disappplied by a shareholder resolution. However, securities laws of certain jurisdictions may restrict the Group's ability to allow participation by Shareholders in future offerings. In particular, Shareholders in the United States may not be entitled to exercise these rights unless either the rights and Shares are registered under the Securities Act, or the rights and Shares are offered pursuant to an exemption from, or transaction not subject to, the registration requirements of the Securities Act.

## PART 2

### PRESENTATION OF FINANCIAL AND OTHER INFORMATION

#### General

Investors should only rely on the information in this document. No person has been authorised to give any information or to make any representations in connection with the Offer, other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Company, the Directors, the Selling Shareholders, or any of the Underwriters. No representation or warranty, express or implied, is made by any of the Underwriters, any of their respective affiliates or any selling agent as to the accuracy or completeness of such information, and nothing contained in this document is, or shall be relied upon as, a promise or representation by any of the Underwriters or any selling agent as to the past, present or future. In particular, the content of the Company's website ([www.justretirementgroup.com](http://www.justretirementgroup.com)) does not form part of this document and prospective investors should not rely on it. Further, the Company does not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding the Offer or the Company. The Company makes no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication other than this document.

Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to the FSMA, neither the delivery of this document nor any subscription or sale of Shares pursuant to the Offer shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Group since the date of this document or that the information contained herein is correct as of any time subsequent to its date.

The Company will update the information provided in this document by means of a supplement hereto if a significant new factor that may affect the evaluation by prospective investors of the Offer occurs prior to the publication of the Prospectus or if this document contains any mistake or substantial inaccuracy. The Prospectus and any supplement thereto will be subject to approval by the FCA and will be made public in accordance with the Prospectus Rules. If a supplement to the Prospectus is published prior to Admission, investors shall have the right to withdraw their applications for Shares made prior to the publication of the supplement. Such withdrawal must be made within the time limits and in the manner set out in any such supplement (which shall not be shorter than two clear business days after publication of the supplement).

The contents of this document are not to be construed as legal, business or tax advice. Each prospective investor should consult its, his or her own lawyer, financial intermediary or tax adviser for legal, financial or tax advice. In making an investment decision, each investor must rely on its, his or her own examination, analysis and enquiry of the Company and the terms of the Offer, including the merits and risks involved.

This document is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company, the Directors, the Selling Shareholders, or any of the Underwriters or any of their representatives that any recipient of this document should subscribe for or purchase the Shares. Prior to making any decision as to whether to subscribe for or purchase the Shares, prospective investors should read this document. Investors should ensure that they read the whole of this document carefully and not just rely on key information or information summarised within it. In making an investment decision, prospective investors must rely upon their own examination of the Company and the terms of this document, including the risks involved.

Investors who subscribe for or purchase Shares in the Offer will be deemed to have acknowledged that: (i) they have not relied on any of the Underwriters or any person affiliated with any of them in connection with any investigation of the accuracy of any information contained in this document or their investment decision and (ii) they have relied on the information contained in this document, and no person has been authorised to give any information or to make any representation concerning the Group or the Shares (other than as contained in this document) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company, the Directors, the Selling Shareholders or any of the Underwriters.

None of the Company, the Directors, the Selling Shareholders or any of the Underwriters or any of their representatives is making any representation to any offeree, subscriber or purchaser of the Shares regarding the legality of an investment by such offeree, subscriber or purchaser.

In connection with the Offer, the Underwriters and any of their respective affiliates, acting as investors for their own accounts, may subscribe for and/or acquire Shares and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for their own accounts in such Shares and other securities of the Company or related investments in connection with the Offer or otherwise. Accordingly, references in this document to the Shares being issued, offered, subscribed, acquired, placed or otherwise dealt in should be read as including any issue, offer, subscription, acquisition, dealing or placing by the Underwriters and any of their affiliates acting as investors for their own accounts. None of the Underwriters intends to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligations to do so.

### **Presentation of Financial Information**

The financial information for the three years ended 30 June 2013 contained in this document has been prepared in accordance with International Financial Reported Standards as adopted by the European Union (“IFRS”) and has been reported on by KPMG Audit Plc. The significant IFRS accounting policies applied in the financial information of the Company are applied consistently in the financial information in this document.

### **Financial Information**

The financial year of Just Retirement Group Holdings Limited runs from 1 July to 30 June. The financial information for Just Retirement Group Holdings Limited and each of its consolidated subsidiaries and subsidiary undertakings (the “JRGHL Group”) included in Part 12 “Historical Financial Information” is covered by the accountant’s report included therein, which was prepared in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom.

None of the financial information used in this document has been audited in accordance with auditing standards generally accepted in the United States of America (“U.S. GAAS”) or auditing standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”). There could be differences between the auditing standards issued by the Auditing Practices Board in the United Kingdom (on the one hand) and those required by U.S. GAAS or the auditing standards of the PCAOB (on the other). Potential investors should consult their own professional advisers to gain an understanding of the “Historical Financial Information” in Part 12 and the implications of differences between the auditing standards noted above and the Standards for Investment Reporting.

### **Key Performance Indicators**

The Board has adopted the following metrics, which are considered to give an understanding of the Group’s underlying performance drivers. These measures are referred to as key performance indicators (“KPIs”). The KPIs described below are not measures of financial performance under generally accepted accounting principles, including IFRS, and should not be considered in isolation or as an alternative to the Statement of Comprehensive Income or other primary financial information included in Part 12 “Historical Financial Information”. With the exception of New Business Sales and European Embedded Value, the KPIs described below have been extracted without material adjustment from Note 7 of the financial information for the JRGHL Group included in Part 12 “Historical Financial Information”. Because these measures are not determined in accordance with generally accepted accounting principles and are thus susceptible to varying calculations, they may not be comparable with other similarly titled measures of performance of other companies.

The Board considers the Group’s KPIs to be as follows:

- *New Business Sales*—represent the amount of new business sold during the reporting period. Annuity business sales are measured in terms of gross premiums written, whereas LTM sales are measured in terms of cash advances.
- *New Business Operating Profit*—represents the profit generated from new business written in the reporting period, calculated using IFRS assumptions applicable as at the point of sale. The calculation of New Business Operating Profit includes prudent reserves above best estimates for mortality, corporate bond defaults and, with respect to its LTMs, NNEGs and early redemptions, which should be released in future years and recognised as part of in-force operating profit, subject to performance. New business operating profit is stated after allowing for acquisition expenses for both the annuity and LTM business.



- *In-force Operating Profit*—captures the expected margin to emerge from the in-force book of business and the free surplus, namely:
  - the release of prudent margins in excess of best estimates in relation to mortality and corporate bond defaults within the IFRS liability, as well as the expected emergence of profit on the LTM business; and
  - the expected return on surplus assets.
- *Underlying Operating Profit*—equals the sum of New Business Operating Profit and In-force Operating Profit.
- *European Embedded Value (“EEV”)*—represents the sum of shareholders’ net assets and the value of in-force business, where these items have been calculated in accordance with the generally accepted EEV Principles. In the Directors’ view, EEV is a valuable additional KPI since it provides investors with a prudently calculated measure of the future profit streams of the Group’s in-force long-term business and captures some of the additional value of the profits of business that has been written but not yet recognised under New Business Operating Profit.

## Currency Presentation

Unless otherwise indicated, all references in this document to “sterling”, “pounds sterling”, “GBP”, “£”, or “pence” are to the lawful currency of the United Kingdom. The Company prepares its financial statements in pounds sterling. All references to the “euro” or “€” are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended. All references to “U.S. dollars” or “US\$” are to the lawful currency of the United States.

The average exchange rates of the U.S. dollar are shown relative to pounds sterling below. The average rates in the table below are not necessarily the rates used to translate the Group’s results due to the seasonality of its earnings. These exchange rates should not be construed as representations that the relevant currency could be converted into sterling at the rate indicated or at any other rate:

<u>Rates against pounds sterling on</u>	<u>US\$</u>
30 June 2009 . . . . .	1.6468
30 June 2010 . . . . .	1.4962
30 June 2011 . . . . .	1.6056
30 June 2012 . . . . .	1.5686
30 June 2013 . . . . .	1.5167
31 July 2013 . . . . .	1.5164
31 August 2013 . . . . .	1.5471
30 September 2013 . . . . .	1.6194
31 October 2013 . . . . .	1.6067
 <u>Average rate against pounds sterling for the year ended</u>	 <u>US\$</u>
30 June 2009 . . . . .	1.6014
30 June 2010 . . . . .	1.5755
30 June 2011 . . . . .	1.5956
30 June 2012 . . . . .	1.5889
30 June 2013 . . . . .	1.5676
 <u>Average rate against pounds sterling for the month ended</u>	 <u>US\$</u>
31 July 2013 . . . . .	1.5172
31 August 2013 . . . . .	1.5507
30 September 2013 . . . . .	1.5865
31 October 2013 . . . . .	1.6094

Source: Bank of England.

## **Rounding**

Certain data in this document, including financial, statistical, and operating information has been rounded. As a result of the rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data. Percentages in tables have been rounded and accordingly may not add up to 100 per cent.

## **Market, Economic and Industry Data**

Unless the source is otherwise stated, the market, economic and industry data in this document constitute the Directors' estimates, using underlying data from independent third parties. The Company obtained market data and certain industry forecasts used in this document from internal surveys, reports and studies, where appropriate, as well as market research, publicly available information and industry publications, including publications and data compiled by ONS, Towers Watson, Pensions Policy Institute, Department of Health, Office of Fair Trading, Joseph Rowntree Foundation, Equity Release Council ("ERC"), Association of British Insurers ("ABI"), HMRC, Touchstone, Watson Wyatt and Lane Clark & Peacock.

The Company confirms that all such data contained in this document has been accurately reproduced and, so far as the Company is aware and able to ascertain, no facts have been omitted that would render the reproduced information inaccurate or misleading.

Where third-party information has been used in this document, the source of such information has been identified.

## **Service of process and enforcement of civil liabilities**

The Company has been incorporated under English law. Service of process upon the Directors and officers of the Company, all of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, since all of the directly owned assets of the Company are outside the United States, any judgment obtained in the United States against it may not be collectible within the United States. There is doubt as to the enforceability of certain civil liabilities under the U.S. federal securities laws in original actions in English courts, and, subject to certain exceptions and time limitations, English courts will treat a final and conclusive judgment of a U.S. court for a liquidated amount as a debt enforceable by fresh proceedings in the English courts.

## **Credit Ratings**

This document includes references to credit ratings by Standard & Poor's Credit Market Services Europe Limited ("Standard & Poor's"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on Credit Rating Agencies (the "CRA Regulation"), unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration has not been refused. Standard & Poor's was established and operating in the European Union prior to 7 June 2010 and is registered as a Credit Rating Agency in accordance with the CRA Regulation.

## **Definitions and Glossary**

Certain terms used in this document, including all capitalised terms and certain technical and other items, are defined and explained in Part 18 "Definitions" and Part 19 "Glossary".

## **Information not Contained in this Document**

No person has been authorised to give any information or make any representation other than those contained in this document and, if given or made, such information or representation must not be relied upon as having been so authorised. Neither the delivery of this document nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this document or that the information in this document is correct as of any time subsequent to the date hereof.

## **Information Regarding Forward-looking Statements**

This document includes forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the Group's control and all of which are based on the Directors' current beliefs and expectations about future events. Forward-looking statements are sometimes identified by the use of forward-looking terminology such as "believe", "expects", "may", "will", "could", "should", "shall", "risk", "intends", "estimates", "aims", "plans", "predicts", "continues", "assumes", "positioned" or "anticipates" or the negative thereof, other variations thereon or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Directors or the Group concerning, among other things, the results of operations, financial condition, prospects, growth, strategies, and dividend policy of the Group and the industry in which it operates. In particular, the statements under the headings "Summary Information", "Risk Factors", "Market Overview", "Information on the Company and the Group", "Regulatory Overview" and "Operating and Financial Review" regarding the Company's strategy and other future events or prospects are forward-looking statements.

These forward-looking statements and other statements contained in this document regarding matters that are not historical facts involve predictions. No assurance can be given that such future results will be achieved; actual events or results may differ materially as a result of risks and uncertainties facing the Group. Such risks and uncertainties could cause actual results to vary materially from the future results indicated, expressed, or implied in such forward-looking statements. Such forward-looking statements contained in this document speak only as of the date of this document. The Company, the Directors, the Selling Shareholders and the Underwriters expressly disclaim any obligation or undertaking to update the forward-looking statements contained in this document to reflect any change in their expectations or any change in events, conditions, or circumstances on which such statements are based unless required to do so by applicable law, the Prospectus Rules, the listing rules of the FCA made under section 74(4) of the FSMA (the "Listing Rules"), or the Disclosure and Transparency Rules of the FCA.

### **PART 3**

#### **DIRECTORS, SECRETARY, REGISTERED AND HEAD OFFICE AND ADVISERS**

<b>Directors</b> . . . . .	Tom Cross Brown Rodney Cook Kate Avery Shayne Deighton James Fraser Keith Nicholson Les Owen Simon Thomas
<b>Company Secretary</b> . . . . .	Martin Smith
<b>Registered and head office of the Company</b>	Vale House Roebuck Close Bancroft Road Reigate Surrey RH2 7RU
<b>Joint Sponsors</b> . . . . .	Deutsche Bank AG, London Branch Winchester House 1 Great Winchester Street London EC2N 2DB  Nomura International plc 1 Angel Lane London EC4R 3AB
<b>Joint Global Co-ordinators and Joint Bookrunners</b> . . . . .	Deutsche Bank AG, London Branch Winchester House 1 Great Winchester Street London EC2N 2DB  Nomura International plc 1 Angel Lane London EC4R 3AB
<b>Co-lead Managers</b> . . . . .	Execution Noble Limited 10 Paternoster Square London EC4M 7AL  Keefe, Bruyette & Woods Limited One Broadgate, 7th Floor London EC2M 2QS  Panmure Gordon (UK) Limited One New Change London EC4M 9AF
<b>English and U.S. legal advisers to the Company</b> . . . . .	Freshfields Bruckhaus Deringer LLP 65 Fleet Street London EC4Y 1HS
<b>English and U.S. legal advisers to the Underwriters</b> . . . . .	Clifford Chance LLP 10 Upper Bank Street London E14 5JJ
<b>Reporting Accountants and Auditors</b> . . . . .	KPMG Audit Plc 15 Canada Square London E14 5GL

**Registrars** ..... Equiniti Limited  
Aspect House  
Spencer Road  
Lancing Business Park  
Lancing  
West Sussex BN99 6DA



## PART 4

### EXPECTED TIMETABLE OF PRINCIPAL EVENTS AND OFFER STATISTICS

#### Expected timetable of principal events

Event	Time and Date
Latest time and date for receipt of indications of interest under the Offer . . . . .	4.30 p.m. on 11 November 2013
Announcement of Offer Price and allocation . . . . .	7.00 a.m. on 12 November 2013
Commencement of conditional dealings on the London Stock Exchange . . . . .	8.00 a.m. on 12 November 2013
Admission and commencement of unconditional dealings on the London Stock Exchange . . . . .	8.00 a.m. on 15 November 2013
CREST accounts credited . . . . .	15 November 2013

**It should be noted that, if Admission does not occur, all conditional dealings will be of no effect and any such dealings will be at the sole risk of the parties concerned.**

All times are London times. Each of the times and dates in the above timetable is subject to change without further notice.

#### Offer statistics<sup>(1)</sup>

Offer Price (per Share) . . . . .	225 pence
Number of Shares in the Offer . . . . .	152,534,950
—to be issued by the Company . . . . .	133,333,747
—to be sold by the Selling Shareholders <sup>(2)</sup> . . . . .	19,201,203
Percentage of the enlarged issued Share Capital in the Offer <sup>(3)</sup> . . . . .	30.5 per cent.
Number of Shares subject to the Over-allotment Option . . . . .	22,880,243
Number of ordinary shares in issue following the Offer . . . . .	500,000,000
Estimated net proceeds of the Offer receivable by the Company <sup>(4)</sup> . . . . .	£280.0 million
Estimated gross proceeds of the Offer receivable by the Selling Shareholders <sup>(2)</sup> . . . . .	£43.2 million
Market capitalisation of the Company at the Offer Price . . . . .	£1,125.0 million

#### Notes:

- (1) Assumes all of the steps set out in paragraph 3 of Part 15 “Reorganisation of the Group” are completed in full. To the extent that these steps are not completed in full, the Offer will not proceed, and Admission will not be sought.
- (2) Assuming no exercise of the Over-allotment Option.
- (3) Does not include any Shares that may be offered pursuant to the Over-allotment Option.
- (4) After estimated fees and expenses of approximately £20.0 million.

## PART 5

### MARKET OVERVIEW

*The following information relating to the annuity industry in the United Kingdom has been provided for background purposes only. The information has been extracted from a variety of sources released by public and private organisations. The information has been accurately reproduced and, as far as the Company is aware and is able to ascertain from information published by such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. Investors should read this Part 5 “Market Overview” in conjunction with the more detailed information contained in this document including Part 6 “Information on the Company and the Group”, Part 7 “Regulatory Overview” and Part 10 “Operating and Financial Review”.*

#### **1. The UK Retirement Income Market**

Between 2008 and 2010, the total net non-pension assets held by individuals aged 65 years and older in the United Kingdom amounted to £1.2 trillion (source: HMRC). The assets of new people entering retirement has grown from £76 billion in 2009 to £104 billion in 2012 (source: Watson Wyatt, ABI and Just Retirement analysis), representing a CAGR of 11 per cent. This rate of growth is driven by the ageing population and increased accumulated lifetime savings.

In retirement, customers typically need financial products that convert these accumulated lifetime savings into income. This represents a sizeable and rapidly growing market opportunity for providers of retirement income products, such as Just Retirement.

Just Retirement competes in a number of high growth segments of the UK retirement income market. Its two core products are IUAs and LTMs. In addition, in the last two years it has launched three new products servicing other growth segments of the retirement income market—FTAs, care annuities and defined benefit (“DB”) scheme de-risking solutions.

##### ***1.1 Ageing population***

The UK population is ageing, and the number of people over the age of 60 is forecast to increase from 14.1 million in 2010 to 15.1 million in 2015 (source: ONS). This trend is expected to continue past 2015, as baby boomers reach retirement and life expectancies continue to increase, with an annual forecasted growth rate of 1.9 per cent. during the years from 2015 to 2025 and 1.4 per cent. during the years from 2025 to 2035 (source: ONS). By 2035, the number of people aged 60 and above is expected to be approximately 50 per cent. higher than the corresponding number in 2010 (source: ONS), reflecting a long-term basis for growth in the addressable market for retirement income products, including annuities, lifetime mortgages and other retirement income products.

##### ***1.2 Increasing assets held by individuals entering retirement***

In addition to the continuing high numbers of people reaching retirement age, there is a growing amount of wealth flowing annually into the retirement market, a trend which is expected to continue. In 2012, out of the approximately £104 billion of assets which flowed into the post-retirement market, £56 billion constituted property assets, £20 billion constituted personal pension assets and £28 billion constituted other assets, including cash ISAs, stocks and shares ISAs, life investment bonds and cash deposits (source: Watson Wyatt, ABI and Just Retirement analysis).

These assets, some of which are illiquid (including, for example, residential property), will need to be converted into income streams to support individuals in retirement, and the Group expects a significant proportion to be used to purchase annuities and lifetime mortgages.

##### ***1.3 Increased need for innovative retirement income solutions***

In an environment of longer life expectancies, a declining prevalence of State provided and DB pension schemes, lower interest rates on savings, increased long-term care costs and increasing proportions of household wealth being held in residential property, retirees face a number of complex issues in ensuring sufficient retirement income to fund a more active lifestyle in retirement than was prevalent in previous generations.

In 2012, Just Retirement commissioned a major study to provide policy makers with greater understanding of the choices being made by people to manage their financial resources in retirement. The study included 300 hours of interviews with over 1,000 people approaching or in retirement, and it concluded that approximately one in three people would rely only on their State Pension and would have no private pensions at all. The respondents who had not yet reached retirement also appeared to be optimistic regarding their income in retirement, anticipating an average annual income in-retirement of £17,000, whereas those who had just reached retirement anticipated only £10,000. These challenges facing retirees are increasing the demand for innovative private retirement income solutions thereby increasing the size of the market for providers of retirement income products such as Just Retirement.

## **2. The Individually Underwritten Annuity Market**

Just Retirement competes in the individually underwritten annuity market which is a subset of the retirement income market. Annuities are bought by customers at retirement to convert their accumulated lifetime pension savings into a guaranteed lifetime retirement income.

Annuity products offered in the United Kingdom were traditionally all standard products. These products offer annuity income payable without reference to the individual's state of health and lifestyle, and are differentiated only by reference to a limited number of factors such as age, postcode and premium size.

By contrast, IUAs offer annuitants with a shorter life expectancy a higher annuity rate. The rate offered depends on the severity of the health condition ranging from lifestyle factors (such as hypertension, cholesterol and/or a history of smoking) to moderate/serious medical conditions and combinations (such as diabetes with complications, a recent heart attack with surgery and/or minor cancers) to very serious medical conditions and combinations (such as recent cancers, chronic obstructive pulmonary disease and/or advanced Crohn's disease). Given this model, insurers operating in the IUA segment require an increased level of medical and lifestyle information and an understanding of the likely impact of such information on life expectancy prior to quotation. By way of illustration, for a 65-year-old individual with a £50,000 annuity premium with high blood pressure and high cholesterol who takes one medication for both conditions, based on market available data as of August 2013, Just Retirement can typically offer an improvement in annual income of between 7 and 24 per cent., and for a 65-year-old individual with a £50,000 annuity premium who suffered a heart attack within the last five years, has been hospitalised and takes one medication daily, based on market available data as of August 2013, Just Retirement can typically offer an improvement in annual income of between 17 and 36 per cent., in each case depending on the competitiveness of the standard annuity provider.

The IUA market can be further segmented into lifestyle, medically enhanced and impaired segments. The dominant segments in the UK IUA market, in terms of the numbers of annuitants and premiums, are the lifestyle and medically enhanced segments, which the Directors believe are the larger and the faster growing segments. The Directors estimate that these segments, which include individuals who, as a result of one or more pre-existing medical conditions or lifestyle factors, such as angina, asthma or smoking, are likely to have a reduced life expectancy (approximately 20-24 years in the lifestyle segment and approximately 17-21 years in the medically enhanced segment), collectively comprised 89 per cent. of the IUA market by premium value in 2012. The smaller impaired segment in the IUA market includes people who are estimated to have a typical life expectancy at the point of annuity purchase between approximately 5-16 years, typically due to serious medical conditions.

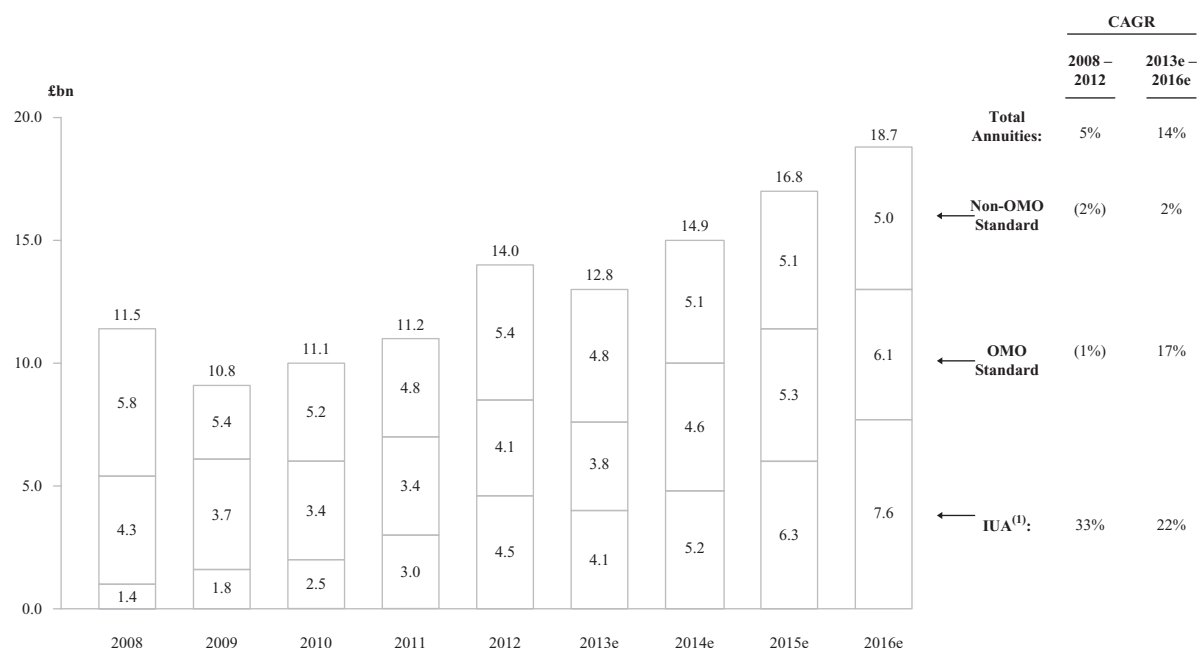
### **2.1 IUA Market Outlook**

The Directors believe that a number of secular trends will continue to drive long-term growth in the IUA market. These include:

- Strong growth in the total annuity market at a CAGR of 14 per cent. between 2013 and 2016 (source: Just Retirement estimates), driven by:
  - the increasing assets held by those in retirement, as described above;
  - a decreasing reliance on government funding of retirement income;
  - the switch from DB pensions to defined contribution ("DC") pensions; and
  - continued demand for annuities relative to other retirement income choices.
- Accelerated growth in IUAs outpacing the growth in the total annuity market driven by:
  - increased take-up of the OMO; and
  - increasing penetration of IUAs.

These factors are described in more detail below. They contributed to a CAGR of 33 per cent. in the IUA market between 2008 and 2012 (source: ABI) and, the Directors believe, will continue to drive growth at 22 per cent. per annum from 2013 to 2016 (source: Just Retirement estimates).

The following chart sets forth the growth and changing composition of the UK annuities market:



Source: ABI for historic data. Note: Forecasts based on market estimates. 1. Includes captive IUA sales. Estimated at £0.2 billion in 2012, £0.4 billion in 2013, £0.5 billion in 2014, £0.7 billion in 2015 and £0.8 billion in 2016.

The end of 2012 and the beginning of 2013 saw the introduction of two significant regulatory changes, the RDR and gender equalisation, which positively impacted sales in 2012 but negatively impacted them in 2013. The Directors believe that the combined effect of these two regulatory changes caused the acceleration of up to approximately £1 billion of new annuity business into 2012 and the delay of approximately a further £0.2 billion of new annuity business, as financial intermediaries adapt their business models to operate in the post-RDR environment. As a result, the Directors believe that the value of new annuity business written in 2013 will be approximately £1.2 billion lower than it would have been had RDR and gender equalisation not been implemented. The Directors believe this market discontinuity will result in single digit growth in the IUA market until the middle of 2014, comparing the twelve months to June 2014 against the twelve months to June 2013. Notwithstanding this short-term impact, the Directors believe that the fundamentals supporting the growth of the annuity market remain sound and that the IUA market will return to strong double digit growth between June 2014 and the end of 2016.

### 2.1.1 A reducing reliance on government funding of retirement income

Individuals in the United Kingdom have historically relied on a number of sources from which to draw income during retirement, but the most common have been the State Pension and income from DB pension schemes.

Changes in the financial landscape have begun to reduce the prevalence of DB pension schemes and therefore increased levels of private pension savings. As a result of fiscal pressures driven by increasing life expectancies and numbers of pensioners, the UK government is progressively seeking to reduce reliance on the State Pension by implementing plans such as increasing the age at which an individual is entitled to receive a State Pension and promoting personal retirement savings such as the National Employment Savings Trust (“NEST”). Just Retirement is one of only five providers on NEST’s annuity panel.

### 2.1.2 Switch from defined benefit pensions to defined contribution personal pensions

DB pensions schemes, which are generally funded by employers, provide individuals with a pre-determined monthly income in retirement based on their earnings history, tenure of employment and age. These schemes are increasingly being closed to new members and in some cases to new accruals of pensions savings. Various factors have driven this trend, including increasing funding costs as scheme members are

living longer, the introduction of mark-to-market accounting by corporate sponsors to reflect DB scheme liabilities, sustained periods of adverse market conditions, which have increased DB scheme funding shortfalls and increased DB scheme regulation. All these factors have made opening or maintaining such schemes less attractive and more costly for companies.

For an increasing proportion of the population, DC pension schemes have replaced corporate DB schemes. The assets in these schemes, whether funded by employer or employee contributions, belong to the individual customer. The UK government has also promoted greater access to and use of DC schemes, including through the launch of “stakeholder pensions” which have a maximum charging level, in order to increase pension saving penetration to assist in mitigating the pensions savings gap. In 2012, the UK government further encouraged pension savings in personal pension funds through the introduction of “auto-enrolment”, requiring all employers over a certain size (with phased introduction for smaller employers) to enrol all employees into a DC pension savings plan, unless the employees actively request non-participation.

At retirement, the majority of the assets in DB and DC pension schemes are converted into an annuity income which is guaranteed to be paid for the rest of the customer’s life. The UK annuity market comprises customers in DC pension schemes who will typically buy an annuity at retirement either from the open market or from the firm with which they have accumulated their pensions. Conversely, in a DB pension the annuity is provided by the corporate pension fund (unless the scheme trustees chose to purchase a de-risking scheme such as that recently launched by Just Retirement) and therefore these annuities are not part of the addressable annuity market for Just Retirement.

Therefore, as more wealth switches from DB to DC schemes this will drive further growth in the markets Just Retirement serves. In 2005, there were estimated to be £1.1 trillion of total pension assets of which approximately 33 per cent., or £0.4 trillion, were in DC schemes and the remainder in DB schemes, while in 2010 there were estimated to be £1.5 trillion of total pension assets with approximately 40 per cent., or £0.6 trillion, in DC schemes (source: Towers Watson). By 2015, it is estimated there will be £1.8 trillion of pension scheme assets with approximately 48 per cent., or £0.9 trillion, in DC schemes—a CAGR of 8 per cent. in the value of assets held in DC pension schemes between 2005 and 2015 (source: Towers Watson and broker reports).

#### *2.1.3 Continued demand for annuities over other retirement income choices*

Although annuities are not the only option available to individuals reaching retirement, they currently represent 92 per cent. (by value) of the assets from DC pensions schemes which are used to purchase a retirement income, compared to 78 per cent. in 2008, the balance being directed into income drawdown products (source: ABI). The Directors believe that annuities will continue to be the main choice of retirement income product since they provide a guaranteed lifetime income. Income drawdown products are typically only recommended for individuals with DC pension assets in excess of £100,000 (source: ABI) who can afford to take greater investment risk and longevity risk, and can afford the fees for continued financial advice.

#### *2.1.4 Increased take-up of the Open Market Option*

The OMO allows an individual to use pension savings from any DC pension fund to purchase an annuity from any annuity provider and enables the individual to shop around for the best available retirement product from all providers rather than take a default annuity product from the company where the pre-retirement accumulation of assets took place. Customers will typically receive a more competitive annuity rate by exercising their right to shop around. The majority of Just Retirement’s annuity sales are from customers who have chosen to shop around by exercising their right to the OMO.

Pressure from regulatory, political and industry bodies is supportive in promoting the use of the OMO to ensure that more customers access more suitable benefit solutions and competitive annuity rates. In 2012, the total OMO market was £8.5 billion (source: ABI). In 2008, 50 per cent. of annuity purchases by premium value were made exercising the OMO. This proportion increased to 60 per cent. by 2012 (source: ABI). The Directors believe that OMO usage will increase to 69 per cent. by 2016.

#### *2.1.5 Increasing penetration of individually underwritten annuities*

In 2012, the IUA market represented £4.5 billion out of the total annuity market of £14.0 billion (approximately 32 per cent. by premium value) with the remainder being standard annuities (source: ABI).



Whilst the Directors estimate that approximately 60 per cent. of those who currently purchase annuities are eligible for some form of medical or lifestyle enhancement, only 21 per cent. currently take up an IUA (source: ABI, Just Retirement estimates).

In 2012, where people exercised their OMO right, 53 per cent. (by premium value) bought an IUA compared to less than 5 per cent. for non-OMO purchases (source: ABI). As pressure grows on pension providers to make customers more aware of their right to shop around, the Directors expect that penetration of IUAs will continue to grow.

Moreover, the Directors believe, based on internal forecasts, that penetration of IUAs with customers who do exercise their OMO right will increase from 51 per cent. in 2012 to approximately 53 per cent. in 2016 as a percentage of the total OMO market (by premium value), reflecting customers' increasing awareness of the benefits of an IUA relative to a standard annuity as well as greater media attention. In addition to the support for the OMO outlined above, there is substantial regulatory support for increased awareness and acceptance of IUAs, as described in "—Impact of Direct Regulation on the IUA Market" below. This penetration of IUAs can also be expected to grow as longer life expectancy results in increased numbers of individuals with medical conditions who take out annuities later in life. It is anticipated that by 2018, the number of people with three or more long-term medical conditions in England will increase by more than 50 per cent. in comparison to 2008 (source: Department of Health).

In other insurance markets, such as the UK personal motor insurance market, every customer receives a rate based on individually underwritten factors such as their driving history and model of car. It is not considered sustainable for insurers to provide a "standard" product in these markets since they will eventually suffer adverse selection which will result in a portfolio containing only the highest risk customers. The Directors believe that over time the same will become true in the UK annuity market since portfolios of standard annuity customers are gradually becoming higher risk due to the increasing average longevity of these customers, as those with shorter longevity are selected by Just Retirement and other IUA providers.

## **2.2 IUA Outlook—Summary**

In recent years, for the reasons described above, the IUA market has achieved faster growth than the standard annuity market, and the Directors expect this trend to continue. The IUA market increased in size from £1.4 billion (approximately 12 per cent. of the UK annuities market by premium value) in 2008 to £4.5 billion (approximately 32 per cent. of the UK annuities market by premium value) in 2012, representing a CAGR of 33 per cent. (source: ABI). Based on current market data, the Directors expect that the IUA market will reach £7.6 billion, or approximately 41 per cent. of the UK annuities market by premium value, by 2016, representing a CAGR of 22 per cent. between 2013 and 2016, with the majority of growth coming from the medically enhanced and lifestyle segments.

The end of 2012 and the beginning of 2013 saw the introduction of two significant regulatory changes, the RDR and gender equalisation, which positively impacted sales in 2012 but negatively impacted them in 2013. The Directors believe that the combined effect of these two regulatory changes caused the acceleration of up to approximately £1 billion of new annuity business into 2012 and the delay of approximately a further £0.2 billion of new annuity business, as financial intermediaries adapt their business models to operate in the post-RDR environment. As a result, the Directors believe that the value of new annuity business written in 2013 will be approximately £1.2 billion lower than it would have been had RDR and gender equalisation not been implemented. The Directors believe this market discontinuity will result in single digit growth in the IUA market until the middle of 2014, comparing the twelve months to June 2014 against the twelve months to June 2013. Notwithstanding this short-term impact, the Directors believe that the fundamentals supporting the growth of the annuity market remain sound and that the IUA market will return to strong double digit growth between June 2014 and the end of 2016.

## **2.3 Competition**

In the fourth quarter of 2012, 17 providers sold annuity products in the UK market, of which eight operated in the standard segment only. In 2012, the top five providers of annuities (both standard and enhanced) held nearly a 69 per cent. share of total new business premiums (source: broker reports). Given the limited use of personal health information to drive pricing and the general availability of average life expectancy tables, the standard annuity segment is commoditised and has a large number of active market participants.

By contrast, in the IUA market the ability to capture and analyse medical and lifestyle underwriting data is a key competitive differentiator. In the whole IUA market (incorporating the lifestyle, medically enhanced and impaired segments), the top two providers, Just Retirement and Partnership held a 57 per cent. share of new business premiums in 2012 (source: Towers Watson, Group accounts, Just Retirement analysis). Other IUA providers in the United Kingdom include LV=, MGM, Canada Life, Legal and General, Aviva and Scottish Widows, none of whom individually had more than 12.5 per cent. market share.

## ***2.4 Distribution of individually underwritten annuities***

Annuity products can be sold via traditional channels, such as financial intermediaries, or via emerging channels, such as the internet or over the phone.

### ***2.4.1 Traditional Channels***

The traditional channel for a majority of annuities continues to be through financial intermediaries (source: ABI) given the large number of products available and the importance of the decision-making process for individuals. The Directors expect this to remain the predominant distribution channel going forward.

The RDR, which came into force on 31 December 2012, has had a significant impact on the financial intermediary market. Under the RDR, financial intermediaries are able to offer either “restricted” or “independent” advice. In order to offer “independent” advice, a financial intermediary must now advise on the “whole of market” (i.e., all possible products available). The Directors believe that the RDR will result in independent financial intermediaries seeking the security and backing of financial intermediary networks in light of increased demand for research and assessment of product and provider suitability, rather than continuing to trade individually. The Directors also believe that a significant portion of independent financial intermediaries will offer broad panels or advise on the “whole of market”.

Other types of intermediaries include employee benefit consultants, specialist intermediaries and banks and building societies, which allow annuity providers to access a market segment not traditionally served by financial intermediaries. Employee benefit consultants provide services to employers and pension fund trustees on employment-related issues, including longevity de-risking solutions (as described above). Specialist intermediaries are now a sizeable subset of financial intermediaries. Banks and building societies are established distributors of annuities through their owned adviser sales forces.

Customers who do not take up the OMO will instead be sold an annuity directly by the firm with which they have accumulated their pensions, usually without the provision of financial advice, or an intermediary. These customers are effectively treated as “captive” customers by their providers, and as described above are likely to receive a lower value annuity. As a result, the FCA has launched a review into whether customers using this channel who do not take up the OMO are receiving a competitive annuity rate.

### ***2.4.2 Emerging Channels***

There is a small but growing volume of annuity product sales through life insurance companies that allow access to third-party providers; price comparison websites and affinity partners; and direct sales capabilities. The Directors believe these channels will increase in importance over time, as has been the case with other financial services products, such as ISAs and general insurance products.

## ***2.5 Impact of Direct Regulation on the IUA Market***

Regulation and pressure from lobbying and consumer organisations remain significant forces within the annuities market, and changes have recently been enacted, with further reforms expected in the future. These include the “treating customers fairly” principle, the ABI Code of Conduct on Retirement Choices, the RDR and gender equalisation. For more information on these and additional regulatory developments, see Part 7 “Regulatory Overview”.

Most of these regulatory changes are intended to ensure that customers receive improved choice and a better annuity rate. The Directors believe that these changes should support and accelerate the growth of the IUA market and should therefore be beneficial for Just Retirement. Just Retirement has been at the forefront of many of these changes as it has campaigned for a “just retirement” income for retirees.

The ABI Code of Conduct on Retirement Choices was implemented on 1 March 2013, and seeks to make customers aware of the OMO and broader annuity options available to them. In particular, this Code aims

to highlight the availability of IUA products to maximise income post-retirement. The Directors expect that this code should stimulate favourable changes in behaviour and particularly benefit customers with smaller pension assets who historically have been less likely to shop around for an annuity product.

The FCA's and the PRA's "treating customers fairly" principle requires regulated firms to consistently deliver fair outcomes to consumers. As it applies to annuities, in 2010 the FSA launched comparative annuity tables to assist customers in making a choice among annuities. Such tables have now been replaced by Money Advice Service ("MAS"), which takes basic details and provides indicative quotes from some but not all providers with some lifestyle questions.

The RDR came into force on 31 December 2012. The changes from the RDR are intended to enhance customer confidence in the retail investment market by improving clarity of products and service provided to customers, raising the professional standards of advisers and reducing potential conflicts of interest. In particular, financial advisers are now required to disclose explicitly the costs of the advice they provide, clearly describe services as either independent or restricted, and adhere to professional standards and qualifications, including a code of ethics.

Gender equalisation came into force on 21 December 2012 following a European Court of Justice ruling that insurers may not offer different premiums based on gender. Previously, male customers tended to be offered better annuity rates compared to female customers, given their relatively shorter life expectancy on average. For providers of IUAs, the significantly greater number of rating factors used to price their annuity products means that the customer's gender has proportionately less impact on the annuity rate offered to the customer and, as such, removal of gender considerations should, on average, improve the relative pricing advantage for IUA providers versus standard annuity providers.

In January 2013, the FCA announced that it would be reviewing annuity pricing data to determine whether and to what extent prospective customers suffer a detriment as a result of failing to shop around and whether there are firms or particular groups of customers with respect to whom this detriment is more likely to occur. This review will involve a pricing survey of all annuity providers, and will compare the rates available through a range of distribution channels, including rates available through the OMO and those available to certain providers' existing pension policyholders. The Directors believe that this review will have a positive benefit on the industry as more prospective customers are made aware of the IUA market, thereby enlarging the overall market scope.

### **3. The UK Lifetime Mortgage Market**

The UK LTM market comprises a range of products designed for individuals at or in-retirement who wish to realise some of the equity value in their home. It is estimated that property represented approximately 54 per cent. of the wealth of those moving into retirement in 2012 (source: Watson Wyatt, ABI and Just Retirement analysis). Given the need for retirees to supplement low rates of saving or inadequate retirement income, property is expected to represent an increasingly important means of funding retirement.

Following significant growth since its introduction, the LTM market in the United Kingdom contracted as a result of the impact of the global financial crisis, reflecting a reduction in supply, with total advances decreasing to £789 million in 2011 (of which 61 per cent. were drawdown LTMs), but recovering by 17.4 per cent. in 2012 to £926 million (of which 66 per cent. were drawdown LTMs) (source: Equity Release Council).

The Equity Release Council ("ERC"), previously Safe Home Income Plans ("SHIP"), originated over 20 years ago. It represents the providers of equity release products, has set a code of conduct for those organisations and has introduced safeguards and consumer guarantees. These developments have contributed to the growth and development of the equity release sector, giving consumers, and their financial advisors, more confidence in the products available through its members and educating members of the public about the potential to access the wealth in their houses without selling.

There are several types of LTM products. These include primarily:

- *Lump sum*—the mortgagor receives an upfront cash payment in return for a mortgage secured on their home, which accrues regular compounding interest, but payments of interest and the repayment of principal are not due until the death of the mortgagor, upon vacation of the property to go into nursing care or early redemption (if taken). A variant of this product is "underwritten" whereby the mortgagor

can maximise the amount of his or her upfront cash payment by the provider taking into account his or her health and lifestyle conditions.

- *Drawdown*—the total amount of the loan remains secured on the mortgagor's home, as with a lump sum, but the total cash amount can be drawn flexibly thus providing the mortgagor with financial flexibility, and potentially reducing the compounding interest payments. The payments of interest and the repayment of principal are not due until the death of the mortgagor, upon vacation of the property to go into nursing care or early redemption (if taken). Just Retirement has been a leading proponent of this product, which is believed to have been favoured by regulators as they see it representing a fairer proposition for customers.
- *Interest serviced*—the total amount of the loan is drawn up front and is secured on the mortgagor's home, with all or part of interest payments being serviced at the mortgagor's election and, where applicable, any unpaid interest being repaid at death, upon vacation of the property to go into nursing care or early redemption (if taken). The mortgagor has the option to terminate making interest payments and convert to rolling up the interest.

A NNEG is an important customer safeguard being part of all LTM products provided by members of the ERC. This ensures the customer or the customers' estate will never have to repay the lender more than the sale proceeds from the house. Just Retirement participates in all three types of LTM product and is the leading provider of LTM products in the drawdown segment, with a 45.7 per cent. market share in 2012 (source: ERC), while its market share in the overall LTM market in 2012 was 30.1 per cent. Its key competitors in the LTM market are Aviva, LV= and More2Life.

LTM products are distributed via a wide variety of channels, which primarily include retirement specialists and financial intermediaries and affinity partners. Given the complex nature of LTM products, specialists currently represent the most significant channel for Just Retirement with financial intermediaries and affinity partners also playing an increasingly important role.

### **3.1 LTM Market Outlook**

The Directors believe the structural drivers for growth in the LTM market are strong. The market remains significantly underpenetrated, with only approximately £926 million in annual LTM advances in 2012 compared to total home equity potentially available for release of approximately £300 billion (source: Pensions Policy Institute, Just Retirement analysis). Cumulative LTM advances since records began in 1991 are estimated at £12.5 billion which represents a penetration rate of less than 5 per cent. Other factors which are supportive of growth in the LTM market include:

- Government, parliamentarians and other policymakers are supportive, with the Parliamentary Select Committee acknowledging in March 2013 that housing equity has a significant role to play in meeting a number of the United Kingdom's policy challenges in satisfying income and care needs later in life.
- A substantial proportion of individuals retiring now and in the future are likely to find that they have an insufficient level of income from pensions, annuities and other savings to meet their needs and aspirations in retirement. This problem has become particularly acute due to:
  - declining real retirement incomes due to the significant increase in the cost of living, estimated to have increased by approximately 26 per cent. since the beginning of 2008 as a result of price inflation (source: ONS); and
  - erosion in the level of income that retirees can expect from existing pension savings because of the decline in official interest rates from 5.5 per cent. to 0.5 per cent. over the same period, meaning that retirees are increasingly likely to seek to realise some of the value in their property in order to fund their retirement.
- Retirees seeking to pay down other outstanding debt and mortgages with limited or no access to alternative income to repay these liabilities.
- As people in later life are increasingly expected to make significant contributions to the cost of their long-term care, housing assets are expected to be the primary source of funding for most people.
- The Directors believe that attitudes towards retirement are changing. This is partly due to improved healthcare and the consequent health of people at and after retirement, which has increased their appetite and ability to enjoy a more active lifestyle, including travel and other hobbies, and partly due to

changing attitudes towards retirement as the new retiree generations have a greater desire to maintain their lifestyle and appear less concerned about leaving wealth to their children.

- There is increased distribution of LTMs, some of which are from high-profile consumer brand names such as Saga and AgeUK, which has raised awareness amongst a wider section of the population.
- The product suite of LTMs has broadened over recent years (such as the introduction of the drawdown LTM) providing tailored solutions to a wider proportion of the retiree population.

These factors contributed to 17 per cent. growth in the LTM market between 2011 and 2012 and, the Directors believe, will continue to drive growth at a CAGR of 15 per cent. from £1.1 billion in 2013 to £1.7 billion in 2016 (source: Just Retirement estimates).

### ***3.2 Impact of Direct Regulation on the LTM Market***

The reforms proposed as a result of the Mortgage Market Review (“MMR”) are expected to be introduced by the FCA from 26 April 2014. Under MMR, there will be a requirement for most consumers to receive advice prior to purchasing an LTM product; however, the impact of this is expected to be limited as over 90 per cent. of industry sales make use of products provided by members of the ERC (source: ERC), and a condition of membership is that all customers purchasing an LTM must receive professional advice.

As part of its review of the mortgage market the FSA highlighted the large scale issue of interest only mortgages. Over £70 billion of interest only mortgages had no repayment plan (source: FSA), and research undertaken on behalf of Just Retirement has shown that a significant proportion of these will be held by people in or at retirement. The Directors believe that this presents a significant opportunity for providers of LTM products.

## **4. Other Retirement Income Products**

In addition to the IUA and LTM markets, Just Retirement competes in three other growing segments of the UK retirement income market: FTAs, long-term care insurance and DB scheme de-risking solutions.

### ***4.1 Fixed term annuities***

FTAs are similar to traditional annuities in that they can provide an income stream against the payment of a lump sum premium. Unlike traditional annuities, however, the income stream is for a fixed term and at maturity a guaranteed amount (within governmental limits) is repaid to the customer. These products, which are an alternative to both income drawdown products and traditional annuities, can be purchased with accumulated pension savings.

FTAs offer customers who have larger pension savings and who are willing to take greater investment risk the option to defer the purchase of a traditional annuity or an IUA. These customers may want to defer the purchase of an annuity while interest rates are low and while they remain in good health and therefore ineligible for a IUA. They therefore represent a pipeline of future IUA business since the health of these customers may deteriorate as they get older.

FTAs comprise a segment of the more than £1 billion per annum income drawdown market. The Directors believe the FTA market will grow at a double digit rate as more people exercise their right to shop around. FTA providers in the United Kingdom include Just Retirement, LV=, Primetime and Aviva.

### ***4.2 Long-term care insurance***

Long-term care insurance (in the form of “care annuities” or “immediate needs annuities”) provides guaranteed income to support payment of residential care facility fees, which can be tax free if paid directly to the care home. Total annual private long-term care spending reached £6.9 billion in 2013 (source: Lang & Buisson). This spending is driven by the ageing population, longevity increases (which are not matched by proportionate increases in healthy life expectancy) and declining availability of state funding. Sales of long-term care insurance was, however, only £120 million per annum in 2011 (source: ABI), which given expected increases in long-term care costs, government promotion of long-term care cost awareness and emerging affinity group advocacy (e.g., Saga), demonstrates that the long-term care insurance market has the potential for growth. Care annuity providers in the United Kingdom include Just Retirement, Partnership and Friends Life.



### **4.3 DB scheme de-risking solutions**

There is a developed market for annuity providers to fully or partially take over existing DB scheme liabilities (via a buy-in by existing beneficiaries or a buy-out and wind-up of the entire scheme), whereby the annuity provider takes the cash equivalent to the transfer value of the DB scheme entitlement as a premium for annuity payments to DB scheme members. Until recently, providers of DB de-risking solutions did not medically underwrite the members of the scheme. Medical underwriting permits annuity providers to offer enhanced income streams to beneficiaries compared to their existing DB income or offer the scheme a lower cost for the de-risking solution, thereby incentivising the transfer. Small DB schemes offer the most scope for medical underwriting. Products in this space vary according to the size of the DB scheme covered, the extent of medical underwriting and whether the scheme covers pensioners only or also includes those yet to begin drawing income. Out of the total market size of approximately £4.4 billion (in premium equivalents) in 2012 (source: Lane Clark & Peacock), the Directors estimate that the small scheme market comprised an average of approximately £1.1 billion per annum (in premium equivalents) in 2011 and 2012. It is further estimated that some £1 trillion of assets are held by DB schemes (Source: Pension Protection Fund). The Directors believe the DB scheme de-risking solutions market has the potential for significant growth as DB schemes prove to be too burdensome to maintain for both corporates and trustees for the reasons described above in paragraph 2.1.2 of this Part 5 and as there is a significant proportion of smaller schemes where medical underwriting could be used to enhance the terms for members of the scheme.

Market participants include Just Retirement and Partnership, both of which are primarily focused on smaller schemes and employ medical underwriting, as well as Legal & General and Aviva, PIC, Prudential and Rothesay Life, all of which focus on medium to larger sized schemes.

## PART 6

### INFORMATION ON THE COMPANY AND THE GROUP

*Investors should read this Part 6 “Information on the Company and the Group” in conjunction with the more detailed information contained in this document including the financial and other information appearing in Part 10 “Operating and Financial Review” as well as Part 5 “Market Overview” and Part 7 “Regulatory Overview”. Where stated, financial information in this section has been extracted from Part 12 “Historical Financial Information”.*

#### 1. Introduction

Established in 2004, Just Retirement is a specialist UK financial services group focusing on high growth segments of the UK retirement income market. Just Retirement is a leading and established provider of IUAs and LTMs in the United Kingdom (source: ABI, ERC, Group accounts, Just Retirement analysis). In the IUA market it offers better annuity rates compared with standard annuity providers to customers, who, as a result of one or more pre-existing medical conditions or lifestyle factors, are likely to have a reduced life expectancy. Just Retirement utilises its unrivalled proprietary IP based on over 600,000 person-years of experience collected over nine years of operations, data capture capabilities, underwriting practices, statistical analysis and an understanding of annuity purchase behaviour, alongside a capital efficient business model, to drive profitable growth. To date, having underwritten over 66 per cent. more IUAs than any other provider (source: Just Retirement analysis), Just Retirement has helped close to 200,000 annuity customers achieve a better income in their retirement than if they had taken annuities from standard annuity providers and has helped close to 50,000 LTM customers release equity from their properties.

Just Retirement has focused primarily on the core segments of the IUA market (medically enhanced and lifestyle), which the Directors believe are the larger and the faster growing segments of this market, whilst also achieving a growing volume of business in the smaller impaired segment. In the year ended 31 December 2012, the medically enhanced and lifestyle segments accounted for 71 per cent. and 17 per cent., respectively, of Just Retirement’s total consolidated sales for IUAs, with the remaining 12 per cent. attributable to the impaired segment. As a result of this focus, Just Retirement has built a more extensive database on both medical and lifestyle factors compared to any other annuity provider (source: Just Retirement analysis). The Directors believe that the combination of the Group’s unrivalled proprietary IP and its real-time, automated quoting capability has provided Just Retirement with a significant competitive advantage in terms of distribution and customer pricing for those risks selected by the business in the core segments of the IUA market.

In 2011, Just Retirement commenced development of its own automated underwriting system, Prognosys™. Phase I of the Prognosys™ development programme is now complete and the system is now capable of assessing over 70 of the most important categories of conditions (such as diabetes, cancer and the risk factors for heart disease) that have commonly affected individuals by the time they retire, as well as over 1,500 variations, including disease severity, medication and combinations of conditions. Just Retirement has already started using key insights from phase I to refine its pricing and acceptance criteria, supporting the Group’s confidence in the delivery of future profits. In 2013, Just Retirement initiated phase II of the Prognosys™ programme. When complete, Prognosys™ will deliver an individual mortality curve for each customer, which will show the probability of any given customer’s death at any time in the future and which the Directors believe will be a powerful tool for pricing and reserving and will further enhance the Group’s significant competitive advantage.

Just Retirement has consistently reinsured a substantial part of its annuity portfolio (approximately 66 per cent. of the longevity risks under its qualifying IUA new business). This strategy has enabled Just Retirement to transfer a portion of its longevity risk and has provided relief from statutory capital constraints, allowing the Group to optimise its capital position and support strong growth.

In the LTM market, Just Retirement has been a leading proponent of drawdown LTMs (source: ERC). The LTM product provides an effective longevity hedge and a high risk-adjusted yield, whilst supporting the strong credit profile of Just Retirement’s investment portfolio. The LTM product is complementary to the IUA product as the yield uplift (compared to corporate bonds), together with reinsurance and capital financing, significantly reduces the capital required for its IUA products at the point of sale, a reflection of Just Retirement’s capital efficient business model.

The Group continuously looks to leverage its unrivalled proprietary IP to increase its share in those segments of the IUA market assessed to be attractive and to develop new products, such as DB pension

de-risking solutions and care annuities, and to participate in the broader retirement income market to secure further growth opportunities. The Group has also established itself as the second largest provider in the FTA market in the United Kingdom (source: ABI, Just Retirement estimates). These products are expected to grow in importance in the coming years. For more information, see paragraph 4 of Part 5 “Market Overview”.

Just Retirement has leveraged its well-known brand, automated and scalable underwriting system and reputation for high-quality service to develop an RDR-compliant multi-channel distribution strategy and secure long-term agreements with key partners who have supported the Group’s strong growth in recent years. Just Retirement’s products are typically distributed to individuals through financial intermediaries, employee benefit consultants, life insurance companies and platforms, banks and building societies, price comparison websites and affinity partners. The Directors believe that the strength of Just Retirement’s distribution relationships and the willingness of networks to engage with it are testament to the strength of its award winning and differentiated service proposition for distributors and the Group’s commitment to offer a “just retirement” to its customers.

Just Retirement has enjoyed a strong track record of profitable organic growth.

- Total New Business Sales have increased from £297.9 million in the year ended 30 June 2006 to £1,653.6 million in the year ended 30 June 2013, representing a CAGR of 28 per cent.;
- New Business Sales for annuities have increased from £252.6 million in the year ended 30 June 2006 to £1,343.9 million in the year ended 30 June 2013, representing a CAGR of 27 per cent.;
- New Business Sales for LTMs have increased from £45.3 million in the year ended 30 June 2006 (the period in which the Group launched its LTM product) to £309.7 million in the year ended 30 June 2013, representing a CAGR of 32 per cent.; and
- European Embedded Value has increased from £38.0 million as at 30 June 2006 to £503.9 million as at 30 June 2013.

Just Retirement’s organic growth is also reflected in the increases in its KPIs during the three-year track record that are highlighted below and discussed in more detail in Part 10 “Operating and Financial Review”.

- New Business Sales have increased from £1,135.2 million in the year ended 30 June 2011 to £1,653.6 million in the year ended 30 June 2013, representing a CAGR of 21 per cent.;
- New Business Operating Profit has increased from £49.1 million (normalised, as described in footnote 1 to the table in paragraph 3 of Part 10 “Operating and Financial Review”) in the year ended 30 June 2011 to £58.9 million in the year ended 30 June 2013, representing a CAGR of 10 per cent.;
- In-force Operating Profit has increased from £26.4 million in the year ended 30 June 2011 to £41.1 million in the year ended 30 June 2013, representing a CAGR of 25 per cent.;
- Underlying Operating Profit has increased from £75.5 million (normalised) in the year ended 30 June 2011 to £100.0 million in the year ended 30 June 2013, representing a CAGR of 15 per cent.; and
- European Embedded Value has increased from £343.8 million as at 30 June 2011 to £503.9 million as at 30 June 2013, representing a CAGR of 16 per cent (excluding £44 million of capital injections between 2011 and 2013).

Just Retirement is based in Surrey and had 819 employees as at 30 June 2013. The Group’s management team has over 100 years of combined experience in the retirement income industry, and the majority have been part of Just Retirement for a significant period of time. Members of the Group are authorised and regulated in the United Kingdom by the FCA and/or the PRA. In particular, Just Retirement Limited is authorised by the PRA and regulated by the FCA and the PRA, while Just Retirement Solutions Limited is authorised and regulated by the FCA.

## **2. History and Development**

Just Retirement was established in April 2004 by its then senior management team, with financial support from Langholm, an independent mid-market private equity firm. Just Retirement’s founding executives were formerly the founders of Britannic Retirement Solutions, a then-leading provider of IUAs. Between 2006 and 2009, Just Retirement was admitted to trading on the Alternative Investment Market (“AIM”), a

market operated by the London Stock Exchange. In November 2009, Just Retirement was acquired by Avalon Acquisitions Limited (since renamed Just Retirement Group Holdings Limited) in an equity and cash transaction. The controlling shareholder of Avalon Acquisitions Limited was Avallux, which is wholly owned by the Permira Funds.

Since its founding, Just Retirement has built an extensive electronically-captured database on lifestyle and medical conditions as well as deaths, which is based on over 600,000 person-years of experience collected over nine years of operations. Just Retirement has also utilised its exclusive access to the automated JR Merica underwriting system, licensed from Infexpert with the consent of Hannover Re, which takes account of over 1,500 recognised medical conditions, together with other lifestyle factors such as obesity and smoking, to complement its own proprietary information. By utilising its unrivalled and growing database in the core IUA segments, Just Retirement has continued to enhance its modelling capabilities thereby increasing the granularity of its life expectancy assessments.

In 2011, Just Retirement embarked on the comprehensive development and leveraging of its in-house mortality experience, and, accordingly, recruited the skills necessary to fundamentally review and improve its approach to medical underwriting, which resulted in the development of the Group's own automated underwriting system. After two years of intensive development, Just Retirement now has an enhanced database of relevant knowledge, a functional set of algorithms and software that will be incorporated into Prognosys™.

Phase I of the Prognosys™ programme is complete, and the Group has started using key insights from phase I to refine its pricing and acceptance criteria, supporting the Group's delivery of future profits. Just Retirement has initiated and is in the process of implementing phase II of the Prognosys™ programme. Once fully implemented (expected by the end of 2014), phase II will deliver an individual mortality curve for each customer that the Directors believe will be a very powerful tool for pricing and reserving and will further enhance the Group's significant competitive advantage.

Since Avalon Acquisition Limited's acquisition of the Group, Just Retirement has further enhanced its business model and operational platform through a number of key initiatives, including strengthening its senior management team, launching new products, broadening its distribution channels, extending its reinsurance arrangements and investing in its underwriting systems. The Directors believe Just Retirement's unrivalled proprietary IP has provided it with a significant competitive advantage, which has helped to underpin the Group's profitable growth.

### **3. Strengths**

#### ***3.1 Leading positions in attractive structural growth markets***

The markets for Just Retirement's products are substantial and have significant potential for future growth. The number of people in the United Kingdom who are over the age of 60 is forecast to reach approximately 19.9 million in 2030, compared to 14.1 million in 2010 (source: ONS). Just Retirement has historically increased its market share—from 2.4 per cent. to 9.9 per cent. of the total annuity market (excluding FTAs) between 2005 and 2012 (and from 5.6 per cent. to 16.4 per cent. of the OMO new business market (excluding FTAs) over the same period), and from 6.7 per cent. to 30.1 per cent. of the overall LTM market between 2006 and 2012 (and from 29.4 per cent. to 45.7 per cent. of the drawdown LTM market over the same period) (source: ERC). For more information see Part 5 "Market Overview".

##### ***3.1.1 Individually Underwritten Annuities***

In 2012, Just Retirement was the largest provider of IUAs in the United Kingdom, with a market share of 31.0 per cent. by sales (28.0 per cent. in the lifestyle segment, 31.0 per cent. in the medically enhanced segment and 33.0 per cent. in the impaired segment); the second largest provider of OMO new business in the United Kingdom, with a market share of 16.4 per cent. by sales; and the third largest provider in the total annuity market in the United Kingdom, with a market share of 9.9 per cent. by sales (in each case, excluding FTAs) (source: ABI, Group accounts, Just Retirement analysis). During the period from 2008 to 2012, the overall size of the UK annuity market increased at a CAGR of 5 per cent., reaching around £14.0 billion in premiums in 2012 (source: ABI). The Directors believe that the overall growth of the UK annuity market is set to continue at a CAGR of 14 per cent. between 2013 and 2016, due to the increasing assets held by those in retirement, a decreasing reliance on government funding of retirement income, the switch from DB pensions to DC pensions and continued demand for annuities relative to other retirement income choices.

In 2012, the UK IUA market was worth £4.5 billion, or approximately 32 per cent. of the overall annuity market by premium value, and has grown at annual rates of approximately 33 per cent. since 2008 (source: ABI). This growth in the IUA market is being supported by (i) increased take-up of the OMO and (ii) increasing penetration of IUAs. In addition, analysis carried out by Just Retirement indicates that, although only 21 per cent. of annuitants currently take up an IUA, it is estimated that approximately 60 per cent. are eligible for some form of medical or lifestyle enhancement.

The OMO share of the UK annuity market by premium value has increased from 50 per cent. in 2008 to 60 per cent. in 2012, giving a total OMO market size of approximately £8.5 billion in 2012 (source: ABI). The Directors believe that as individuals increasingly elect for OMO, they will also elect for IUAs as opposed to standard annuities as IUAs have the potential to offer better annuity rates for the majority of individuals compared to standard annuity options. Just Retirement operates in all segments of the IUA market, but has historically had, and continues to have, a particular strength in the larger and faster growing core segments (lifestyle and medically enhanced), which collectively represented 89 per cent. of the IUA market by premium value in 2012 and where the Directors believe that the market growth will be superior to that of the smaller impaired segment.

The end of 2012 and the beginning of 2013 saw the introduction of two significant regulatory changes, the RDR and gender equalisation, which positively impacted sales in 2012 but negatively impacted them in 2013. The Directors believe that the combined effect of these two regulatory changes caused the acceleration of up to approximately £1 billion of new annuity business into 2012 and the delay of approximately a further £0.2 billion of new annuity business, as financial intermediaries adapt their business models to operate in the post-RDR environment. As a result, the Directors believe that the value of new annuity business written in 2013 will be approximately £1.2 billion lower than it would have been had RDR and gender equalisation not been implemented. The Directors believe this market discontinuity will result in single digit growth in the IUA market until the middle of 2014, comparing the twelve months to June 2014 against the twelve months to June 2013. Notwithstanding this short-term impact, the Directors believe that the fundamentals supporting the growth of the annuity market remain sound and that the IUA market will return to strong double digit growth between June 2014 and the end of 2016.

As a result, the Directors believe that the IUA market will grow at a CAGR of 22 per cent. between 2013 and 2016, nearly doubling in size and that the ability of new entrants to achieve a meaningful market share in the lifestyle and medically enhanced segments of the IUA market is limited by the significant mortality data and underwriting expertise which are required to underwrite this type of longevity risk profitably, and can only be accumulated over an extended period of time.

### *3.1.2 Lifetime mortgages*

Just Retirement is currently the second largest LTM provider in the United Kingdom (and a leading participant in the drawdown category) (source: ERC). From 2008 to 2012, the Group's share of the LTM market grew from 14.0 per cent. to 30.1 per cent. (and from 32.2 per cent. to 45.7 per cent. in the drawdown segment) (source: ERC). In 2012, the market for LTMs was £926 million (of which 66.0 per cent. were drawdown LTMs), with sales having grown by over 17 per cent. from £789 million (of which 61.0 per cent. were drawdown LTMs) in 2011 (source: ERC). The Directors believe that the LTM market will continue to grow at a CAGR of 15 per cent. between 2013 and 2016 (source: Just Retirement estimates).

Given the increasing proportion of retirees' wealth comprised of illiquid property, the Directors believe that the LTM market represents an attractive growth market in the United Kingdom. As with IUAs, further growth in the market is expected to be supported by (i) low market penetration, which is currently estimated at less than 5 per cent. of the approximately £300 billion of home equity potentially available for release (source: Pensions Policy Institute), (ii) government support for the concept as a partial solution to under-provisioning for retirement, (iii) changing attitudes toward retirement as the new retiree generations have a greater desire to maintain their lifestyle and appear less concerned about leaving wealth to their children, (iv) increasing numbers of market participants and broader distribution channels, and (v) increasing demand from customers seeking to repay maturing interest-only mortgages.

### ***3.2 Unrivalled proprietary IP underpinning profitable growth and providing a significant competitive advantage***

Just Retirement has an unrivalled proprietary database in the core IUA market segments (lifestyle and medically enhanced). Since its inception, Just Retirement has collated underwriting information



electronically and as a result currently holds data on close to 200,000 lives, from a group of 124,817 “first lives” and 68,065 “dependent lives” (a “dependent life” being the individual, such as a spouse, to whom the payments received under a joint annuity revert upon the death of the first life). Just Retirement’s database has over 600,000 person-years of experience (currently growing at the rate of more than 15,000 person-years per month) collected over nine years of operations, which provides the Group with a wider data set than any other operator in the core IUA market segments (source: Group accounts, ABI, Just Retirement analysis). Given the need for substantial mortality data, the collection of which can only be achieved over an extended period of time, and underwriting expertise, the Directors believe the Group’s unrivalled proprietary IP provides the Group with a significant competitive advantage in pricing and risk selection in this fast-growing market by enabling it to set customer pricing more keenly for those risks selected by the business than other market providers, which underpins the Group’s ability to achieve consistent and profitable growth.

The Group’s own extensive mortality experience database and the breadth of external primary and secondary healthcare data and medical literature have been used to extend the Group’s intellectual property. Just Retirement has so far researched databases containing over 20 million citations, narrowing this figure to over 20,500 relevant abstracts, which have been individually filtered for relevance and further narrowed to over 2,500 publications and reports to select the publications and reports that are most useful for the Group’s analysis. Such publications and reports are stored within a Group-owned database. From these publications and Just Retirement’s own analyses, the Group has transcribed data pertinent to the mortality risks of medical conditions, which are commonly present around retirement age. This allows PrognoSys™ to produce a bespoke survival curve for any set of conditions that are presented to it. These curves, which reflect the combination of relative risk generated from condition models, on the one hand, and base mortality and improvement factors, on the other, will allow for the interaction of multiple conditions.

### ***3.3 Reinsurance relationships that complement Just Retirement’s unrivalled proprietary IP, de-risk its financial profile and provide relief from statutory capital constraints***

As part of its risk management policy, Just Retirement has consistently reinsured a substantial proportion of its annuity portfolio (approximately 66 per cent. of the longevity risks under its qualifying IUA new business). The Group transfers longevity risk from its own balance sheet to that of the reinsurer, but with the flexibility to recapture profits if longevity is shorter than expected. This results in a lower regulatory capital requirement and supports Just Retirement’s strong growth profile whilst enhancing returns through the retention of investment risk. Because of its unrivalled proprietary IP in the core IUA market segments, together with its proven track record, sector relationships and flexible, innovative approach to deal structuring, Just Retirement has been able to secure reinsurance, which optimises regulatory capital, de-risks profits and enhances pricing competitiveness.

Since its inception in 2004, Just Retirement has been working with Hannover Re, widely regarded as the leading global reinsurer in the IUA market, as its key reinsurance partner. Under this reinsurance arrangement, Hannover Re has consented to Just Retirement’s exclusive rights in the United Kingdom to the JR Merica automated underwriting system, which is licensed from Infexpert and has historically supplemented Just Retirement’s own in-house proprietary IP by providing real-time underwriting, initially for over 1,000 conditions and gradually expanding to cover over 1,500 conditions. Just Retirement’s underwriting systems, data and the mortality basis for underwriting have been developed by, and remain under the control of, Just Retirement.

In addition to its longstanding relationship with Hannover Re, Just Retirement has developed partnerships with other leading reinsurance firms, such as Reinsurance Group of America and Achmea Re. The diversification of the Group’s reinsurance relationships has supported competitive pricing for Just Retirement and has allowed the Group to capitalise on a wider range of support than working solely with a single reinsurance provider.

Just Retirement’s reinsurance arrangements with Hannover Re, Reinsurance Group of America and Achmea Re also provide financing that is re-payable from the surplus arising on the business reinsured, thereby providing capital to Just Retirement and relief from statutory capital constraints.

### ***3.4 Multi-channel distribution supported by owned service and software solution capability***

Just Retirement has pursued, and continues to pursue, an RDR-compliant multi-channel approach to distribution, which is underpinned by its strong brand and “owned” service and software solution

capabilities. The Directors believe that this approach ensures that nearly every brokered IUA quotation on the open market is presented to Just Retirement by an intermediary to request a guaranteed illustration for their customer. This gives Just Retirement the greatest possible opportunity in the market to provide competitive terms and secure the business. Just Retirement distributes its products through traditional channels (such as financial intermediaries, employee benefit consultants, specialist intermediaries and banks and building societies) and emerging channels (such as life insurance companies that allow direct access to third-party providers, price comparison websites and affinity partners). Just Retirement's access to consumers across all distribution channels enables it to be indifferent to their preferred route of purchase and ensures it is well positioned for changing consumer behaviour and future market developments.

Historically, financial intermediaries (both non-specialist and specialist) have been the most important distribution channels for both IUA and LTM products with distribution via these channels, collectively representing 91 per cent. of IUA sales and 82 per cent. of LTM sales in the year ended 30 June 2013. As financial intermediaries adapt their models following the RDR to select either independent or restricted offerings, Just Retirement is actively seeking to support broad panels and whole of market distribution through the provision of its service and software solution capability (for example, The Open Market Annuity Service ("TOMAS™")). Just Retirement has distribution agreements with all of its top ten financial intermediary networks and has increased its overall share of its top ten financial intermediary networks (by sales), which together accounted for 46 per cent. of Just Retirement's sales via financial intermediaries in the second quarter of 2013. Just Retirement's share of its top ten financial intermediary networks increased from 13 per cent. in 2009 to 16 per cent. in 2012 to 17 per cent. in the second quarter of 2013 (source: Touchstone). In addition, Just Retirement's share of its whole intermediary distribution increased from 11 per cent. in 2009 to 15 per cent. in 2012 to 16 per cent. in the second quarter of 2013 (source: Touchstone). Just Retirement has the highest, independently assessed credentials for delivering best-in-class service to financial intermediaries.

In 2010, the Group acquired TOMAS™, which provides bespoke and standard software and telephone support services that enable its business-to-business customers to deliver whole-of-market annuity broking services on both an advised and non-advised basis. For the year ended 30 June 2013, TOMAS™ generated approximately 3 per cent. of Just Retirement's IUA sales and supported the generation of a further 14 per cent. For the twelve months ended 31 August 2013, over £500 million of new annuity sales (more than 6 per cent. of the intermediated market) were brokered by TOMAS™ and TOMAS™ solutions, and 35 per cent. of the annuities sold by the top 20 financial intermediaries come via firms that use TOMAS™ service and software solutions (source: Touchstone). Penetration of IUAs into annuity sales made by TOMAS™ is strong, accounting for 55 per cent. by premium value for the twelve months ended 30 September 2013. TOMAS™ provides annuity purchasing solutions for a number of high-profile clients, including 11 of the FTSE 100 DC pension schemes, and a high proportion of the largest financial intermediaries offering annuity solutions. TOMAS™ powers the largest high street annuity service and is the leading platform providing services to access DC pension scheme members. The Directors believe that TOMAS™ adds significant benefits as it embeds its technologies into partner systems and processes, thereby reinforcing the Group's distributor relationships. With the accelerating trend towards OMO purchase of annuities, the Directors believe that TOMAS™ will be a key distribution asset that will enable the growth of broad panels and whole of market distribution, thereby supporting Just Retirement's sales growth.

With respect to emerging channels, Just Retirement has exclusive arrangements with leading life insurance companies, including Phoenix Group, to provide direct access to their ceding pension schemes and also has exclusive relationships with Age UK and Saga, enabling access to their significant and relevant customer bases.

Just Retirement is expanding its presence in, and its penetration of, online distribution channels, in particular through price comparison websites and affinity partners, in order to anticipate the future longer-term growth of this distribution channel. In this way, Just Retirement is adapting to changing consumer behaviour, including an increasing propensity to research and purchase financial products online. Just Retirement has also set up the Annuity Service, an annuity purchasing solution, to extend the Group's penetration of the affinity partners and fast-growing digital channels. In addition, Just Retirement is utilising its direct sales capabilities through its own sales subsidiary, Just Retirement Solutions Limited, a leading provider of LTM advice and sales capability for customers of affinity partners, which supports the extension of Just Retirement's products into new product markets where advice capabilities are not readily available.

### ***3.5 Scalable and flexible business infrastructure with significant front-end automation***

Just Retirement has made significant investment in building a highly automated and scalable underwriting system to operate its business and provide a platform to exploit future market growth. Just Retirement's underwriting process is automated, with over 99 per cent. of initial annuity quotes in the core IUA market provided on an automated basis. This enables Just Retirement to provide binding quotes off standardised data forms from all distributors in the market place, which, in turn, enables Just Retirement to service a wider range of distributors. A strict policy of Microsoft standardisation and software currency, together with extensive use of proprietary systems to support bespoke business activities such as new business processing and policy administration, has contributed to a reduction in the per user cost of supplying IT services and support as Just Retirement has grown. Additionally only 3.5 per cent. of Just Retirement's annual IT investment is contractually committed with third parties. As a result, Senior Management retains significant discretion when directing future IT investment and has the flexibility to adapt to changing business requirements. Moreover, Just Retirement's systems architecture can be scaled relatively cheaply to provide additional capacity on demand. Such scalability, which is necessary in order to accommodate future growth, obviates the need for Just Retirement to commit significant capital expenditure in the future to increase the capacity of its core systems, including Prognosys™, its proprietary bespoke underwriting system. In addition, Just Retirement has achieved a consistent reduction in its operational acquisition and maintenance cost per policy in each of the last three financial years. The operational acquisition cost per policy for annuities decreased from £217.9 to £208.8 to £205.3 over the last three financial years, while the operational acquisition cost per policy for LTMs decreased from £197.4 to £182.8 to £175.9 over the same period. Just Retirement's systems provide a cost-effective platform to support its operations whilst also achieving a consistent service uptime of over 99 per cent. over the last four years.

### ***3.6 Complementary product set and robust investment policy enable Just Retirement to optimise risk-adjusted returns for shareholders***

Just Retirement's investment strategy is designed to optimise risk-adjusted returns whilst ensuring that cash flows from its financial asset portfolio are sufficient to meet the annuity payment obligations arising from the Group's annuity portfolio.

Just Retirement's two main product lines, IUAs and LTMs, are complementary from a cash flow perspective. At the point of annuity sale, Just Retirement receives a large cash lump sum from the annuitant, which it invests in a combination of financial assets and LTMs. Just Retirement aims to invest approximately 25 per cent. of its annuity premiums into LTMs, which offer a higher risk-adjusted yield compared to scarce long-dated corporate bonds, a better duration matching and an effective longevity hedge for its IUAs.

The Directors believe that Just Retirement's LTM portfolio is low risk. This is due to the following reasons:

- Just Retirement has a high degree of control over its LTM origination and is not reliant on acquiring books of mortgages originated by third parties. The Group's LTMs are almost entirely sourced directly from customers. The Group therefore has the ability to select the highest quality mortgages;
- As at 30 June 2013, the average age of Just Retirement's LTM customer was 73 years, whereas the average age at commencement of the LTMs in the portfolio was 71 years. The average life expectancy of its LTM customers, based on the current LTM portfolio, was approximately 18 years. This portfolio had an average loan-to-value ("LTV") of 26 per cent., with an average LTV at commencement of the LTMs in the portfolio of 18 per cent. for the twelve months ended 30 June 2013 (see paragraph 5.2 in this Part 6 for additional information); and
- The property exposure of Just Retirement's LTM portfolio is geographically spread across the United Kingdom. The criteria Just Retirement uses to assess potential properties are very robust, which results in the maintenance of a strong portfolio of good quality properties.

The Group's LTM product incorporates a NNEG. The value placed on LTMs is net of a prudent provision for the NNEG based on option pricing techniques. This provision is updated monthly taking into account prevailing market house prices, an up-to-date assessment of expected future house price movements and an assessment of house price volatility. The provision is approximately 2.5 per cent. of the gross LTM value in the Group's economic capital balance sheet. In Just Retirement Limited's Pillar 1 capital ratio calculations, higher volatility is assumed, together with an immediate house price fall of 15 per cent. This results in a provision of 7.9 per cent. of the gross LTM value. In assessing economic capital requirements, all of the NNEG assumptions are stressed. In particular, current and future house prices are stressed at a

level equivalent to a 37 per cent. immediate and permanent fall in house prices. Just Retirement has never had a mortgage case that has crystallised a NNEG.

The high yield and low-risk LTM portfolio is complemented by Just Retirement's conservative investment policy on the remainder of the fund with 68 per cent. of its total financial assets (excluding mortgages) invested in corporate bonds and gilts with a rating of A or above as at 30 June 2013. The Group does not invest in debt securities with a rating below BBB, nor does it invest in equity securities, residential mortgage-backed securities or collateralized debt obligations. The securities currently in its portfolio with a rating below BBB represent securities that have been downgraded and that the Group has retained. Securities with a rating below BBB – comprised 0.3 per cent. of the Group's total financial assets as at 30 June 2013. The Group has no direct exposure to Ireland, Greece, Portugal or Cyprus, and, as at 30 June 2013, the Group's exposure to Italy and Spain accounted for approximately 2 per cent. of its total bond portfolio, with such exposure primarily limited to high-quality assets, such as telecommunications companies. Just Retirement actively monitors the quality of its bond portfolio, which has no concentration by sub-sector or instrument and conservatively assesses its risk of suffering losses through the use of sophisticated, stochastic models. To date there have been no defaults on bonds held by Just Retirement. The Group's approach to investing is to hold the significant majority of the bonds in its bond portfolio to maturity to minimize exposure to interest rate fluctuations, although it will consider exiting an investment when an investment manager raises concerns of possible issuer default (either sovereign or corporate) or when there are opportunities to improve risk adjusted returns. The discretionary management of the Group's financial assets is outsourced to Blackrock and Robeco.

### ***3.7 Just Retirement has a capital efficient business model***

The risk adjusted yield on LTMs is typically higher than can be achieved on corporate bonds. There are two possible ways to reflect the benefit of this: either (a) the higher yield can be incorporated into the discount rate used to value IUA liabilities, thereby reducing the reserve (this is the approach Just Retirement uses in its IFRS balance sheet) or (b) the LTM value on the balance sheet can be arrived at by a "mark-to-model" approach, discounting the spread of the higher yield over risk free rates and thereby arriving at a value in excess of the amount loaned (this is the approach Just Retirement uses in its regulatory balance sheets). The two approaches give a similar net result, which is to produce a capital advantage. Also, the LTM cashflows are a good durational fit to the longer duration IUA cashflows, reducing the capital required for interest rate risk. They also provide a natural longevity hedge in that increased longevity of LTM customers increases the expected cashflows, and the excess is then available to meet additional IUA cashflows arising from increased longevity. In addition to the LTM, the Group's ability to secure reinsurance has also resulted in lower regulatory capital requirements. A combination of these features results in significantly reduced capital requirements for IUAs at point of sale.

### ***3.8 A trusted brand with market leading service quality and a strong social purpose***

Just Retirement is a leader in the IUA market, bringing about market reform and championing the OMO. The Directors believe Just Retirement is recognised as a market leader for innovation, supporting the cause of delivering better outcomes for customers and delivering the highest quality of service.

Just Retirement's unrivalled proprietary IP has enabled the Group to price risk more precisely, delivering improved outcomes for customers within the IUA market. The Directors estimate that, since inception (through to June 2013), Just Retirement has delivered over £300 million of additional retirement income to consumers (compared to a standard annuity). This represents an average income enhancement of 20 to 25 per cent. relative to terms available from standard providers. In addition, through its LTM product offering, Just Retirement has helped customers to live a more comfortable retirement by releasing over £1.5 billion of equity from their homes.

Just Retirement has set out to differentiate itself in terms of the way it deals with its customers, distributors and regulators, in order to create a strong brand and culture which the Directors believe highlights the quality and reliability of its expertise within Just Retirement's chosen markets. Just Retirement has gathered customer insights through organised feedback, focus groups and the implementation of a fully integrated complaints process. The management team has pursued a strategy of embedding the values and behaviours of a service culture within Just Retirement with a clear focus and priority on treating customers fairly.

Just Retirement has received many awards, including "Best Annuities Provider" (Professional Adviser awards 2012) and "Best LTM provider" (Equity Release Awards 2012). In the 2012 Customer Impact



Survey run by the ABI, 94 per cent. of Just Retirement's customers surveyed thought they were treated fairly compared to the industry average of 85 per cent. Just Retirement has very low volumes of referrals to FOS, with only 51 complaints, five of which were upheld, out of a total of 420,000 policy quotes over the last nine years, equating to approximately 0.01 per cent. of quotes. In the last nine years FOS has instructed the Group to pay total compensation of £1,390.

Just Retirement provides excellent service to financial intermediaries and their customers, reflecting the fact that service is a key attribute used by financial intermediaries in considering which company to recommend to their clients. As a result of this focus on service quality, Just Retirement is the only specialist annuity company to have won Company of the Year from the Financial Adviser Service Awards twice and has achieved a 5-star service award as an annuity provider for eight years running and as a mortgage provider for five years running. In 2012, Just Retirement's overall average services quality rating was more than 5 per cent. above the industry average and surpassed the ratings of the other IUA providers in the United Kingdom (Source: 2012 ORC annuity tracker results).

### ***3.9 Just Retirement's track record of offering new products to support future growth by leveraging its proprietary IP, multi-channel distribution and service capability***

The Group has launched a number of new products and intends to build on their success to support future profitable growth of the business. Recent examples of this include:

- In October 2012, the Group launched a DB de-risking solution that targets the segment of the significant de-risking market that is currently under-served. The Directors believe that they can gain a share of this market with the Group's current product offering and increase it with planned product extensions. The Group completed its first sale in mid-September 2013; and
- In August 2013, the Group launched a competitive care annuity through an exclusive long-term distribution agreement with Saga and has extended its distribution through relevant financial intermediaries. This is expected to enable the Group to capture a meaningful share of the £120 million-per-year care annuity market (source: ABI). The Directors believe that this will also allow the business to develop a presence in the underserved care financing market and Just Retirement already has plans to launch a number of new products to capture a share of the £6.9 billion currently spent on care annually in the United Kingdom;
- In August 2013, the Group launched a new lump sum LTM, which is designed to help clients who want to unlock the maximum possible share of the equity locked up in their home by taking into account their health and lifestyle conditions. This is expected to enable Just Retirement to gain an increasing share of the lump sum segment of the LTM market, where it is currently under-represented. The product leverages the Group's unrivalled proprietary IP and expert underwriting capability.

In addition, Just Retirement has recently set up a New Product Innovation team and allocated resources to enable the fast-track implementation of new product ideas by the Group. The recent, rapid delivery of the care annuity is an example of this team's impact.

### ***3.10 Highly engaged management team with broad industry experience***

Just Retirement's senior managers have a depth of individual experience in the insurance sector and over 100 years of combined experience in the retirement income market. Just Retirement has invested in strengthening its management team, increasing from 26 managers at the end of 2009 to 54 managers by the end of 2012, to position the Group to capitalise on growth opportunities without the loss of control or oversight. The senior management team has a track record of delivering strong growth and returns to shareholders.

Just Retirement has appeared in the Sunday Times Top 100 Companies to Work For in the United Kingdom for four years in a row and in the top 50 in the last three of those four years. In addition, staff turnover is low for the industry (12 per cent. in the year ended 30 June 2013).

### ***3.11 Sustained profit delivery and double digit sales growth***

Just Retirement has grown quickly to achieve a position as a market leader, writing significant volumes in the core IUA market for an extended period and successfully delivering strong top- and bottom-line growth. New Business Sales for annuities have grown at a CAGR of 27 per cent. between 2006 and 2013 and New Business Sales for LTMs have grown at a CAGR of 32 per cent. over the same period. Underlying



Operating Profit has grown at a CAGR of 15 per cent. between 2011 and 2013 and European Embedded Value has grown at a CAGR of 16 per cent. (excluding £44 million of capital injections between 2011 and 2013) between 30 June 2011 and 30 June 2013. Such growth has contributed to Just Retirement's ability to secure reinsurance.

Just Retirement's growth expectations remain very strong, underpinned by a combination of (i) compounding market growth dynamics, (ii) long established and leading positions in its chosen markets, supported by a significant competitive advantage and consistent, top quartile service delivery every year since launch and (iii) strong track record of product innovation, allowing it to capitalise on growth opportunities including DB pension scheme de-risking, FTAs and care annuities. In addition, through TOMAS™, Just Retirement is well positioned to extend its reach into fast growth, cutting edge digital distribution channels.

#### **4. Strategy**

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

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

##### ***4.1 Continue to strengthen and leverage the Group's unrivalled proprietary IP***

Just Retirement plans to continue to invest in developing the Group's IP through its Prognosys™ programme, which is expected to be fully implemented by the end of 2014 and is expected to enable Just Retirement to:

- allow Just Retirement to implement an innovative approach to underwriting using individualised mortality curves, which the Directors believe is unique in the IUA market;
- improve its competitive pricing in the core IUA market segments and its profitability through careful selection of risks; and
- increase its share in those segments of the IUA market assessed to be attractive.

##### ***4.2 Enhance relationships with current distribution partners and extend distribution reach***

Just Retirement has developed strong relationships with distributors of its major products and intends to further invest in these relationships and provide distributors with solutions that will allow them to improve the ability to access new customers who would benefit from Just Retirement products. For example, with the implementation of the FCA's Retail Distribution Review, the Group is further investing in its owned service and software solution capabilities and utilising the Group's business development capabilities to secure an increased share of sales from existing financial intermediary partners.

The Group expects significant evolution in the distribution of financial services products to retirees as a result of both evolving regulation and changing customer habits, which Just Retirement is seeking to promote. Just Retirement's subsidiary, TOMAS™, will support volume annuity distributors, larger trustees, employee benefit consultants, banks and building societies in delivering services on IUAs to their customers. This is expected to enhance the relationships that the Group has with these channels, which are to support the expected growth of IUA online distribution. By deploying TOMAS™ with volume annuity distributors, the Group seeks to promote an efficient, open market and, through its work with leading employee benefit consultants, aims to gain access to a growing volume of trustee-based DC schemes.

Just Retirement has also established exclusive long-term distribution arrangements with relevant market leading brands, including Age UK and Saga, and considers that association with trusted brands for the retiree market will support distribution of both IUAs and LTMs. In addition, the Group has developed exclusive distribution relationships with leading price comparison websites, which will help the expected growth of distribution of IUAs online.

#### ***4.3 Extend product innovation using the Group's significant competitive advantages and knowledge of the retirement income market***

Through the sale of its existing product range and its relationships with key distributors, Just Retirement has developed a deep understanding of the complex issues that individuals face at and in retirement. As these needs evolve and change over time, the value of assets flowing into the “at or in-retirement” segment and life expectancy of individuals continue to increase. In response to these developments, the Group plans to develop new products catering to the needs of retirees, who increasingly are expected to live longer. The Directors believe that this is an underserved area of the market with fewer financial services providers offering tailored solutions for retirees compared to options available to those in employment.

The Group intends to continue its investment in new product design, leveraging its proprietary IP with a view to ensuring that customers have access to a suite of innovative and tailored products. Just Retirement is complementing its core IUA products with a number of other products, all of which allow the Group to leverage its IP.

The Group is also in the process of investigating opportunities to expand internationally. The Directors believe that there are a number of underserved foreign markets where Just Retirement may be able to replicate its business model and achieve incremental growth. The Group is actively investigating market entry into one specific country and is further investigating the scale of other potential opportunities.

#### ***4.4 Continue to optimise the efficiency and effectiveness of the Just Retirement business and operating models***

Just Retirement is focused on optimising the risk-adjusted returns to shareholders and continually seeks to improve key aspects of the Group's business and operating models to achieve this. The following areas of focus are examples of the Group's ongoing commitment to continuous improvement:

##### ***4.4.1 Optimise risk-adjusted return on investments***

Just Retirement has a long standing relationship with a leading fund manager, Robeco, and has recently entered into an agreement with a second, global fund manager, Blackrock, in order to gain additional expertise in particular industries and geographies so that Just Retirement can benefit from further diversification of its credit portfolio. Just Retirement has recently begun to invest in U.S. dollar denominated (non-financial) sector corporate debt. A process has been designed to allow new monies to be directed to the appropriate fund manager whilst still maintaining asset-liability management. Furthermore the Group has a dedicated internal investment management team which oversees the performance of the two fund managers and works with other advisors to extend Just Retirement's investment into wider, non-traditional areas, where it is believed that higher yields can be achieved for similar levels of risk.

##### ***4.4.2 Maintain efficiency of capital model, leveraging current business model and relationships with diversified reinsurance partners***

Just Retirement plans to continue to target writing its core IUA and LTM products at an optimal mix that would allow the Group to benefit from the capital benefits of this approach. The Group plans to continue to manage and continuously re-evaluate its reinsurance programme, seeking ways to leverage its existing relationships and benefit from new reinsurance products, structures and developments. Some of the Group's re-insurance arrangements provide access to new capital to support writing profitable new annuity business at the point of sale; the time when the new capital is required. If less capital is required to meet the statutory requirements, the benefits can be shared between the Group's shareholders and customers.

##### ***4.4.3 Continue to improve operating model efficiency***

Just Retirement is focused on continuing to reduce the acquisition costs of new business. The Group already has the ability to provide over 99 per cent. of initial annuity quotes in the core IUA market on an automated basis, and a significant proportion of these quotes are guaranteed, where sufficient medical data is provided. The Directors believe that this is significantly ahead of other market participants who continue to provide a large proportion of quotes on a manual basis. This positions Just Retirement appropriately for future expected market developments in automated channels (such as TOMAS™ driven sales and online distribution models such as price comparison websites).

## 5. Customer Proposition

Just Retirement's customer proposition comprises two key product groups designed to enhance its customers' income in their retirement: annuity products and LTMs.

### 5.1 Annuity products

#### 5.1.1 Individually underwritten annuities

As set out in Part 5 "Market Overview", on retirement, an individual beneficiary of a DC pension scheme will typically be offered an annuity product for purchase with their accumulated pension funds. The income provided by the standard annuity offered by pension providers is determined with reference to only a limited number of factors, typically the retiree's age, postcode and the premium size. Retirees are not, however, required to purchase the annuity offered by the firm with which they have accumulated their pensions and may, by exercising the OMO, select another provider offering higher income.

Most of Just Retirement's IUAs are in the core segments of the IUA market—lifestyle and medically enhanced annuities—which offer a higher income stream than a standard annuity to customers who, on the basis of one or more pre-existing medical conditions or lifestyle factors, are likely to have a reduced life expectancy. The extent of the enhancement (the amount by which payments under an IUA exceed payments under a standard annuity) reflects the number and severity of the conditions applicable to the annuitant. As a general matter, the factors which determine the extent of the enhancement are assessed without the need for full medical evaluations, ranging from lifestyle factors (such as hypertension, cholesterol and/or a history of smoking) to moderate/serious medical conditions and combinations (such as diabetes with complications, a recent heart attack with surgery and/or minor cancers) to very serious medical conditions and combinations (such as recent cancers, chronic obstructive pulmonary disease and/or advanced Crohn's disease). Just Retirement also has a growing presence in the smaller impaired segment, for which general practitioner reports are sought and reviewed.

By way of illustration, for a 65-year-old individual with a £50,000 annuity premium with high blood pressure and high cholesterol who takes one medication for both conditions, based on market available data as of August 2013, Just Retirement can typically offer an improvement in annual income of between 7 and 24 per cent., and for a 65-year-old individual with a £50,000 annuity premium who suffered a heart attack within the last five years, has been hospitalised and takes one medication daily, based on market available data as of August 2013, Just Retirement can typically offer an improvement in annual income of between 17 and 36 per cent., in each case depending on the competitiveness of the standard annuity provider.

In the year ended 30 June 2013, the average premium of an IUA was £50,643, and in the year ended 30 June 2013, Just Retirement had New Business Sales of £1,265.1 million for IUAs. The interest rate duration of the Group's annuity liabilities was approximately 9.5 years as at 30 June 2013.

#### 5.1.2 Fixed term annuities

Like traditional annuities, FTAs provide an income stream against the payment of a lump sum premium. Unlike traditional annuities, however, the income stream is for a fixed term and at maturity a guaranteed amount is repaid to the customer. These products, which are an alternative to both traditional lifetime annuities and traditional income drawdown solutions (which allow retirees to drawdown variable income from their respective accumulated pension funds), can be purchased with pension assets, but permit customers to defer the purchase of a traditional annuity or an IUA.

Just Retirement launched its innovative FTA product in June 2011 and, in the first half of 2013, was the second largest provider of FTAs in the United Kingdom, with a market share of 37 per cent. by sales (source: ABI, Just Retirement estimates). In the year ended 30 June 2013, Just Retirement had New Business Sales of £78.8 million in FTAs. Just Retirement's FTA product is equipped with a conversion option that enables customers to convert their FTAs into IUAs. This product, the first of its type in the United Kingdom, enables Just Retirement to appeal to customers that are not yet in need of an IUA but will require one in the future, for example with the onset of ill health. In this way, Just Retirement's FTA product allows it to build a pipeline of potential future IUA customers.

### *5.1.3 Care annuities*

Care annuities are specialist annuities which provide guaranteed income to support payment of residential care facility fees and can be tax free if paid directly to the care home. Just Retirement launched its care annuity product in August 2013 with a shortened sales process in an exclusive five-year partnership with Saga and is expanding its distribution to include other financial intermediaries later in 2013. As at 30 September 2013, Just Retirement had an active pipeline of 34 quotes.

### *5.1.4 Small DB scheme annuities*

In October 2012 Just Retirement launched its DB de-risking solutions by which it provides a continuation of payments to retired DB pension scheme members in exchange for an insurance premium payable to Just Retirement by the pension scheme trustees, thereby introducing the first “deep underwritten” approach (i.e., using individualised data) aimed at smaller schemes. Just Retirement undertakes a detailed assessment of the scheme by individually underwriting a proportion of the scheme membership to determine an overall insurance premium for the total population of scheme members. Just Retirement’s small DB scheme annuities are supported by tele-underwriting.

As at 30 September 2013, Just Retirement had an active pipeline of 15 quotes and, at the time of this document, had sales totalling £3.2 million. The Group completed its first sale in mid-September 2013.

## **5.2 Lifetime mortgages**

LTMs permit individuals to convert the equity in their residential property assets into cash. The cash advance is secured by a mortgage over their property and is repayable on the death of the owner or vacation of the property due to, for example, a move into a residential care facility.

The majority of Just Retirement’s LTMs are structured to allow customers to draw down sums as and when needed (up to a pre-agreed maximum) with the fixed interest rates being set at the time of each drawdown. However, a recent sales focus on lump sum LTMs has contributed to an increase in the proportion of Just Retirement’s total LTMs comprised of lump sum LTMs. For both drawdown and lump sum LTMs, interest is capitalised, and accordingly, the amount to be repaid at maturity increases over the life of the mortgage. Low LTV ratios mitigate against the risk that the fully rolled-up loan balance will exceed the sales price of the property at the time of repayment, and the absence of geographic concentration mitigates Just Retirement’s exposure to a decline in housing prices in certain areas of the United Kingdom.

Despite the provision of an NNEG in its LTMs, Just Retirement considers its LTM portfolio to be a low risk investment. The average LTV ratio for the LTM portfolio was 26 per cent. as at 30 June 2013, and the collateral (in residential property) securing such portfolio is not geographically concentrated. Just Retirement has never had a mortgage case that has crystallised an NNEG.

In the year ended 30 June 2013, the average size of a new LTM was £39,613, with a loan to value ratio of 18 per cent. New Business Sales in the year ended 30 June 2013 (including subsequent drawdowns) totalled £309.7 million.

## **6. Sales Process and Distribution**

### **6.1 Strategy**

Just Retirement has a progressive RDR-compliant multi-channel distribution strategy and distributes its products through a number of channels, including traditional channels (such as financial intermediaries, employee benefit consultants, specialist intermediaries and banks and building societies) and emerging channels (such as life insurance companies that allow direct access to third-party providers, price comparison websites and affinity partners). Just Retirement uses its own software and services capability to enable its distribution partners to sell IUAs in a safe and efficient manner.

The Directors believe that this strategy and Just Retirement’s owned software and solutions capability position the business strongly for the continued evolution of the distribution landscape.

## 6.2 Individually underwritten annuities

### 6.2.1 Distribution of individually underwritten annuities

The Group's major distribution channels continue to be the key financial intermediary networks, where Just Retirement has increased its share of sales with seven of its top ten networks over two years, and, to a lesser extent, key employee benefit consultants and specialist advisers.

Just Retirement has distribution agreements with all of its top ten financial intermediary networks, which together accounted for 46 per cent. of Just Retirement's sales via financial intermediaries in the second quarter of 2013. Just Retirement's share of its top ten financial intermediary networks increased from 13 per cent. in 2009 to 16 per cent. in 2012 to 17 per cent. in the second quarter of 2013 (source: Touchstone). In addition, Just Retirement's share of its whole intermediary distribution increased from 11 per cent. in 2009 to 15 per cent. in 2012 to 16 per cent. in the second quarter of 2013 (source: Touchstone).

In addition, Just Retirement has built strong relationships with the nascent distribution channels of life companies, banks and building societies and price comparison websites and affinity partners. With the increased information available on the internet, consumers are increasingly purchasing online, and the Directors believe that Just Retirement's strong presence on price comparison websites, which customers are increasingly using for research, will enable it to grow this emerging channel of distribution. In this regard, Just Retirement has already established relationships with Confused.com and Moneyfacts.com (and is in discussions with a third leading price comparison website) and provides the services and infrastructure to support these businesses.

The chart below sets out Just Retirement's New Business Sales for IUAs by distribution channel in each of the years ended 30 June 2013, 2012 and 2011.

	Year ended 30 June			Example partners
	2013	2012	2011	
	£m	£m	£m	
<b>Traditional channels</b>				
Financial intermediaries . . . . .	899.5	882.0	664.8	SBG, threesixty, SimplyBiz, St. James’s Place Wealth Management Wesleyan, Oval Insurance Broking
Employee benefit consultants . . .	51.9	57.7	48.3	Mercer, JLT, Towers Watson
Specialist intermediaries . . . . .	251.7	170.5	164.2	Key Retirement Solutions, Age Partnership, Hargreaves Landsdown, annuity direct ltd
Bank and building societies . . . . .	28.8	3.1	4.7	Nationwide, Barclays, RBS
<b>Emerging channels</b>				
Life insurance companies . . . . .	21.4	8.4	5.3	Aegon, Phoenix Group, The co-operative financial services
Price comparison websites and affinity partners <sup>(1)</sup> . . . . .	12.3	11.0	6.7	moneyfacts.co.uk, Confused.com
<b>Total . . . . .</b>	<b>1,265.5</b>	<b>1,132.7</b>	<b>893.9</b>	

Note:

(1) Of these amounts, £3.8 million, £2.2 million and £3.0 million were written directly via Just Retirement Solutions Limited for each of the years ended 30 June 2013, 2012 and 2011, respectively.

The Group benefits from exclusive distribution arrangements with market leading brands, such as Age UK, Saga and one of the four leading price comparison websites. The Group also has arrangements with four life insurance companies (Aegon, Co-op Financial Services, NFU Mutual and Phoenix Group) to provide direct access to their ceding pension schemes. The Directors believe that the Group's approach to providing tailored solutions has allowed Just Retirement to have more relationships in this space than any other IUA provider. TOMAS™ and the Annuity Service form part of the Group's long-term distribution strategy. They provide high-quality service and software solutions and are aimed at securing distribution by



embedding such solutions in partner systems and processes. In particular, TOMAS™, which is majority-owned but managed as a separate business, provides bespoke and standard software and telephone support services that enable its business-to-business customers to deliver whole-of-market annuity broking services on both an advised and non-advised basis. For the year ended 30 June 2013, TOMAS™ generated approximately 3 per cent. of Just Retirement's IUA sales and supported the generation of a further 14 per cent. For the twelve months ended 31 August 2013, over £500 million of new annuity sales (more than 6 per cent. of the intermediated market) were brokered by TOMAS™ and TOMAS™ solutions, and 35 per cent. of the annuities sold by the top 20 financial intermediaries come via firms that use TOMAS™ service and software solutions. Penetration of IUAs into annuity sales made by TOMAS™ is strong, accounting for 55 per cent. by premium value for the twelve months ended 30 September 2013. TOMAS™ provides annuity purchasing solutions for a number of high-profile clients, including 11 of the FTSE 100 DC pension schemes. TOMAS™ powers the largest high street annuity service and is the leading platform providing services to access DC pension scheme members.

In addition, the Group has recently upgraded the Annuity Service, its annuity planner tool for on-line customer purchasing, which is a leading provider of software and telephone support services for price comparison websites and other affinity partners and is now embedded in six partner websites. The Annuity Service positions Just Retirement to extend its penetration of the affinity partners and fast-growing digital channels. Further e-commerce solutions are planned, including further annuity planner enhancements and online application services. For further information about the Group's annuity distribution channels, see paragraph 2.4 of Part 5 "Market Overview".

#### *6.2.2 Individually underwritten annuities sales process*

The process by which Just Retirement writes a new IUA plan typically begins with a request for a quotation from a financial intermediary or other distribution channel on behalf of one of its clients. The request for quotation is accompanied by a questionnaire completed by the client regarding his or her medical history (e.g. history of heart disease, diabetes, cancer, stroke, etc.) and lifestyle factors (e.g. smoking history, alcohol use, body mass index, etc.). The Group then reviews responses to an industry standard questionnaire or bespoke questionnaires prepared by the relevant channel (which are subject to requests for additional information). Just Retirement generally does not require a separate medical examination, but may request medical records from a prospective customer's general practitioner. Just Retirement then uses this information to prepare a quotation as described in "—Pricing and Intellectual Property" below or to validate against business already applied for. IUAs sales include advised and non-advised business sales. Over 99 per cent. of initial annuity quotes in the core IUA market are already provided on an automated basis, and a significant share of these quotes will be guaranteed. The Directors believe that this is significantly ahead of other market participants who continue to provide a fair proportion of quotes on a manual basis.

#### *6.3 Lifetime mortgages*

Just Retirement's LTM products are all distributed on an advised basis through a range of specialist and non-specialist financial intermediaries, as well as through its own specialist financial intermediary subsidiary, Just Retirement Solutions Limited, which is a leading provider of LTM advice and sales capability for customers of affinity partners and is in partnership with relevant retirement brands such as Saga and Age UK.

In the year to 30 June 2013, 78 per cent. of Just Retirement's LTM sales were through specialist intermediaries and 18 per cent. were through Just Retirement Solutions Limited in conjunction with its affinity partners, with the balance being through non-specialist financial intermediaries.

Just Retirement has also developed strong relationships with mortgage and equity release clubs, who will act on behalf of their members and operate as a one-stop shop to source products and provide training and support material. The Directors believe that these relationships will enable Just Retirement to more readily extend its distribution reach for LTM products.

The chart below sets out Just Retirement's LTM New Business Sales (excluding additional advances) by distribution channel in each of the years ended 30 June 2013, 2012 and 2011.

	Year ended 30 June			Example partners
	2013	2012	2011	
	£m	£m	£m	
<b>Traditional channels</b>				
Specialist intermediaries . . . . .	199.1	163.9	124.6	Key Retirement Solutions, Age Partnership, ER Club
Financial intermediaries . . . . .	10.2	12.7	37.3	ThreeSixty, Paradigm
<b>Emerging channels</b>				
Price comparison websites and affinity partners <sup>(1)</sup> . . . . .	45.4	49.3	46.2	Age UK, Saga, Mirrorsure
<b>Total</b> . . . . .	<b>254.7</b>	<b>225.9</b>	<b>208.1</b>	

Note:

(1) Of these amounts, £3.5 million, £2.4 million and £2.5 million were written directly via Just Retirement Solutions Limited for each of the years ended 30 June 2013, 2012 and 2011, respectively.

Specialist distributors of LTMs have increasingly extended their services to include the sale of annuities and, due to the existing strong relationships, this has given Just Retirement the benefit of broadening its reach for its IUA products.

## 6.4 Other products

### 6.4.1 Care annuities

Just Retirement has recently signed an exclusive long-term agreement for distribution of its new care annuity through the Saga brand using advice provided by its subsidiary, Just Retirement Solutions Limited. The Directors believe that the resonance of the Saga brand and the competitiveness of the new care product will enable the business to quickly capture an increasing share of this growing market.

Just Retirement also plans to distribute its care annuity through relevant financial intermediaries who are qualified to provide advice in this segment of the retirement income market.

### 6.4.2 Small DB scheme annuities

Advice given in the DB pension market is dominated by employee benefit consultants employing highly specialised and technical staff in the field of de-risking. As part of its growth strategy for its new DB scheme annuity proposition for smaller schemes, which was launched in October 2012, Just Retirement has established strong relationships with all employee benefit consultants active in the de-risking market. In its first 12 months of operations, Just Retirement has sought to set up a limited number of schemes which is expected to allow the business to further establish its credentials, refine its proposition and enhance its reputation in the market.

## 7. Pricing and Intellectual Property

### 7.1 Pricing

The Group retains complete control over all pricing decisions. Pricing strategy is agreed by the Board, and a pricing committee reviews and implements any pricing changes.

The rates that Just Retirement quotes for its products are varied frequently in the light of a number of factors, including movements in long-term interest rates and competition. As a result, the Group is able to influence the sales volumes and margins being achieved. Interest rates are monitored on a daily basis and rate changes can be effected quickly to protect against any materially adverse movements. The Group responds to competitor pricing actions through the use of real-time pricing for IUAs and permits the sales team to deviate from target pricing in order to secure a sale, within agreed parameters, and through the use of price matching and special deals (e.g., targeted tranches of competitively priced lending) for LTMs.

## **7.2 Underwriting based on unrivalled proprietary IP**

An IUA provider can deliver better pricing (i.e., increased monthly income paid to the annuitant for a given premium) than a standard annuity provider, where the annuitant has a shorter life expectancy. Consequently, the accuracy of a provider's mortality assumptions is an important determinant of the accuracy of its pricing, the longer-term quality of its earnings and, ultimately, the strength of its balance sheet. The granularity of the data held by Just Retirement leads the Directors to believe that it enables Just Retirement to set customer pricing and to refine the best estimates used to establish reserves accurately. This underpins the Group's ability to drive consistent and profitable growth.

In order to satisfy itself as to the integrity of the lifestyle and medical data provided by annuitants via their intermediary, Just Retirement obtains the full medical record from the annuitant's general practitioner for a sample of completed cases that are selected at random. In addition, the Group verifies all those cases where the annuity premium exceeds a certain amount or the level of enhancement is substantial. The medical information disclosed to Just Retirement continues to indicate an inconsequential level of false disclosure (in such instances, Just Retirement has the right to reduce the annuity payable).

One of Just Retirement's key advantages since launch has been its automated underwriting system that has enabled it to select and price risk across a wide range of medical conditions in an efficient and cost-effective way, giving it the ability to automate its underwriting in the lifestyle and medically enhanced segments, compared to the smaller impaired segment of the IUA market where manual intervention is usually required.

## **7.3 Unrivalled Proprietary IP**

### **7.3.1 Background**

The intellectual property used by Just Retirement to make its underwriting determinations precedes the formation of the Group. Historically, the Group's pricing has been principally informed by JR Merica, the automated underwriting system licensed from Infexpert with the consent of Hannover Re, which allows for over 1,500 medical conditions. The system computes a medical risk score, which is combined with the Group's own mortality insights (as described below), the size of premium, the current applicable interest rate and allowances for initial and future expenses, to produce an annuity rate to be offered to the customer.

The origin of the JR Merica system can be traced back to the early 1990s. A number of Just Retirement in-house experts have had long-term experience with IUAs, their pricing, approaches to data capture and statistical analysis, dating to the late 1990s, having been employees of earlier providers in the market. This knowledge and expertise, which now extends back over 15 years, was used to launch the Just Retirement business in 2004 and commence accumulating the significant amount of data available to Just Retirement now.

Since its inception, Just Retirement, having assessed more than 1.1 million lives to date and more than 21,000 lives per month on average in the year ended 30 June 2013, has stored detailed medical underwriting information electronically and as a result currently holds data on close to 200,000 lives, comprising 124,817 first lives and 68,065 dependent lives. At the end of June 2013, Just Retirement's database had over 600,000 person-years of experience (currently growing at the rate of more than 15,000 person-years per month) collected over nine years of operations. The volume of data is important because of the statistical techniques used to extract mortality insights: as the volume increases, the credibility of the results increases, and, therefore, underwriting decisions can be made with greater confidence.

Just Retirement's underwriting systems, which currently include exclusive access to JR Merica, as well as Just Retirement's proprietary quotation and pricing systems are fully integrated in the same computer framework. Together, they allow Just Retirement to bring together lifestyle, medical and mortality data to set prices on an individual basis. Because of Just Retirement's proprietary IP and the high number of rating factors (currently approximately 250) considered on an individual life, Just Retirement is typically able to offer higher annuity rates to individuals with reduced life expectancy.

Just Retirement has continuously operated in the core segments of the IUA market (medically enhanced and lifestyle). The Directors estimate that, in 2012, the medically enhanced segment comprised 70 per cent. of the IUA market, with the lifestyle (including smoker) and impaired segments comprising 19 per cent. and 11 per cent., respectively. During that period Just Retirement has used its experience supplemented with insight gained from medical and mortality studies as well as its eight-strong in-house

experienced medical team consisting of epidemiologists, doctors and biostatistical modellers to further improve the quality of its questionnaires, its underwriting and pricing expertise. Just Retirement therefore benefits from a deep understanding of the whole spectrum of lifestyle, medical and annuity buying behaviour factors and their impact on life expectancy

### 7.3.2 Key features

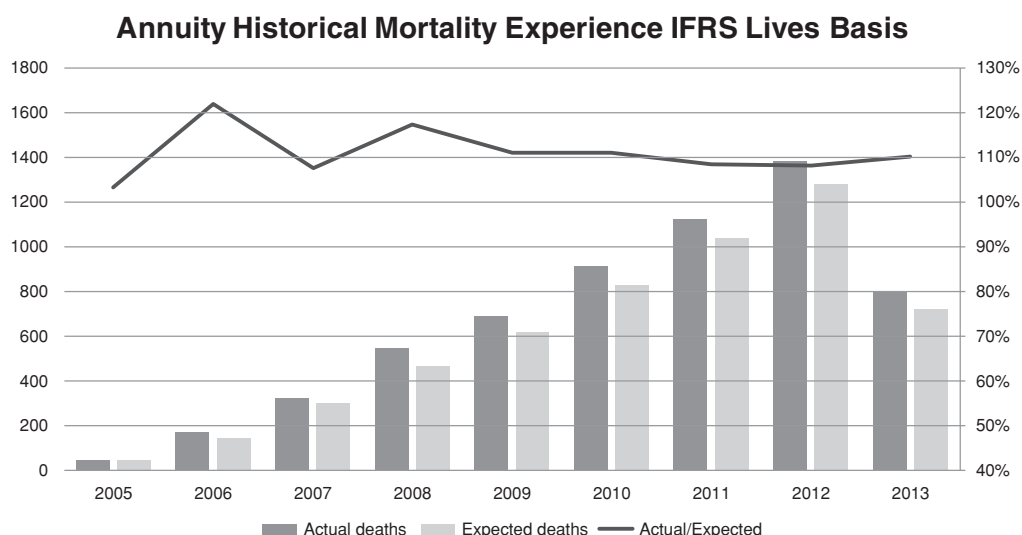
The key features of Just Retirement's medical and mortality data can be summarised as follows:

- The data set is proprietary in nature and securely held within the Group. Only a very limited number of individuals in the research and development team have access to the full data set. In circumstances where Just Retirement is obliged to disclose certain underwriting information to its reinsurance partners, disclosure is limited.
- The data set contains a large number of rating factors for each individual case. In the year ended 31 December 2012, Just Retirement collected on average approximately 250 rating factors for each life, such as medical conditions and associated medication, as well as taking into account additional information, such as medical reports and general practitioner assessments, provided by applicants (where required), on each life insured before performing an assessment of life expectancy. In contrast, the questionnaires which annuitants are required to complete in order to receive a quote for or purchase a standard annuity only typically request basic personal information such as an annuitant's age, address and details of their pension, such as pension size.
- For the year ended 30 June 2013, the average life expectancy for a typical Just Retirement customer purchasing an IUA was approximately 25 per cent. lower than the average life expectancy for a healthy individual of the same age, according to Just Retirement calculations. For the six months ended 30 June 2013, the Group's average mortality rate for its IUA holders was approximately 133 deaths per month.

Just Retirement reviews its mortality experience monthly and its underwriting rules at least on a half-yearly basis. This analysis is performed by Just Retirement's experienced team of actuaries, medical experts and statisticians. Mortality experience is analysed via a proprietary system, which calculates the expected deaths in any period based on the current mortality basis used for pricing and using the underwriting decision that was made when the policy was sold. This is compared to the actual recorded deaths. The power of the system is its flexibility to view the Group's mortality experience in a number of ways, which permits the basis to be fine-tuned against a wide range of factors.

Just Retirement's mortality bases are also reviewed by its external professional advisers as part of the year-end process. The bases are also discussed in detail with the PRA as part of the biennial review of Just Retirement Limited's Individual Capital Assessment.

The chart below presents the number of actual and expected deaths in each calendar year (up to 30 June 2013) and the number of actual deaths over expected deaths as a percentage. Expected deaths are based on assumptions used in the Company's 2012/13 IFRS technical provisions.



Just Retirement targets a 10 per cent. buffer over best estimate mortality rate assumptions. In recent years, based on assumptions used in the Company's 2012/13 IFRS technical provisions, the ratio of actual deaths to expected deaths has closely tracked a 110 per cent. best estimate basis and, since 2005, has always been in excess of 100 per cent., which the Directors believe illustrates the Group's prudent reserving basis. This prudent buffer also provides a cushion for future adverse mortality experience. Larger buffers exist in the Pillar 1 reserve assumptions. The Directors believe that Just Retirement's prudent buffer, whether determined on an IFRS basis or a Pillar 1 basis, is relatively conservative compared to its peers. See also paragraph 2.9 of Part 10 "Operating and Financial Review".

#### **7.4 Prognosys™—Just Retirement's next generation underwriting approach**

In 2011, Just Retirement commenced development of its own automated underwriting system by leveraging its in-house mortality experience, and, accordingly, recruiting experts in order to fundamentally review and improve its approach to medical underwriting. After two years of intensive research and development, Just Retirement now has an enhanced database of relevant knowledge, a functional set of algorithms and software that will be incorporated into its proprietary, bespoke underwriting system, Prognosys™.

Prognosys™ is a bespoke automated underwriting system for IUAs, proprietary to Just Retirement, and represents a synthesis of several sources of medical knowledge, including Just Retirement's internal database, Just Retirement's experience analysis, the input of its own in-house medical team as well as specialists (such as senior doctors, consultants, statisticians and leading medical academics), external databases of primary and secondary healthcare data (such as the Framingham Study) and external research. Designed using biostatistical principles, integrated with actuarial theory, Prognosys™ uses bespoke algorithms to model an individual's future longevity, delivering an individual mortality curve for each customer. It provides a Just Retirement-specific opinion of the adjustments to standard mortality to be used in its pricing of a particular annuity. The opinion is to be based on data and analysis of medical research captured from various countries supplemented with Just Retirement's extensive mortality experience.

The Group's own extensive mortality experience database and the breadth of external primary and secondary healthcare data and medical literature have been used to create a unique piece of intellectual property. Just Retirement has so far researched databases containing over 20 million citations, narrowing this figure to over 20,500 relevant abstracts, which have been individually filtered for relevance and further narrowed to over 2,500 publications and reports to select the publications and reports that are most useful for the Group's analysis. Such publications and reports are stored within a Group-owned database. From these publications and Just Retirement's own analyses, the Group has transcribed data pertinent to the mortality risks of medical conditions, which are commonly present around retirement age. This allows Prognosys™ to produce a bespoke survival curve for any set of conditions that are presented to it. These curves, which reflect the combination of relative risk generated from condition models, on the one hand, and base mortality and improvement factors, on the other, will allow for the interaction of multiple conditions. In addition, there exists the flexibility to overlay other types of underwriting factors (e.g., post code and occupation). On the rare occasions that conditions are unknown to the system, they will be re-presented for individual underwriting and then added back into the system as integral functions. In addition, the in-house medical team continues to scan for new research material and for long-range warnings of developments in disease prevention, medication and customer care, which could lead to changes in longevity trends. As Prognosys™ continues to evolve, Just Retirement aims to be able to assess healthy lives as well as more impaired lives.

Phase I of the Prognosys™ programme is complete, and the Group has started using key insights from phase I to refine its pricing and acceptance criteria, supporting the Group's delivery of future profits. Just Retirement has initiated and is in the process of implementing phase II of the Prognosys™ programme. Just Retirement expects phase II to be fully implemented by the end of 2014.

## **8. Reinsurance**

As part of its risk management policy, Just Retirement has consistently reinsured a substantial portion of its longevity risk with a number of key reinsurers. These reinsurance arrangements are designed to provide two main benefits:

- an 'underpinning' of the mortality assumptions incorporated in the annuity rate calculations; and
- financing part of the Group's statutory solvency capital requirements.



The underpinning arises from the mortality basis specified in Just Retirement's reinsurance treaties with Hannover Re, Reinsurance Group of America (with respect to business entered into from 1 July 2012) and Achmea Re (with respect to business entered into prior to 1 July 2012). In the event that annuitants live longer than assumed, Just Retirement is able to recover from reinsurers the reinsured portion of future annuities (to the extent of the proportion reassured with them, as described below).

The financing provided by the reinsurers effectively provides approximately 2.5 to 3.5 per cent. of the capital which Just Retirement is required to hold for statutory purposes. This financing, together with associated interest and fees, is then repaid as and when future statutory profits emerge. Once this financing has been repaid in full, the Group has the option to recapture the business reinsured, which it would normally do in order to enjoy the benefit of the expected future profits.

Statutory profits would be expected to arise where higher interest rates are earned on the assets backing reserves by the reinsurers than have been incorporated in the reserving basis; and from heavier mortality occurring than assumed, which results in extra reserves being released and transferred to the profit and loss account.

The table below lists, for business written from 2004 to the date of this document, Just Retirement's main reinsurance partners by treaty along with the percentage of the Group's IUAs reinsured under the treaties.

Reinsurer	Treaty coverage	Percentage of qualifying annuity benefits
Hannover Re . . . . .	1 July 2004 to 31 December 2014	46.2%
Achmea Re . . . . .	1 July 2004 to 30 June 2012	19.8%
Reinsurance Group of America . . . . .	1 July 2012 to 30 June 2015	19.8%

As a result of the transition from Achmea Re to Reinsurance Group of America, the Group continued to reinsure approximately 66 per cent. of the longevity risks under its qualifying IUA new business. For further information on the Group's current reinsurance treaties, see paragraph 12.5 of Part 17 "Additional Information".

In the year ended 30 June 2013, the Group's reinsured qualifying IUAs constituted approximately 53 per cent. of total IUAs (by premium value), reflecting the underwriting changes that were introduced in September 2012 as a result of the Prognosis™ research and that resulted in more new business cases falling into the very lowest underwriting level, which is reassured to a lower extent.

The Group is also currently party to separate reinsurance treaties with RGA International and RGA Global Reinsurance Company, Ltd. (covering up to 55 per cent. of its reserves in respect of its DB scheme de-risking business) and General Reinsurance, London Branch ("General Re") (covering up to 90 per cent. of its reserves in respect of its care annuities). Just Retirement does not reinsure its investment risk.

## 9. Investment Policy and Management

Just Retirement's investment strategy is designed to optimise risk-adjusted returns whilst ensuring that cash flows from its financial asset portfolio are sufficient to meet the annuity payment obligations arising from the Group's annuity portfolio. The profile of Just Retirement's liabilities (being predominantly expected cash outflows to settle annuity payment obligations) requires that the majority of its financial asset portfolio be held in investment grade, fixed-income securities, such as government and corporate bonds. Just Retirement also invests in LTM assets, subject to strict risk tolerance limits that aim to ensure that cash inflows from maturing LTM assets match cash outflows from the annuity liabilities.

Asset-liability matching requires the consideration of a range of cash flows, from the "realistic" cash flows used within Pillar 2 and embedded value projections (based on best estimate assumptions), to "prudent" Pillar 1 projections (which contain prudential risk margins). Accordingly, Just Retirement seeks to balance these conflicting cash flow requirements by investing based on "realistic" best estimate cash flows based on embedded value annuity liability and equity release assumptions and bond cash flows including an allowance for defaults. Net cash flows are then passed to the Group's investment managers (Robeco and Blackrock) to perform matching calculations and select assets generating interest rate deltas within specified tolerances.

Just Retirement seeks to achieve a risk-controlled, tightly matched liquidity position by investing primarily in (i) gilts and corporate bonds; and (ii) LTMs. Monies not invested in these two categories are mainly invested in sterling denominated cash funds.

The average yield of Just Retirement's financial asset portfolio was 4.1 per cent. as at 30 June 2013 (reflecting a 4.2 per cent. average yield for its bond portfolio and a 4.7 per cent. average yield for its LTM portfolio (net of NNEG)), compared to 4.0 per cent. as at 30 June 2012 (4.7 per cent. for the bond portfolio and 4.0 per cent. for the LTM portfolio (net of NNEG)) and 5.0 per cent. as at 30 June 2011 (5.3 per cent. for the bond portfolio and 5.4 per cent. for the LTM portfolio (net of NNEG)). In addition, with respect to the Group's bond portfolio, the average yield for gilts was 1.0 per cent., for AAA-rated bonds 2.8 per cent., for AA-rated bonds 2.8 per cent., for A-rated bonds 3.4 per cent. and for all other bonds 4.6 per cent.

The following table details the Group's investments as at 30 June 2013:

	<b>As at 30 June 2013</b>
	<b>£m, except for percentages</b>
Gilts and corporate bonds . . . . .	3,759.9
<i>of which:</i>	
<i>Gilts and AAA</i> . . . . .	377.7
<i>AA</i> . . . . .	466.4
<i>A</i> . . . . .	1,711.0
<i>BBB+</i> . . . . .	301.0
<i>BBB</i> . . . . .	456.5
<i>BBB-</i> . . . . .	430.5
<i>BB+ (and below)</i> . . . . .	16.9
Mortgage assets (LTMs) . . . . .	2,081.2
Derivatives . . . . .	37.1
Cash and cash equivalents <sup>(1)</sup> . . . . .	158.5
<b>Total financial assets</b> . . . . .	<b><u>6,036.7</u></b>

(1) Comprises units in sterling liquidity fund (£141.3 million as at 30 June 2013) and deposits with credit institutions (£17.2 million as at 30 June 2013).

### 9.1 Gilts and corporate bonds

Just Retirement primarily invests in UK gilts and sterling-denominated corporate bonds. Both the gilts and corporate bond investments are a mix of index-linked investment, which match index-linked annuity cash flows, and non-linked investments. As at 30 June 2013, gilts and corporate bonds represented 62 per cent. of Just Retirement's total financial assets.

The bond portfolio is managed by specialist fixed interest teams at Robeco and Blackrock. The terms of the agreement with each manager specify the parameters to be met in managing the Group's funds, including the range of permissible investments, issuer limits for corporate bonds and limits in relation to asset mix by credit grade. In addition, the investment management agreements specify targets for the maximum permitted interest rate deltas (the difference between a change in asset values and a change in liability values following a parallel shift in interest rates), expressed as a percentage of assets in a given maturity category and in the overall portfolio.

Just Retirement reviews investment performance and discusses such performance with Robeco and Blackrock on a regular basis; in addition, the Group will meet with Robeco and Blackrock senior management twice annually to monitor key issues relating to its financial asset portfolio, including a market overview and future investment policy.

The Group does not invest in debt securities with a rating below BBB, nor does it invest in equity securities, residential mortgage-backed securities or collateralized debt obligations. The securities currently in its portfolio with a rating below BBB represent securities that have been downgraded and that the Group has retained. Securities with a rating of BB+ and below comprised 0.3 per cent. of the Group's total financial assets as at 30 June 2013. Target percentages by credit grade reflect an average spread of approximately an A rating.

The key principle underpinning Just Retirement's approach to investing is to hold the significant majority of the bonds in its bond portfolio to maturity (a "buy and maintain" strategy), although it will consider exiting an investment when an investment manager raises concerns of possible issuer default (either sovereign or corporate) or when there are opportunities to improve risk adjusted returns. Just Retirement actively monitors the quality of its bond portfolio, which has no concentration by sub-sector or instrument and conservatively assesses its risk of suffering losses through the use of sophisticated, stochastic models. The average duration of the Group's fixed income holdings was 6.3 years as at 30 June 2013, compared to an average duration of 7.8 years for iBoxx Sterling Corporate Bond Index. This shorter bond portfolio duration, coupled with low investment in relatively higher-risk sectors and geographies, exhibits the lower risk of the Group's bond portfolio compared to iBoxx Sterling Corporate Bond Index.

Just Retirement has not experienced default of any of its bonds. The Group does not currently hold Euro sovereign bonds, and, as at 30 June 2013, sterling-denominated bonds accounted for 98 per cent. of the Group's total bond portfolio. The Group has no direct exposure to Greece, Ireland, Portugal or Cyprus, and, as at 30 June 2013, the Group's exposure to Italy and Spain accounted for approximately 2 per cent. of its total bond portfolio, with such exposure primarily limited to high-quality assets, such as telecommunications companies.

Although sterling-denominated bonds accounted for 98 per cent. of the Group's total bond portfolio as at 30 June 2013, the Group's bond portfolio was not concentrated in particular geographies or industries. The following tables set forth breakdowns of the Group's total bond portfolio by geography and by sector, as at 30 June 2013:

	<u>As at 30 June 2013</u>
	<u>%</u>
<b>By Geography:</b>	
United Kingdom . . . . .	29.6
North America . . . . .	14.9
France . . . . .	11.1
Germany . . . . .	9.8
Scandinavia . . . . .	8.0
Asia . . . . .	7.2
Netherlands . . . . .	6.5
Switzerland . . . . .	3.8
Other . . . . .	9.1
<b>Total . . . . .</b>	<b><u>100.0</u></b>
	<u>As at 30 June 2013</u>
	<u>%</u>
<b>By Sector:</b>	
Financials . . . . .	42.0
Utilities/industrials . . . . .	15.1
Consumer . . . . .	13.9
Communications . . . . .	12.6
Other . . . . .	16.4
<b>Total . . . . .</b>	<b><u>100.0</u></b>

Notwithstanding the diversification and risk mitigation points above, Just Retirement Limited holds very prudent provisions for possible future corporate bond defaults in its regulatory capital balance sheets. These provisions are implicit in the reserves held for IUA liabilities, as the discount rate is reduced to allow for 81 bps p.a. of defaults in both Pillar 1 and economic capital. This assumption represents 45 per cent. of the average spread over swaps of the fixed interest portfolio as at 30 June 2013, and is equivalent to a provision of approximately £221 million or 5.9 per cent. of the market value of the bonds.

Changes in the value of Just Retirement's bond portfolio as a result of mark-to-market valuations are not a core measure of Just Retirement's investment strategy because the majority of bonds will be held to maturity. As a result, the Board does not consider unrealised gains and losses on the Group's financial asset portfolio to provide insight into Group performance, as any negative or positive valuation movements

will be reversed out by equal and offsetting movements (in aggregate) over the life of the bond provided no defaults have been experienced.

## **9.2 Lifetime mortgage assets**

Just Retirement aims to invest approximately 25 per cent. of its annuity premiums into LTMs, which offer a higher risk-adjusted yield compared to scarce long-dated corporate bonds, a better duration matching and an effective hedge for IUAs. As at 30 June 2013, LTMs originated by the Group represented 34 per cent. of the Group's total financial assets. The absolute increase in LTMs, compared to previous balance sheet dates, reflects sales of new LTMs, further drawdowns and the accumulation of interest due on such mortgages.

Just Retirement has robust policies and procedures to ensure a high degree of control over origination of LTM products and is not reliant on acquiring books of mortgages originated by third parties. In addition, the Group's LTMs are almost entirely sourced directly from customers. The Group, therefore, has the ability to select high quality mortgages.

As at 30 June 2013, the average age of Just Retirement's LTM customer was 73 years, whereas the average age at commencement of the LTMs in the portfolio was 71 years. The average life expectancy of its LTM customers, based on the current LTM portfolio, was approximately 18 years. This portfolio had an average loan-to-value ("LTV") of 26 per cent., with an average LTV at commencement of the LTMs in the portfolio of 18 per cent. for the twelve months ended 30 June 2013. For the year ended 30 June 2013, the average loan size was £39,602 and the average property value was £227,549. As at 30 June 2013, out of 31,323 mortgages, only five have an LTV of more than 75 per cent.

With respect to lending limits, which are age dependent, the maximum loan the Group can offer is £1.5 million and the maximum initial LTV range is between 20 per cent. and 52 per cent.

The property exposure of Just Retirement's LTM portfolio is geographically spread across the United Kingdom. The criteria Just Retirement uses to assess potential clients are very robust, which results in the maintenance of a strong portfolio of good quality properties against which the LTMs are secured.

The Group's LTM product incorporates a NNEG. The value placed on LTMs is net of a prudent provision for the NNEG based on option pricing techniques. This provision is updated monthly taking into account prevailing market house prices, an up-to-date assessment of expected future house price movements and an assessment of house price volatility. The provision is approximately 2.5 per cent. of the gross LTM value in the economic capital balance sheet. In Just Retirement Limited's Pillar 1 capital ratio calculations, higher volatility is assumed, together with an immediate house price fall of 15 per cent. This results in a provision of 7.9 per cent. of the gross LTM value. In assessing economic capital requirements, all of the NNEG assumptions are stressed. In particular, current and future house prices are stressed at a level equivalent to a 37 per cent. immediate and permanent fall in house prices. Just Retirement has never had a mortgage case that has crystallised a NNEG.

## **9.3 Derivatives**

The Group invests in derivatives or quasi-derivatives (contracts or assets which effectively contain an embedded derivative component) for the purpose of managing interest rate risk, and, to a lesser extent, currency risk. As at 30 June 2013, derivatives and quasi derivatives represented less than one per cent. of Just Retirement's total financial assets.

Just Retirement only enters into a derivative instrument with an approved third party and only under the terms of a formal International Swaps and Derivatives Association ("ISDA") Master Agreement between the relevant Group company and the third party and following an assessment of key factors, including the counterparty and any collateral arrangements.

## **9.4 Cash and cash-equivalents**

Cash is primarily invested in a liquidity fund with Blackrock. Other cash is held in various bank accounts. As at 30 June 2013, cash and cash equivalents, which comprise units in a sterling liquidity fund and deposits with credit institutions, represented 3 per cent. of Just Retirement's total financial assets.

## **10. Risk Management**

The Group has established a broad risk governance and management framework, which is designed to provide control and oversight over the management of all financial and non-financial risks. As part of this framework, the Group Risk and Compliance Committee of the Board is principally responsible for assisting the Board in the discharge of its risk and regulatory oversight responsibilities. For additional information, see Part 8 “Directors, Senior Management and Corporate Governance”.

The group operates a “Three Lines of Defence” model. The first line of defence is line management who devise and operate the controls over the business. The second line functions are Risk Management and Compliance, who oversee the first line, ensure that the system of controls are sufficient and are operated appropriately, and also measure and report on risk to the Group Risk and Compliance Committee. The third line function is Internal Audit, who provide independent assurance to the Board that the first and second line are operating appropriately.

The Group maintains a consistent group-wide process for the timely identification and assessment of the risks to which it is exposed. The risk assessment process extends to all activities including the evaluation of new and changed business activities and the management of outsourced processes. Risks are identified and assessed against the Group’s business objectives and risk appetite. All risks are assessed with and without the mitigating effect of existing controls. If existing controls do not reduce the risk to an acceptable level then additional management and operational procedures are identified and implemented. The Group’s risk profile, including changes to risks and the on-going status of key risks and mitigating actions, is reported each month through a monthly risk report.

The Group’s risk management function works closely with the business to monitor risk issues, identify new and emerging risks and establish appropriate procedures to mitigate those risks. This enables the risk management function to assess the overall risk exposure and maintain a consolidated key risk profile that is reviewed quarterly by management and the executive risk committees and reported to the Board.

The Risk Management function is run by the Chief Risk Officer, a member of the Executive Committee with a direct reporting line to the CEO and direct access to the Chair of the Group Risk and Compliance Committee. The CRO has a risk management function comprised of individuals with a broad range of experience and expertise to support him. The risk function is supported by the Group’s operational risk management software SWORD, which helps the Group to identify key risks, provides increased visibility and control over enterprise wide risks, and promotes increased business intelligence through heat maps and reports. The CRO also convenes a Risk Committee of subject matter experts from across the business to advise him on the risks facing the business.

## **11. Property**

The Group operates from three adjacent locations in Reigate, Surrey, all of which are held via short-term leaseholds, as well as from Belfast, where TOMAS™ is based.

## **12. IT and Operations**

The Group adopts a standardised approach to both hardware and software, using current and fully supported Microsoft-compatible systems wherever possible. This creates a cost-effective IT and service environment which has delivered consistently declining operational acquisition and maintenance costs per policy across both of Just Retirement’s principal products in each of the last three years. The operational acquisition cost per policy for annuities decreased from £217.9 to £208.8 to £205.3 over the last three financial years, while the operational acquisition cost per policy for LTMs decreased from £197.4 to £182.8 to £175.9 over the same period.

Bespoke systems have been developed by Just Retirement to manage new business processing in Just Retirement Limited and Just Retirement Solutions Limited and policy administration in Just Retirement Limited. Developed in Microsoft languages, these systems connect with industry standard third-party solutions and some further specialist systems which together underpin the service capabilities of the business. The Directors believe that the Group’s integrated IT system is one of its main advantages and has helped Just Retirement to deliver its service proposition, including industry-leading turnaround times, consistent service uptime of over 99 per cent. over the last four years, over 99 per cent. quote accuracy, automated guaranteed quotes, as well as consistently strong service results.



In addition, the Group's hardware platform is capable of scaling easily to support substantial increases in the volume of business written by Just Retirement for small incremental cost. The business operates a continuing IT investment programme to maintain hardware and software currency, as a result of which no substantial investment is planned in the near term to maintain current capabilities.

Just Retirement's IT staff has grown to support business growth, increasing from 39 employees as of 30 June 2006 to 127 employees as of 30 June 2013.

### 13. Employees

As at 30 June 2013, Just Retirement had 819 employees, 90 per cent. of which were located at the Company's premises in Surrey. The table below sets out a breakdown by location of the average number of employees of the Group for the years ended 30 June 2013, 2012 and 2011.

	Year ended 30 June		
	2013	2012	2011
	Average number of employees		
<b>Location</b>			
Reigate, Surrey . . . . .	734	616	470
Belfast . . . . .	47	32	13
<b>Total</b> . . . . .	<b>781</b>	<b>648</b>	<b>483</b>

Just Retirement was included in the Sunday Times Top 100 Companies to Work For four years in a row and was in the top 50 in the last three of those four years. Staff turnover is below the industry average, and engagement with employees is strong.

For more information on Just Retirement's pension scheme and employee share plans, see paragraphs 7 and 8 of Part 17 "Additional Information".

### 14. Corporate and Social Responsibility

Just Retirement seeks to operate in a socially responsible manner and aims to be sensitive to the cultural, social and economic needs of its local community and endeavours to protect and preserve the environment where it operates. The Chief Executive Officer of the Group retains overall responsibility for Corporate Social Responsibility and the policies are listed below.

#### 14.1 Treating Customers Fairly

Treating customers fairly is aligned to the Group's cultural heritage and philosophy about how its business should be conducted with customer-led decision making at the heart of the business. The Group provides a leading level of service based on understanding its customers, keeping its promises and seeking to exceed customers' expectations.

#### 14.2 Environment

The Group, as a member of the business community, recognises its corporate responsibilities towards the environment in its various roles as insurer, investor, employer and consumer. It believes in the importance of environmental protection and that best environmental practice makes sound commercial sense and recognises that its business activities have direct and indirect environmental impacts, and endeavours to manage these in a responsible manner. All of the Group's premises offer full recycling, and the Group is committed to a programme of continuous improvement and reporting of its direct and indirect environmental impact covering such areas as heat and light, recycling, paper usage, colour printing, transport initiatives and reduction of its carbon footprint.

#### 14.3 Employee practice

The Group is committed to providing equal opportunities to all employees, irrespective of their sex, sexual orientation, marital status, creed, colour, race, nationality, ethnic origin, disability, age, religion, beliefs or union membership status. These commitments extend to recruitment and selection and reward frameworks to facilitate a culture of diversity and equality and to foster a constructive working environment which helps to attract and retain the staff required to develop its business. In addition, the Group places an

emphasis on learning and development for all employees to ensure they are equipped to perform their roles and to drive performance, which has resulted in an employee turnover rate of 12 per cent. for the year ended 30 June 2013 (compared to an average for the finance industry of 18 per cent.).

#### ***14.4 Health and safety***

The health and safety of the Group's employees is a priority and is reviewed at regular intervals. Information on health and safety matters is communicated to staff through the normal communication channels. Under the Group's Health and Safety Policy, the Chief Executive Officer is accountable for health and safety.

#### ***14.5 Charity and the community***

The Group creates opportunities for all of its employees to give something back to society and the local community where they work, through fundraising, youth mentoring and volunteering. Just Retirement supports charities and community initiatives that make a positive difference to people's lives.

In the year ended 30 June 2013, the Group's employees raised more than £35,000 with company matching for a broad range of charitable causes, including Prostate Cancer Charity, St Catherine's Hospice, 14<sup>th</sup> Reigate Scouts and Loveworks. All employees' fundraising is matched for these four charities by Just Retirement, effectively doubling the amount each charity receives.

#### ***14.6 Charitable donations and political donations***

Charitable donations made by the Group during the year ending 30 June 2013 were £27,813 (2012: £17,121; 2011: £9,766). No political contributions were made during the period ended 30 June 2013 (2012: £nil; 2011: £nil).

#### ***14.7 Creditor payment policy and practice***

It is the Group's policy to pay creditors when they fall due for payment. Terms of payment are agreed with suppliers when negotiating each transaction and the policy is to abide by those terms, provided that the suppliers also comply with all relevant terms and conditions. In respect of Group activities, the amounts due to trade creditors at 30 June 2013 represented approximately 4 days of average daily purchases (2012: 17 days; 2011: 11 days).

## **PART 7**

### **REGULATORY OVERVIEW**

The Group is subject to detailed and comprehensive legislation and regulation in respect of its operations. Regulatory agencies have broad administrative powers over many aspects of the insurance and LTM businesses, including marketing and selling practices, advertising, product development structures, data and records management, systems and controls, capital adequacy and permitted investments.

The Group is subject to regulation and supervision by the FCA and PRA in relation to the carrying on of its regulated activities in the United Kingdom. All of the Group's regulated entities are subject to capital requirements with a view to ensuring the protection of policyholders.

The following discussion considers the main features of the UK regulatory regimes for insurance business as it applies to the Group.

#### **1. The Powers of the FCA and PRA**

In the United Kingdom, the Group's business is currently subject to primary regulation by the FCA and PRA, which have broad powers under the FSMA, including, among others, the authority to: grant and, in specific circumstances, to vary or cancel permissions; ensure that regulated firms treat customers fairly; investigate marketing, sales, claims and complaint handling practices; ensure that regulated firms have adequate risk management and control functions and require the maintenance of appropriate financial resources. One of the FCA and PRA's principal regulatory objectives in the context of the regulation of insurance companies is the protection of policyholders and third-party claimants, rather than shareholders or general creditors.

The PRA has powers to impose requirements on an insurance company (such as a requirement not to take on new business) if it is not satisfied that the company has met its capital adequacy requirement or if the company does not meet the Threshold Conditions (as defined below in paragraph 2 of this Part 7). Similarly, the FCA has powers to impose requirements on an insurance and mortgage intermediary if it is not satisfied that the intermediary has met its prudential requirements or if the intermediary does not meet the Threshold Conditions applicable to it.

The FCA may make enquiries or conduct inspections of the companies which it regulates regarding compliance with regulations governing the conduct and operation of business. Issues and disputes may arise from time to time in relation to the way an insurance product has been constructed, sold or administered, or in the way in which policyholders or customers have been treated, either at an individual firm level or across the insurance industry. In the United Kingdom, individual policyholder disputes of this nature are typically resolved by the Financial Ombudsman Service or by litigation. The FCA or PRA may intervene directly, however, where larger groups or matters of public policy are involved. There have been several industry-wide issues in recent years where the FCA's and the PRA's predecessor, the FSA, intervened directly, such as the sale of payment protection insurance.

The FCA and PRA have wide powers to supervise and intervene in the affairs of an insurance company or insurance and mortgage intermediary, for example, if they consider that it is appropriate in order to protect policyholders or potential policyholders against the risk that the company may be unable to meet its liabilities as they fall due, that the Threshold Conditions may not be met, that the company or its parent has failed to comply with obligations under the relevant legislation, that the company has furnished misleading or inaccurate information or that there has been a substantial departure from any proposal or forecast submitted to the FCA or PRA. The FCA and PRA also have the power to take a range of informal and formal disciplinary or enforcement actions in relation to a breach by a firm of the FSMA or the rules in the FCA or PRA's Handbooks, including private censure, public censure, restitution, fines or sanctions and the award of compensation. The FCA and PRA may also cancel or vary (including by imposing limitations on) a Part 4A Permission (as defined below in paragraph 2 of this Part 7) of an insurance company or insurance and mortgage intermediary, including imposing restrictions on the ongoing operation of the insurance company or intermediary's business or cancelling the insurance company's permission to write new policies, thereby putting the insurer into run-off.

#### **2. Permission to Carry on Insurance Business**

Under section 19 of the FSMA, it is unlawful to carry on regulated activities, including insurance or mortgage intermediation activities or insurance business, in the United Kingdom without permission to do

so from the FCA or PRA (as applicable) under Part 4A of the FSMA (a “Part 4A Permission”). The FCA is the applicable regulator for insurance and mortgage intermediary Part 4A Permissions, and the PRA is the applicable regulator for insurance company Part 4A Permissions.

The FCA or PRA (as applicable), in deciding whether to grant a Part 4A Permission, is required to determine whether the applicant satisfies, and will continue to satisfy, the FSMA Threshold Conditions (the “Threshold Conditions”). As part of this decision, the appropriate regulator will consider whether the applicant has appropriate resources and if the applicant is ‘fit and proper’ to be authorised (that is, whether it has established systems and controls to comply with regulatory standards and the PRA and FCA’s Principles for Business, which cover matters such as: integrity; skill, due care and diligence; management and control; financial prudence; observance of the proper standards of market conduct; payment of due regard to customers’ interests and treating customers fairly; communication with customers; management of conflicts of interest; a proper relationship of trust with customers; adequate protection for customers’ assets when responsible for them; and dealing with regulators in an open and cooperative way). A Part 4A Permission will specify: (a) a description of the activities the firm can carry on, including any limitations to the scope of the permission; (b) the specified investments involved; and (c) if appropriate, any requirements imposed in relation to the Part 4A Permission.

Once authorised, insurance companies and insurance and mortgage intermediaries are required to continue to meet the Threshold Conditions and comply with the PRA and FCA’s Principles for Business. The PRA may impose limitations and requirements relating to the operation of an insurance company and the carrying on by it of insurance business through its Part 4A Permissions, and the FCA may do the same in relation to the operation of an insurance and mortgage intermediary and the intermediary business carried on by it.

### **3. Screening of Controllers (Including Shareholders)**

Under section 178 of the FSMA, if a person intends to acquire or increase its “control” of an insurance company or acquire “control” of an insurance and mortgage intermediary, it must first notify the appropriate regulator. The appropriate regulator for an insurance company is the PRA, and for an insurance and mortgage intermediary, it is the FCA. The appropriate regulator must then decide whether to approve the acquisition or increase of control within 60 working days’ of receipt of this notice (assuming it has been provided with a complete application). The PRA or FCA will not approve any new controller or any increase of control without being satisfied that the controller is financially sound and suitable to be a controller of, or acquire increased control of, the insurance company or insurance and mortgage intermediary. Acquiring control for the purposes of the FSMA includes where a person first holds 10 per cent. or more of the shares or voting power in an insurance company or any of its parent undertakings or 20 per cent. or more of the shares or voting power in an insurance and mortgage intermediary or any of its parent undertakings. A person will be treated as increasing his or her control over an insurance company, and therefore require further approval from the PRA, if the level of his or her shareholding or entitlement to voting power increases from a holding below certain thresholds to a holding above them. The thresholds for an insurance company are 10 per cent., 20 per cent., 30 per cent. or 50 per cent. of shares or voting power.

When determining a person’s level of control, that person’s holding of shares or entitlement to voting power will be aggregated with the holdings or entitlements of any person with whom he or she is “acting in concert”.

### **4. Screening of Controlled Function Holders**

Certain key functions in the operation of an insurance business or insurance and mortgage intermediary business (“controlled functions”) may only be carried out by persons who are approved for such tasks by the PRA or FCA under the FSMA (“Approved Persons”).

Under the FSMA, the PRA and FCA have powers to regulate two types of individuals: those whose functions have a significant influence on the conduct of an authorised company’s affairs and functions and those who deal with customers (or the property of customers).

The ‘significant influence’ controlled functions include governing functions such as being a director or non-executive director of an insurance company or insurance and mortgage intermediary, finance functions, actuarial functions, client asset operational oversight functions and significant management functions, such as insurance underwriting. The PRA or FCA will not grant Approved Person status to an

individual unless it is satisfied that the individual has appropriate qualifications and/or experience and is fit and proper to perform those functions.

Approved Persons must comply with the PRA and FCA's Fit and Proper Test for Approved Persons and the Statements of Principle and Code of Practice for Approved Persons (each as set out in the respective chapters of the PRA or FCA Handbook as defined below in paragraph 5 of this Part 7 bearing such titles).

## **5. Prudential Requirements**

Detailed prudential rules applicable to carrying on insurance business are contained in the PRA's Handbook of Rules and Guidance (the "PRA Handbook"). The rules are set out in (i) its General Prudential Sourcebook for Banks, Building Societies, Insurers and Investment Firms ("GENPRU") and (ii) its Interim Prudential Sourcebook for Insurers ("INSPRU"). The overall financial adequacy rule is contained in GENPRU 1.2.26R, which requires an insurance company to maintain overall financial resources, including capital resources and liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

Prudential rules applicable to carrying on an insurance and mortgage intermediary business are contained in the FCA's Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries ("MIPRU"). MIPRU amplifies certain of the Threshold Conditions and Principles for Business by providing that a firm must meet, on a continuing basis, a basic solvency requirement and a minimum capital resources requirement. MIPRU also requires intermediaries to maintain adequate professional indemnity insurance that meets specified minimum limits of indemnity.

The detailed prudential rules applicable to carrying on insurance business are described further below.

### **5.1 Capital requirements**

GENPRU 2.1.13R provides that an insurer must maintain at all times capital resources equal to or in excess of its capital resources requirement (the "CRR"). The CRR for an insurance company carrying on long-term (and not general) insurance business is equal to the minimum capital requirement ("MCR") (GENPRU 2.1.23R). The MCR for an insurance company only carrying on long-term insurance business is the higher of:

- the base CRR; and
- the long-term insurance capital requirement plus the resilience capital requirement.

The resilience capital requirement is an additional capital requirement to reflect market risks in respect of assets held to cover insurance and other financial liabilities.

The base CRR is a euro-denominated amount specified in GENPRU 2.1.30R and the long-term insurance capital requirement is an amount determined by reference to a formula where the relevant inputs include the insurance company's mathematical reserves gross of reinsurance, the level of reinsured mathematical reserves, the death benefit sum at risk and reinsured death benefit sum at risk.

### **5.2 Individual capital assessment**

In addition to the CRR, insurance companies carrying on long-term insurance business are required to calculate an Individual Capital Assessment ("ICA") under INSPRU 7. Pursuant to the ICA, insurance companies are required to conduct stress and scenario testing to determine the overall adequacy of their financial resources and make a reasonable assessment of the capital needs for their business overall in line with the overall financial adequacy rule in GENPRU 1.2.26R.

The ICA assists the PRA in providing Individual Capital Guidance ("ICG") to insurance companies on a confidential basis. The ICG is set with reference to the specific business and control risks faced by each individual company and takes account of the company's ICA and any areas of prudence or optimism within the assessment or elsewhere in the business.

## **6. Reporting**

Insurance companies are required to deposit with the PRA an annual return comprising audited accounts and other prescribed documents within three months of the end of the relevant financial year, if the deposit is made electronically, and otherwise within two months and fifteen days of the end of the relevant



financial year. These returns are required to be prepared in accordance with the valuation rules in INSPRU and GENPRU and the reporting rules in the INSPRU.

## **7. Investment of Capital Reserves**

Under INSPRU 1.1.20R, insurance companies carrying on long-term insurance business must hold admissible assets of a value at least equal to the amount of:

- the technical provisions that it is required to establish under INSPRU 1.1.16R, being, in essence, an estimate of the amount needed to cover expected insurance claims, adjusted for volatility and prudence; and
- its other long-term insurance liabilities.

Assets and investments only count towards capital adequacy requirements if they are permitted to be counted in accordance with the rules. Assets are also required to be deducted from capital resources if they do not comply with the requirements in INSPRU 2 as to counterparty and asset exposure limits (although they may still be included in the calculation of a firm's realistic assets). These limits are intended to prevent companies from having too much exposure to either one counterparty (including a group of companies) or one asset type.

## **8. Insurance Group Capital**

The Directive on the Supplementary Supervision of Insurance Companies in an Insurance Group (1998/78/EC) (the "Insurance Groups Directive") as amended by the EU Directive on the Supplementary Supervision of Credit Institutions, Insurance Undertakings and Investment Firms in a Financial Conglomerate (2002/87/EC) requires Member States to provide supplemental supervision for any insurance undertaking that is part of a group which includes at least one other insurance company, insurance holding company, reinsurance undertaking or non-member-country insurance undertaking. The relevant provisions governing group capital for UK insurers are primarily contained in Chapter 6 of INSPRU.

The Group is an insurance group for the purposes of the Insurance Groups Directive and is therefore subject to the supplementary supervisory requirements for insurance groups contained in that directive as implemented by the PRA as the regulator in the domicile of the Group's head office. The supplementary supervision of insurance groups encompasses such matters as intra-group transactions, group risk management processes and internal control processes and reporting and accounting procedures. In addition, Chapter 6 of INSPRU requires the calculation and reporting of both group capital resources and group capital resource requirement, with the former being maintained equal to or in excess of the latter, at the level of the ultimate insurance parent undertaking within the EEA. This requirement applies in addition to the requirements which apply to Just Retirement Limited on a solo basis.

## **9. Conduct of Business Requirements**

The FCA and PRA's conduct of business requirements in relation to the distribution and sale of insurance products are contained in its Conduct of Business Sourcebook ("COBS"). COBS applies to insurance products with an investment element, such as mortgage endowments, pension policies and insurance bonds. This sourcebook also implements the Insurance Mediation Directive (Directive 2002/92/EC) ("IMD") and extends the IMD to direct sales by insurers themselves. The FCA's conduct of business requirements with respect to the distribution and sale of mortgages are contained in the Mortgages and Home Finance Conduct of Business Sourcebook ("MCOB"), which applies to the Group's LTM assets.

Many of the provisions of these sourcebooks only apply to insurers or intermediaries who deal directly with retail customers, or are confined in their application to transactions with retail customers. Further, the rules require the product documentation to be fully compliant for retail sales.

## **10. Compensation Scheme**

Insurance companies are subject to the FSCS, which seeks to protect policyholders when a UK authorised firm is unable or is likely to be unable to meet its financial obligations. Most claims made in respect of insurance business will also be protected if the business was carried out from the United Kingdom or, in another EEA State, from a branch of an insurer authorised by the PRA. The FSCS is funded by levies on authorised UK firms. Generally, companies subject to the FSCS make provisions for their share of the

levies. Such provisions are often based on estimates of a company's market participation in the relevant charging periods and the interest the will pay on the facilities provided by the UK Treasury in support of its obligations.

In relation to insurance business in particular, there are detailed provisions which govern the amount to be paid on a failure by the firm and policyholders will obtain only a percentage (usually 90 per cent.) of their guaranteed benefits. The FSCS, on a failure of an insurer, is obligated to attempt to transfer the insurance business to another insurer before paying compensation.

## **11. Anti-Money Laundering, Anti-Terrorism and Sanctions Laws and Regulations**

In addition to financial and insurance regulation, the Group must comply with anti-money laundering, anti-terrorism and sanctions laws and regulations. The Group is committed to working with international organisations, governments, law enforcement agencies, regulators and its industry peers to identify the threat of money laundering and close off channels in the financial system that money launderers, terrorists and other criminals may use.

Sanctions screening requires the Group to ensure it neither breaches legal and/or regulatory requirements nor suffers reputational damage by providing services to, or dealing directly or indirectly with persons, entities or countries who have been identified by the United Kingdom, United States, United Nations, European Union or other governmental, national and international bodies as subject to any form of restriction including financial sanctions or asset freezing orders.

## **12. Regulatory Developments**

The insurance industry faces a number of regulatory initiatives aimed at addressing lessons learned from the financial crisis and other industry-level issues such as payment protection insurance mis-selling. These initiatives include new prudential rules on capital adequacy frameworks, new conduct rules and new applications for those rules, and other changes as a result of regulatory investigations and actions. In addition, new UK regulatory bodies have been established under the Financial Services Act 2012.

### ***12.1 Structural reform of the UK financial supervisory architecture***

The UK government has reformed the framework for financial regulation in the United Kingdom under the Financial Services Act 2012 which has made significant amendments to the FSMA. The FSMA provides for the dual supervision of UK insurance companies by two new regulators: the PRA and the FCA.

The PRA is part of the Bank of England with responsibility for promoting the stable and prudent operation of the financial system through the regulation of all deposit-taking institutions, insurers and investment banks. The PRA's general objective is promoting the safety and soundness of PRA authorised persons. In relation to insurers it also has an insurance objective of contributing to securing an appropriate degree of protection for those who are or may become policyholders.

The FCA is responsible for regulating conduct in retail and wholesale financial markets (including insurance) and the infrastructure that supports those markets. It has a consumer protection objective, an integrity objective and a competition objective.

The Act provides for specific additional powers for the PRA and the FCA, including:

- (1) the ability for the FCA to intervene in order to ban financial products from sale or to ban a firm from selling a widely accepted product if it determines such firm's sale processes to be unacceptable; and
- (2) the ability for the PRA to direct an unregulated UK holding company to take a particular action, or refrain from taking a particular action, and to censure or fine such company if it does not so comply.

The Group's UK insurance subsidiary is regulated by both the PRA and the FCA, and there are risks and uncertainties as to how the two bodies will interact with each other over the regulation of the same legal entities. Whilst the Group will seek to ensure that it is prepared for this new system of regulation, there are risks associated with the uncertainty in respect of how the new regulators intend to apply their new powers and whether the new system will result in more intrusive and intensive regulation, adding additional burdens on the Group's resources. For instance, the policy of the FCA in respect of the sale of financial products is still in the process of development. If there is any change in regulatory focus in the United

Kingdom on product regulation, it may also impact the Group's ability to sell certain products in the future, which may adversely affect the Group's distribution arrangements.

The new regulatory framework became operational at the start of April 2013.

## ***12.2 The new EU solvency regime for insurance companies***

The European Commission is continuing to develop a new prudential framework for insurance companies, known as "Solvency II", that will replace the existing life, non-life, reinsurance and insurance groups directives. The main aim of this framework is to ensure the financial stability of the insurance industry across the European Union and protect policyholders through establishing solvency requirements better matched to the true risks of the business. Solvency II adopts a three-pillar approach to prudential regulation which is similar to the "Basel II" approach which has already been adopted in the banking sector in Europe. These pillars are quantitative requirements (Pillar 1); qualitative requirements (Pillar 2); and supervisory and reporting disclosure (Pillar 3).

Although the Solvency II directive has similarities to the current UK regime set out in GENPRU and INSPRU in terms of its risk-based approach to the calculation of CRRs and use of capital tiering, there are also many differences both in terms of substance and terminology.

A key aspect of Solvency II is the focus on a supervisory review at the level of the individual legal entity and the group. Insurers and groups will be allowed to make use of internal economic capital models to calculate capital requirements if the model has been approved by the regulator. In addition, Solvency II includes a requirement that firms develop and embed an effective risk management and internal audit system as a fundamental part of running the firm.

Solvency II is being developed in accordance with the Lamfalussy four-level process. The "Level 1" directive was formally approved by the European Parliament on 22 April 2009 and the final text was adopted by the European Council on 10 November 2009 and sets out a framework which will be supplemented by further and more detailed technical implementing measures at "Level 2". At "Level 3", standards and guidance will be agreed between national supervisors. At "Level 4", the European Commission will monitor compliance by Member States and take enforcement action as necessary. Proposed modifications to the Level 1 directive (set out in a legislative proposal from the European Commission in January 2011 referred to as the Omnibus II directive ("Omnibus II")) are likely to mean that, in addition, binding technical standards will be produced at "Level 2.5". The status of level 3 will be enhanced. National supervisors will be required to "comply or explain". At present, the timetable for bringing the new regime into force has yet to be settled. It is unlikely that it will be completed before 2016, and the Chairman of EIOPA has reported the same timescales. In an opinion published by EIOPA on 20 December 2012, EIOPA outlined the actions national supervisors should be taking in the interim period before Solvency II comes into force, including the pre-application of internal models and supervisory reporting. EIOPA are also intending to publish guidelines in autumn 2013 which will be addressed to national supervisors on how to proceed in the interim period. EIOPA expects national supervisors to start implementing the guidelines in their own national frameworks from 1 January 2014 and, if a regulator does not intend to comply with the guidelines, it will be expected to explain the reasons for this.

Solvency II provides for the supervision of insurance groups and will impose a group-level capital requirement in relation to certain insurance groups, including the Group. Where entities in any insurance group are located in different Member States, the national supervisors of those entities will participate in a college of supervisors to supervise the group. In the case of the Group, the PRA will be the lead regulator for the Group as the regulator in the domicile of the Group's insurance undertaking.

The Group's Solvency II programme has been designed to meet expected implementation requirements and milestones. However, the implementation of this programme, and the ultimate changes required to the Group's capital involve certain risks (see "Regulatory, legal and political risk—The European Union is currently in the process of introducing a new regime, Solvency II, governing solvency requirements, technical reserves and other requirements for insurance companies, the effect of which is uncertain" in Part 1 "Risk Factors").

## ***12.3 The European Insurance and Occupational Pensions Authority***

The European Parliament has called for a strengthening of the European supervision framework to reduce the risk and severity of future financial crises. This has led to the creation of EIOPA, which is a regulatory and supervisory authority which replaces the Committee of European Insurance and Occupational

Pensions Supervisors. EIOPA is part of the European System of Financial Supervisors that comprises three supervisory authorities: one for the banking sector, one for the securities sector and EIOPA for the insurance and occupational pensions sector. Under Omnibus II, EIOPA will have extended powers to develop the detailed aspects of the Solvency II regime, to provide guidelines and recommendations to national supervisors and to resolve differences between national supervisors in the supervision of international insurance groups. The Group will seek to ensure that it is prepared for regulation under EIOPA, however there are risks associated with the uncertainty in respect of how EIOPA intends to apply its powers and whether the new authority will result in more intrusive and intensive regulation, adding additional burdens on the Group's resources.

#### ***12.4 Gender neutrality regulation***

A ruling by the Court of Justice of the European Union (the "ECJ") in March 2011 prohibited new contracts concluded from 21 December 2012 from using gender-based factors in the calculation of individuals' premiums and benefits, and Member States were required to amend their existing national laws to require insurance pricing to be gender neutral by such date. The UK government has amended the UK Equality Act 2010 to implement the ECJ ruling with effect from 21 December 2012. These changes pose risks for the Group and insurance industry generally, and have required the Group to adjust its pricing structures including to limit the risk of anti-selection. Whilst the Group's size and extensive customer data should aid its assessment of the required changes, significant adjustments to the Group's pricing processes, or competitors' pricing processes, could have unexpected or unintended consequence on the mix of business or pricing strength of the policies written by the Group.

#### ***12.5 Retail Distribution Review***

The Retail Distribution Review ("RDR") came into force on 31 December 2012. The changes from the RDR are intended to enhance customer confidence in the retail investment market by improving clarity of products and service provided to customers, raising the professional standards of advisers and reducing potential conflicts of interest. In particular, financial advisers are now required to disclose explicitly the costs of the advice they provide, clearly describe services as either independent or restricted, and adhere to professional standards and qualifications, including a code of ethics. In order to offer "independent" advice, a financial intermediary must now advise on the "whole of market" (i.e., all possible products available). The revised regulations have necessitated increased training by distributors to ensure qualification and compliance, with the consequent risk of insufficient training of financial intermediaries, and the outcome of these changes could adversely affect the strategic importance of these financial intermediaries as a distribution channel for the Group. Distribution channels may also be adversely affected should the FCA, in any future review of the distribution model of the Group or the activities of the relevant distributor, consider that any of the agreements the Group has in place with distributors in respect of payments made and services provided by the Group, are at risk of non-compliance with the FCA's interpretation of the rules or the spirit of the RDR.

#### ***12.6 FSA / FCA review of pricing***

In January 2013, the FSA announced that it was reviewing annuity pricing data to determine whether and to what extent prospective customers are not purchasing the best value annuities, or exercising the OMO to buy their annuity from a firm other than the one providing the pension policy. The FCA, plans to perform its own pricing research to determine which groups of consumers are most likely to be affected and has written to product providers requesting information on annuity pricing. This will involve a pricing survey of all annuity providers and will compare the rates available through a range of distribution channels, including rates available through the OMO and those only available to existing pension policyholders. The consequences of the review are uncertain but could include the imposition of greater obligations on annuity providers to treat customers fairly and provide the best price possible. A range of thematic reviews are being planned by the FCA in this area and others. The Directors believe that the consequences of the FCA's review will be positive for the IUA market.

#### ***12.7 UK Government Care and Support Bill and caps on care assets***

On 9 May 2013, the Care Bill (the "Bill") received its First Reading in the House of Lords. The Bill was published on the following day. The details are still subject to legislative review, but the Bill seeks to increase public awareness about the need to make provision for the costs of care. The Bill includes a proposal for a state funded deferred payment arrangement due to launch in April 2015, which if offered

widely could slow the market for INAs. However, the Bill also acknowledges the need for better information and advice including independent financial advice. In its response to the pre-legislative Parliamentary Scrutiny Committee on the draft Bill, the Department of Health stated that “access to independent financial information and advice is of particular importance and should be provided as an essential component of the information and advice service provided by a local authority”. They further suggested that “access to independent regulated financial advice for anyone considering the deferred payment arrangements” could be set out in guidance from the Department of Health in due course.

The Bill proposes a cap on personal care costs which the UK government has said will be set at £72,000 with effect from April 2016. The cap is exclusive of “general living expenses” which will be set by the UK government and cover only the amount that a Local Authority would typically pay. Any costs for additional or more expensive services above this rate will have to be met by the individual. The cap is only relevant to individuals who meet eligibility criteria based on need which will be set by the UK government. Any people who require care who do not meet these criteria will have to pay all their costs themselves.

### ***12.8 UK insurance contract law***

In 2006, the Law Commissions of England and Wales and the Scottish Law Commission (the “Law Commissions”) began a programme for the review of English and Scottish insurance contract law. In December 2009 the Law Commissions published a joint report on consumer insurance law and a draft bill introducing changes which affect insurance customer obligations regarding their disclosure of pre-contractual information to insurers and the insurers’ remedies where the consumers fail to do so. The main change introduced by the resulting legislation is to replace the duty of disclosure with a duty on consumers to take reasonable care to answer insurers’ questions fully and accurately. This act, termed the Consumer Insurance (Disclosure and Representations) Act 2012 came into force on 6 April 2013. It is expected that it will bring the legal regime more in line with the PRA regime that applies to insurers and consumers and with the decisions of the Financial Ombudsman Service.

A consultation began in December 2011 regarding the post-contract regime applying to insurers and consumers with the expectation that this will lead to further legislation on such issues as a proposed duty of the insurers to pay claims promptly (breach of which would entitle the policyholder to damages) and the consequences which flow from fraudulent claims. The consultation closed in March 2012. A further consultation opened in June 2012 regarding the business insured’s duty of disclosure and the law of warranties. The consultation closed in September 2012. The proposals and legislation remain under debate and are not fixed. Pressure may also develop from proposals under discussion in the European Union and in the context of a European initiative known as the Principles of European Insurance Contract Law, which, if they are taken forward, may increase protection for consumer and business insurance customers yet further.

### ***12.9 IMD2***

Since 14 January 2005, the IMD has required EEA member states to apply a registration requirement to insurance mediation activities and requires insurance intermediaries to meet strict professional requirements in relation to their competence, good repute, professional indemnity cover and financial capacity. Insurance mediation activities include advising on insurance contracts and the promotion, distribution and sale of insurance products by intermediaries. ICOBS and COBS implement the IMD in the United Kingdom and extend it to direct sales by insurers themselves.

On 9 July 2012, the European Commission published the final version of its legislative proposal for major changes to the IMD. The proposed directive, known as IMD2, will be a minimum harmonisation directive like the IMD, but will raise the minimum standards of the IMD, significantly. The changes that IMD2 will make to the existing regime include: extending the scope of the IMD to all sellers of insurance products, including insurance companies that sell directly to customers; more effective measures in relation to conflicts of interest (including mandated disclosure of intermediary remuneration); and requirements applying to life insurance products with investment elements covering sales standards and conflicts of interest.

The Commission’s legislative proposal has been passed to the European Parliament and the Council of the European Union for their consideration under the co-decision procedure.

IMD2 is expected to come into force in 2015 subject to the date of adoption of IMD2.



### ***12.10 Mortgage Market Review***

After much consultation the FSA published its final version of the Mortgage Market Review (“MMR”) on 25 October 2012. The new rules arising from the MMR will not change who will be lent to, but rather prescribe a more robust approach to income verification and affordability assessment. The changes build on the FSA’s more intensive overall approach to supervision by allowing it to deal with firms who adopt high-risk strategies, and to intervene where business models and strategies create undue risks for firms, consumers and the financial system generally. The majority of new rules come into effect in April 2014, and requirements include an affordability assessment, stress testing around fluctuations in interest rates and the effect that this may have on mortgage payments, as well as a clearly understood method of capital repayment for interest only mortgages, not simply relying on rising property prices.

Under MMR, there will be a requirement for most consumers to receive advice prior to purchasing an LTM product. However, over 90 per cent. of industry sales make use of products provided by members of the ERC (source: ERC) and a condition of membership is that all customers purchasing an LTM must receive professional advice.

## PART 8

### DIRECTORS, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE

#### 1. Directors

<u>Name</u>	<u>Age</u>	<u>Position</u>
Tom Cross Brown . . . . .	65	Independent Non-Executive Chairman
Rodney Cook . . . . .	56	Chief Executive Officer
Kate Avery . . . . .	53	Independent Non-Executive Director
Shayne Deighton . . . . .	54	Group Chief Actuary
James Fraser . . . . .	48	Non-Executive Director
Keith Nicholson . . . . .	64	Senior Independent Director
Les Owen . . . . .	64	Independent Non-Executive Director
Simon Thomas . . . . .	49	Group Finance Director

#### *Tom Cross Brown (Independent Non-Executive Chairman)*

Tom Cross Brown was appointed as a Non-Executive Director of Just Retirement (Holdings) Limited in October 2006 and became Chairman on its admission to AIM in December 2006. Until 2003, he was Chief Executive Officer of ABN AMRO Asset Management. Prior to joining ABN AMRO Asset Management in 1997, he spent 21 years at Lazard Brothers & Co., latterly as Chief Executive Officer of Lazard Brothers Asset Management from 1994 to 1997. He is currently a Non-Executive Director of Phoenix Group Holdings, Artemis Alpha Trust Plc and a Non-Executive member of the Management Committee of Artemis Investment Management LLP. Tom is the Chairman of Just Retirement Group Holdings Limited, Just Retirement Limited, a Non-Executive Director of Just Retirement Solutions Limited, Chairman of the Nominations and Market Disclosure Committees and a member of the Risk and Compliance and Remuneration Committees as well as a member of the Investment Committee of Just Retirement Limited.

#### *Rodney Cook (Chief Executive Officer)*

Rodney Cook was appointed Chief Executive Officer of Just Retirement (Holdings) Limited in July 2010. Previously, he was Managing Director, Life and Pensions of Liverpool Victoria (LV=). Rodney, a qualified actuary and an FCA and PRA Approved Person, has 35 years' experience in financial services, having led businesses in both the United Kingdom and Australasia. He commenced his career with AMP, which culminated in his appointment as Managing Director of Pearl in 1999. This was followed by time at Zurich Financial Services as Managing Director of Sterling Assurance, Eagle Star Life and as Zurich Financial Services Customer Solutions Director, before joining Prudential as Prulab Director. Rodney is the Chairman of TOMAS Acquisitions Limited, a Director of Just Retirement Group Holdings Limited, Just Retirement (Holdings) Limited, Just Retirement Limited, Just Retirement Solutions Limited, Just Retirement Management Services Limited and a member of the Market Disclosure Committee.

#### *Kate Avery (Independent Non-Executive Director)*

Kate Avery was appointed as a Non-Executive Director of Just Retirement (Holdings) Limited and Just Retirement Group Holdings Limited in October 2013. She is currently Non-Executive Chairman of Openwork, a Non-Executive Director of Newcastle Building Society and Visiting Alumni at Cranfield. She spent the first 18 years of her career at Barclays, before assisting Halifax in their demutualisation and building their stockbroking business prior to joining Legal and General in 1996. She served on the board of directors of Legal and General, where she was responsible for the retail distribution division and subsequently the wealth management division. Kate is Chairman of the Remuneration Committee and a member of the Audit and Risk and Compliance Committees.

#### *Shayne Deighton (Group Chief Actuary)*

Shayne Deighton was appointed Group Chief Actuary of Just Retirement (Holdings) Limited in October 2008 and also acted as Chief Risk Officer until October 2012. He has previously been Group Financial Management Director at Aviva plc and UK Life Finance Director for Zurich Financial Services. He has also been a Partner at Ernst & Young and Principal at Tillinghast, the consulting actuaries. Shayne has over 32 years' experience in the insurance industry and is a Fellow of the Institute and Faculty of Actuaries and an FCA and PRA Approved Person. Shayne is a Director of Just Retirement Group Holdings Limited, Just Retirement (Holdings) Limited, Just Retirement Limited and Just Retirement Solutions Limited.

***James Fraser (Non-Executive Director)***

James Fraser was appointed as a Non-Executive Director of Just Retirement Group Holdings Limited (previously Avalon Acquisitions Limited) in December 2009. He is currently a Partner and the Head of the Financial Services Sector at Permira. Prior to joining Permira in 2008, James was Co-Head of the Global Financial Services practice at L.E.K. Consulting where he spent 21 years, 11 of which as a Partner. James is a Non-Executive Director of Just Retirement (Holdings) Limited, Just Retirement Limited and Just Retirement Solutions Limited and a member of the Nominations Committee.

***Keith Nicholson (Senior Independent Director)***

Keith Nicholson was appointed as a Non-Executive Director of Just Retirement (Holdings) Limited and Just Retirement Group Holdings Limited in October 2013. He is currently Chairman of Liberty Syndicate Management Limited and Deputy Chairman of The Equitable Life Assurance Society and of Wesleyan Assurance Society. Previously, he served for 25 years until March 2009 as an auditor and advisor to FTSE 100 financial services companies at KPMG. During his time at KPMG, he led their UK insurance practice and was relationship partner for Aviva and Winterthur Group, amongst others. Keith is Senior Independent Director, Chairman of the Risk and Compliance Committee and a member of the Audit, Remuneration, Nominations and Market Disclosure Committees as well as a member of the Investment Committee of Just Retirement Limited.

***Les Owen (Independent Non-Executive Director)***

Les Owen was appointed as a Non-Executive Director of Just Retirement (Holdings) Limited in May 2010. He is currently Non-Executive Chairman of The Jelf Group and a non-executive director of Royal Mail Group, Computershare, Discovery Holdings and CPP Group plc. Les is a qualified actuary and has over 40 years' experience in financial services. He was Group Chief Executive Officer of AXA Asia Pacific Holdings from 2000-2006 and prior to that he was Chief Executive Officer of Sun Life and AXA Sun Life. Les is a Non-Executive Director of Just Retirement Group Holdings Limited, Just Retirement Limited, Just Retirement (Holdings) Limited and Just Retirement Solutions Limited, Chairman of the Audit Committee and a member of the Risk and Compliance and Remuneration Committees.

***Simon Thomas (Group Finance Director)***

Simon Thomas was appointed Group Finance Director of Just Retirement (Holdings) Limited in July 2006. Previously, he was Finance and Customer Services Director at Canada Life Limited, the UK subsidiary of Great West Life. Prior to this, Simon was Head of Finance at HECM Limited (formerly Equitable Life) and spent ten years at Nationwide Building Society, latterly as Group Financial Controller. Simon has over thirteen years' experience in the UK life assurance industry, is a Chartered Accountant and an FCA and PRA Approved Person. Simon is a Director of Just Retirement Group Holdings Limited, Just Retirement (Holdings) Limited, Just Retirement Limited, Just Retirement Solutions Limited, Just Retirement Management Services Limited and TOMAS Acquisitions Limited and a member of the Market Disclosure Committee.

## **2. Senior Management**

The following table lists the names, positions and ages of the Company's Senior Management:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Rodney Cook . . . . .	56	Chief Executive Officer
Simon Thomas . . . . .	49	Group Finance Director
Shayne Deighton . . . . .	54	Group Chief Actuary
Steve Kyle . . . . .	53	Group Regulatory & Audit Director
Chris Berryman . . . . .	43	Group Operations Director
David Cooper . . . . .	47	Group Distribution & Marketing Director
Alex Duncan . . . . .	46	Chief Risk Officer
Anne Ridge . . . . .	61	Group HR Director
Dr. Tim Crayford . . . . .	48	Medical Director

***Rodney Cook (Chief Executive Officer)***

Please see “—Rodney Cook (Chief Executive Officer)” above.

***Simon Thomas (Group Finance Director)***

Please see “—Simon Thomas (Group Finance Director)” above.

***Shayne Deighton (Group Chief Actuary)***

Please see “—Shayne Deighton (Group Chief Actuary)” above.

***Steve Kyle (Group Regulatory & Audit Director)***

Steve Kyle, along with five other directors, founded Just Retirement in 2004 and was appointed as Group Regulatory & Audit Director in January 2010, where he leads Just Retirement’s regulatory, policy and assurance strategy. Steve has an MBA and over 30 years’ life and pensions experience in the United Kingdom and Europe. Prior to joining Just Retirement, Steve held senior roles at Commercial Union, Aviva and Britannic Retirement Solutions. He is a director of the Equity Release Council and a member of various ABI Groups. Steve is also Secretary General of the European Pensions & Property Asset Release Group, an organisation established to seek to foster dialogue between industry, EU institutions and governments on innovative pensions and property asset release solutions. He is an Executive Director of Just Retirement Limited and Just Retirement Solutions Limited.

***Chris Berryman (Group Operations Director)***

Chris Berryman, along with five other Directors, founded Just Retirement in 2004. He is the Group Operations Director and is responsible for the Strategy, New Product Development, Change Management, IT and Customer Service divisions of the business. Chris has over 20 years’ experience in the financial services industry, 15 of which have been in the retirement sector across a variety of roles including product development, service, IT, change management and actuarial modelling. He previously worked at NPI, GE and Britannic Group. He is an Executive Director of Just Retirement Limited and TOMAS Acquisitions Limited.

***David Cooper (Group Distribution & Marketing Director)***

David Cooper has spent nearly 30 years working in financial services. He has operated in a number of sectors including retail banking, general insurance, personal credit, actuarial consulting and in the past decade the retirement industry. He has worked for a variety of large organisations including GE Capital, Centrica plc and Bradford & Bingley as well as much smaller growth businesses such as the founder of enhanced annuities, Stalwart Assurance, and since 2006 Just Retirement. He is an Executive Director of Just Retirement Limited, Just Retirement Solutions Limited and also a Non-Executive Director of Origo Services Limited, the software standards and services supplier.

***Alex Duncan (Chief Risk Officer)***

Alex Duncan joined Just Retirement in September 2012. He is a Fellow of the Institute and Faculty of Actuaries and has 24 years’ experience in the financial services industry covering many disciplines, including reinsurance, consulting, banking and industry. Prior to joining Just Retirement, Alex was a director and an owner of Moreda Consulting and subsequently spent eight years at Old Mutual where he held a number of positions including Head of UK Acquisitions, Head of Corporate Finance and Development and, for the last four years, Director of Finance—Capital, in which role he was responsible for the capital management and treasury of the company.

***Anne Ridge (Group HR Director)***

Anne Ridge joined Just Retirement in March 2010 as an interim Head of HR and was appointed Group HR Director in September 2010. She is a Fellow of the Chartered Institute of Personnel and Development and has over 25 years’ experience in Human Resources. Prior to joining Just Retirement she worked in a number of industries gaining experience in retail (at Marks & Spencer), the oil and gas sector (BP) and in financial services with the Britannic Group.

***Dr. Tim Crayford (Medical Director)***

Dr. Tim Crayford joined Just Retirement in March 2011 as Medical Director, where he is responsible for the development of the company underwriting system, Prognosis™. Prior to joining Just Retirement, Tim was Chief Medical Advisor to the Government at the Department of Transport, Director of Public Health

and Medical Director at Croydon PCT, Deputy Director of Public Health at Croydon Health Authority, Consultant at Bromley Health Authority, Chair of Clinical Audit at King's College Hospital, and Lecturer in Public Health Medicine at King's College. Tim received a MSc. in Public Health from the University of London and a MB.BS from the Medical College of St. Bartholomew's Hospital. He is listed on the General Medical Council's Specialist Register in Public Health.

### **3. Corporate Governance**

#### **3.1 UK Corporate Governance Code**

The Board is committed to the highest standards of corporate governance. On and following Admission, the Board will comply with the UK Corporate Governance Code (the "Governance Code") published in September 2012 by the Financial Reporting Council except with respect to the composition of the Board, as described below. The Governance Code recommends that at least half the board of directors of a UK-listed company, excluding the chairman, should comprise non-executive directors determined by the board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the director's judgement. At Admission, the Board considers that half the Board, including the Chairman, will comprise non-executive directors that are independent in the manner required by the Governance Code. The Board recognises that, at Admission, it will not comply with the Governance Code with respect to its composition. However, it does not consider such non-compliance to be detrimental to the interests of the Company or the shareholders as a whole on the basis of (i) the current Directors' experience, judgement and character and (ii) its intention to appoint an additional non-executive director who will be independent in the manner required by the Governance Code within 12 months of the date of Admission. From that point, the Board considers that it will comply with the requirements of the Governance Code.

As envisaged by the Governance Code, the Board has established five committees: an audit committee, a nominations committee, a remuneration committee, a market disclosure committee and a risk and compliance committee. If the need should arise, the Board may set up additional committees as appropriate.

#### **3.2 Committees of the Board**

##### **3.2.1 Audit Committee**

The Audit Committee's role is to assist the Board with the discharge of its responsibilities in relation to financial reporting, internal and external audits and controls, including reviewing the Group's annual financial statements, reviewing and monitoring the scope of the annual audit and the extent of the non audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the internal audit activities, internal controls and risk management systems in place within the Group. The Audit Committee will normally meet not less than four times a year.

The Audit Committee is chaired by Les Owen and its other members are Kate Avery and Keith Nicholson. The Governance Code recommends that all members of the Audit Committee be non-executive directors, independent in character and judgment and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgment and that one such member has recent and relevant financial experience. The Board considers that the Company complies with the requirements of the Governance Code in that regard.

##### **3.2.2 Nominations Committee**

The Nominations Committee assists the Board in determining the composition and make up of the Board. It is also responsible for periodically reviewing the Board's structure and identifying potential candidates to be appointed as Directors, as the need may arise. The Nominations Committee also determines succession plans for the Chairman and Chief Executive Officer. The Nominations Committee will normally meet not less than twice a year.

The Nominations Committee is chaired by Tom Cross Brown and its other members are James Fraser and Keith Nicholson. The Governance Code recommends that a majority of the Nominations Committee be non-executive directors, independent in character and judgment and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgment. The Board considers that the Company complies with the requirements of the Governance Code in that regard.



### *3.2.3 Remuneration Committee*

The Remuneration Committee recommends what policy the Group should adopt on executive remuneration, determines the levels of remuneration for each of the Executive Directors and the Chairman and recommends and monitors the remuneration of members of senior management. The Remuneration Committee will also generate an annual remuneration report to be approved by the members of the Group at the annual general meeting. The Remuneration Committee will normally meet not less than twice a year.

The Remuneration Committee is chaired by Kate Avery and its other members are Tom Cross Brown, Keith Nicholson and Les Owen. The Governance Code recommends that all members of the Remuneration Committee be non-executive directors, independent in character and judgment and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgment. The Board considers that the Group complies with the requirements of the Governance Code in that regard.

### *3.2.4 Market Disclosure Committee*

The Market Disclosure Committee oversees the disclosure of information by the Company to meet its obligations under the Disclosure and Transparency Rules (“DTR”) and to ensure that decisions in relation to those obligations can be made quickly. The Market Disclosure Committee’s role is to determine whether information is inside information, when such information needs to be disclosed and whether any announcements are required. Other responsibilities include reviewing and approving announcements concerning developments in Just Retirement’s business and monitoring compliance with the Group’s DTR disclosure controls and procedures.

The Market Disclosure Committee meets whenever necessary to fulfil its responsibilities and is chaired by Tom Cross Brown and its other members are Keith Nicholson, Rodney Cook and Simon Thomas.

### *3.2.5 Risk and Compliance Committee*

The Risk and Compliance Committee is principally responsible for assisting the Board and other members of the Group in the discharge of their risk and regulatory oversight responsibilities. The Risk and Compliance Committee reviews and challenges the overall effectiveness of the firm’s regulatory systems and controls, risk management and future developments. The Risk and Compliance Committee also provides advice on regulatory and risk strategies including oversight of current risk exposures.

The Risk and Compliance Committee is chaired by Keith Nicholson and its other members are Tom Cross Brown, Les Owen and Kate Avery. The Governance Code recommends that all members of the Risk and Compliance Committee be non-executive directors, independent in character and judgment and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgment. The Board considers that the Group complies with the requirements of the Governance Code in that regard.

## *3.3 Group Executive Committee*

The Group also operates a Group Executive Committee to support the Chief Executive Officer in the performance of his duties, including the development and implementation of strategy, the monitoring of operating and financial performance, the assessment of control and risk, the supervision and prioritisation of resources and the monitoring of competitive forces. It is supported by the following sub-committees: risk committee, pricing committee, asset and liability committee, insurance committee, product and proposition committee, change committee and regulatory oversight committee.

The Group Executive Committee members are Rodney Cook, Simon Thomas, Shayne Deighton, Chris Berryman, David Cooper, Anne Ridge and Alex Duncan. Meetings are chaired by committee members in turn, excluding the Chief Executive Officer. Steve Kyle, Group Regulatory & Audit Director, provides independent input to the Group Executive Committee and has access to all committee materials.

## *3.4 Share dealing code*

The Company has adopted, with effect from Admission, a code of securities dealings in relation to the Shares which is based on, and is at least as rigorous as, the model code as published in the Listing Rules.

The code adopted will apply to the Directors, Senior Management and other relevant employees of the Group.

### ***3.5 Relationship Agreement with principal shareholder***

The Company has entered into the Relationship Agreement with Avallux, principally to ensure that it will be able, at all times, to carry on its business independently of Avallux and that all transactions and relationships between the Company and Avallux are at arm's length and on a normal commercial basis. See paragraph 12.2 of Part 17 "Additional Information" for a more detailed description of the Relationship Agreement.

### ***3.6 Conflicts of interest***

James Fraser is a partner at Permira. Permira Advisers LLP advises certain funds that wholly own Avallux, which will, immediately following Admission, control 62.4 per cent. of the voting rights in the Company, assuming no exercise of the Over-allotment Option, or 57.8 per cent. of the voting rights in the Company, assuming the Over-allotment Option is exercised in full.

Save as set forth in the paragraph above, there are no potential conflicts of interest between any duties owed by the Directors or Senior Management to the Company and their private interests or other duties.

## PART 9

### SELECTED FINANCIAL INFORMATION

The selected financial information set out below has been extracted without material amendment from Part 12 “Historical Financial Information” of this document, where it is shown with important notes describing some of the line items.

#### Statement of Comprehensive Income

	Year ended 30 June		
	2013	2012	2011
	£m	£m	£m
<i>Revenue:</i>			
Gross premiums written . . . . .	1,265.1	1,131.7	892.9
Reinsurance premiums ceded . . . . .	(666.2)	(680.7)	(525.2)
Reinsurance recapture . . . . .	116.8	—	54.7
Net premium revenue . . . . .	715.7	451.0	422.4
Net investment income . . . . .	249.5	374.1	135.8
<b>Total revenue . . . . .</b>	<b>965.2</b>	<b>825.1</b>	<b>558.2</b>
Other operating income . . . . .	5.6	4.5	4.4
	<b>970.8</b>	<b>829.6</b>	<b>562.6</b>
<i>Claims paid:</i>			
Gross amount . . . . .	(370.4)	(295.4)	(231.3)
Reinsurers’ share . . . . .	221.3	180.7	143.1
	(149.1)	(114.7)	(88.2)
<i>Change in insurance liabilities:</i>			
Gross amount . . . . .	(863.6)	(1,369.1)	(723.5)
Reinsurers’ share . . . . .	512.4	934.1	520.0
Reinsurance recapture . . . . .	(115.4)	—	(54.7)
	(466.6)	(435.0)	(258.2)
Change in investment contract liabilities . . . . .	5.2	0.4	—
Acquisition costs . . . . .	(39.5)	(40.4)	(28.7)
Other operating expenses . . . . .	(106.5)	(86.6)	(71.2)
Amortisation of intangible assets . . . . .	(7.7)	(12.1)	(12.7)
Finance costs . . . . .	(128.3)	(116.5)	(101.1)
<b>Total claims and expenses . . . . .</b>	<b>(892.5)</b>	<b>(804.9)</b>	<b>(560.1)</b>
<b>Profit before tax . . . . .</b>	<b>78.3</b>	<b>24.7</b>	<b>2.5</b>
Income tax . . . . .	(20.5)	(10.7)	(2.3)
<b>Profit for the year . . . . .</b>	<b>57.8</b>	<b>14.0</b>	<b>0.2</b>
Attributable to:			
Equity holders of Just Retirement Group Holdings Limited . . . . .	58.2	14.6	0.6
Non-controlling interest . . . . .	(0.4)	(0.6)	(0.4)
	<b>57.8</b>	<b>14.0</b>	<b>0.2</b>

## Statement of Financial Position

	As at 30 June		
	2013	2012	2011
	£m	£m	£m
<b>Assets</b>			
Intangible assets . . . . .	83.3	88.0	98.4
Equipment . . . . .	1.6	2.1	1.3
Financial assets . . . . .	6,044.7	4,964.3	3,507.4
Reinsurance assets . . . . .	3,476.8	3,079.8	2,145.7
Deferred tax assets . . . . .	12.7	10.8	14.0
Current tax assets . . . . .	—	5.0	5.0
Prepayments and accrued income . . . . .	84.4	91.8	52.4
Insurance and other receivables . . . . .	18.1	6.1	6.0
Cash and cash equivalents . . . . .	40.6	19.9	12.8
<b>Total assets . . . . .</b>	<b>9,762.2</b>	<b>8,267.8</b>	<b>5,843.0</b>
<b>Equity</b>			
Share capital . . . . .	80.0	73.0	72.9
Share premium . . . . .	5.2	0.2	0.1
Accumulated profit/(loss) . . . . .	66.1	7.2	(8.0)
Equity attributable to owners of Just Retirement Group Holdings Limited . . . . .	151.3	80.4	65.0
Non-controlling interest . . . . .	(1.2)	(0.8)	(0.2)
<b>Total equity . . . . .</b>	<b>150.1</b>	<b>79.6</b>	<b>64.8</b>
<b>Liabilities</b>			
Insurance liabilities . . . . .	5,490.3	4,626.7	3,257.6
Financial liabilities . . . . .	3,705.4	3,312.4	2,403.5
Investment contract liabilities . . . . .	130.4	61.5	—
Loans and borrowings . . . . .	55.2	—	—
Deferred tax liabilities . . . . .	44.8	44.1	36.7
Other provisions . . . . .	1.7	1.2	1.0
Current tax liabilities . . . . .	7.9	—	—
Accruals and deferred income . . . . .	16.8	13.5	10.5
Insurance and other payables . . . . .	159.6	128.8	68.9
<b>Total liabilities . . . . .</b>	<b>9,612.1</b>	<b>8,188.2</b>	<b>5,778.2</b>
<b>Total equity and liabilities . . . . .</b>	<b>9,762.2</b>	<b>8,267.8</b>	<b>5,843.0</b>

## Cash Flow Statement

	Year ended 30 June		
	2013	2012	2011
	£m	£m	£m
<b>Cash flows from operating activities</b>			
Profit before tax . . . . .	78.3	24.7	2.5
Depreciation of equipment . . . . .	1.1	1.0	0.2
Amortisation of intangible assets . . . . .	7.7	12.1	12.7
Share-based payments . . . . .	0.7	0.6	0.5
Interest income . . . . .	(175.1)	(135.6)	(111.6)
Interest expense . . . . .	128.3	116.5	101.1
<b>Operating profit before changes in operating assets and liabilities . . . . .</b>	<b>41.0</b>	<b>19.3</b>	<b>5.4</b>
(Increase) in financial assets . . . . .	965.1	(1,461.4)	(714.5)
(Increase) in reinsurance assets . . . . .	(397.0)	(934.1)	(465.4)
Decrease / (increase) in prepayments and accrued income . . . . .	21.4	(39.3)	(0.1)
(Increase) in insurance and other receivables . . . . .	(12.0)	—	(3.7)
Increase in insurance liabilities . . . . .	863.6	1,369.1	723.5
Increase in investment contract liabilities . . . . .	68.9	61.5	—
Increase in deposits received from reinsurers . . . . .	369.8	824.0	439.3
Increase in accruals and deferred income . . . . .	3.3	2.8	4.3
(Decrease) / increase in insurance and other payables . . . . .	(2.0)	35.0	5.4
(Decrease) / increase in other creditors . . . . .	(3.6)	35.8	13.1
<b>Cash (outflow)/inflow generated from operations . . . . .</b>	<b>(11.7)</b>	<b>(87.3)</b>	<b>7.3</b>
Interest received . . . . .	161.1	119.0	101.5
Interest paid . . . . .	(94.3)	(89.8)	(77.2)
Taxation paid . . . . .	(14.0)	(0.6)	(10.6)
<b>Net cash inflow / (outflow) from operating activities . . . . .</b>	<b>41.1</b>	<b>(58.7)</b>	<b>21.0</b>
<b>Cash flows from investing activities</b>			
Additions to internally generated intangible assets . . . . .	(3.0)	(1.7)	(1.9)
Acquisition of equipment . . . . .	(0.6)	(1.8)	(0.7)
<b>Net cash (outflow) from investing activities . . . . .</b>	<b>(3.6)</b>	<b>(3.5)</b>	<b>(2.6)</b>
<b>Cash flows from financing activities</b>			
Increase in borrowings . . . . .	80.5	—	—
Interest paid . . . . .	(1.0)	—	—
Issue of ordinary and preference share capital . . . . .	19.0	0.2	3.5
<b>Net cash inflow from financing activities . . . . .</b>	<b>98.5</b>	<b>0.2</b>	<b>3.5</b>
Net increase / (decrease) in cash and cash equivalents . . . . .	136.0	(62.0)	21.9
Cash and cash equivalents at start of period . . . . .	53.9	115.9	94.0
<b>Cash and cash equivalents at end of period . . . . .</b>	<b>189.9</b>	<b>53.9</b>	<b>115.9</b>



## PART 10

### OPERATING AND FINANCIAL REVIEW

*This Part 10 “Operating and Financial Review” should be read in conjunction with Part 2 “Presentation of Financial and Other Information”, Part 5 “Market Overview”, Part 6 “Information on the Company and the Group” and Part 12 “Historical Financial Information”. Prospective investors should read the entire document and not just rely on the summary information set out below. The financial information considered in this Part 10 “Operating and Financial Review” is extracted from the financial information for the Group and the JRGHL Group, the latter of which is set out in Part 12 “Historical Financial Information”. The consolidated financial statements referred to in this discussion have been prepared in accordance with IFRS.*

*The term “JRGHL Group” refers to Just Retirement Group Holdings Limited (formerly Avalon Acquisitions Limited, the acquisition vehicle which acquired Just Retirement (Holdings) Limited in November 2009) and each of its consolidated subsidiaries and subsidiary undertakings, including its sole direct subsidiary, Just Retirement (Holdings) Limited. The terms “Group” and “Just Retirement” refer to Just Retirement (Holdings) Limited and each of its consolidated subsidiaries and subsidiary undertakings prior to the completion of the Reorganisation steps as set out in paragraph 3 of Part 15 “Reorganisation of the Group” (which is expected to be immediately prior to Admission) and, thereafter, the Company and its consolidated subsidiaries and subsidiary undertakings from time to time.*

*The following discussion contains forward-looking statements. The Group’s actual results could differ materially from those that it discusses in these forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this document, particularly under Part 1 “Risk Factors” and “Information Regarding Forward-looking Statement” in Part 2 “Presentation of Financial and Other Information”. In addition, certain industry issues also affect the Group’s results of operations and are described in Part 5 “Market Overview”.*

#### **1. Overview of the Group**

Established in 2004, Just Retirement is a specialist UK financial services group focusing on high growth segments of the UK retirement income market. Just Retirement is a leading and established provider of IUAs and LTMs in the United Kingdom (source: ABI, ERC, Group accounts, Just Retirement analysis). In the IUA market it offers better annuity rates compared with standard annuity providers to customers, who, as a result of one or more pre-existing medical conditions or lifestyle factors, are likely to have a reduced life expectancy. Just Retirement utilises its unrivalled proprietary IP based on over 600,000 person-years of experience collected over nine years of operations, data capture capabilities, underwriting practices, statistical analysis and an understanding of annuity purchase behaviour, alongside a capital efficient business model, to drive profitable growth. To date, having underwritten over 66 per cent. more IUAs than any other provider (source: Just Retirement analysis), Just Retirement has helped close to 200,000 annuity customers achieve a better income in their retirement than if they had taken annuities from standard annuity providers and has helped close to 50,000 LTM customers release equity from their properties.

Just Retirement has focused primarily on the core segments of the IUA market (medically enhanced and lifestyle), which the Directors believe are the larger and the faster growing segments of this market, whilst also achieving a growing volume of business in the smaller impaired segment. In the year ended 31 December 2012, the medically enhanced and lifestyle segments accounted for 71 per cent. and 17 per cent., respectively, of Just Retirement’s total consolidated sales for IUAs, with the remaining 12 per cent. attributable to the impaired segment. As a result of this focus, Just Retirement has built a more extensive database on both medical and lifestyle factors compared to any other annuity provider (source: Just Retirement analysis). The Directors believe that the combination of the Group’s unrivalled proprietary IP and its real-time, automated quoting capability has provided Just Retirement with a significant competitive advantage in terms of distribution and customer pricing for those risks selected by the business in the core segments of the IUA market.

In 2011, Just Retirement commenced development of its own automated underwriting system, PrognoSys™. Phase I of the PrognoSys™ development programme is now complete and the system is now capable of assessing over 70 of the most important categories of conditions (such as diabetes, cancer and the risk factors for heart disease) that have commonly affected individuals by the time they retire, as well as over 1,500 variations, including disease severity, medication and combinations of conditions. Just Retirement has already started using key insights from phase I to refine its pricing and acceptance criteria, supporting the Group’s confidence in the delivery of future profits. In 2013, Just Retirement initiated

phase II of the Prognosys™ programme. When complete, Prognosys™ will deliver an individual mortality curve for each customer, which will show the probability of any given customer's death at any time in the future and which the Directors believe will be a powerful tool for pricing and reserving and will further enhance the Group's significant competitive advantage.

Just Retirement has consistently reinsured a substantial part of its annuity portfolio (approximately 66 per cent. of the longevity risks under its qualifying IUA new business). This strategy has enabled Just Retirement to transfer a portion of its longevity risk and has provided relief from statutory capital constraints, allowing the Group to optimise its capital position and support strong growth.

In the LTM market, Just Retirement has been a leading proponent of drawdown LTMs (source: ERC). The LTM product provides an effective longevity hedge and a high risk-adjusted yield, whilst supporting the strong credit profile of Just Retirement's investment portfolio. The LTM product is complementary to the IUA product as the yield uplift (compared to corporate bonds), together with reinsurance and capital financing, significantly reduces the capital required for its IUA products at the point of sale, a reflection of Just Retirement's capital efficient business model.

The Group continuously looks to leverage its unrivalled proprietary IP to increase its share in those segments of the IUA market assessed to be attractive and to develop new products, such as DB pension de-risking solutions and care annuities, and to participate in the broader retirement income market to secure further growth opportunities. The Group has also established itself as the second largest provider in the FTA market in the United Kingdom (source: ABI, Just Retirement estimates). These products are expected to grow in importance in the coming years. For more information, see paragraph 4 of Part 5 "Market Overview".

Just Retirement has leveraged its well-known brand, automated and scalable underwriting system and reputation for high-quality service to develop an RDR-compliant multi-channel distribution strategy and secure long-term agreements with key partners who have supported the Group's strong growth in recent years. Just Retirement's products are typically distributed to individuals through financial intermediaries, employee benefit consultants, life insurance companies and platforms, banks and building societies, price comparison websites and affinity partners. The Directors believe that the strength of Just Retirement's distribution relationships and the willingness of networks to engage with it are testament to the strength of its award winning and differentiated service proposition for distributors and the Group's commitment to offer a "just retirement" to its customers.

Just Retirement has enjoyed a strong track record of profitable organic growth.

- Total New Business Sales have increased from £297.9 million in the year ended 30 June 2006 to £1,653.6 million in the year ended 30 June 2013, representing a CAGR of 28 per cent.;
- New Business Sales for annuities have increased from £252.6 million in the year ended 30 June 2006 to £1,343.9 million in the year ended 30 June 2013, representing a CAGR of 27 per cent.;
- New Business Sales for LTMs have increased from £45.3 million in the year ended 30 June 2006 (the period in which the Group launched its LTM product) to £309.7 million in the year ended 30 June 2013, representing a CAGR of 32 per cent.; and
- European Embedded Value has increased from £38.0 million as at 30 June 2006 to £503.9 million as at 30 June 2013.

Just Retirement's organic growth is also reflected in the increases in its KPIs during the three-year track record that are highlighted below and discussed in more detail in subsequent sections of this Part 10 "Operating and Financial Review".

- New Business Sales have increased from £1,135.2 million in the year ended 30 June 2011 to £1,653.6 million in the year ended 30 June 2013, representing a CAGR of 21 per cent.;
- New Business Operating Profit has increased from £49.1 million (normalised, as described in footnote 1 to the table in paragraph 3 of this Part 10) in the year ended 30 June 2011 to £58.9 million in the year ended 30 June 2013, representing a CAGR of 10 per cent.;
- In-force Operating Profit has increased from £26.4 million in the year ended 30 June 2011 to £41.1 million in the year ended 30 June 2013, representing a CAGR of 25 per cent.;
- Underlying Operating Profit has increased from £75.5 million (normalised) in the year ended 30 June 2011 to £100.0 million in the year ended 30 June 2013, representing a CAGR of 15 per cent.; and

- European Embedded Value has increased from £343.8 million as at 30 June 2011 to £503.9 million as at 30 June 2013, representing a CAGR of 16 per cent (excluding £44 million of capital injections between 2011 and 2013).

Just Retirement is based in Surrey and had 819 employees as at 30 June 2013. The Group's management team has over 100 years of combined experience in the retirement income industry, and the majority have been part of Just Retirement for a significant period of time. Members of the Group are authorised and regulated in the United Kingdom by the FCA and/or the PRA. In particular, Just Retirement Limited is authorised by the PRA and regulated by the FCA and the PRA, while Just Retirement Solutions Limited is authorised and regulated by the FCA.

## **2. Significant Factors Affecting Results of Operations**

The discussion below describes several significant factors that have had and/or may have a material effect on the Group's results of operations. Certain risks and other factors which may affect the Group's business are discussed in Part 1 "Risk Factors".

### **2.1 Market and macroeconomic factors**

Market environment and macroeconomic conditions, to the extent they affect the retirement annuity and lifetime mortgage markets, could have a material impact on the Group's results of operations. Factors affecting these markets include competition, the growth in population reaching retirement age, the increasing proportion of retirees whose pension benefits are purchased from DC pension schemes rather than DB schemes, changes to consumer appetite for particular products, fluctuations in investment income due to changing market conditions, changes to the regulatory environment, increased awareness of the Group's products and the increasing proportion of customers purchasing annuities through the OMO. Additional factors affecting the UK lifetime mortgage market include interest rates, fees for early redemption, house prices and the forecast decline of income at retirement.

In addition, the Group's margin and sales volume targets are affected by competitive and market dynamics. The Group is subject to market-wide and macroeconomic trends that impact the Group's ability to price products in a way that will attract customers and grow its business. Increased competition in both the annuities market and lifetime mortgage market have led to pricing pressures, which Just Retirement has addressed in some cases by using real-time pricing (which permits the sales team to deviate from target pricing within defined limits in order to secure a sale) in the case of annuities and cash back incentives and price matching in the case of lifetime mortgages. Other changes to the markets in which the Group sells its products can also affect pricing, for example, changes in lifestyle, technology or regulation and their effect on customers' actual or perceived need for the Group's products.

### **2.2 Quotes and conversion rates and seasonality**

The Group's results of operations are influenced by the volume of quotes provided to potential customers, the percentage of quotes converted to applications, and the number of applications converted to purchase of a product. Quote-to-application conversion rates for IUAs have reduced during the period under review, whilst LTMs have remained relatively stable. However, in both instances, the volume of quotes has increased significantly, supporting an increase in overall revenues. Strong sales are supported by application-to-sales conversion rates, which were greater than 95 per cent. for IUAs and 80 per cent. for LTMs in the year ended 30 June 2013.

Higher levels of quotes provided by Just Retirement have been supported by an increase in the proportion of quotes provided by online quotation portals such as TOMAS™ (which are typically business-to-business portals) and direct-to-customer price comparison websites (such as Confused.com). Improvements in web access may support further increases in quote levels.

The volume of quotes is also affected by seasonal changes each year. In December, annuities quotes have historically been lower than other times during the year, with quotes increasing from January through March as individuals organise their financial affairs towards the end of the tax year. Nevertheless, for the six months ended 31 December 2012, total annuity sales for the Group increased by more than 54 per cent. compared to the corresponding period in the prior year. This increase was primarily due to increased sale volumes in the final quarter of 2012, reflecting increased total market activity as financial advisors brought forward business ahead of the December cut-off dates for the Gender Directive and the RDR. LTM quotes are also subject to seasonality, with a lower level of quotes in December and January.

### **2.3 Pricing**

The Group's underwriting results and profitability are dependent on the accurate pricing of its annuity and LTM products. The Group's ability to accurately price its products requires a detailed technical understanding of the underlying risk in order to estimate future policy costs, assess the life expectancy of its customers, adjust in a timely manner to market pricing dynamics and manage its costs of operations. In pricing its products, the Group continually reviews and responds to technical factors (such as changes in the assessed level of longevity, changes in investment yields or changes in regulatory requirements for methods used to assess capital requirements) and commercial pressures from competitor pricing. In response to these factors and pressures, prices can be revised up or down.

Just Retirement's IUA products are priced through enhanced modelling of expected mortality that utilises experience and medical data. Combining the expected payments with an expected return from investing the premium allows calculation of the level of annuity payable for a set premium. Changes in the assessed level of regulatory capital required to back individual policies will also impact the price, as the cost of holding that capital to support the business is reflected in the overall price. Pricing of the Group's LTMs is based on similar factors in relation to mortality assumptions and regulatory capital requirements, as well as house prices and interest rates.

See paragraph 7 of Part 6 "Information on the Company and the Group" for further details of the Group's approach.

### **2.4 Operating expenses**

In any given period a majority of the Group's operating expenses are comprised of commissions paid to financial intermediaries and personnel expenses. For the year ended 30 June 2013, commissions and personnel expenses together accounted for 58 per cent. of the Group's operating expenses of £142.1 million, compared to 60 per cent. of £126.4 million and 59 per cent. of £99.7 million for the years ended 30 June 2012 and 2011, respectively. With limited exceptions, these operating expenses are typically recognised when incurred. The growth of the total annuity market during the period under review, coupled with the Group's increasing market share over the same period, contributed to the growth in the volume of policies written year-on-year, which in turn helped to drive absolute increases in commissions paid to financial intermediaries. Moreover, as the Group increased headcount to be able to service the growing IUA market, personnel expenses increased as well. However, as a result of its automated and scalable underwriting system, which enables the Group to scale up its business relatively cheaply, the Group has achieved a consistent reduction in its operational new business acquisition cost ratio year-on-year since the year ended 30 June 2011. Going forward, the Group expects operating expenses to continue to increase in absolute terms, but, as a result of its automated and scalable underwriting system, the Group expects operating expenses at the Just Retirement Life level to remain broadly flat as a percentage of new business sales.

### **2.5 Taxation**

The Group's effective tax rate during the period under review (2013: 23.1 per cent.; 2012: 25.7 per cent.; 2011: 27.8 per cent.) has reflected the statutory rate. When there are sufficient taxable profits in the Group, tax deductible losses arising from the interest paid by Just Retirement Group Holdings Limited on its loan notes are offset against such profits. Any unutilised tax losses are carried forward in Just Retirement Group Holdings Limited and treated as unrecognised tax assets, which increases the effective tax rate of the Group. In addition, Just Retirement Group Holdings Limited has accrued dividends on its preference shares which are not deductible for corporation tax purposes. Any changes to the capital structure of the Group could potentially reduce the future impact of unutilised tax losses within Just Retirement Group Holdings Limited and change the effective tax rate to approximate the statutory rate.

Life insurance companies are generally taxed differently from other corporate entities, using a basis that seeks both to tax the shareholders on their profits and to ensure that the company provides for the tax due by policyholders on their net investment return. Just Retirement Limited (the life insurance company in the Group) will continue to benefit from being taxed on a trading profit basis, provided its basic life insurance and general annuity business (i.e., its non-pensions business) represents less than 5 per cent. of its total revenue. The annuities written by the Group are classified as pension business for tax purposes. Until 31 December 2012, the taxable profits were based on the regulatory surplus (PRA basis) rather than statutory accounting profit. With effect from 1 January 2013, the tax rules for life insurance companies changed such that taxable profits will be based on the statutory accounting profit (prepared using



UK GAAP), not the regulatory surplus. Under the new rules, taxable amounts arising from the difference in treatment crystallised on 31 December 2012 and will be brought into tax evenly over a 10-year period. This change in taxation basis is expected to have a broadly neutral impact on the Group's corporate taxation position, although tax cash payments could accelerate.

## **2.6 Reinsurance**

As part of its overall risk mitigation and capital management strategy, the Group has entered into reinsurance treaties covering, in the aggregate, approximately 66 per cent. of the longevity risks under its qualifying IUA new business, with several reinsurance providers (Hannover Re, Achmea Re and Reinsurance Group of America). Reinsurance contributes to the Group's regulatory capital for the initial solvency requirements of the IUA business and enables it to cover a proportion of its longevity risk (the risk of annuitants living longer than expected). Achmea Re ceased reinsuring new business for the Group with effect from 1 July 2012 and was replaced by Reinsurance Group of America from that date.

Reinsurance also enables the Group to improve pricing competitiveness and the quality of earnings by transferring risk (and therefore potential losses) to its reinsurers. Significant changes in reinsurance pricing or the ability to obtain reinsurance may have a material impact on the Group's results. Changes in the structure of reinsurance contracts can impact on the Group's results, as well as changes in the level of reinsurance. For more information about the Group's reinsurance policies and procedures, see paragraph 8 of Part 6 "Information on the Company and the Group".

## **2.7 Investment management**

The Group's investment return affects its profitability in any given reporting period. The Group's investment strategy is to manage its financial asset portfolios to optimise risk-adjusted returns, minimise cash-flows mismatches in relation to future payment obligations arising from the Group's annuity portfolio and LTMs and limit exposure to interest rate fluctuations. The majority of the Group's financial assets is held in UK gilts and corporate bonds (62 per cent. as at 30 June 2013) in order to match cash inflows from such investments against expected future cash outflows in respect of future payment obligations. Although there have been no defaults to date on bonds held by Just Retirement, the Group's policy is to exit investments when an investment manager raises concerns of issuer default (either sovereign or corporate) or when there are opportunities to improve risk adjusted returns. The Group does not currently hold bonds issued by Greece, Portugal, Cyprus or Ireland. The Group's existing exposures to Italy and Spain accounted for approximately 2 per cent. of the Group's bond portfolio as at 30 June 2013, with such exposure primarily limited to high-quality assets, such as telecommunications companies.

The Group's non-linked portfolio is managed by Robeco and Blackrock (appointed in 2013).

For a discussion of the Group's investment strategy, see paragraph 9 of Part 6 "Information on the Company and the Group".

## **2.8 Movements in interest rates**

The Group's margins are sensitive to movements in risk free interest rates, as measured by swap rates. These rates are one of the components used in the calculation of New Business Operating Profit which is one of the Group's KPIs. Decreasing swap rates positively impact LTM margins but adversely affect IUA margins, whereas increasing swap rates have the opposite effects. The overall impact on New Business Operating Profit, therefore, reflects this offset and the net result of this natural hedge will depend on the product mix of new sales. During the period under review, swap rates have been volatile. However, as product mix has been broadly stable, this volatility has not resulted in significant changes in New Business Operating Profit. The cash flows associated with liabilities for IUAs and the assets backing these liabilities are closely matched, which largely removes any sensitivity to movements in interest rates. However, there are some excess long-dated LTM cashflows, and Just Retirement uses interest rate derivatives to partially hedge the exposure arising from these cashflows. To the extent these cashflows are not hedged, there would be an impact on profit which would flow through Net Investment Income (see paragraphs 6.1.5 and 6.2.5 of this Part 10 "Operating and Financial Review") but would be excluded from Operating Profit.

## **2.9 Reserves**

The Group maintains insurance reserves to cover the estimated cost of annuity payments and the related administrative expenses required to manage an insurance policy over its expected duration. Changes in the



level of reserves may materially impact the Group's reported results for a given period as the movement in insurance reserves from period to period is a material contributor to the profits reported by the Group. Since 2005, the Group has continuously experienced more IUA deaths than the best estimate reflected in the Group's reserves (see paragraph 7.3.2 of Part 6 "Information on the Company and the Group").

The Group sets the level of reserves at the end of each financial year using actuarial methods having due regard to the actuarial principles set out in the PRA's Prudential Sourcebook for insurers. The level of reserves is dependent upon a range of actuarial and statistical projections and assumptions, each of which is reassessed in light of the most recent information available to the Group at the time of setting the reserves. For example, changing longevity assumptions affect the level of reserves set by the Group. In the 2012 and 2013 financial years, as a result of its use of key insights from phase I of the Prognosys™ programme, the Group was able to refine its view of mortality expectations and accordingly increased its level of reserves, reflecting its revised mortality expectations. In addition, regulatory and legal developments may result in the Group deciding to maintain greater levels of reserves.

## ***2.10 Changes in regulation***

Developments in government regulation and legislation may require the Group to make significant changes to its reserves, capital, pricing models, systems and controls, and may have a material effect on its results of operations. In particular, the Solvency II regulations with respect to capital adequacy and controls currently being developed by the European Union could affect the Group's capital position and results. Under these regulations, firms will be required to complete a risk and solvency assessment that may result in the Group having to strengthen its solvency capital position, which could impact its results of operations. Solvency II may also require changes to the Group's business operations. Whilst the overall intentions and process for implementing Solvency II are largely known, the future landscape of EU solvency regulation is still evolving, and the precise interpretation of the rules is still being developed, and therefore the overall effect upon the Group's results of operations remains uncertain.

Additional regulatory developments that could have an impact on the Group's results include, amongst others, the FCA's review of annuity sales practices and the UK government's plan to introduce a cap on an individual's care costs. See paragraph 12 of Part 7 "Regulatory Overview" for further information on these developments and Solvency II.

The Board cannot predict with certainty the effects regulatory reforms may have on the Group. To help the Group assess and manage the likely impact of regulatory and legal developments and uncertainties in its business, the Group's policy has been to proactively engage in emerging regulatory developments by participating in industry consultation and support the introduction of a coherent package of reforms. For example, in early 2013 Just Retirement participated in a long-term guarantees impact assessment.

In addition, the Group has prepared new solvency assessments in response to regulatory changes and has modelled several different scenarios with regard to regulatory trends in order to minimise the overall impact of future regulations and take advantage of emerging opportunities.

## ***2.11 Impact of the Acquisition and Reorganisation***

As described in more detail in paragraph 2 of Part 6 "Information on the Company and the Group" and Part 15 "Reorganisation of the Group", Just Retirement (Holdings) Limited was acquired by Avalon Acquisitions Limited (since renamed Just Retirement Group Holdings Limited) in November 2009. In common with most private equity sponsored acquisitions, the structure of the acquisition and subsequent investments in the Group had a material effect on the reported financial position and results of operations of the JRGHL Group included in Part 12 "Historical Financial Information". In particular, Just Retirement Group Holdings Limited incurred finance costs relating to interest and preference share dividends that have accrued on shareholder loan notes and preference share capital issued on the acquisition of the Group and other costs, principally amortisation charges relating to the amortisation of Just Retirement Group Holdings Limited's intangible assets (comprising its goodwill in the Group) and minor administration costs incurred by Just Retirement Group Holdings Limited.

The following table reconciles the Group's profit before tax in each of the years ended 30 June 2013, 2012 and 2011 to the JRGHL Group's profit before tax:

	Year ended 30 June		
	2013	2012	2011
	£m	£m	£m
<b>Profit before tax (Group)</b> .....	<b>121.4</b>	<b>62.2</b>	<b>37.1</b>
Finance and other costs incurred by Just Retirement Group Holdings Limited			
<i>Finance costs</i> .....	(32.5)	(26.8)	(23.9)
<i>Amortisation of intangible assets</i> .....	(6.5)	(10.2)	(10.2)
<i>Other operating expenses</i> .....	(4.1)	(0.5)	(0.5)
<b>Profit before tax (JRGHL Group)</b> .....	<b>78.3</b>	<b>24.7</b>	<b>2.5</b>

Finance and other costs incurred by Just Retirement Group Holdings Limited increased by £2.9 million, from £34.6 million for the year ended 30 June 2011 to £37.5 million for the year ended 30 June 2012 and by a further £5.6 million to £43.1 million for the year ended 30 June 2013. These increases were primarily due to the roll-up of interest on the outstanding loan notes and preference share dividends on the outstanding preference share capital. Following the Reorganisation described in Part 15 "Reorganisation of the Group", Just Retirement Group Holdings Limited will cease to incur these finance costs. In addition, Just Retirement Group Holdings Limited's other operating expenses for the year ended 30 June 2013 represented expenses related to the Offer, as well as Directors' fees.

### 3. Key Performance Indicators

The Board has adopted the following metrics, which are considered to give an understanding of the Group's underlying performance drivers. These measures are referred to as key performance indicators ("KPIs"). The KPIs described below are not measures of financial performance under generally accepted accounting principles, including IFRS, and should not be considered in isolation or as an alternative to the Statement of Comprehensive Income or other primary financial information included in Part 12 "Historical Financial Information". With the exception of New Business Sales and European Embedded Value, the KPIs described below have been extracted without material adjustment from Note 7 of the financial information for the JRGHL Group included in Part 12 "Historical Financial Information". Because these measures are not determined in accordance with generally accepted accounting principles and are thus susceptible to varying calculations, they may not be comparable with other similarly titled measures of performance of other companies.

The Board considers the Group's KPIs to be as follows:

- *New Business Sales*—represent the amount of new business sold during the reporting period. Annuity business sales are measured in terms of gross premiums written, whereas LTM sales are measured in terms of cash advances.
- *New Business Operating Profit*—represents the profit generated from new business written in the reporting period, calculated using IFRS assumptions applicable as at the point of sale. The calculation of New Business Operating Profit includes prudent reserves above best estimates for mortality, corporate bond defaults and, with respect to LTMs, NNEGs and early redemptions, which should be released in future years and recognised as part of in-force operating profit subject to performance. New business operating profit is stated after allowing for acquisition expenses for both the annuity and LTM business.
- *In-force Operating Profit*—captures the expected margin to emerge from the in-force book of business and the free surplus, namely:
  - the release of prudent margins in excess of best estimates in relation to mortality and corporate bond defaults within the IFRS liability, as well as the expected emergence of profit on the LTM business; and
  - the expected return on surplus assets.
- *Underlying Operating Profit*—equals the sum of New Business Operating Profit and In-force Operating Profit.
- *European Embedded Value ("EEV")*—represents the sum of shareholders' net assets and the value of in-force business, where these items have been calculated in accordance with the generally accepted

EEV Principles. In the Directors' view, the EEV is a valuable additional KPI since it provides investors with a prudently calculated measure of the future profit streams of the Group's in-force long-term business and captures some of the additional value of the profits of business that has been written but not yet recognised under New Business Operating Profit.

The Board considers Underlying Operating Profit to be the core measure of financial performance of the Group, and therefore a useful measure for investors and analysts to use in assessing the Group's financial position, as this measure excludes the impact of "one-off" operating assumption changes and investment variances which can distort the period-on-period results. The Group's "buy and hold" investment strategy means that the vast majority of its UK gilts and corporate bonds should be held to maturity, thereby ensuring that any investment variances, in aggregate and over the life of the bonds, should not materially impact the financial performance of the Group in any single year. As the Directors believe that reinsurance and bank finance costs and regulatory and non-recurring expenditure are not components of the Group's Underlying Operating Profit, those costs are excluded from Underlying Operating Profit.

The table below shows the components of Underlying Operating Profit for each period, together with a reconciliation to profit before tax of the JRGHL Group:

	Year ended 30 June		
	2013	2012	2011
	£m	£m	£m
New Business Operating Profit <sup>(1)</sup>	58.9	54.5	49.1
In-force Operating Profit	41.1	32.7	26.4
<b>Underlying Operating Profit<sup>(1)</sup></b>	<b>100.0</b>	<b>87.2</b>	<b>75.5</b>
Operating experience and assumption changes <sup>(1)</sup>	(11.8)	10.9	(0.9)
Reinsurance and bank finance costs	(9.2)	(8.5)	(8.2)
<b>Operating Profit before tax<sup>(2)</sup></b>	<b>79.0</b>	<b>89.6</b>	<b>66.4</b>
Non-recurring and project expenditure	(6.5)	(7.4)	(5.3)
Investment and economic profits/(losses)	48.9	(20.0)	(24.0)
<b>Profit before tax (Group)</b>	<b>121.4</b>	<b>62.2</b>	<b>37.1</b>
Finance and other costs incurred by Just Retirement Group Holdings Limited	(43.1)	(37.5)	(34.6)
<b>Profit before tax (JRGHL Group)</b>	<b>78.3</b>	<b>24.7</b>	<b>2.5</b>

Note:

- (1) New Business Operating Profit for the year ended 30 June 2011 reflects normalised margins and product mix. In the year ended 30 June 2011, the Group experienced strong demand for LTMs from which unusually high margins were achieved. To allow for a more appropriate comparison with later years with respect to new business operating profit, an adjustment has been made to reduce new business operating profit by £13.8 million to £49.1 million and to increase the operating experience and assumption changes by £13.8 million to £(0.9) million.
- (2) Operating Profit before tax shown in Note 7 of Part 12 "Historical Financial Information" shows the results of the JRGHL Group by segment. For the purposes of segmental reporting, the results of Just Retirement (Holdings) Limited's operations are included within "corporate functions".

Post-tax profit is based on the tax rate for the reporting year in question. On a forward-looking basis, the effective tax rates applicable to the Group are expected to be broadly in line with the United Kingdom's prevailing corporation tax rates.

### 3.1 New Business Sales

The table below sets forth a breakdown of New Business Sales for the years ended 30 June 2013, 2012 and 2011 at the dates indicated:

	Year ended 30 June		
	2013	2012	2011
	£m	£m	£m
IUA premiums . . . . .	1,265.1	1,131.7	892.9
FTA premiums . . . . .	78.8	63.2	—
<b>Total annuity premiums . . . . .</b>	<b>1,343.9</b>	<b>1,194.9</b>	<b>892.9</b>
LTM cash advances . . . . .	309.7	269.9	242.3
<b>New Business Sales . . . . .</b>	<b>1,653.6</b>	<b>1,464.8</b>	<b>1,135.2</b>

For the year ended 30 June 2013, New Business Sales increased by £188.8 million, or 12.9 per cent., to £1,653.6 million, from £1,464.8 million for the year ended 30 June 2012. This increase was primarily due to a £133.4 million, or 11.8 per cent. increase in IUA premiums, which was attributable to a combination of growth in the total annuity market and the Group's increased market share in that market. Also contributing to this increase were a £15.6 million, or 24.7 per cent., increase in FTA premiums, reflecting the continuing growth of this product following its launch in June 2011, as well as a £39.8 million, or 14.7 per cent., increase in LTM cash advances, reflecting growth in the total LTM market as well as increased drawdowns on existing LTM advances, both in absolute terms and as a percentage of total LTM advances.

For the year ended 30 June 2012, New Business Sales increased by £329.6 million, or 29.0 per cent., to £1,464.8 million, from £1,135.2 million for the year ended 30 June 2011. This increase was primarily due to a £238.8 million, or 26.7 per cent. increase in IUA premiums, which was attributable to a combination of growth in the total annuity market and the Group's increased market share in such market. Also contributing to this increase were FTA premiums of £63.2 million in the year ended 30 June 2012, reflecting the launch of the FTA product at the end of June 2011, as well as a £27.6 million increase in LTM cash advances, reflecting growth in the total LTM market as well as increased drawdowns on existing LTM advances, both in absolute terms and as a percentage of total LTM advances.

### 3.2 New Business Operating Profit

For the year ended 30 June 2013, New Business Operating Profit increased by £4.4 million, or 8.1 per cent., to £58.9 million, from £54.5 million for the year ended 30 June 2012. This increase was primarily due to increased new business volumes, the effect of which was partially offset by a slight reduction in margin (new business operating profit as a percentage of new business sales for IUAs), from 4.8 per cent. for the year ended 30 June 2012 to 4.7 per cent. for the year ended 30 June 2013. For the year ended 30 June 2013, the prudent reserves for mortality, corporate bond defaults, NNEG and early redemptions, which are included in the calculation of New Business Operating Profit, amounted to 8.6 per cent. of New Business Sales for IUAs. The Group expects to release these prudent reserves into in-force operating profit in later years.

For the year ended 30 June 2012, New Business Operating Profit increased by £5.4 million, or 11.0 per cent., to £54.5 million, from £49.1 million (normalised) for the year ended 30 June 2011.

### 3.3 In-force Operating Profit

For the year ended 30 June 2013, In-force Operating Profit increased by £8.4 million, or 25.7 per cent., to £41.1 million, from £32.7 million for the year ended 30 June 2012. This increase was primarily driven by the release of prudent reserves above best estimates. A large and growing in-force book of business, reflecting increased new business volumes in previous financial years, creates a high level and relatively predictable earnings stream that is expected to increase over time.

For the year ended 30 June 2012, In-force Operating Profit increased by £6.3 million, or 23.9 per cent., to £32.7 million, from £26.4 million for the year ended 30 June 2011. This increase was primarily driven by the release of prudent reserves above best estimates.

### ***3.4 Operating experience and assumption changes***

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

Operating experience is primarily comprised of actual versus expected mortality, expense and equity release redemption experience. Operating assumption changes are primarily comprised of changes in future expectations of maintenance expenses, expense inflation, mortality and equity release voluntary redemptions.

For the year ended 30 June 2013, operating experience and assumption changes were £(11.8) million, compared to £10.9 million for the year ended 30 June 2012. In the year ended 30 June 2013, operating experience and assumption changes reflected the negative effects of lighter mortality experience and the strengthening of mortality assumptions, the effects of which were partially offset by changes to assumptions relating to corporate bond defaults.

For the year ended 30 June 2012, operating experience and assumption changes were £10.9 million, compared to £(0.9) million (normalised) for the year ended 30 June 2011. In the year ended 30 June 2012, operating experience and assumption changes reflected the positive effects of changes to assumptions relating to equity release voluntary redemptions and expense inflation, the effects of which were partially offset by the strengthening of mortality assumptions.

### ***3.5 Reinsurance and bank finance costs***

Reinsurance and bank finance costs include the interest charge on bank loans and reinsurance financing, together with the reinsurance management fees incurred during the period. Such costs have increased slightly from period to period in line with the increased policy volumes and the continued use of reinsurance financing.

### ***3.6 Non-recurring and project expenditure***

Non-recurring and project expenditure includes any one-off, regulatory, project and development costs and other non-recurring expenditure not allowed for within operating profit. Expenditure for the year ended 30 June 2013 included costs incurred in relation to the launch of the DB product, the development of long-term care and immediate needs products, and the costs for RDR and infrastructure enhancements. Expenditure for the year ended 30 June 2012 primarily related to RDR, Solvency II, and the development of the DB product. Expenditure for the year ended 30 June 2011 related primarily to Solvency II and the development and launch of the FTA product.

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

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

For the year ended 30 June 2013, investment and economic profits amounted to £48.9 million, compared to a loss of £20.0 million for the year ended 30 June 2012. This was primarily due to changes in economic conditions, including a tightening of bond spreads, which contributed to the release of amounts previously provisioned for corporate bond defaults, and an increase in the risk free rate.

For the year ended 30 June 2012, investment and economic losses amounted to £20.0 million, compared to a loss of £24.0 million for the year ended 30 June 2011. This was primarily due to changes in economic conditions. A further widening of bond spreads contributed to an increase in the provision for corporate bond defaults, and a decrease in house prices contributed to an increase in the NNEG provision.

### ***3.8 Finance and other costs incurred by Just Retirement Group Holdings Limited***

Finance and other costs incurred by Just Retirement Group Holdings Limited represent the incremental costs recorded by Just Retirement Group Holdings Limited arising from the structure of its acquisition of the Group and are equal to the difference between the JRGHL Group's finance and other costs and the Group's finance and other costs. Such costs relate to interest and preference share dividends that have



accrued on shareholder loan notes and preference share capital issued in connection with such acquisition. Finance costs increased by £2.9 million from £23.9 million for the year ended 30 June 2011 to £26.8 million for the year ended 30 June 2012 and by a further £5.7 million to £32.5 million for the year ended 30 June 2013. Following the Reorganisation described in Part 15 “Reorganisation of the Group”, Just Retirement Group Holdings Limited will cease to incur these finance costs. Other costs, which represent amortisation charges and minor administration costs incurred by Just Retirement Group Holdings Limited, totalled £10.7 million, £10.7 million and £10.6 million for the years ended 30 June 2011, 2012 and 2013, respectively. For additional information, see paragraph 2.11 of this Part 10.

### 3.9 European Embedded Value

The table below sets forth EEV at the dates indicated:

	As at 30 June		
	2013	2012	2011
	£m	£m	£m
<b>EEV</b> .....	<b>503.9</b>	<b>365.0</b>	<b>343.8</b>

The Group’s EEV as at 30 June 2013 was £503.9 million, compared to £365.0 million as at 30 June 2012. This increase was primarily due to the increased value of new business, the return on opening embedded value, new capital and positive economic variance mainly due to the tightening of credit spreads, the effects of which were partially offset by operating experience and assumption changes, reflecting the strengthening of mortality assumptions.

The Group’s EEV as at 30 June 2012 was £365.0 million, compared to £343.8 million as at 30 June 2011. This increase was primarily due to the increased value of new business, the effect of which was partially offset by the strengthening of mortality assumptions.

## 4. Current Trading and Future Prospects

The following table sets forth the Group’s New Business sales for the three months ended 30 September 2013:

	Three months ended 30 September	
	2013	2012
	£m	£m
Annuities <sup>(1)</sup> .....	336.9	387.9
LTM <sup>(2)</sup> .....	105.1	67.6
<b>Total</b> .....	<b>442.0</b>	<b>455.5</b>

Notes:

(1) Includes sales of IUAs, FTAs and DB annuities.

(2) Includes business acquired through purchased mortgage agreements of £7.5 million (2013: £nil).

Since 30 June 2013, the Group has traded in line with the Board’s expectations as a whole. In the quarter ended 30 September 2013, Just Retirement achieved a strong market share of 32 per cent. by sales (quarter ended 30 June 2013, 32 per cent.) in the enhanced annuity market (as defined by Towers Watson) (source: Towers Watson, Management accounts). Sales of annuities (including FTAs and DB annuities) were £336.9 million for the quarter ended 30 September 2013, a decline of 13.1 per cent. from the first quarter of the Group’s 2012 financial year. This decline reflected the disrupted pattern of annuity sales in 2012 and 2013, driven by the significant regulatory changes from the RDR and gender equalisation, which pulled significant volumes of new business forward into the final two quarters of the 2012 calendar year (when the Group reported record New Business Sales) as advisers sought to meet December implementation deadlines. The Group expects the total market for annuities to decline in 2013 compared to 2012 because of this significant one-off pull-through and expects double digit IUA market growth to return from June 2014. LTM advances were £105.1 million in the quarter ended 30 September 2013, an increase of 55.5 per cent. from the first quarter of the Group’s 2012 financial year. The lifetime mortgage market continues to benefit from short-term consumer demand and favourable longer-term growth prospects, based on the

structural fundamentals arising from economic and demographic factors and attitudinal changes amongst those approaching retirement compared to previous generations of retirees.

In mid-September 2013, the Group completed its first sale of a small DB scheme annuity, in the amount of £3.2 million.

## **5. Key Line Items**

### **5.1 Gross premiums written**

Gross premiums written represent the total premiums received by the Group from its IUA contracts in the accounting period, gross of any commissions paid.

### **5.2 Reinsurance premiums ceded**

Reinsurance premiums ceded represent the total premiums payable by the Group to its reinsurers pursuant to its reinsurance treaties.

### **5.3 Reinsurance recapture**

Reinsurance recapture represents the recapture of previously ceded reserves for a prior underwriting year. Where the reinsurance finance for that particular underwriting year has been fully repaid, the option for recapture is at the discretion of the Group.

### **5.4 Net premium revenue**

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

### **5.5 Net investment income**

Net investment income comprises (i) interest received on financial assets and (ii) net gains and losses on financial assets designated at fair value through profit or loss upon initial recognition and on financial derivative instruments.

### **5.6 Gross amount of claims paid and reinsurers' share of claims paid**

Gross claims paid represent the total payments due to policyholders during the accounting period and the reinsurers' share of claims paid represents the amount due back to the Group under the terms of its reinsurance treaties.

### **5.7 Gross amount of the change in insurance liabilities and reinsurers' share of the change in insurance liabilities**

Gross amount of the change in insurance liabilities represents the year-on-year change in the carrying amount of the Group's insurance liabilities. The reinsurers' share of the change in the Group's insurance liabilities represents the year-on-year change in the carrying amount of the Group's reinsurance assets.

### **5.8 Acquisition costs**

Acquisition costs comprise direct costs (such as commissions) and indirect costs of obtaining and processing new business. They are allocated to particular categories of business based on available information. Acquisition costs are not deferred as they are largely recovered at inception through profit margins.

### **5.9 Other operating expenses**

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

### **5.10 Finance costs**

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

## 6. Results of Operations

As described above in paragraph 2.11 of this Part 10 the tables and discussion below primarily relate to the underlying performance of the Group excluding the impact of finance and other costs incurred by Just Retirement Group Holdings Limited arising from its acquisition of the Group.

### 6.1 Results of operations for the year ended 30 June 2013 against the year ended 30 June 2012

The table below presents the Group's results of operations for the years ended 30 June 2013 and 2012.

	Year ended 30 June	
	2013	2012
	£m	£m
<i>Revenue:</i>		
Gross premiums written . . . . .	1,265.1	1,131.7
Reinsurance premiums ceded . . . . .	(666.2)	(680.7)
Reinsurance recapture . . . . .	116.8	—
Net premium revenue . . . . .	715.7	451.0
Net investment income . . . . .	249.5	374.1
<b>Total revenue . . . . .</b>	<b>965.2</b>	<b>825.1</b>
Other operating income . . . . .	5.6	4.5
	<b>970.8</b>	<b>829.6</b>
<i>Claims paid:</i>		
Gross amount . . . . .	(370.4)	(295.4)
Reinsurers' share . . . . .	221.3	180.7
	(149.1)	(114.7)
<i>Change in insurance liabilities:</i>		
Gross amount . . . . .	(863.6)	(1,369.1)
Reinsurers' share . . . . .	512.4	934.1
Reinsurance recapture . . . . .	(115.4)	—
	(466.6)	(435.0)
Change in investment contract liabilities . . . . .	5.2	0.4
Acquisition costs . . . . .	(39.5)	(40.4)
Other operating expenses . . . . .	(102.6)	(86.0)
Amortisation of intangible assets . . . . .	(1.1)	(1.9)
Finance costs . . . . .	(95.7)	(89.8)
<b>Total claims and expenses . . . . .</b>	<b>(849.4)</b>	<b>(767.4)</b>
<b>Profit before tax . . . . .</b>	<b>121.4</b>	<b>62.2</b>
Income tax . . . . .	(28.0)	(16.0)
<b>Profit for the year . . . . .</b>	<b>93.4</b>	<b>46.2</b>
Attributable to:		
Equity holders of Just Retirement (Holdings) Limited . . . . .	93.8	46.8
Non-controlling interest . . . . .	(0.4)	(0.6)
	<b>93.4</b>	<b>46.2</b>

#### 6.1.1 Gross premiums written

Gross premiums written increased by £133.4 million, or 11.8 per cent., to £1,265.1 million for the year ended 30 June 2013, from £1,131.7 million for the year ended 30 June 2012. This increase was primarily due to an IUA volume increase of 11.8 per cent. The increase in volume was driven in part by a 22.5 per cent. growth in the IUA market from the year ended 30 June 2012 to the year ended 30 June 2013, which resulted from a number of factors, including ageing demographics, a market switch from DB to DC pension schemes and greater IUA product awareness. Also contributing to the increase in gross premiums written was the Groups competitive position in the market, which was attributable to a number of factors, including its unrivalled proprietary IP, together with its strong distribution relationships.

### 6.1.2 Reinsurance premiums ceded

Reinsurance premiums ceded decreased by £14.5 million, or 2.1 per cent., to £666.2 million for the year ended 30 June 2013, from £680.7 million for the year ended 30 June 2012. This decrease was primarily due to changes in the mix of qualifying IUA new business and non-qualifying IUA new business, which was, in turn, attributable to the underwriting changes introduced in September 2012 which re-allocated customers with certain conditions among its various underwriting levels.

### 6.1.3 Reinsurance recapture

Reinsurance recapture amounted to £116.8 million for the year ended 30 June 2013, reflecting the recapture of business written in the 2005/2006 financial year (for additional information, see paragraph 8 of Part 6 “Information on the Company and the Group”). There was no reinsurance recapture for the year ended 30 June 2012.

### 6.1.4 Net premium revenue

As a result of the reasons discussed above, net premium revenue increased by £264.7 million, or 58.7 per cent., to £715.7 million for the year ended 30 June 2013, from £451.0 million for the year ended 30 June 2012.

### 6.1.5 Net investment income

The following table sets forth a breakdown of the Group’s net investment income for the years ended 30 June 2013 and 2012.

	Year ended 30 June	
	2013	2012
	£m	£m
Interest income		
Assets at fair value through profit or loss . . . . .	175.1	135.6
Net gains/(losses)		
Financial assets designated on initial recognition . . . . .	70.0	266.7
Financial derivative instruments . . . . .	4.4	(28.2)
<b>Net investment income . . . . .</b>	<b>249.5</b>	<b>374.1</b>

Net investment income decreased by £124.6 million, or 33.3 per cent., to £249.5 million for the year ended 30 June 2013, from £374.1 million for the year ended 30 June 2012. This decrease was primarily due to a change in the magnitude of the reduction in the Group’s average interest rate in the years ended 30 June 2012 and 2013. In the year ended 30 June 2012, the Group’s average interest rate experienced a rapid reduction, which did not recur in the year ended 30 June 2013. Partially offsetting this effect was an increase in interest income reflecting an overall increase in the financial assets of the Group.

### 6.1.6 Total revenue

As a result of the reasons discussed above, total revenue increased by £140.1 million, or 17.0 per cent., to £965.2 million for the year ended 30 June 2013, from £825.1 million for the year ended 30 June 2012.

### 6.1.7 Other operating income

Other operating income is derived from the Group’s distribution operations, and is primarily comprised of fee income from product providers. The income increased by £1.1 million, or 24.4 per cent., to £5.6 million for the year ended 30 June 2013, from £4.5 million for the year ended 30 June 2012.

### 6.1.8 Gross claims paid

Gross amount of claims paid increased by £75.0 million, or 25.4 per cent., to £370.4 million for the year ended 30 June 2013, from £295.4 million for the year ended 30 June 2012. This increase was primarily due to an increase in the Group’s in-force book, resulting from a continued growth in new business sales.

#### *6.1.9 Reinsurers' share of gross claims paid*

Reinsurers' share of claims paid increased by £40.6 million, or 22.5 per cent., to £221.3 million for the year ended 30 June 2013, from £180.7 million for the year ended 30 June 2012, reflecting the increase in gross claims paid for the year.

#### *6.1.10 Change in gross insurance liabilities*

The gross amount of the change in insurance liabilities decreased by £505.5 million, or 36.9 per cent., to £863.6 million for the year ended 30 June 2013, from £1,369.1 million for the year ended 30 June 2012. This decrease was primarily due to a change in the magnitude of the reduction in the Group's average interest rate in the years ended 30 June 2012 and 2013. In the year ended 30 June 2012, the Group's average interest rate experienced a rapid reduction, which did not recur in the year ended 30 June 2013 and more than offset the increase in new business sales for IUAs during the year.

#### *6.1.11 Change in reinsurer's share of gross liabilities*

Reinsurers' share of the change in insurance liabilities decreased by £421.7 million, or 45.1 per cent., to £512.4 million for the year ended 30 June 2013, from £934.1 million for the year ended 30 June 2012, reflecting the decrease in change in gross insurance liabilities. Reinsurance recapture amounted to £115.4 million for the year ended 30 June 2013. There was no reinsurance recapture for the year ended 30 June 2012.

#### *6.1.12 Change in investment contract liabilities*

Change in investment contract liabilities increased by £4.8 million, to £5.2 million for the year ended 30 June 2013, from £0.4 million for the year ended 30 June 2012. This increase was primarily due to the continuing growth of the FTA product.

#### *6.1.13 Acquisition costs*

Acquisition costs decreased by £0.9 million, or 2.2 per cent., to £39.5 million for the year ended 30 June 2013, from £40.4 million for the year ended 30 June 2012. This decrease was primarily due to the implementation of the RDR and a reduction in commissions associated with advised business.

#### *6.1.14 Other operating expenses*

Other operating expenses increased by £16.6 million, or 19.3 per cent., to £102.6 million for the year ended 30 June 2013, from £86.0 million for the year ended 30 June 2012. This increase was primarily due to increased personnel costs and development expenditure, reflecting the overall growth of the Group's operations.

#### *6.1.15 Finance costs*

Finance costs increased by £5.9 million, or 6.6 per cent., to £95.7 million for the year ended 30 June 2013, from £89.8 million for the year ended 30 June 2012. This £5.9 million increase was primarily due to an increase in deposits received from reinsurers and the increase in reinsurance financing.

#### *6.1.16 Profit before tax*

As a result of the reasons discussed above, profit before tax increased by £59.2 million, or 95.2 per cent., to £121.4 million for the year ended 30 June 2013, from £62.2 million for the year ended 30 June 2012.

#### *6.1.17 Income tax*

Income tax increased by £12.0 million, or 75.0 per cent., to £28.0 million for the year ended 30 June 2013, from £16.0 million for the year ended 30 June 2012. This increase was due to an increase in taxable profits, the effect of which was partially offset by a decrease in the Group's effective tax rate, from 25.7 per cent. in the year ended 30 June 2012 to 23.1 per cent. for the year ended 30 June 2013, largely reflecting a reduction in the rate of UK corporation tax.



### 6.1.18 Profit for the year

As a result of the reasons discussed above, profit for the year increased by £47.2 million, or 102.2 per cent., to £93.4 million for the year ended 30 June 2013, from £46.2 million for the year ended 30 June 2012.

### 6.2 Results of operations for the year ended 30 June 2012 against the year ended 30 June 2011

The table below presents the Group's results of operations for the year ended 30 June 2012 and 2011.

	Year ended 30 June	
	2012	2011
	£m	£m
<i>Revenue:</i>		
Gross premiums written . . . . .	1,131.7	892.9
Reinsurance premiums ceded . . . . .	(680.7)	(525.2)
Reinsurance recapture . . . . .	—	54.7
Net premium revenue . . . . .	451.0	422.4
Net investment income . . . . .	374.1	135.8
<b>Total revenue . . . . .</b>	<b>825.1</b>	<b>558.2</b>
Other operating income . . . . .	4.5	4.4
	<b>829.6</b>	<b>562.6</b>
<i>Claims paid:</i>		
Gross amount . . . . .	(295.4)	(231.3)
Reinsurers' share . . . . .	180.7	143.1
	(114.7)	(88.2)
<i>Change in insurance liabilities:</i>		
Gross amount . . . . .	(1,369.1)	(723.5)
Reinsurers' share . . . . .	934.1	520.0
Reinsurance recapture . . . . .	—	(54.7)
	(435.0)	(258.2)
Change in investment contract liabilities . . . . .	0.4	—
Acquisition costs . . . . .	(40.4)	(28.7)
Other operating expenses . . . . .	(86.0)	(71.0)
Amortisation of intangible assets . . . . .	(1.9)	(2.4)
Finance costs . . . . .	(89.8)	(77.0)
<b>Total claims and expenses . . . . .</b>	<b>(767.4)</b>	<b>(525.5)</b>
<b>Profit before tax . . . . .</b>	<b>62.2</b>	<b>37.1</b>
Income tax . . . . .	(16.0)	(10.3)
<b>Profit for the year . . . . .</b>	<b>46.2</b>	<b>26.8</b>
Attributable to:		
Equity holders of Just Retirement (Holdings) Limited . . . . .	46.8	27.2
Non-controlling interest . . . . .	(0.6)	(0.4)
	<b>46.2</b>	<b>26.8</b>

#### 6.2.1 Gross premiums written

Gross premiums written increased by £238.8 million, or 26.7 per cent., to £1,131.7 million for the year ended 30 June 2012, from £892.9 million for the year ended 30 June 2011. This increase was primarily due to an IUA volume increase of 19.1 per cent. The increase in volume was driven in part by a 35.9 per cent. growth in the IUA market from the year ended 30 June 2011 to the year ended 30 June 2012, which resulted from a number of factors, including ageing demographics, a market switch from DB to DC pension schemes and greater IUA product awareness. Also contributing to the increase in gross premiums written was the Groups competitive position in the market, which was attributable to a number of factors, including its unrivalled proprietary IP, together with its strong distribution relationships.

### 6.2.2 Reinsurance premiums ceded

Reinsurance premiums ceded increased by £155.5 million, or 29.6 per cent., to £680.7 million for the year ended 30 June 2012, from £525.2 million for the year ended 30 June 2011. This increase was primarily due to the increase in gross premiums written, as described above.

### 6.2.3 Reinsurance recapture

Reinsurance recapture amounted to nil for the year ended 30 June 2012, compared to £54.7 million for the year ended 30 June 2011. No underwriting years were eligible for recapture in the period to 30 June 2012.

### 6.2.4 Net premium revenue

As a result of the reasons discussed above, net premium revenue increased by £28.6 million, or 6.8 per cent., to £451.0 million for the year ended 30 June 2012, from £422.4 million for the year ended 30 June 2011.

### 6.2.5 Net investment income

The following table sets forth a breakdown of the Group's net investment income for the years ended 30 June 2012 and 2011.

	Year ended 30 June	
	2012	2011
	£m	£m
Interest income		
Assets at fair value through profit or loss . . . . .	135.6	111.6
Net gains/(losses)		
Financial assets designated on initial recognition . . . . .	266.7	23.2
Financial derivative instruments . . . . .	(28.2)	1.0
<b>Net investment income . . . . .</b>	<b>374.1</b>	<b>135.8</b>

Net investment income increased by £238.3 million, to £374.1 million for the year ended 30 June 2012, from £135.8 million for the year ended 30 June 2011. This increase was primarily due to a rapid reduction in the Group's average interest rate, which increased the present value of financial assets held, as well as an increase in interest income reflecting an overall increase in the financial assets of the Group.

### 6.2.6 Total revenue

As a result of the reasons discussed above, total revenue increased by £266.9 million, or 47.8 per cent., to £825.1 million for the year ended 30 June 2012, from £558.2 million for the year ended 30 June 2011.

### 6.2.7 Other operating income

Other operating income is derived from the Group's distribution operations, and is primarily comprised of fee income from product providers. The income increased by £0.1 million, or 2.3 per cent, to £4.5 million for the year ended 30 June 2012, from £4.4 million for the year ended 30 June 2011.

### 6.2.8 Gross claims paid

Gross amount of claims paid increased by £64.1 million, or 27.7 per cent., to £295.4 million for the year ended 30 June 2012, from £231.3 million for the year ended 30 June 2011. This increase was primarily due to an increase in the Group's in-force book, resulting from a continued growth in new business sales.

### 6.2.9 Reinsurers' share of gross claims paid

Reinsurers' share of claims paid increased by £37.6 million, or 26.3 per cent., to £180.7 million for the year ended 30 June 2012, from £143.1 million for the year ended 30 June 2011, reflecting the increase in gross claims paid for the year.

#### *6.2.10 Change in gross insurance liabilities*

The gross amount of the change in insurance liabilities increased by £645.6 million, or 89.2 per cent., to £1,369.1 million for the year ended 30 June 2012, from £723.5 million for the year ended 30 June 2011. The increase was primarily due to the magnitude of the change of increase in average interest rates in the years ended 30 June 2011 and 2012, with the latter year experiencing a rapid reduction, and also to new insurance liabilities with respect to new business.

#### *6.2.11 Change in reinsurers' share of gross liabilities*

Reinsurers' share of gross liabilities increased by £414.1 million, or 79.6 per cent., to £934.1 million for the year ended 30 June 2012, from £520.0 million for the year ended 30 June 2011. This increase reflects the increase in gross reserves. In addition, reinsurers' share of gross liabilities was reduced by £54.7 million in the year ended 30 June 2011 as a result of a reinsurance recapture. There was no such recapture in the year ended 30 June 2012.

#### *6.2.12 Change in investment contract liabilities*

Change in investment contract liabilities totalled £0.4 million for the year ended 30 June 2012. This change was primarily attributable to the new FTA product, which was launched in June 2011. There was no change in investment contract liabilities for the year ended 30 June 2011.

#### *6.2.13 Acquisition costs*

Acquisition costs increased by £11.7 million, or 40.8 per cent., to £40.4 million for the year ended 30 June 2012, from £28.7 million for the year ended 30 June 2011. This increase was primarily due to increased commission costs as a result of increased sales. Also contributing to the increase in acquisition costs were additional direct selling costs for LTMs and the costs associated with the launch of the FTA product.

#### *6.2.14 Other operating expenses*

Other operating expenses increased by £15.0 million, or 21.1 per cent., to £86.0 million for the year ended 30 June 2012, from £71.0 million for the year ended 30 June 2011. This increase was primarily due to increased personnel costs and development expenditure, reflecting the overall growth of the Group's operations.

#### *6.2.15 Finance costs*

Finance costs increased by £12.8 million, or 16.6 per cent., to £89.8 million for the year ended 30 June 2012, from £77.0 million for the year ended 30 June 2011. This £12.8 million increase was primarily due to an increase in deposits received from reinsurers and the increase in reinsurance financing.

#### *6.2.16 Profit before tax*

As a result of the reasons discussed above, profit before tax increased by £25.1 million, or 67.7 per cent., to £62.2 million for the year ended 30 June 2012, from £37.1 million for the year ended 30 June 2011.

#### *6.2.17 Income tax*

Income tax increased by £5.7 million, or 55.3 per cent., to £16.0 million for the year ended 30 June 2012, from £10.3 million for the year ended 30 June 2011. This increase was due to an increase in taxable profits, the effect of which was partially offset by a decrease in the Group's effective tax rate, from 27.8 per cent. in the year ended 30 June 2011 to 25.7 per cent. for the year ended 30 June 2012, largely reflecting a reduction in the rate of UK corporation tax.

#### *6.2.18 Profit for the year*

As a result of the reasons discussed above, the Group's profit for the year increased by £19.4 million, or 72.4 per cent., to £46.2 million for the year ended 30 June 2012, from £26.8 million for the year ended 30 June 2011.

## 7. Liquidity and Capital Resources of the Group

### 7.1 Cash flows

As described above in paragraph 2.11 of this Part 10, the tables and discussion below primarily relate to the underlying performance of the Group excluding the impact of finance and other costs incurred by Just Retirement Group Holdings Limited arising from its acquisition of the Group.

As at 31 October 2013, the Group held a total of £166.9 million in cash and cash equivalents (including units in sterling liquidity fund).

The table below sets forth a summary of the Group's cash flows for the years ended 30 June 2013, 2012 and 2011.

	Year ended 30 June		
	2013	2012	2011
	£m	£m	£m
Net cash inflow / (outflow) from operating activities . . . . .	40.5	(58.1)	18.0
Net cash (outflow) from investing activities . . . . .	(3.6)	(3.4)	(2.7)
Net cash inflow from financing activities . . . . .	94.0	4.0	—
<b>Net (decrease) / increase in cash and cash equivalents . . . . .</b>	<b>130.9</b>	<b>(57.5)</b>	<b>15.3</b>
Cash and cash equivalents at start of year . . . . .	51.0	108.5	93.2
<b>Cash and cash equivalents at end of year . . . . .</b>	<b>181.9</b>	<b>51.0</b>	<b>108.5</b>

#### 7.1.1 Net cash inflow / (outflow) from operating activities

Premiums received from the Group's customers in connection with the provision of IUAs and, to a lesser extent, FTAs are invested in financial assets, such as fixed income securities and LTMs, so as to match cash inflows from such investments against expected future cash outflows in respect of its IUAs. The Group's principal cash inflows from operating activities comprise such premiums received, the repayment of fixed income securities and LTMs, coupon payments made on fixed income securities and early redemptions of LTMs. The Group's principal cash outflows from operating activities, on the other hand, comprise the purchase of fixed income securities, payments to annuitants, mortgage advances, commissions, expenses and tax.

The following table sets forth a breakdown of the Group's net cash inflow / (outflow) from operating activities for the years ended 30 June 2013, 2012 and 2011.

	Year ended 30 June		
	2013	2012	2011
	£m	£m	£m
Profit before tax . . . . .	121.4	62.2	37.1
Non-cash adjustments . . . . .	(76.5)	(42.3)	(30.6)
<b>Operating profit before changes in operating assets and liabilities . . . . .</b>	<b>44.9</b>	<b>19.9</b>	<b>6.5</b>
(Increase) in financial assets . . . . .	(965.1)	(1,461.4)	(714.5)
(Increase) in reinsurance assets . . . . .	(397.0)	(934.1)	(465.3)
Decrease / (increase) in prepayments and accrued income . . . . .	21.4	(39.4)	(0.1)
(Increase) in insurance and other receivables . . . . .	(12.0)	—	(3.7)
Increase in insurance liabilities . . . . .	863.6	1,369.1	723.5
Increase in investment contract liabilities . . . . .	68.9	61.5	—
Increase in deposits received from reinsurers . . . . .	369.8	824.0	439.2
(Decrease) / increase in insurance and other payables . . . . .	2.2	35.0	6.9
(Decrease) / increase in other creditors . . . . .	(9.1)	35.2	12.9
Increase in accruals and deferred income . . . . .	0.3	2.9	2.9
<b>Cash (outflow)/inflow generated from operations . . . . .</b>	<b>(12.1)</b>	<b>(87.3)</b>	<b>8.3</b>
Interest received . . . . .	161.1	119.0	101.1
Interest paid . . . . .	(94.5)	(89.8)	(77.3)
Taxation paid . . . . .	(14.0)	—	(14.1)
<b>Net cash inflow / (outflow) from operating activities . . . . .</b>	<b>40.5</b>	<b>(58.1)</b>	<b>18.0</b>

Under the Group's business model, cash from IUA and FTA New Business Sales is received upfront and then invested for the future benefit of policyholders and shareholders. Cash outflow from operating activities is stated after investment of the initial premium receipts into financial assets.

Net cash inflows from operating activities were £40.5 million in the year ended 30 June 2013. This cash inflow was primarily due to an £863.6 million increase in insurance liabilities, reflecting the present value of the expected liabilities for the new policies, a £369.8 million increase in deposits received from reinsurers and £161.1 million of interest received, reflecting an increase in financial assets. Partially offsetting these effects was a £965.1 million increase in financial assets, primarily corporate bonds and LTMs, and a £397.0 million increase in reinsurance asset, reflecting the reinsurer portion of the new policies written during the year.

Net cash outflows from operating activities were £58.1 million in the year ended 30 June 2012. This cash outflow was primarily due to a £1,461.4 million increase in financial assets, primarily corporate bonds and LTMs, and a £934.1 million increase in reinsurance assets, reflecting the reinsurer portion of the new policies written during the year. Partially offsetting these effects was a £1,369.1 million increase in insurance liabilities, reflecting the present value of the expected liabilities for the new policies, an £824.0 million increase in deposits received from reinsurers and £119.0 million of interest received, reflecting an increase in financial assets.

Net cash inflows from operating activities were £18.0 million in the year ended 30 June 2011. This cash inflow was primarily due to a £723.5 million increase in insurance liabilities a £439.2 million increase in deposits received from reinsurers and £101.1 million of interest received, reflecting an increase in financial assets. Partially offsetting these effects was a £714.5 million increase in financial assets, primarily corporate bonds and LTMs, and a £465.3 million increase in reinsurance assets, reflecting the reinsurer portion of the new policies written during the year.

#### *7.1.2 Net cash outflow from investing activities*

Net cash outflows from investing activities were £3.6 million in the year ended 30 June 2013. This amount related primarily to capital expenditure on the Group's IT systems capabilities.

Net cash outflows from investing activities were £3.4 million in the year ended 30 June 2012. This amount related primarily to capital expenditure on the Group's infrastructure and IT systems capabilities.

Net cash outflows from investing activities were £2.7 million in the year ended 30 June 2011. This amount related primarily to capital expenditure on the Group's IT systems, largely in response to required regulatory changes.

#### *7.1.3 Net cash inflow from financing activities*

Net cash inflows from financing activities were £94.0 million in the year ended 30 June 2013. This amount related primarily to £55.0 million in bank loans and a £40.0 million capital injection from JRGHL through the purchase of additional Shares.

Net cash inflows from financing activities were £4.0 million in the year ended 30 June 2012. This amount related primarily to the issuance of ordinary share capital.

Net cash inflows from financing activities were nil in the year ended 30 June 2011.

## **7.2 Capital**

The Group's objectives when managing capital are:

- to comply with the insurance capital requirements required by the regulators of the insurance markets in which the Group operates;
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk.

Just Retirement Limited and Just Retirement Solutions Limited are under supervisory regulation by the PRA and FCA (as described in more detail in Part 7 "Regulatory Overview"), and must maintain a minimum level of regulatory capital.



Just Retirement Limited must hold regulatory capital in excess of the higher of two amounts: (i) the Pillar 1 amount, calculated by applying fixed percentages to reserves, and (ii) the Pillar 2 amount, in accordance with the Individual Capital Assessment framework set by the PRA. The Pillar 2 amount remains confidential between firms and the PRA.

The following table sets forth Just Retirement Limited's Pillar 1 capital and coverage ratio as at 30 June 2013.

	<b>Pillar 1 capital and coverage ratio</b>
	<b>As at 30 June 2013</b>
	<b>£m, except for percentages</b>
Total capital resources . . . . .	411.4
Capital resources requirement (Pillar 1) . . . . .	(241.3)
Excess of available capital resources . . . . .	170.1
<b>Cover ratio . . . . .</b>	<b>170%</b>

As a result of the Offer and the application of the net proceeds from the issue of New Shares as described in paragraph 2 of Part 16 "The Offer", the Group expects that Just Retirement Limited's Pillar 1 cover ratio on a pro forma basis as at 30 June 2013 would be 243 per cent. For additional information, see Part 13 "Unaudited Pro Forma Financial Information".

In addition to individual entity supervisory regulation, capital adequacy is assessed for the Group as a whole at the level of the EEA parent company. These capital requirements are determined in accordance with the PRA regulations and the EU directives for insurance and other PRA regulated business. The Group is required to hold regulatory capital in compliance with the rules issued by the PRA.

#### *JRGHL Group economic capital*

The Group will also continue to manage its business by targeting an economic capital coverage ratio which reflects the economic capital the Board considers appropriate for the risks faced by the business plus a suitable buffer of surplus capital to meet investment market and other variances. Economic capital represents the Boards' realistic internal assessment of the capital required and should not be construed as capital required by regulators or other third parties and may not be directly comparable to similarly named metrics used by other companies.

The Group's economic capital coverage ratio compares the available capital of the Group (also determined on a realistic basis) to the level of capital that the Directors believe would be required for the Group to maintain an appropriate balance sheet after sustaining adverse events of sufficient severity such that they would be expected to occur once every 200 years (i.e., to a 99.5 per cent. confidence level over a one-year time horizon).

The table below sets forth the JRGHL Group's economic capital coverage ratio as at 30 June 2013.

	<b>Economic capital coverage ratio</b>
	<b>As at 30 June 2013</b>
	<b>£m, except for percentages</b>
Total capital available . . . . .	578
Capital required . . . . .	467
Excess surplus . . . . .	111
<b>Economic capital coverage ratio . . . . .</b>	<b>124%</b>

Following Admission as a listed company, the Board will target a minimum economic capital coverage ratio of 140 per cent. The net proceeds from the issue of New Shares as described in paragraph 2 of Part 16 "The Offer" will contribute to total capital available for the purposes of calculating the Group's economic capital coverage ratio.

### 7.3 RBS Facility

Just Retirement (Holdings) Limited entered into a loan facility agreement dated 25 September 2012 (and as amended on 9 November 2012, 9 May 2013 and 16 October 2013) as a borrower with Royal Bank of Scotland plc as original lender, facility agent and security agent. This facility, which amounted to £55.2 million as at 30 June 2013 has been used by the Group to provide solvency capital to Just Retirement Limited. The loan is amortising and fully repayable by 25 September 2017. For more information, see paragraph 13.1 of Part 17 “Additional Information”.

## 8. Liquidity and Capital Resources of the JRGHL Group

The capitalisation and indebtedness of the JRGHL Group is shown in Part 11 “Capitalisation and Indebtedness”.

### 8.1 Loan notes, preference shares, shareholder loan and the PPI

A portion of the investment in the JRGHL Group held by Avallux and certain other existing shareholders is in the form of loan notes (of various classes), preference shares (of various classes), a shareholder loan and the PPI (as defined in Part 15 “Reorganisation of the Group”). As at 30 June 2013, these instruments had an outstanding principal amount of £231.1 million and the JRGHL Group had accrued dividends and interest payments of £95.9 million.

These instruments will convert into ordinary shares in Just Retirement Group Holdings Limited pursuant to the Reorganisation. For additional information, see Part 15 “Reorganisation of the Group”.

## 9. Contractual Obligations

The table below presents a summary of Just Retirement’s contractual obligations as at 30 June 2013.

As at 30 June 2013					
	Total	Within one year or payable on demand	One to five years	More than five years	No fixed term
	£m	£m	£m	£m	£m
Derivative financial instruments . . . . .	332.2	1.2	4.6	326.4	—
Deposits received from reinsurers . . . . .	5,279.1	248.2	967.3	4,063.6	—
Reinsurance finance . . . . .	94.4	—	—	—	94.4
Bank borrowings . . . . .	55.2	3.6	51.6	—	—
Operating leases . . . . .	5.1	1.4	3.5	0.2	—
<b>Total . . . . .</b>	<b>5,766.0</b>	<b>254.4</b>	<b>1,027.0</b>	<b>4,390.2</b>	<b>94.4</b>

## 10. Financial Assets

Just Retirement’s investment strategy is designed to optimise risk-adjusted returns whilst ensuring that cash flows from its financial asset portfolio are sufficient to meet the annuity payment obligations arising from the Group’s annuity portfolio. The profile of Just Retirement’s liabilities (being predominantly expected cash outflows to settle annuity payment obligations) requires that the majority of its financial asset portfolio be held in investment grade, fixed-income securities, such as government and corporate bonds. Just Retirement also invests in LTM assets, subject to strict risk tolerance limits that aim to ensure that cash inflows from maturing LTM assets match cash outflows from the annuity liabilities. For a discussion of the Group’s investment strategy, see paragraph 9 of Part 6 “Information on the Company and the Group”.

The key principle underpinning Just Retirement’s approach to investing is to hold the significant majority of bonds to maturity. Changes in the value of Just Retirement’s bond portfolio as a result of mark-to-market valuations are not a core measure of Just Retirement’s investment strategy because the majority of bonds will be held to maturity. As a result, the Board does not consider unrealised gains and losses on the Group’s financial asset portfolio to provide insight into Group performance, as any negative or positive valuation movements will be reversed out by equal and offsetting movements (in aggregate) over the life of the bond provided no defaults have been experienced. Just Retirement has not experienced default of any of its bonds. Just Retirement has no direct exposure to Greece, Ireland, Portugal or Cyprus and minimal exposure to Italy and Spain (approximately 2 per cent. of the Group’s bond portfolio as at

30 June 2013), with such exposure primarily limited to high-quality assets, such as telecommunications companies.

## 11. Dividend Policy

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

By way of illustration, if the Company had been listed during the full year to 30 June 2013 (having benefited from the net proceeds of the Offer from 1 July 2012), the Directors would have declared a dividend in aggregate of £15.0 million.

## 12. Quantitative and Qualitative Disclosure of Market Risk

### 12.1 Interest rate risk

The Group's exposure to changes in interest rates is concentrated in its investment portfolio, loans secured by mortgages and its insurance obligations. Changes in investment and loan values attributable to interest rate changes are mitigated by corresponding and partially offsetting changes in the economic value of the insurance provisions. The Group monitors this exposure through regular reviews of its asset and liability position, capital modelling, sensitivity testing and scenario analysis.

The following tables indicate the earlier of contractual re-pricing or maturity dates for the Group's significant financial assets:

<b>30 June 2013</b>	<b>Less than one year £m</b>	<b>One to five years £m</b>	<b>Five to ten years £m</b>	<b>Over ten years £m</b>	<b>No fixed term £m</b>	<b>Total £m</b>
<i>Financial and insurance assets:</i>						
Debt securities and other fixed income						
securities . . . . .	235.9	1,042.6	1,120.4	1,361.0	—	3,759.9
Units in sterling liquidity fund . . . . .	141.3	—	—	—	—	141.3
Loans secured by mortgages . . . . .	—	—	—	—	2,081.2	2,081.2
Financial derivatives . . . . .	—	1.9	25.3	9.9	—	37.1
Deposits with credit institutions . . . . .	17.2	—	—	—	—	17.2
<b>Total . . . . .</b>	<b>394.4</b>	<b>1,044.5</b>	<b>1,145.7</b>	<b>1,370.9</b>	<b>2,081.2</b>	<b>6,036.7</b>
<b>30 June 2012</b>	<b>Less than one year £m</b>	<b>One to five years £m</b>	<b>Five to ten years £m</b>	<b>Over ten years £m</b>	<b>No fixed term £m</b>	<b>Total £m</b>
<i>Financial and insurance assets:</i>						
Debt securities and other fixed income						
securities . . . . .	117.4	729.9	941.9	1,229.4	—	3,018.6
Units in sterling liquidity fund . . . . .	31.1	—	—	—	—	31.1
Loans secured by mortgages . . . . .	—	—	—	—	1,842.8	1,842.8
Financial derivatives . . . . .	—	4.6	26.0	12.0	—	42.6
Deposits with credit institutions . . . . .	26.3	—	—	—	—	26.3
<b>Total . . . . .</b>	<b>174.8</b>	<b>734.5</b>	<b>967.9</b>	<b>1,241.4</b>	<b>1,842.8</b>	<b>4,961.4</b>

<b>30 June 2011</b>	<b>Less than one year</b>	<b>One to five years</b>	<b>Five to ten years</b>	<b>Over ten years</b>	<b>No fixed term</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<i>Financial and insurance assets:</i>						
Debt securities and other fixed income securities . . . . .	148.2	610.3	786.4	678.1	—	2,223.0
Units in sterling liquidity fund . . . . .	95.7	—	—	—	—	95.7
Loans secured by mortgages . . . . .	—	—	—	—	1,162.3	1,162.3
Financial derivatives . . . . .	—	3.8	—	—	—	3.8
Deposits with credit institutions . . . . .	15.2	—	—	—	—	15.2
<b>Total . . . . .</b>	<b>259.1</b>	<b>614.1</b>	<b>786.4</b>	<b>678.1</b>	<b>1,162.3</b>	<b>3,500.0</b>

## 12.2 Credit risk

Credit risk is incurred whenever the Group is exposed to loss if another party fails to perform its financial obligations to the Group, including failing to perform them in a timely manner.

The Group manages credit risk on its investment portfolio by the appointment of specialist fund managers, who execute a diversified investment strategy, investing in investment grade assets and imposing individual counterparty limits. Concentration of credit risk exposures is managed by placing limits on exposures to individual counterparties and limits on exposures to credit rating levels. Credit risk on reinsurance balances is mitigated by the reinsurer depositing back more than 100 per cent. of premiums ceded under the reinsurance agreements.

Credit risk on cash assets is managed by imposing restrictions over the credit ratings of third parties with whom cash is deposited.

Credit risk is mitigated on the LTMs by maintaining a low initial loan to value ratio. Furthermore, the nature of the product means that there is no default risk in either principal or interest other than through the NNEG.

The carrying amount of those assets subject to credit risk effectively represents the maximum credit risk exposure.

The following tables provide information regarding the credit risk exposure for financial investments of the Group which were neither past due nor impaired as at the dates indicated below:

<b>30 June 2013</b>	<b>AAA<sup>(1)</sup></b>	<b>AA</b>	<b>A</b>	<b>BBB<sup>(2)</sup></b>	<b>Unrated</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Debt securities and other fixed income securities . . . . .	377.7	466.4	1,711.0	1,204.8	—	3,759.9
Units in sterling liquidity fund . . . . .	141.3	—	—	—	—	141.3
Deposits with credit institutions . . . . .	—	—	17.2	—	—	17.2
Insurance and other receivables . . . . .	—	—	—	—	18.1	18.1
Financial derivatives . . . . .	—	—	37.1	—	—	37.1
Reinsurance . . . . .	—	124.1	39.4	—	—	163.5
<b>Total . . . . .</b>	<b>519.0</b>	<b>590.5</b>	<b>1,804.7</b>	<b>1,204.8</b>	<b>18.1</b>	<b>4,137.1</b>

(1) Includes treasury gilts.

(2) Includes BBB+ and below.

<b>30 June 2012</b>	<b>AAA<sup>(1)</sup></b>	<b>AA</b>	<b>A</b>	<b>BBB<sup>(2)</sup></b>	<b>Unrated</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Debt securities and other fixed income securities . .	319.2	384.5	1,410.2	904.7	—	3,018.6
Units in sterling liquidity fund . . . . .	31.1	—	—	—	—	31.1
Deposits with credit institutions . . . . .	—	—	21.3	5.0	—	26.3
Insurance and other receivables . . . . .	—	—	—	—	6.1	6.1
Financial derivatives . . . . .	—	—	—	—	42.6	42.6
Reinsurance . . . . .	—	95.3	40.9	—	—	136.2
<b>Total . . . . .</b>	<b>350.3</b>	<b>479.8</b>	<b>1,472.4</b>	<b>909.7</b>	<b>48.7</b>	<b>3,260.9</b>

(1) Includes treasury gilts.

(2) Includes BBB+ and below.

<b>30 June 2011</b>	<b>AAA<sup>(1)</sup></b>	<b>AA</b>	<b>A</b>	<b>BBB<sup>(2)</sup></b>	<b>Unrated</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Debt securities and other fixed income securities . .	267.6	252.9	1,089.2	613.3	—	2,223.0
Units in sterling liquidity fund . . . . .	95.7	—	—	—	—	95.7
Deposits with credit institutions . . . . .	—	—	15.2	—	—	15.2
Insurance and other receivables . . . . .	—	—	—	—	5.9	5.9
Financial derivatives . . . . .	—	—	—	—	3.8	3.8
Reinsurance . . . . .	—	18.3	7.8	—	—	26.1
<b>Total . . . . .</b>	<b>363.3</b>	<b>271.2</b>	<b>1,112.2</b>	<b>613.3</b>	<b>9.7</b>	<b>2,369.7</b>

(1) Includes treasury gilts.

(2) Includes BBB+ and below.

### 12.3 Liquidity risk

Liquidity risk is the risk of loss because the Group, although solvent, either does not have sufficient financial resources available to it in order to meet its obligations as they fall due, or can secure them only at excessive cost.

Liquidity risk is managed by ensuring that assets of a suitable maturity and marketability are held to meet liabilities as they fall due. Cash flow forecasts are regularly prepared to predict and monitor liquidity levels over both the short and medium term.

The tables below summarise the maturity profile of the financial liabilities of the Group based on remaining undiscounted contractual obligations.

<b>30 June 2013</b>	<b>Within one year or payable on demand</b>	<b>One to five years</b>	<b>More than five years</b>	<b>No fixed term</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Derivative financial instruments . . . . .	1.2	4.6	326.4	—
Deposits received from reinsurers . . . . .	248.2	967.3	4,063.6	—
Reinsurance finance . . . . .	—	—	—	94.4
Bank borrowings . . . . .	3.6	51.6	—	—

<b>30 June 2012</b>	<b>Within one year or payable on demand</b>	<b>One to five years</b>	<b>More than five years</b>	<b>No fixed term</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Derivative financial instruments . . . . .	3.2	12.9	379.6	—
Deposits received from reinsurers . . . . .	197.5	771.8	3,213.6	—
Reinsurance finance . . . . .	—	—	—	86.8



<u>30 June 2011</u>	<u>Within one year or payable on demand</u>	<u>One to five years</u>	<u>More than five years</u>	<u>No fixed term</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Derivative financial instruments . . . . .	1.2	4.6	184.3	—
Deposits received from reinsurers . . . . .	161.8	632.8	2,475.4	—
Reinsurance finance . . . . .	—	—	—	68.8

### 13. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

For a description of the Group's critical accounting judgements and key sources of estimation uncertainty, see Note 1 of Part 12 "Historical Financial Information".

**PART 11**  
**CAPITALISATION AND INDEBTEDNESS**

**Capitalisation and Indebtedness**

The capitalisation information has been extracted without material adjustment from the JRGHL Group's financial information included in Part 12 "Historical Financial Information" as at 30 June 2013. The indebtedness information has been sourced from the JRGHL Group's unaudited accounting records as at 31 October 2013, which is the latest practicable date prior to the publication of this document.

The following table sets forth the JRGHL Group's capitalisation as at 30 June 2013.

	<u>30 June 2013</u>
	<u>£m</u>
<b>Current debt</b>	
Guaranteed . . . . .	—
Secured . . . . .	—
Unguaranteed/unsecured . . . . .	—
Total current debt . . . . .	—
<b>Non-current debt (excluding current portion of long-term debt)</b>	
Guaranteed . . . . .	—
Secured . . . . .	—
Unguaranteed/unsecured . . . . .	382.2
Total non-current debt . . . . .	382.2
<b>Shareholders' equity</b>	
Share capital . . . . .	80.0
Legal reserve . . . . .	—
Other reserves . . . . .	70.1
Total shareholder's equity . . . . .	150.1
<b>Total</b> . . . . .	<b><u>532.3</u></b>

There has been no material change in the Company's capitalisation since 30 June 2013. It is anticipated that (i) loan notes and a shareholder loan (and accrued interest thereon, respectively) and the PPI (as defined in Part 15 "Reorganisation of the Group"), in an aggregate amount of £250.2 million, and (ii) preference shares (and accrued dividends thereon), in an aggregate amount of £76.8 million, will convert into ordinary shares in Just Retirement Group Holdings Limited as part of the transaction, as outlined in Part 15 "Reorganisation of the Group".

The following table sets forth the JRGHL Group's net indebtedness as at 31 October 2013.

	<u>31 October 2013</u>
	<u>£m</u>
Cash . . . . .	48.3
Cash equivalent . . . . .	126.0
Trading securities . . . . .	—
<b>Liquidity</b> . . . . .	<b>174.3</b>
<b>Current financial receivable</b> . . . . .	<b>—</b>
Current bank debt . . . . .	—
Current portion of non-current debt . . . . .	—
Other current financial debt . . . . .	—
<b>Current financial debt</b> . . . . .	<b>—</b>
<b>Net current financial liquidity/(indebtedness)</b> . . . . .	<b>174.3</b>
Non-current bank loans . . . . .	(51.6)
Bonds issued . . . . .	—
Other non-current loans . . . . .	(338.9)
<b>Non-current financial indebtedness</b> . . . . .	<b>(390.5)</b>
<b>Net financial indebtedness</b> . . . . .	<b><u>(216.2)</u></b>

The Group's net indebtedness table above excludes financial assets, financial liabilities, reinsurance assets and insurance liabilities that relate to the on-going insurance operations of the business.

**PART 12**  
**HISTORICAL FINANCIAL INFORMATION**  
**ANNUAL CONSOLIDATED FINANCIAL INFORMATION OF**  
**JUST RETIREMENT GROUP HOLDINGS LIMITED**  
**ACCOUNTANTS' REPORT**



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KPMG Audit Plc  
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12 November 2013

Dear Sirs

**Just Retirement Group plc (the ‘Company’)**

We report on the financial information set out on pages 126 to 168 for the three years ended 30 June 2013 of Just Retirement Group Holdings Limited and its consolidated subsidiaries (the “JRGL Group”). This financial information has been prepared for inclusion in the prospectus dated 12 November 2013 of Just Retirement Group plc on the basis of the accounting policies set out in note 1. This report is required by paragraph 20.1 of Annex I of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose.

**Responsibilities**

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the prospectus.

**Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity’s circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

**Opinion on financial information**

In our opinion, the financial information gives, for the purposes of the prospectus dated 12 November 2013, a true and fair view of the state of affairs of the JRGHL Group as at 30 June 2011, 30 June 2012 and 30 June 2013 and of its profits, cash flows and changes in equity for the years ended 30 June 2011, 30 June 2012 and 30 June 2013 in accordance with the basis of preparation set out in note 1 and in accordance with International Financial Reporting Standards as adopted by the European Union as described in note 1.

**Declaration**

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG Audit Plc

## Consolidated Statement of Comprehensive Income

	Note	Year ended 30 June 2013 £m	Year ended 30 June 2012 £m	Year ended 30 June 2011 £m
Revenue				
Gross premiums written . . . . .		1,265.1	1,131.7	892.9
Reinsurance premiums ceded . . . . .		(666.2)	(680.7)	(525.2)
Reinsurance recapture . . . . .		116.8	—	54.7
Net premium revenue . . . . .		715.7	451.0	422.4
Net investment income . . . . .	3	249.5	374.1	135.8
<b>Total revenue</b> . . . . .		965.2	825.1	558.2
Other operating income . . . . .		5.6	4.5	4.4
<b>Expenses</b>				
Claims incurred				
Claims paid				
Gross amount . . . . .		(370.4)	(295.4)	(231.3)
Reinsurers' share . . . . .		221.3	180.7	143.1
		(149.1)	(114.7)	(88.2)
Change in insurance liabilities				
Gross amount . . . . .		(863.6)	(1,369.1)	(723.5)
Reinsurers' share . . . . .		512.4	934.1	520.0
Reinsurance recapture . . . . .		(115.4)	—	(54.7)
		(466.6)	(435.0)	(258.2)
Change in investment contract liabilities . . . . .		5.2	0.4	—
Acquisition costs . . . . .	4	(39.5)	(40.4)	(28.7)
Other operating expenses . . . . .	5	(106.5)	(86.6)	(71.2)
Amortisation of intangible assets . . . . .	13	(7.7)	(12.1)	(12.7)
Finance costs . . . . .	6	(128.3)	(116.5)	(101.1)
<b>Total claims and expenses</b> . . . . .		(892.5)	(804.9)	(560.1)
<b>Profit before tax</b> . . . . .		78.3	24.7	2.5
Income tax . . . . .	8	(20.5)	(10.7)	(2.3)
<b>Profit for the year</b> . . . . .		57.8	14.0	0.2
Attributable to:				
Equity holders of Just Retirement Group Holdings				
Limited . . . . .		58.2	14.6	0.6
Non-controlling interest . . . . .	37	(0.4)	(0.6)	(0.4)
<b>Profit and other comprehensive income for the year</b> . . . .		57.8	14.0	0.2
Basic earnings per share (pence) . . . . .	12	7.12	1.92	0.08
Diluted earnings per share (pence) . . . . .	12	7.12	1.92	0.08



## Consolidated Statement of Changes in Equity

<u>Year ended 30 June 2013</u>	<u>Share capital</u>	<u>Share premium</u>	<u>Accumulated profit</u>	<u>Shareholders' equity</u>	<u>Non-controlling interest</u>	<u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Balance at 1 July 2012 . . . . .	73.0	0.2	7.2	80.4	(0.8)	79.6
Issue of ordinary shares . . . . .	7.0	5.0	—	12.0	—	12.0
Total comprehensive income for the year . . . . .	—	—	58.2	58.2	(0.4)	57.8
Share-based payments . . . . .	—	—	0.7	0.7	—	0.7
Balance at 30 June 2013 . . . . .	<u>80.0</u>	<u>5.2</u>	<u>66.1</u>	<u>151.3</u>	<u>(1.2)</u>	<u>150.1</u>

<u>Year ended 30 June 2012</u>	<u>Share capital</u>	<u>Share premium</u>	<u>Accumulated profit</u>	<u>Shareholders' equity</u>	<u>Non-controlling interest</u>	<u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Balance at 1 July 2011 . . . . .	72.9	0.1	(8.0)	65.0	(0.2)	64.8
Issue of ordinary shares . . . . .	0.1	0.1	—	0.2	—	0.2
Total comprehensive income for the year . . . . .	—	—	14.6	14.6	(0.6)	14.0
Share-based payments . . . . .	—	—	0.6	0.6	—	0.6
Balance at 30 June 2012 . . . . .	<u>73.0</u>	<u>0.2</u>	<u>7.2</u>	<u>80.4</u>	<u>(0.8)</u>	<u>79.6</u>

<u>Year ended 30 June 2011</u>	<u>Share capital</u>	<u>Share premium</u>	<u>Accumulated loss</u>	<u>Shareholders' equity</u>	<u>Non-controlling interest</u>	<u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Balance at 1 July 2010 . . . . .	69.5	—	(9.1)	60.4	—	60.4
Issue of ordinary shares . . . . .	3.4	0.1	—	3.5	—	3.5
Total comprehensive income for the year . . . . .	—	—	0.6	0.6	(0.4)	0.2
Share-based payments . . . . .	—	—	0.5	0.5	—	0.5
Acquisition of subsidiary (note 35) . . . . .	—	—	—	—	0.2	0.2
Balance at 30 June 2011 . . . . .	<u>72.9</u>	<u>0.1</u>	<u>(8.0)</u>	<u>65.0</u>	<u>(0.2)</u>	<u>64.8</u>

## Consolidated Statement of Financial Position

	Note	30 June 2013	30 June 2012	30 June 2011
		£m	£m	£m
<b>Assets</b>				
Intangible assets . . . . .	13	83.3	88.0	98.4
Equipment . . . . .	14	1.6	2.1	1.3
Financial assets . . . . .	15	6,044.7	4,964.3	3,507.4
Reinsurance assets . . . . .	23	3,476.8	3,079.8	2,145.7
Deferred tax assets . . . . .	18	12.7	10.8	14.0
Current tax assets . . . . .	30	—	5.0	5.0
Prepayments and accrued income . . . . .	19	84.4	91.8	52.4
Insurance and other receivables . . . . .	20	18.1	6.1	6.0
Cash and cash equivalents . . . . .	21	40.6	19.9	12.8
<b>Total assets . . . . .</b>		<b>9,762.2</b>	<b>8,267.8</b>	<b>5,843.0</b>
<b>Equity</b>				
Share capital . . . . .	22	80.0	73.0	72.9
Share premium . . . . .	22	5.2	0.2	0.1
Accumulated profit/(loss) . . . . .		66.1	7.2	(8.0)
Equity attributable to owners of Just Retirement Group				
Holdings Limited . . . . .		151.3	80.4	65.0
Non-controlling interest . . . . .	37	(1.2)	(0.8)	(0.2)
<b>Total equity . . . . .</b>		<b>150.1</b>	<b>79.6</b>	<b>64.8</b>
<b>Liabilities</b>				
Insurance liabilities . . . . .	23	5,490.3	4,626.7	3,257.6
Financial liabilities . . . . .	26	3,705.4	3,312.4	2,403.5
Investment contract liabilities . . . . .	24	130.4	61.5	—
Loans and borrowings . . . . .	25	55.2	—	—
Deferred tax liabilities . . . . .	18	44.8	44.1	36.7
Other provisions . . . . .	29	1.7	1.2	1.0
Current tax liabilities . . . . .	30	7.9	—	—
Accruals and deferred income . . . . .	31	16.8	13.5	10.5
Insurance and other payables . . . . .	32	159.6	128.8	68.9
<b>Total liabilities . . . . .</b>		<b>9,612.1</b>	<b>8,188.2</b>	<b>5,778.2</b>
<b>Total equity and liabilities . . . . .</b>		<b>9,762.2</b>	<b>8,267.8</b>	<b>5,843.0</b>

## Consolidated Cashflow Statement

	Year ended 30 June 2013	Year ended 30 June 2012	Year ended 30 June 2011
	£m	£m	£m
<b>Cash flows from operating activities</b>			
Profit before tax . . . . .	78.3	24.7	2.5
Depreciation of equipment . . . . .	1.1	1.0	0.2
Amortisation of intangible assets . . . . .	7.7	12.1	12.7
Share-based payments . . . . .	0.7	0.6	0.5
Interest income . . . . .	(175.1)	(135.6)	(111.6)
Interest expense . . . . .	128.3	116.5	101.1
<b>Operating profit before changes in operating assets and liabilities . . . . .</b>	<b>41.0</b>	<b>19.3</b>	<b>5.4</b>
(Increase) in financial assets . . . . .	(965.1)	(1,461.4)	(714.5)
(Increase) in reinsurance assets . . . . .	(397.0)	(934.1)	(465.4)
Decrease/(Increase) in prepayments and accrued income . .	21.4	(39.3)	(0.1)
(Increase) in insurance and other receivables . . . . .	(12.0)	—	(3.7)
Increase in insurance liabilities . . . . .	863.6	1,369.1	723.5
Increase in investment contract liabilities . . . . .	68.9	61.5	—
Increase in deposits received from reinsurers . . . . .	369.8	824.0	439.3
Increase in accruals and deferred income . . . . .	3.3	2.8	4.3
(Decrease)/Increase in insurance and other payables . . . .	(2.0)	35.0	5.4
(Decrease)/increase in other creditors . . . . .	(3.6)	35.8	13.1
<b>Cash (outflow)/inflow generated from operations . . . . .</b>	<b>(11.7)</b>	<b>(87.3)</b>	<b>7.3</b>
Interest received . . . . .	161.1	119.0	101.5
Interest paid . . . . .	(94.3)	(89.8)	(77.2)
Taxation paid . . . . .	(14.0)	(0.6)	(10.6)
<b>Net cash inflow/(outflow) from operating activities . . . . .</b>	<b>41.1</b>	<b>(58.7)</b>	<b>21.0</b>
<b>Cash flows from investing activities</b>			
Additions to internally generated intangible assets . . . . .	(3.0)	(1.7)	(1.9)
Acquisition of equipment . . . . .	(0.6)	(1.8)	(0.7)
<b>Net cash (outflow) from investing activities . . . . .</b>	<b>(3.6)</b>	<b>(3.5)</b>	<b>(2.6)</b>
<b>Cash flows from financing activities</b>			
Increase in borrowings . . . . .	80.5	—	—
Interest paid . . . . .	(1.0)	—	—
Issue of ordinary and preference share capital . . . . .	19.0	0.2	3.5
<b>Net cash inflow from financing activities . . . . .</b>	<b>98.5</b>	<b>0.2</b>	<b>3.5</b>
Net increase/(decrease) in cash and cash equivalents . . . .	136.0	(62.0)	21.9
Cash and cash equivalents at start of period . . . . .	53.9	115.9	94.0
<b>Cash and cash equivalents at end of period . . . . .</b>	<b>189.9</b>	<b>53.9</b>	<b>115.9</b>

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## NOTES TO THE GROUP'S FINANCIAL INFORMATION

### 1) Significant Accounting Policies

#### General information

Just Retirement Group Holdings Limited ("JRGHL") (formerly Avalon Acquisitions Limited) was incorporated on 10 June 2009. On 26 November 2009, JRGHL acquired Just Retirement (Holdings) Limited and its subsidiaries (all collectively, the "JRGHL Group"). Those subsidiaries include Just Retirement Limited which began trading in August 2004.

The principal accounting policies adopted in the preparation of the financial information are set out below and are those expected to be applicable for the year ending 30 June 2014.

#### 1.1 Basis of Preparation

The financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") effective for accounting periods commencing on or before 1 July 2013 and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial information also comply with the revised Statement of Recommended Practice issued by the Association of British Insurers (ABI SORP) in December 2005 (as amended in December 2006) in so far as these requirements do not contradict IFRS requirements.

The JRGHL Group has adopted the following new accounting standards, interpretations and amendments to existing standards as of 1 July 2013:

- Amendment to IAS 1 Presentation of Items of Other Comprehensive Income—effective from 1 July 2012
- Amendment to IAS 12 Deferred Tax: Recovery of Underlying Assets—effective from 1 January 2012
- Amendments to IFRS 1, 'First time adoption', on fixed dates and hyperinflation—effective 1 July 2011, endorsed 11 December 2012
- IFRS 13 Fair value measurement—endorsed 11 December 2012 and effective for annual periods beginning on or after 1 January 2013

Adoption of these revised standards and interpretations did not have any material effect on the financial performance or position of the JRGHL Group.

The principal effect of these changes are as follows:

#### IAS 1 Presentation of Items of Other Comprehensive Income (OCI)

This amendment requires that an entity present separately the items of OCI that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. They also preserve the existing option to present the profit or loss and other comprehensive income in two statements.

#### IAS 12 Deferred Tax: Recovery of Underlying Assets

This amendment introduces a rebuttable assumption that deferred tax arising on investment property should be calculated using the assumption that the carrying amount will be recovered entirely through sale.

#### IFRS 13 Fair Value Measurement

This standard provides a single source of guidance on how fair value is measured. There is no effect on the values previously recorded in the financial statements.

The following new accounting standards, interpretations and amendments to existing standards have been issued by the IASB, but have not yet been endorsed by the EU, or are not applicable for the current accounting period. On adoption, they are not expected to materially impact the results of the Group.

- Amendment to IFRS 1, 'First time adoption of International Financial Reporting Standards'—endorsed 11 December 2012 / 4 March 2013 and effective for annual periods beginning on or after 1 January 2013
- Amendment to IFRS 7, 'Financial instruments: Disclosures' offsetting financial assets and financial liabilities—endorsed 1 January 2013 and effective for annual periods beginning on or after 1 January 2013

- IFRS 10 Consolidated financial information—endorsed 11 December 2012 and effective for annual periods beginning on or after 1 January 2014
- IFRS 11 Joint Arrangements—endorsed 11 December 2012 and effective for annual periods beginning on or after 1 January 2014
- IFRS 12 Disclosure of interests in other entities—endorsed 11 December 2012 and effective for annual periods beginning on or after 1 January 2014
- Amendment to IAS 19 Employee benefits—endorsed 5 June 2012 and effective for annual periods beginning on or after 1 January 2013
- IAS 27 (revised 2011) Separate financial information—endorsed 11 December 2012 and effective for annual periods beginning on or after 1 January 2014
- IAS 28 (revised 2011) Associates and joint ventures—endorsed 11 December 2012 and effective for annual periods beginning on or after 1 January 2014
- Amendment to IAS 32, ‘Financial instruments: Presentation’, on offsetting financial assets and financial liabilities—endorsed 13 December 2012 and effective for annual periods beginning on or after 1 January 2014
- Annual improvements to IFRS’s 2011—endorsed 27 March 2013 and effective for annual periods on or after 1 January 2013
- Annual improvements to IFRS’s 2012—not yet endorsed and effective date is unknown
- IFRIC 21 Levies—not yet endorsed, effective date of 1 January 2014 expected

## ***1.2 Use of Estimates, Assumptions and Judgements***

The preparation of financial information requires the JRGHL Group to make estimates and assumptions that affect items reported in the Consolidated Statement of Financial Position and Statement of Comprehensive Income and the disclosure of contingent assets and liabilities at the date of the financial information. Although these estimates are based on the Directors’ best knowledge of current facts, circumstances and, to some extent, future events and actions, actual results ultimately may differ from those estimates, possibly significantly. Further information on the use of estimates and judgements is given in Note 2.

## ***1.3 Consolidation Principles***

Subsidiaries are those entities in which the JRGHL Group, directly or indirectly, has power to exercise control over financial and operating policies in order to gain economic benefits. Subsidiaries are consolidated from the date on which effective control is transferred to the JRGHL Group and are excluded from consolidation from the date of disposal. All inter-company transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated.

## ***1.4 Product Classification***

### ***(a) Insurance Contracts***

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

### ***(b) Financial Reinsurance***

Longevity risk within insurance contracts written is ceded to reinsurers under contracts to transfer longevity risk. Such contracts are accounted for as insurance contracts as they transfer significant insurance risk from the JRGHL Group. These contracts, which provide for the transfer of risk, are also structured to provide financing.



## **1.5 Revenue Recognition**

### **(a) Net Premium Revenue**

Premium revenue in respect of single premium insurance contracts is accounted for when the premiums are received. Facilitated adviser charges, which have arisen since 1 January 2013 following the implementation of the Retail Distribution Review (“RDR”), are not accounted for within premium revenue, and do not represent a charge on the JRGHL Group.

Reinsurance premiums ceded are accounted for on a payable basis. Reinsurance previously ceded is recaptured when a sufficient surplus has arisen on a Pillar 1 basis under PRA valuation rules to repay reinsurance financing owing to reinsurers for previous underwriting years.

### **(b) Investment Income**

Investment income includes interest and the movement in financial assets and financial liabilities at fair value through profit or loss. Interest income is recognised as it accrues, using the effective interest method. Interest income on the loans secured by mortgages is accrued at the mortgage rate applicable for each individual advance under each individual contract. Determination of gains and losses and the movement in financial assets at fair value through the income statement are explained in their respective accounting policies.

## **1.6 Expense Recognition**

### **(a) Claims**

Annuities are accounted for as they fall due for payment. Reinsurance recoveries are accounted for in the same period as the related claim.

### **(b) Investment Expenses and Charges**

Investment expenses, comprising fund managers’ and transaction costs are recognised on an accruals basis.

### **(c) Finance Costs**

Finance costs on deposits received from reinsurers are recognised as an expense in the period in which they are incurred. Interest on loan notes is accrued in accordance with the terms of the loan note agreement.

### **(d) Employee Benefits**

#### ***Defined contribution plans***

The JRGHL Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in funds managed by a third party. Obligations for contributions to the defined contribution pension scheme are recognised as an expense in profit or loss as incurred.

#### ***Share-Based Payment Transactions***

The fair value of share awards granted to employees is determined at grant date and recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards.

### **(e) Operating Leases**

Payments made under operating leases, net of any investments received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

## **1.7 Segmental reporting**

The JRGHL Group’s segmental results are analysed on a basis consistent with the way that the chief operating decision maker assesses the performance and allocation of resources. The chief operating decision-maker (CODM), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group Executive Committee.

An operating segment is a component of the JRGHL Group that engages in business activities from which it earns revenues and incurs expenses.

The operating segments from which the JRGHL Group derives revenues and incurs expenses are as follows:

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

Operating segments where certain materiality thresholds in relation to total results from operating segments, are not exceeded, are combined when determining reportable segments. For segmental reporting, two of the operating segments of the group have been aggregated in core as they are not deemed to be material to the JRGHL Group's operations.

### ***1.8 Business combinations***

From 1 April 2010 the JRGHL Group applied IFRS 3 Business Combinations (2008) in accounting or business combinations and the accounting policy is set out below.

#### ***Acquisitions on or after 1 April 2010***

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the JRGHL Group takes into consideration potential voting rights that currently are exercisable.

The JRGHL Group measures goodwill at the acquisition date as the total of:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the JRGHL Group incurs in connection with a business combination are expensed as incurred.

### ***1.9 Goodwill***

Goodwill arising on business combinations is the future economic benefit arising from assets that are not capable of being individually identified and separately recognised. Goodwill is not amortised, but assessed for impairment annually or when circumstances or events indicate there may be uncertainty over the carrying value. If the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss.

For the purpose of impairment testing, goodwill is allocated to the related cash generating units. Where the recoverable amount of the cash generating unit is lower than its carrying amount, including goodwill, an impairment loss is recognised in profit or loss.

### ***1.10 Other Intangible Assets***

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques.

The significant intangibles recognised by the JRGHL Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Intangible asset	Estimated useful economic life	Valuation method
—Present value of in-force business (“PVIF”) . .	16 years	—Estimated value in-force using European Embedded Value model under IFRS
—Brand . . . . .	5 years	—Estimated royalty stream if the rights were to be licensed
—Distribution network . . . . .	3 years	—Estimated discounted cash flow
—Software . . . . .	3 years	—Estimated replacement cost

Intangible assets acquired by the JRGHL Group, including internally generated software are stated at cost less accumulated amortisation and impairment losses. Costs that are directly associated with the production of identifiable and unique software products controlled by the JRGHL Group are capitalised and recognised as an intangible asset. Direct costs include the software development team’s employee costs. All other costs associated with researching or maintaining computer software programs are recognised as an expense as incurred.

### 1.11 Impairment

The JRGHL Group assesses at each reporting date where there is an indication that any intangible or tangible assets may be subject to impairment. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s fair value less costs to sell and its value in use.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, goodwill is allocated to the related cash generating units. Where the recoverable amount of the cash generating unit is lower than its carrying amount, including goodwill, an impairment loss is recognised in profit or loss.

Impairment losses are recognised in profit or loss in other operating expenses. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount of the asset is estimated.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. Impairment losses for goodwill are not reversed. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss, unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset’s revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

### 1.12 Equipment

Equipment is stated at cost less accumulated depreciation and impairment losses. Depreciation is charged to profit or loss on a straight-line basis over the estimated useful life of each item of equipment.

Estimated useful lives are as follows:

Computer equipment—4 years

Furniture and fittings—2 years

### 1.13 Financial Investments

The JRGHL Group classifies its financial investments as fair value through profit or loss. The fair value through profit or loss category is used, as the JRGHL Group’s strategy is to manage its financial

investments on a fair value basis. The use of the fair value basis also mitigates significant accounting mismatch that would otherwise arise.

Purchases and sales of investments are recognised at their fair values on the trade date, which is the date that the JRGHL Group commits to purchase or sell the assets. Transaction costs are expensed as incurred.

Investments are derecognised when the contractual rights to receive cash flows from the investments expire, or where the investments have been transferred, together with substantially all the risks and rewards of ownership.

Financial investments are carried at fair value with changes in fair value included in profit or loss in the period in which they arise. The fair values of investments are based on market observable data or an internal valuation model where an active market does not exist.

#### ***1.14 Loans Secured by Mortgages***

Loans secured by mortgages have been classified as fair value through profit or loss as the Group's strategy is to manage its mortgage loans on a fair value basis.

Loans secured by mortgages are recognised when the cash is advanced to borrowers. Loans secured by mortgages are subsequently carried at fair value with changes in fair value included in profit or loss in the period in which they arise. There is no deep and liquid market for the loans secured by mortgages and their fair value is determined using an internal valuation model. A discounted cash flow analysis is used which considers future expenses and assumed mortality experience. The no-negative equity guarantee embedded in the product is valued using a variant of the Black-Scholes option pricing model.

The difference between the initial transaction price and the amount that would be determined at that date using the valuation model is deferred and recognised over the expected life of the asset.

Loans secured by mortgages are derecognised when they are either redeemed or transferred together with substantially all the risks and rewards of ownership.

#### ***1.15 Reinsurance***

Premiums ceded and claims reimbursed are presented on a gross basis in profit or loss and the Statement of Financial Position as appropriate.

Reinsurance assets and liabilities are determined and accounted for in accordance with the relevant reinsurance contract.

If a reinsurance asset is impaired the JRGHL Group reduces the carrying amount accordingly and recognises that impairment loss in profit or loss. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the JRGHL Group may not receive all amounts due to it under the terms of the contract and the event has a reliably measurable impact on the amounts that the JRGHL Group will receive from the reinsurer.

#### ***1.16 Taxation***

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case the related income tax is also recognised in equity.

Current tax is the expected tax payable on the taxable profit for the period, using tax rates substantially enacted at the Statement of Financial Position date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates substantially enacted at the Statement of Financial Position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Any deferred assets not recognised are separately disclosed.

### ***1.17 Cash and Cash Equivalents***

Cash and cash equivalents comprise cash balances and units in a sterling liquidity fund. Units in the liquidity fund are only included in cash and cash equivalents for the purposes of the cash flow statement. Bank overdrafts that are repayable on demand and form an integral part of the JRGHL Group's cash management are included as a component of cash and cash equivalents for the purpose of the Consolidated Cash Flow Statement.

### ***1.18 Financial Instruments***

Insurance and other receivables are measured at amortised cost.

Insurance and other payables are measured at amortised cost.

### ***1.19 Derivative Financial Instruments***

Derivative financial instruments are designated as fair value through profit or loss. The fair value is based on quoted price. Transaction costs are expensed as incurred. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

### ***1.20 Insurance Liabilities***

Insurance liabilities under annuity contracts are determined having due regard to the principles laid down in European Union Council Directive 92/96/EEC. A prospective gross premium valuation method has been adopted. The estimation process used in determining the long-term business provision involves projecting future annuity payments and the costs of maintaining the contracts.

#### ***Liability Adequacy Test***

At each reporting date, an assessment is made of whether the recognised insurance liabilities are adequate, using current estimates of future cash flows. If that assessment shows that the carrying amount of the liabilities (less related assets) is insufficient in the light of the estimated future cash flows the deficiency is recognised in profit or loss by setting up an additional provision in the Statement of Financial Position.

### ***1.21 Investment Contract Liabilities***

Fixed term annuities are accounted for as investment contracts and valued using an internal model. The difference between the initial deposit and the amount that would be determined at that date using the valuation model is deferred and recognised over the expected life of the liabilities.

### ***1.22 Interest bearing loans and borrowings***

Borrowings are recognised initially at fair value, which is generally the cash consideration received, net of transaction costs incurred, and subsequently stated at amortised cost. Any difference between the proceeds, net of transaction costs, and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

### ***1.23 Provisions***

A provision is recognised in the Consolidated Statement of Financial Position when the JRGHL Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. The JRGHL Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

### ***1.24 Own Shares***

Where JRGHL or its subsidiaries purchase JRGHL's shares, the consideration paid (including any attributable transaction costs net of income taxes) is shown as a deduction from total shareholders' equity. Gains and losses on sales of own shares are charged or credited to equity.

### **1.25 Foreign currencies**

Transactions in foreign currencies are translated to sterling at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the financial period. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and not subsequently restated. Non-monetary assets and liabilities stated at fair value in a foreign currency are translated at the rate on the date the fair value was determined. When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity. Conversely, when a gain or loss on a non-monetary item is recognised in the income statement, any exchange component of that gain or loss is recognised in the income statement.

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

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

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

The most significant intangible asset recognised upon the acquisition of Just Retirement (Holdings) Limited is PVIF. The value of PVIF is based on the estimated value in-force using the European Embedded Value model under IFRS.

The key sensitivities are:

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

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

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

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

Fair values of financial instruments that are quoted in active markets are based on bid prices for the assets held. Corporate bond valuations are obtained from quoted market information or market observable data. Note 16 explains how fair values of financial instruments for which there is no observable market data are derived.

A detailed commentary on the financial risks facing the JRGHL Group are included in Note 35.

### **2.3 Insurance Liabilities**

The key sensitivities (Note 23e) are:

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



## 2.4 Lifetime Mortgage

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

The key sensitivities are:

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

Note 16 contains information about the assumptions and uncertainties relating to Lifetime Mortgages. Note 35 sets out the risk factors in these contracts and contains information about the risks and uncertainties associated with financial instruments.

### 3) Net Investment Income

	Year ended 30 June 2013	Year ended 30 June 2012	Year ended 30 June 2011
	£m	£m	£m
Interest income			
Assets at fair value through profit or loss . . . . .	175.1	135.6	111.6
Movement in fair value			
Financial assets designated on initial recognition . . . . .	70.0	266.7	23.2
Financial derivative instruments (note 27) . . . . .	4.4	(28.2)	1.0
	<u>249.5</u>	<u>374.1</u>	<u>135.8</u>

### 4) Acquisition Costs

	Year ended 30 June 2013	Year ended 30 June 2012	Year ended 30 June 2011
	£m	£m	£m
Commission . . . . .	30.4	33.3	24.0
Other acquisition expenses . . . . .	9.1	7.1	4.7
	<u>39.5</u>	<u>40.4</u>	<u>28.7</u>

### 5) Other Operating Expenses

	Year ended 30 June 2013	Year ended 30 June 2012	Year ended 30 June 2011
	£m	£m	£m
Personnel expenses (note 10) . . . . .	51.7	42.8	34.3
Investment expenses and charges . . . . .	2.9	2.6	1.7
Depreciation of equipment . . . . .	1.1	1.0	0.2
Operating lease rentals; land and buildings . . . . .	2.9	2.7	2.3
Other costs . . . . .	47.9	37.5	32.7
	<u>106.5</u>	<u>86.6</u>	<u>71.2</u>

During the period, the following services were provided by the JRGHL Group's Auditor at costs as detailed below:

	Year ended 30 June 2013	Year ended 30 June 2012	Year ended 30 June 2011
	£'000	£'000	£'000
Fees payable for the audit of the parent company and consolidated accounts . . . . .	35	35	25
Fees payable for other services			
The audit of JRGHL's subsidiaries pursuant to legislation . . . . .	260	252	206
Corporate finance services . . . . .	213	—	—
Audit-related assurance services . . . . .	75	75	36
Tax compliance services . . . . .	51	26	26
Tax advisory services . . . . .	9	29	27
Other assurance services . . . . .	23	10	14
	<b>666</b>	<b>427</b>	<b>334</b>

## 6) Finance Costs

	Year ended 30 June 2013	Year ended 30 June 2012	Year ended 30 June 2011
	£m	£m	£m
Interest payable on deposits received from reinsurers . . . . .	94.3	89.7	77.2
Loan Notes and Preference Shares interest . . . . .	32.2	26.5	23.6
Other interest payable . . . . .	1.8	0.3	0.3
	<b>128.3</b>	<b>116.5</b>	<b>101.1</b>

The terms of interest payable on loan notes and preference shares are described in note 26. The interest payable on deposits received from reinsurers is calculated by reference to the gross redemption yield on the asset portfolio.

## 7) Segmental reporting

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

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

The reconciliation of the results of the operating segments for the income statements includes the results arising from the activities of the group's management services and holding companies and eliminations upon consolidation.

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

Eliminations relate to intra group transactions and balances

## Reporting segments and reconciliation to Financial Information

### Year ended 30 June 2013

	Core	Corporate Functions	Eliminations	Year ended 30 June 2013
	£m	£m	£m	£m
New business operating profit . . . . .	58.9	—	—	58.9
In-force operating profit . . . . .	41.1	—	—	41.1
<b>Underlying operating profit . . . . .</b>	<b>100.0</b>	<b>—</b>	<b>—</b>	<b>100.0</b>
Operating experience and assumptions changes . . . . .	(11.1)	(4.8)	(3.0)	(18.9)
Reinsurance and financing costs . . . . .	(10.7)	(34.0)	3.0	(41.7)
<b>Operating profit before tax . . . . .</b>	<b>78.2</b>	<b>(38.8)</b>	<b>—</b>	<b>39.4</b>
Non-recurring and project expenditure . . . . .	(5.9)	(4.1)	—	(10.0)
Investment and economic profits / (losses) . . . . .	47.4	1.5	—	48.9
<b>Profit before tax . . . . .</b>	<b>119.7</b>	<b>(41.4)</b>	<b>—</b>	<b>78.3</b>
Segmental assets . . . . .	9,625.3	201.6	(64.7)	9,762.2
Segmental liabilities . . . . .	9,239.3	437.5	(64.7)	9,612.1

### Year ended 30 June 2012

	Core	Corporate Functions	Eliminations	Year ended 30 June 2012
	£m	£m	£m	£m
New business operating profit . . . . .	54.5	—	—	54.5
In-force operating profit . . . . .	32.7	—	—	32.7
<b>Underlying operating profit . . . . .</b>	<b>87.2</b>	<b>—</b>	<b>—</b>	<b>87.2</b>
Operating experience and assumptions changes . . . . .	12.1	(12.0)	—	0.1
Reinsurance and financing costs . . . . .	(8.4)	(26.8)	—	(35.2)
<b>Operating profit before tax . . . . .</b>	<b>90.9</b>	<b>(38.8)</b>	<b>—</b>	<b>52.1</b>
Non-recurring and project expenditure . . . . .	(6.7)	(0.7)	—	(7.4)
Investment and economic profits / (losses) . . . . .	(17.1)	(2.9)	—	(20.0)
<b>Profit before tax . . . . .</b>	<b>67.1</b>	<b>(42.4)</b>	<b>—</b>	<b>24.7</b>
Segmental assets . . . . .	8,147.4	129.0	(8.6)	8,267.8
Segmental liabilities . . . . .	7,885.1	311.7	(8.6)	8,188.2

### Year ended 30 June 2011

	Core	Corporate Functions	Eliminations	Year ended 30 June 2011
	£m	£m	£m	£m
New business operating profit (normalised) . . . . .	49.1	—	—	49.1
In-force operating profit . . . . .	26.4	—	—	26.4
<b>Underlying operating profit (normalised) . . . . .</b>	<b>75.5</b>	<b>—</b>	<b>—</b>	<b>75.5</b>
Operating experience and assumptions changes (normalised) . . . . .	1.0	(12.6)	—	(11.6)
Reinsurance and financing costs . . . . .	(8.2)	(23.9)	—	(32.1)
<b>Operating profit before tax . . . . .</b>	<b>68.3</b>	<b>(36.5)</b>	<b>—</b>	<b>31.8</b>
Non-recurring and project expenditure . . . . .	(4.7)	(0.6)	—	(5.3)
Investment and economic profits / (losses) . . . . .	(24.8)	0.8	—	(24.0)
<b>Profit before tax . . . . .</b>	<b>38.8</b>	<b>(36.3)</b>	<b>—</b>	<b>2.5</b>
Segmental assets . . . . .	5,700.9	148.2	(6.1)	5,843.0
Segmental liabilities . . . . .	5,505.4	278.9	(6.1)	5,778.2

In the consolidated financial statements for Just Retirement (Holdings) Limited, profit before tax totalled £121.4m (2012: £62.2m, 2011: £37.1m). This included the profit before tax for corporate functions within the Just Retirement (Holdings) Limited group of £1.7m (2012: loss of £4.9m, 2011: loss of £1.7m).

The loss before tax for the year arising from the activities of corporate functions totalled £41.4m (2012: £42.4m, 2011: £36.3m). The loss is comprised of the profit before tax for Just Retirement (Holdings) Limited totalling £1.7m (2012: loss of £4.9m, 2011: loss of £1.7m), offset by the loss before tax from JRGHL of £43.1m (2012: loss of £37.5m, 2011: loss of £34.6m).

Losses before tax arising from JRGHL include finance costs of £32.5m (2012: £26.8m, 2011: £23.9m), amortisation of intangibles arising on consolidation of £6.5m (2012: £10.2m, 2011: £10.2m), non-recurring and project costs of £3.4m (2012: nil, 2011: nil), and administration costs of £0.7m (2012: £0.5m, 2011: £0.5m).

Amortisation of intangibles is included in operating experience and assumption changes within the segmental analysis for corporate functions.

New business operating profit for the year ended 30 June 2011 for the core segment reflects normalised margins and product mix. In the year ended 30 June 2011, the Group experienced strong demand for LTMs from which unusually high margins were achieved. To allow for a more appropriate comparison with later years with respect to new business operating profit, new business operating profit has been reduced by £13.8m to £49.1m and operating experience and assumptions changes increased by £13.8m to £1.0m.

## 8) Income Tax

	Year ended 30 June 2013	Year ended 30 June 2012	Year ended 30 June 2011
	£m	£m	£m
Current taxation			
Income tax (payable) . . . . .	21.7	—	(2.5)
Total current tax . . . . .	21.7	—	(2.5)
Deferred taxation			
Origination and reversal of timing difference . . . . .	0.4	10.7	4.8
Adjustment for prior periods . . . . .	(0.2)	—	—
Rate change . . . . .	(1.4)	—	—
<b>Total deferred tax . . . . .</b>	<b>(1.2)</b>	<b>10.7</b>	<b>4.8</b>
<b>Total income tax . . . . .</b>	<b>20.5</b>	<b>10.7</b>	<b>2.3</b>

*Reconciliation of total income tax to the applicable tax rate:*

	Year ended 30 June 2013	Year ended 30 June 2012	Year ended 30 June 2011
	£m	£m	£m
Profit on ordinary activities before tax . . . . .	78.3	24.7	2.5
Income tax at 23.75% (2012: 25.5% and 2011:27.5%) . . . . .	18.6	6.3	0.7
<b>Effects of</b>			
Expenses not deductible for tax purposes . . . . .	3.8	1.8	1.3
Transition adjustment . . . . .	1.7	—	—
Timing differences . . . . .	(2.0)	—	—
Rate change . . . . .	(1.4)	(1.8)	(1.0)
Unrecognised deferred tax asset . . . . .	0.3	4.4	3.7
Losses utilised . . . . .	(0.1)	—	—
Adjustments in respect of prior periods . . . . .	(0.4)	—	(2.4)
<b>Total income tax . . . . .</b>	<b>20.5</b>	<b>10.7</b>	<b>2.3</b>

Reductions in the UK corporation tax from 24% to 23% (effective 1 April 2013) were substantively enacted on 3 July 2012. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the JRGHL Group's future current tax charge accordingly and reduce the deferred tax liability at 30 June 2013 (which has been calculated based on the rate of 23% substantively enacted at the balance sheet date) by £2.7m at 21% and £4.2m at 20%.

Taxation of life insurance companies was fundamentally changed following the publication of Finance Act 2012. From 1 January 2013 life insurance tax is based on financial statements; prior to this date, the basis for profits chargeable to corporation tax was surplus arising within the Pillar 1 regulatory regime.

Cumulative differences arising between the two bases, which represent the differences in retained profits and taxable surplus, which are not excluded items for taxation, are brought back into the computation of taxable profits. However, legislation provides for transitional arrangements whereby such differences are amortised on a straight line basis over a 10 year period from 1 January 2013. The tax charge for the period to 30 June 2013 includes profits chargeable to corporation tax arising from amortisation of £7.4 million (2012:£nil).

## 9) Remuneration of Directors

The Directors of JRGHL, who served during the year, are remunerated indirectly by Permira Funds other than the independent non-executive director whose remuneration £60,000 (2012: £60,000, 2011: £60,000) is charged to Just Retirement (Holdings) Limited. The JRGHL Group also incurred £250,000 (2012: £250,000, 2011: £250,000) in respect of fees for the services of two directors who served during the year and which was payable to Permira LLP, a related party.

## 10) Staff Numbers and Costs

The average number of persons employed by the JRGHL Group (including Directors) during the financial period, analysed by category, was as follows:

	Year ended 30 June 2013	Year ended 30 June 2012	Year ended 30 June 2011
	Number	Number	Number
Directors . . . . .	3	3	3
Senior Management . . . . .	52	42	18
Staff . . . . .	726	603	462
	<u>781</u>	<u>648</u>	<u>483</u>

The aggregate personnel expenses costs were as follows:

	Year ended 30 June 2013	Year ended 30 June 2012	Year ended 30 June 2011
	£m	£m	£m
Wages and salaries . . . . .	43.3	36.1	29.6
Social security costs . . . . .	4.7	3.9	2.9
Other pension costs . . . . .	3.7	2.8	1.8
	<u>51.7</u>	<u>42.8</u>	<u>34.3</u>

JRGHL does not have any employees.

## 11) Employee Benefits

### Defined contribution pension scheme

The JRGHL Group operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable to the fund and amounted to £3.7m (2012: £2.8m and 2011: £1.8m).

### Share-based payments

In September 2010, the JRGHL Group established a long-term incentive plan, which allows certain employees to purchase shares in Just Retirement Group Holdings Limited.

In accordance with IFRS 2 “Share-based payment” an expense of £0.7m (2012: £0.6m and 2011: £0.5m) has been recognised in the profit or loss account in the current period with a corresponding increase in equity.

The total estimated fair value of the award is £2.7m (2012: £2.7m and 2011: £2.7m), which is being amortised over the estimated expected life of four years. The award is equity-settled and as at 30 June 2013

72,608,119 shares (2012: 68,416,298 shares and 30 June 2011 63,127,004 shares) have been purchased by employees.

## 12) Earnings per share

	Year Ended 30 June 2013			Year Ended 30 June 2012			Year Ended 30 June 2011		
	Earnings	Weighted average number of shares	Earnings per share	Earnings	Weighted average number of shares	Earnings per share	Earnings	Weighted average number of shares	Earnings per share
	£m	million	Pence	£m	million	Pence	£m	million	Pence
Basic earnings . . . . .	58.2	817.8	7.12	14.6	763.0	1.92	0.6	745.3	0.08
Diluted earnings . . . . .	58.2	817.8	7.12	14.6	763.0	1.92	0.6	745.3	0.08

The calculation of basic and diluted earnings per share is based on dividing the profit attributable to equity holders of JRGL of £58.2m (2012: £14.6m and 2011: £0.6m) and by the weighted average number of ordinary shares in issue during the year of 817,824,120 (2012: 762,987,756 and 2011: 745,273,531) calculated as follows:

	Year ended 30 June 2013	Year ended 30 June 2012	Year ended 30 June 2011
	million	million	million
Issued ordinary shares at beginning of year . . . . .	765.2	762.2	695.0
Effect of ordinary shares issued . . . . .	52.6	0.8	50.3
Weighted average number of ordinary shares . . . . .	817.8	763.0	745.3

## 13) Intangible Assets

30 June 2013	Goodwill	Present value of in-force business	Distribution network	Brand	Purchased computer software	Software under construction	Software development costs	Total
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Cost</b>								
Balance at 1 July 2012 . . . . .	33.6	57.3	16.6	1.6	0.8	1.7	11.8	123.4
Acquired during the year . . . . .	—	—	—	—	0.3	—	—	0.3
Additions arising from internal development . . . . .	—	—	—	—	—	2.7	—	2.7
Transfers . . . . .	—	—	—	—	—	(2.8)	2.8	—
<b>At 30 June 2013 . . . . .</b>	<b>33.6</b>	<b>57.3</b>	<b>16.6</b>	<b>1.6</b>	<b>1.1</b>	<b>1.6</b>	<b>14.6</b>	<b>126.4</b>
<b>Amortisation</b>								
Balance at 1 July 2012 . . . . .	—	(9.3)	(14.3)	(0.8)	(0.8)	—	(10.2)	(35.4)
Charge for the year . . . . .	—	(3.6)	(2.3)	(0.3)	(0.1)	—	(1.4)	(7.7)
<b>At 30 June 2013 . . . . .</b>	<b>—</b>	<b>(12.9)</b>	<b>(16.6)</b>	<b>(1.1)</b>	<b>(0.9)</b>	<b>—</b>	<b>(11.6)</b>	<b>(43.1)</b>
<b>Net book value at 30 June 2013 . . . . .</b>	<b>33.6</b>	<b>44.4</b>	<b>—</b>	<b>0.5</b>	<b>0.2</b>	<b>1.6</b>	<b>3.0</b>	<b>83.3</b>
<b>Net book value at 30 June 2012 . . . . .</b>	<b>33.6</b>	<b>48.0</b>	<b>2.3</b>	<b>0.8</b>	<b>—</b>	<b>1.7</b>	<b>1.6</b>	<b>88.0</b>



<b>30 June 2012</b>	<b>Goodwill</b>	<b>Present value of in-force business</b>	<b>Distribution network</b>	<b>Brand</b>	<b>Purchased computer software</b>	<b>Software under construction</b>	<b>Software development costs</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Cost</b>								
Balance at 1 July 2011 . . . . .	33.6	57.3	16.6	1.6	0.8	1.0	10.8	121.7
Additions arising from internal development . . . . .	—	—	—	—	—	1.7	—	1.7
Transfers . . . . .	—	—	—	—	—	(1.0)	1.0	—
<b>At 30 June 2012 . . . . .</b>	<b>33.6</b>	<b>57.3</b>	<b>16.6</b>	<b>1.6</b>	<b>0.8</b>	<b>1.7</b>	<b>11.8</b>	<b>123.4</b>
<b>Amortisation</b>								
Balance at 1 July 2011 . . . . .	—	(5.7)	(8.7)	(0.5)	(0.8)	—	(7.6)	(23.3)
Charge for the year . . . . .	—	(3.6)	(5.6)	(0.3)	—	—	(2.6)	(12.1)
<b>At 30 June 2012 . . . . .</b>	<b>—</b>	<b>(9.3)</b>	<b>(14.3)</b>	<b>(0.8)</b>	<b>(0.8)</b>	<b>—</b>	<b>(10.2)</b>	<b>(35.4)</b>
<b>Net book value at 30 June 2012 . . . . .</b>	<b>33.6</b>	<b>48.0</b>	<b>2.3</b>	<b>0.8</b>	<b>—</b>	<b>1.7</b>	<b>1.6</b>	<b>88.0</b>
<b>Net book value at 30 June 2011 . . . . .</b>	<b>33.6</b>	<b>51.6</b>	<b>7.9</b>	<b>1.1</b>	<b>—</b>	<b>1.0</b>	<b>3.2</b>	<b>98.4</b>

<b>30 June 2011</b>	<b>Goodwill</b>	<b>Present value of in-force business</b>	<b>Distribution network</b>	<b>Brand</b>	<b>Purchased computer software</b>	<b>Software under construction</b>	<b>Software development costs</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Cost</b>								
Balance at 1 July 2010 . . . . .	32.8	57.3	16.6	1.6	0.8	0.2	8.5	117.8
Acquisition through business combinations (note 34) . . . . .	0.8	—	—	—	—	—	1.2	2.0
Additions arising from internal development . . . . .	—	—	—	—	—	1.9	—	1.9
Transfers . . . . .	—	—	—	—	—	(1.1)	1.1	—
<b>At 30 June 2011 . . . . .</b>	<b>33.6</b>	<b>57.3</b>	<b>16.6</b>	<b>1.6</b>	<b>0.8</b>	<b>1.0</b>	<b>10.8</b>	<b>121.7</b>
<b>Amortisation</b>								
Balance at 1 July 2010 . . . . .	—	(2.1)	(3.2)	(0.2)	(0.8)	—	(4.3)	(10.6)
Charge for the year . . . . .	—	(3.6)	(5.5)	(0.3)	—	—	(3.3)	(12.7)
<b>At 30 June 2011 . . . . .</b>	<b>—</b>	<b>(5.7)</b>	<b>(8.7)</b>	<b>(0.5)</b>	<b>(0.8)</b>	<b>—</b>	<b>(7.6)</b>	<b>(23.3)</b>
<b>Net book value at 30 June 2011 . . . . .</b>	<b>33.6</b>	<b>51.6</b>	<b>7.9</b>	<b>1.1</b>	<b>—</b>	<b>1.0</b>	<b>3.2</b>	<b>98.4</b>
<b>Net book value at 30 June 2010 . . . . .</b>	<b>32.8</b>	<b>55.2</b>	<b>13.4</b>	<b>1.4</b>	<b>—</b>	<b>0.2</b>	<b>4.2</b>	<b>107.2</b>

### ***Amortisation and impairment charge***

The amortisation and impairment charge is recognised in the following line items in profit or loss:

	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Amortisation of intangible assets . . . . .	(7.7)	(12.1)	(12.7)

### ***Impairment testing***

Goodwill is tested for impairment in accordance with IAS 36, *Impairment of assets* at least annually.

Goodwill has been allocated to cash generating units or groups of cash generating units as follows:

	<b>Goodwill 2013</b>	<b>Goodwill 2012</b>	<b>Goodwill 2011</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Just Retirement Limited . . . . .	32.8	32.8	32.8
TOMAS . . . . .	0.8	0.8	0.8
	<b>33.6</b>	<b>33.6</b>	<b>33.6</b>

The recoverable amounts of Goodwill have been determined from value in use.

The key assumptions of this calculation are noted below:

	<u>2011 - 2013</u>
Period on which management approved forecast are based. . . . .	5 years
Discount rate—Just Retirement Limited . . . . .	12%
Discount rate—TOMAS acquisitions Limited . . . . .	30%

The value in use of Just Retirement Limited and TOMAS Acquisitions Limited are considered by reference to latest business plans over the next five years, based on economic conditions at 31 March, and a stressed scenario that assumes no growth in sales for the next three years. The outcome of the impairment assessment is that the goodwill in respect of Just Retirement Limited and TOMAS Acquisitions Limited is not impaired and that the value in use is higher than the carrying value of goodwill.

A reasonably possible change in assumption will not cause the carrying value of the goodwill to exceed the recoverable amounts.

#### 14) Equipment

<u>30 June 2013</u>	<u>Computer equipment</u> £m	<u>Furniture and fittings</u> £m	<u>Total</u> £m
<b>Cost</b>			
Balance at 1 July 2012 . . . . .	3.0	2.7	5.7
Acquired during the year . . . . .	0.5	0.1	0.6
Disposals . . . . .	(0.1)	—	(0.1)
<b>At 30 June 2013 . . . . .</b>	<b><u>3.4</u></b>	<b><u>2.8</u></b>	<b><u>6.2</u></b>
<b>Depreciation</b>			
Balance at 1 July 2012 . . . . .	(1.5)	(2.1)	(3.6)
Charge for the year . . . . .	(0.6)	(0.5)	(1.1)
Disposals . . . . .	0.1	—	0.1
<b>At 30 June 2013 . . . . .</b>	<b><u>(2.0)</u></b>	<b><u>(2.6)</u></b>	<b><u>(4.6)</u></b>
<b>Net book value at 30 June 2013 . . . . .</b>	<b><u>1.4</u></b>	<b><u>0.2</u></b>	<b><u>1.6</u></b>
<b>Net book value at 30 June 2012 . . . . .</b>	<b><u>1.5</u></b>	<b><u>0.6</u></b>	<b><u>2.1</u></b>
<u>30 June 2012</u>	<u>Computer equipment</u> £m	<u>Furniture and fittings</u> £m	<u>Total</u> £m
<b>Cost</b>			
Balance at 1 July 2011 . . . . .	2.0	2.0	4.0
Acquired during the year . . . . .	1.1	0.7	1.8
Disposals . . . . .	(0.1)	—	(0.1)
<b>At 30 June 2012 . . . . .</b>	<b><u>3.0</u></b>	<b><u>2.7</u></b>	<b><u>5.7</u></b>
<b>Depreciation</b>			
Balance at 1 July 2011 . . . . .	(1.0)	(1.7)	(2.7)
Charge for the year . . . . .	(0.6)	(0.4)	(1.0)
Disposals . . . . .	0.1	—	0.1
<b>At 30 June 2012 . . . . .</b>	<b><u>(1.5)</u></b>	<b><u>(2.1)</u></b>	<b><u>(3.6)</u></b>
<b>Net book value at 30 June 2012 . . . . .</b>	<b><u>1.5</u></b>	<b><u>0.6</u></b>	<b><u>2.1</u></b>
<b>Net book value at 30 June 2011 . . . . .</b>	<b><u>1.0</u></b>	<b><u>0.3</u></b>	<b><u>1.3</u></b>

<b>30 June 2011</b>	<b>Computer equipment</b>	<b>Furniture and fittings</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Cost</b>			
Balance at 1 July 2010 . . . . .	1.5	1.8	3.3
Acquired during the year . . . . .	0.5	0.2	0.7
<b>At 30 June 2011 . . . . .</b>	<b>2.0</b>	<b>2.0</b>	<b>4.0</b>
<b>Depreciation</b>			
Balance at 1 July 2010 . . . . .	(0.9)	(1.6)	(2.5)
Charge for the year . . . . .	(0.1)	(0.1)	(0.2)
<b>At 30 June 2011 . . . . .</b>	<b>(1.0)</b>	<b>(1.7)</b>	<b>(2.7)</b>
<b>Net book value at 30 June 2011 . . . . .</b>	<b>1.0</b>	<b>0.3</b>	<b>1.3</b>
<b>Net book value at 30 June 2010 . . . . .</b>	<b>0.6</b>	<b>0.2</b>	<b>0.8</b>

## 15) Financial Assets

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

	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Fair value through profit or loss</b>			
Loans secured by mortgages (note 16) . . . . .	2,081.2	1,842.8	1,162.3
Financial investments (note 17) . . . . .	3,963.5	3,121.5	2,345.1
<b>Total financial assets . . . . .</b>	<b>6,044.7</b>	<b>4,964.3</b>	<b>3,507.4</b>

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

### a) Determination of fair value hierarchy

In accordance with IFRS 7 Financial Instruments: Disclosures, financial assets at fair value have been classified into three categories.

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

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

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

The majority of the JRGHL Group's debt securities held at fair value are valued based on quoted market prices or market observable data. The JRGHL Group's loans secured by mortgages are valued using valuation techniques for which significant observable market data is not available. Further details for loans secured by mortgages are given in Note 16.

IFRS 7 also requires financial liabilities at fair value to be categorised into Level 1, 2 or 3 hierarchies. Financial liabilities at fair value include derivative financial instruments.

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

<u>30 June 2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
<b>Financial assets held at fair value</b>				
Units in sterling liquidity fund . . . . .	149.3	—	—	149.3
Debt securities and other fixed income securities . . . . .	78.8	3,681.1	—	3,759.9
Deposits with credit institutions . . . . .	17.2	—	—	17.2
Financial derivatives . . . . .	—	37.1	—	37.1
Loans secured by mortgages . . . . .	—	—	2,081.2	2,081.2
<b>Total financial assets held at fair value . . . . .</b>	<b>245.3</b>	<b>3,718.2</b>	<b>2,081.2</b>	<b>6,044.7</b>
<b>Financial liabilities held at fair value</b>				
Derivative financial instruments . . . . .	—	66.6	—	66.6
<b>Total financial liabilities held at fair value . . . . .</b>	<b>—</b>	<b>66.6</b>	<b>—</b>	<b>66.6</b>
 <u>30 June 2012</u>	 <u>Level 1</u>	 <u>Level 2</u>	 <u>Level 3</u>	 <u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
<b>Financial assets held at fair value</b>				
Units in sterling liquidity fund . . . . .	34.0	—	—	34.0
Debt securities and other fixed income securities . . . . .	53.4	2,965.2	—	3,018.6
Deposits with credit institutions . . . . .	26.3	—	—	26.3
Financial derivatives . . . . .	—	42.6	—	42.6
Loans secured by mortgages . . . . .	—	—	1,842.8	1,842.8
<b>Total financial assets held at fair value . . . . .</b>	<b>113.7</b>	<b>3,007.8</b>	<b>1,842.8</b>	<b>4,964.3</b>
<b>Financial liabilities held at fair value</b>				
Derivative financial instruments . . . . .	—	83.2	—	83.2
<b>Total financial liabilities held at fair value . . . . .</b>	<b>—</b>	<b>83.2</b>	<b>—</b>	<b>83.2</b>
 <u>30 June 2011</u>	 <u>Level 1</u>	 <u>Level 2</u>	 <u>Level 3</u>	 <u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
<b>Financial assets held at fair value</b>				
Units in sterling liquidity fund . . . . .	103.1	—	—	103.1
Debt securities and other fixed income securities . . . . .	106.3	2,116.7	—	2,223.0
Deposits with credit institutions . . . . .	15.2	—	—	15.2
Financial derivatives . . . . .	—	3.8	—	3.8
Loans secured by mortgages . . . . .	—	—	1,162.3	1,162.3
<b>Total financial assets held at fair value . . . . .</b>	<b>224.6</b>	<b>2,120.5</b>	<b>1,162.3</b>	<b>3,507.4</b>
<b>Financial liabilities held at fair value</b>				
Derivative financial instruments . . . . .	—	16.5	—	16.5
<b>Total financial liabilities held at fair value . . . . .</b>	<b>—</b>	<b>16.5</b>	<b>—</b>	<b>16.5</b>

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

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

#### d) Reconciliation of movement in Level 3 financial instruments measured at fair value

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

<u>Loans secured by mortgages</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
At 1 July . . . . .	1,842.8	1,162.3	887.1
Total gains in profit or loss . . . . .	(32.7)	442.0	53.8
Loans advanced . . . . .	309.7	269.9	242.3
Redemptions . . . . .	(38.6)	(31.4)	(20.9)
<b>At 30 June . . . . .</b>	<b>2,081.2</b>	<b>1,842.8</b>	<b>1,162.3</b>
<b>Total gains or losses for the period included in profit or loss<sup>(1)</sup> . . . . .</b>	<b>(23.6)</b>	<b>448.0</b>	<b>55.5</b>

(1) All gains and losses are included in “Net investment income” in profit or loss.

#### e) Level 3 sensitivity analysis

A sensitivity analysis of the principal assumptions underlying the loans secured by mortgages is given in note 23e.

#### 16) Loans Secured by Mortgages

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Fair value . . . . .	2,081.2	1,842.8	1,162.3
At cost <sup>(1)</sup> . . . . .	1,431.2	1,157.5	1,054.9

(1) Includes advances, further advances, accrued interest less redemptions

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

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

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

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

##### *Future expenses*

Assumptions for future policy expense levels are based on the JRGHL Group’s recent expense analyses and external benchmarking. The assumed future expense levels incorporate an annual inflation rate allowance of 4.0% (30 June 2012: 3.7% and 30 June 2011: 4.0%).

##### *Discount rate*

The aggregated effective discount rate for the portfolio at 30 June 2013, which equates the fair value to the model cash flows, was 4.67% (30 June 2012: 4.01% and 30 June 2011: 5.34%).

##### *No-negative equity guarantee*

The fair value of loans secured by mortgages takes into account an explicit provision in respect of the no-negative equity guarantee which is calculated using a variant of the Black-Scholes option pricing model.

Changes to the principal assumptions underlying the valuation technique could give rise to significant changes in the fair value of the assets. A sensitivity analysis of the principal assumptions is given in note 23(e).

The change in fair value recognised in profit or loss during the period is a loss of £122.2m (30 June 2012: profit of £368.3m and 30 June 2011: profit of £1.8m).

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
At 1 July . . . . .	316.9	235.9	164.6
Amounts deferred in the year . . . . .	143.5	86.8	80.0
Amounts recognised in profit or loss in the year . . . . .	(29.4)	(5.8)	(8.7)
<b>At 30 June . . . . .</b>	<b><u>431.0</u></b>	<b><u>316.9</u></b>	<b><u>235.9</u></b>

## 17) Financial Investments

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
<b>Fair value</b>			
Units in sterling liquidity fund (note 21) . . . . .	149.3	34.0	103.1
Debt securities and other fixed income securities . . . . .	3,759.9	3,018.6	2,223.0
Deposits with credit institutions (note 21) . . . . .	17.2	26.3	15.2
Financial derivatives (note 27) . . . . .	37.1	42.6	3.8
	<b><u>3,963.5</u></b>	<b><u>3,121.5</u></b>	<b><u>2,345.1</u></b>
<b>Cost</b>			
Units in sterling liquidity fund . . . . .	149.3	34.0	103.1
Debt securities and other fixed income securities . . . . .	3,638.5	2,923.5	2,168.4
Deposits with credit institutions . . . . .	17.2	26.3	15.2
Financial derivatives . . . . .	6.3	3.3	—
	<b><u>3,811.3</u></b>	<b><u>2,987.1</u></b>	<b><u>2,286.7</u></b>

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

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

Deposits with credit institutions with a carrying value of £17.2m (2012: £26.3m and 2011: £15.2m) have been pledged as collateral in respect of the JRGHL Group's derivative financial instruments. Amounts pledged as collateral are deposited with the derivative counterparty.

Of the above financial investments, £3,637.2m (2012: £2,943.9m and 2011: £2,078.6m) is expected to be recovered more than one year after the Statement of Financial Position date.

## 18) Deferred Tax

<b>30 June 2013</b>	<b>Asset</b>	<b>Liability</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Transitional tax . . . . .	—	(32.1)	(32.1)
Intangible assets . . . . .	—	(10.3)	(10.3)
Other provisions . . . . .	12.7	(2.4)	10.3
	<b><u>12.7</u></b>	<b><u>(44.8)</u></b>	<b><u>(32.1)</u></b>
<b>30 June 2012</b>	<b>Asset</b>	<b>Liability</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Intangible assets . . . . .	—	(12.3)	(12.3)
Other provisions . . . . .	10.8	(31.8)	(21.0)
	<b><u>10.8</u></b>	<b><u>(44.1)</u></b>	<b><u>(33.3)</u></b>



**30 June 2011**

	<u>Asset</u>	<u>Liability</u>	<u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Intangible assets . . . . .	—	(16.0)	(16.0)
Other provisions . . . . .	14.0	(20.7)	(6.7)
	<u>14.0</u>	<u>(36.7)</u>	<u>(22.7)</u>

Other provisions relate to temporary timing differences between the IFRS financial information and tax deductions for statutory insurance liabilities. The tax liability includes the transitional difference of £32.1m arising on the change in the tax rules for Life insurance companies which is to be amortised over 10 years.

The movement in the net deferred tax balance was as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Net balance at 1 July . . . . .	(33.3)	(22.6)	(17.8)
Amounts credited to profit or loss . . . . .	1.2	(10.7)	(4.8)
<b>Net balance at 30 June . . . . .</b>	<b><u>(32.1)</u></b>	<b><u>(33.3)</u></b>	<b><u>(22.6)</u></b>

The JRGHL Group has unrecognised deferred tax assets of £6.9m (2012: £7.1m and 2011: £3.3m) arising from unrelieved tax losses.

**19) Prepayments and Accrued Income**

Included in prepayments and accrued income are capitalised loan issue costs of £1.5m (2012: £nil and 2011: £nil).

Prepayments and accrued income for the JRGHL Group includes £1.1m (2012: £nil and 2011: £nil) that is expected to be recovered more than one year after the Statement of Financial Position date.

**20) Insurance and Other Receivables**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Receivables arising from insurance and reinsurance contracts Reinsurers . . . . .	1.3	4.1	4.7
Other receivables . . . . .	16.8	2.0	1.3
	<u>18.1</u>	<u>6.1</u>	<u>6.0</u>

Of the above insurance and other receivables £0.6m (2012: £0.6m and 2011: £0.6m) is expected to be recovered more than one year after the Statement of Financial Position date.

**21) Cash and Cash Equivalents**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Cash available on demand . . . . .	40.6	19.9	12.8
Units in sterling liquidity fund (note 17) . . . . .	149.3	34.0	103.1
<b>Cash and cash equivalent in the Consolidated Cash Flow Statement . . . . .</b>	<b><u>189.9</u></b>	<b><u>53.9</u></b>	<b><u>115.9</u></b>

**22) Share Capital**

As permitted by the Companies Act 2006, JRGHL removed references to authorised share capital from its articles of association at the annual general meeting on 5 June 2009. This change took effect from 1 October 2009.

The allotted, called up and fully paid share capital of JRGHL is:

### 30 June 2013

Allotted issued and fully paid	'A' ordinary shares	'A1' ordinary shares	'B' ordinary shares	'C1' ordinary shares	'C2' ordinary shares	'A' preference share	'B' preference shares	Total
					Number			
Shares in issues at 30 June								
2012 . . . . .	49,496,380	1,583,440	643,945,680	1,583,440	68,597,994	30,647,892	386,367,408	1,182,222,234
"A1" ordinary shares issued . .	6,466,542	—	—	—	—	—	—	6,466,542
"B" ordinary shares issued . .	—	—	62,285,892	—	—	—	—	62,285,892
"A" preference shares issued . .	—	—	—	—	—	6,557,085	—	6,557,085
"B" preference shares issued . .	—	—	—	—	—	—	63,157,895	63,157,895
'C2' Ordinary shares issued . .	—	—	—	—	3,000,000	—	—	3,000,000
<b>Shares in issue at 30 June 2013 . . . . .</b>	<b>55,962,922</b>	<b>1,583,440</b>	<b>706,231,572</b>	<b>1,583,440</b>	<b>71,597,994</b>	<b>37,204,977</b>	<b>449,525,303</b>	<b>1,323,689,648</b>
Less; classified as debt (note 26) . . . . .	—	—	—	—	—	(37,204,977)	(449,525,303)	(486,730,280)
<b>Equity share capital . . . . .</b>	<b>55,962,922</b>	<b>1,583,440</b>	<b>706,231,572</b>	<b>1,583,440</b>	<b>71,597,994</b>	<b>—</b>	<b>—</b>	<b>836,959,368</b>

Allotted issued and fully paid	'A' ordinary shares	'A1' ordinary shares	'B' ordinary shares	'C1' ordinary shares	'C2' ordinary shares	'A' preference shares	'B' preference shares	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Nominal value (£) . . . . .	0.1	0.05	0.1	0.1	0.05	0.1	0.1	
Shares in issue at 30 June 2012 . .	4.9	0.1	64.4	0.2	3.4	3.1	38.6	114.7
A1" ordinary shares issued . . . . .	0.6	—	—	—	—	—	—	0.6
"B" ordinary shares issued . . . . .	—	—	6.2	—	—	—	—	6.2
"A" preference shares issued . . . . .	—	—	—	—	—	0.7	—	0.7
"B" preference shares issued . . . . .	—	—	—	—	—	—	6.3	6.3
'C2' Ordinary shares issued . . . . .	—	—	—	—	0.2	—	—	0.2
<b>Shares in issue at 30 June 2013 . . .</b>	<b>5.5</b>	<b>0.1</b>	<b>70.6</b>	<b>0.2</b>	<b>3.6</b>	<b>3.8</b>	<b>44.9</b>	<b>128.7</b>
Less; classified as debt (note 26) . .	—	—	—	—	—	(3.8)	(44.9)	(48.7)
<b>Equity share capital . . . . .</b>	<b>5.5</b>	<b>0.1</b>	<b>70.6</b>	<b>0.2</b>	<b>3.6</b>	<b>—</b>	<b>—</b>	<b>80.0</b>
<b>Share premium . . . . .</b>	<b>0.5</b>	<b>—</b>	<b>4.3</b>	<b>—</b>	<b>0.4</b>	<b>—</b>	<b>—</b>	<b>5.2</b>

### 30 June 2012

Allotted issued and fully paid	'A' ordinary shares	'A1' ordinary shares	'B' ordinary shares	'C1' ordinary shares	'C2' ordinary shares	'A' preference shares	'B' preference shares	Total
					Number			
Shares in issue at 30 June								
2011 . . . . .	49,496,380	1,583,440	643,945,680	1,583,440	65,597,994	30,647,892	386,367,408	1,179,222,234
'C2' Ordinary shares issued . .	—	—	—	—	3,000,000	—	—	3,000,000
<b>Shares in issue at 30 June 2012 . . . . .</b>	<b>49,496,380</b>	<b>1,583,440</b>	<b>643,945,680</b>	<b>1,583,440</b>	<b>68,597,994</b>	<b>30,647,892</b>	<b>386,367,408</b>	<b>1,182,222,234</b>
Less; classified as debt (note 26) . . . . .	—	—	—	—	—	(30,647,892)	(386,367,408)	(417,015,300)
<b>Equity share capital . . . . .</b>	<b>49,496,380</b>	<b>1,583,440</b>	<b>643,945,680</b>	<b>1,583,440</b>	<b>68,597,994</b>	<b>—</b>	<b>—</b>	<b>765,206,934</b>

Allotted issued and fully paid	'A' ordinary shares	'A1' ordinary shares	'B' ordinary shares	'C1' ordinary shares	'C2' ordinary shares	'A' preference shares	'B' preference shares	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Nominal value (£) . . . . .	0.1	0.05	0.1	0.1	0.05	0.1	0.1	
Shares in issue at 30 June 2011 . . .	4.9	0.1	64.4	0.2	3.3	3.1	38.6	114.6
'C2' Ordinary shares issued . . . . .	—	—	—	—	0.1	—	—	0.1
<b>Shares in issue at 30 June 2012 . . .</b>	<b>4.9</b>	<b>0.1</b>	<b>64.4</b>	<b>0.2</b>	<b>3.4</b>	<b>3.1</b>	<b>38.6</b>	<b>114.7</b>
Less; classified as debt (note 26) . .	—	—	—	—	—	(3.1)	(38.6)	(41.7)
<b>Equity share capital . . . . .</b>	<b>4.9</b>	<b>0.1</b>	<b>64.4</b>	<b>0.2</b>	<b>3.4</b>	<b>—</b>	<b>—</b>	<b>73.0</b>
<b>Share premium . . . . .</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>0.2</b>	<b>—</b>	<b>—</b>	<b>0.2</b>

### 30 June 2011

Allotted issued and fully paid	'A' ordinary shares	'A1' ordinary shares	'B' ordinary shares	'C1' ordinary shares	'C2' ordinary shares	'A' preference shares	'B' preference shares	Total
	Number							
Shares in issue at 30 June								
2010 . . . . .	51,079,820	—	643,945,680	—	—	30,647,892	386,367,408	1,112,040,800
Reclassification of shares . . .	(1,583,440)	—	—	1,583,440	—	—	—	—
'A1' ordinary shares issued . .	—	1,583,440	—	—	—	—	—	1,583,440
'C2' Ordinary shares issued . .	—	—	—	—	65,597,994	—	—	65,597,994
<b>Shares in issue at 30 June</b>								
<b>2011 . . . . .</b>	<b>49,496,380</b>	<b>1,583,440</b>	<b>643,945,680</b>	<b>1,583,440</b>	<b>65,597,994</b>	<b>30,647,892</b>	<b>386,367,408</b>	<b>1,179,222,234</b>
Less; classified as debt (note 26) . . . . .	—	—	—	—	—	(30,647,892)	(386,367,408)	(417,015,300)
<b>Equity share capital . . . . .</b>	<b>49,496,380</b>	<b>1,583,440</b>	<b>643,945,680</b>	<b>1,583,440</b>	<b>65,597,994</b>	<b>—</b>	<b>—</b>	<b>762,206,934</b>

Allotted issued and fully paid	'A' ordinary sharesm	'A1' ordinary shares	'B' ordinary shares	'C1' ordinary shares	'C2' ordinary shares	'A' preference shares	'B' preference shares	Total
	£m							
Nominal value (£) . . . . .	0.1	0.05	0.1	0.1	0.05	0.1	0.1	
Shares in issue at 30 June								
2010 . . . . .	5.1	—	64.4	—	—	3.1	38.6	111.2
Reclassification of shares . . .	(0.2)	—	—	0.2	—	—	—	—
'A1' ordinary shares issued . .	—	0.1	—	—	—	—	—	0.1
'C2' Ordinary shares issued . .	—	—	—	—	3.3	—	—	3.3
<b>Shares in issue at 30 June</b>								
<b>2011 . . . . .</b>	<b>4.9</b>	<b>0.1</b>	<b>64.4</b>	<b>0.2</b>	<b>3.3</b>	<b>3.1</b>	<b>38.6</b>	<b>114.6</b>
Less; classified as debt (note 26) . . . . .	—	—	—	—	—	(3.1)	(38.6)	(41.7)
<b>Equity share capital . . . . .</b>	<b>4.9</b>	<b>0.1</b>	<b>64.4</b>	<b>0.2</b>	<b>3.3</b>	<b>—</b>	<b>—</b>	<b>72.9</b>
<b>Share premium . . . . .</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>0.1</b>	<b>—</b>	<b>—</b>	<b>0.1</b>

### Share capital

The "A" Preference Shares and the "B" Preference shares rank pari passu among themselves but the Preference Shares rank ahead of the Ordinary Shares for all purposes.

The "A" Ordinary Shares, "A1" Ordinary Shares, "B" Ordinary Shares, "C1" Ordinary Shares and "C2" Ordinary shares rank pari passu among themselves, except as noted in paragraphs a) to d) below:

- Each "B" Ordinary Share entitles the holder of that "B" Ordinary Share to receive notice of and to attend and speak and to vote at general meetings of JRGL.
- "A" Ordinary Shareholders, "A1" Ordinary Shareholders, "C1" Ordinary Shareholders, "C2" Ordinary Shareholders, "A" Preference Shareholders and "B" Preference Shareholders are not entitled to receive notice of, attend, speak at or vote at any general meeting of JRGL.
- All dividends must be paid according to the nominal amounts of the shares on which a dividend is made or paid (save that the "A1" and "C2" Ordinary Shares shall be deemed to have a nominal value of £0.10).
- On a return of capital, holders of Ordinary Shares are entitled to the assets of JRGL available for distribution pro-rata to the nominal amount of their Ordinary shares (save that the "A1" and "C2" Ordinary shares shall be deemed to have a nominal value of £0.10)

### "A" and "B" Preference Shares

The "A" and "B" preference shares carry a fixed cumulative preferential dividend of 15% per annum payable annually every 1 December. Any preference dividend not paid in cash is carried forward and any unpaid amounts are increased by 15% per annum, compounded on each subsequent preference dividend payment date if it is not then paid in cash.

The preference shares do not confer any further right of participation in the profits or assets of JRGL.

In accordance with IAS 32 Financial Instruments: Presentation, the “A” and “B” preference shares are classed as a financial liability in the financial information, because they are redeemable at the option of the majority holders of Preference Shares following a failure to pay dividend or principal when due, or the initiation of a winding up of JRGHL.

### 23) Insurance Contracts and Related Reinsurance

#### *Insurance liabilities*

	<u>2013</u> <u>gross</u> <u>£m</u>	<u>2013</u> <u>reinsurance</u> <u>£m</u>	<u>2013</u> <u>net</u> <u>£m</u>
Future policyholder's benefits . . . . .	5,490.3	3,476.8	2,013.5
	<u>2012</u> <u>gross</u> <u>£m</u>	<u>2012</u> <u>reinsurance</u> <u>£m</u>	<u>2012</u> <u>net</u> <u>£m</u>
Future policyholder's benefits . . . . .	4,626.7	3,079.8	1,546.9
	<u>2011</u> <u>gross</u> <u>£m</u>	<u>2011</u> <u>reinsurance</u> <u>£m</u>	<u>2011</u> <u>net</u> <u>£m</u>
Future policyholder's benefits . . . . .	3,257.6	2,145.7	1,111.9

#### (a) Terms and conditions of insurance contracts

The JRGHL Group writes insurance contracts in the form of individually underwritten annuities for the at-retirement market where the policyholder has one or more pre-existing medical, or lifestyle conditions leading to a reduced life expectancy. In return for an initial single premium, these contracts pay a regular amount (usually monthly or annually and sometimes increasing at a fixed or index-linked rate) until the death of the policyholder. Some contracts have payments guaranteed for a minimum term and some have payments that continue after the death of the policyholder to a dependant until the death of that dependant.

#### (b) Principal assumptions underlying the calculation of insurance contracts

##### *Valuation discount rates*

Valuation discount rate assumptions for annuities are set with regards to yields on supporting assets. An explicit allowance for credit risk is included by making an explicit deduction from the yields on debt and other fixed income securities based on a prudent expectation of default experience of each asset class.

<u>Valuation discount rates-gross liabilities</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Individually underwritten annuities . . . . .	4.20%	3.96%	4.98%

##### *Mortality assumptions*

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

<u>Mortality table</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Individually underwritten annuities—males . . . . .	PCMA00	PCMA00	PCMA00
Individually underwritten annuities—females . . . . .	PCFA00	PCFA00	PCFA00

The percentage of each table used varies according to medical and lifestyle conditions, premium size and gender. In addition to the mortality improvements included in the base mortality table, JRGHL overlays mortality improvement projections and its own additional assessment of how the additional mortality determined at the date of underwriting will develop in the future.

### Future expenses

Assumptions for future policy expense levels are determined from the JRGHL Group's recent expense analyses. The assumed future expense levels incorporate an annual inflation rate allowance of 4.2% (30 June 2012: 4.1% and 30 June 2011: 4.3%) derived from the expected retail price index implied by inflation swap rates and an additional allowance for earnings inflation.

### (c) Movements

The following movements have occurred in the insurance contract balances for annuities during the period.

	Gross £m	Reinsurance £m	Net £m
Carrying amount			
At 1 July 2012 . . . . .	4,626.7	3,079.8	1,546.9
Increase in liability from premiums . . . . .	1,216.6	718.7	497.9
Release of liability due to recorded claims . . . . .	(369.6)	(218.8)	(150.8)
Unwinding of discount . . . . .	195.7	95.4	100.3
Changes in economic assumptions . . . . .	(196.8)	(96.4)	(100.4)
Changes in non-economic assumptions . . . . .	20.0	9.4	10.6
Other movements including net investment return . . . . .	(2.3)	(111.3)	109.0
<b>At 30 June 2013 . . . . .</b>	<b>5,490.3</b>	<b>3,476.8</b>	<b>2,013.5</b>

	Gross £m	Reinsurance £m	Net £m
Carrying amount			
At 1 July 2011 . . . . .	3,257.6	2,145.7	1,111.9
Increase in liability from premiums . . . . .	1,092.7	740.4	352.3
Release of liability due to recorded claims . . . . .	(294.9)	(180.7)	(114.2)
Unwinding of discount . . . . .	174.5	93.6	80.9
Changes in economic assumptions . . . . .	337.1	233.5	103.6
Changes in non-economic assumptions . . . . .	65.2	47.9	17.3
Other movements including net investment return . . . . .	(5.5)	(0.6)	(4.9)
<b>At 30 June 2012 . . . . .</b>	<b>4,626.7</b>	<b>3,079.8</b>	<b>1,546.9</b>

	Gross £m	Reinsurance £m	Net £m
Carrying amount			
At 1 July 2010 . . . . .	2,534.1	1,680.3	853.8
Increase in liability from premiums . . . . .	807.1	543.8	263.3
Release of liability due to recorded claims . . . . .	(230.4)	(141.5)	(88.9)
Unwinding of discount . . . . .	131.6	71.8	59.8
Changes in economic assumptions . . . . .	(5.4)	22.1	(27.5)
Changes in non-economic assumptions . . . . .	24.4	22.0	2.4
Other movements including net investment return . . . . .	(3.8)	(52.8)	49.0
<b>At 30 June 2011 . . . . .</b>	<b>3,257.6</b>	<b>2,145.7</b>	<b>1,111.9</b>

Effect of changes in assumptions and estimates during the period

### Economic Assumption Changes

#### Discount rates

Interest rates over the period have increased by 0.24% from 3.96% at 30 June 2012 to 4.20% at 30 June 2013 (from 4.98% at 30 June 2011).

#### Expense inflation

The renewal expense inflation assumption used at 30 June 2013 was 4.2% p.a. This increased from 4.1% p.a. in 30 June 2012 and from 4.3% p.a. at 30 June 2011.

## Non-Economic Assumption Changes

### Expense assumption

The renewal expense assumption used at 30 June 2013 was £37.37 per plan. This has increased from £35.90 per plan at 30 June 2012 and from £34.42 per plan at 30 June 2011.

### (d) Estimated timing of net cash outflows from insurance contract liabilities

The following shows the insurance contract balances analysed by duration. The total balances are split by duration of annuity payments in proportion to the policy cash flows estimated to arise during that period.

<b>30 June 2013</b>	<b>Within 1 year</b>	<b>1 - 5 years</b>	<b>5 - 15 years</b>	<b>Over 15 years</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Individually underwritten annuities					
Gross . . . . .	400.4	1,413.8	2,315.1	1,361.0	5,490.3
Reinsurance . . . . .	(255.7)	(901.6)	(1,469.3)	(850.2)	(3,476.8)
<b>Net . . . . .</b>	<b>144.7</b>	<b>512.2</b>	<b>845.8</b>	<b>510.8</b>	<b>2,013.5</b>
<b>30 June 2012</b>	<b>Within 1 year</b>	<b>1 - 5 years</b>	<b>5 - 15 years</b>	<b>Over 15 years</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Individually underwritten annuities					
Gross . . . . .	330.7	1,177.3	1,948.8	1,169.9	4,626.7
Reinsurance . . . . .	(203.9)	(740.3)	(1,289.5)	(846.1)	(3,079.8)
<b>Net . . . . .</b>	<b>126.8</b>	<b>437.0</b>	<b>659.3</b>	<b>323.8</b>	<b>1,546.9</b>
<b>30 June 2011</b>	<b>Within 1 year</b>	<b>1 - 5 years</b>	<b>5 - 15 years</b>	<b>Over 15 years</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Individually underwritten annuities					
Gross . . . . .	261.7	909.8	1,395.9	690.2	3,257.6
Reinsurance . . . . .	(160.9)	(570.9)	(920.2)	(493.7)	(2,145.7)
<b>Net . . . . .</b>	<b>100.8</b>	<b>338.9</b>	<b>475.7</b>	<b>196.5</b>	<b>1,111.9</b>

### (e) Sensitivity analysis

The JRGHL Group has estimated the impact on profit for the year in relation to insurance contracts and related reinsurance from changes in key assumptions relating to financial assets and liabilities.

### Impact on profit before tax (£m)

<b>30 June 2013</b>	<b>Interest rates</b>	<b>Interest rates</b>	<b>Maintenance expenses</b>	<b>Mortality</b>	<b>Property prices</b>	<b>Voluntary redemptions</b>
	<b>+1%</b>	<b>-1%</b>	<b>+10%</b>	<b>-5%</b>	<b>-10%</b>	<b>-10%</b>
Gross . . . . .	(0.6)	2.4	(11.4)	(62.0)	(19.7)	6.3
Reinsurance . . . . .	(15.0)	17.7	—	44.5	—	—
<b>Net increase/(decrease) in profit before tax . . . . .</b>	<b>(15.6)</b>	<b>20.1</b>	<b>(11.4)</b>	<b>(17.5)</b>	<b>(19.7)</b>	<b>6.3</b>
<b>30 June 2012</b>	<b>Interest rates</b>	<b>Interest rates</b>	<b>Maintenance expenses</b>	<b>Mortality</b>	<b>Property prices</b>	<b>Voluntary redemptions</b>
	<b>+1%</b>	<b>-1%</b>	<b>+10%</b>	<b>-5%</b>	<b>-10%</b>	<b>-10%</b>
Gross . . . . .	(7.0)	17.1	(9.0)	(53.5)	(22.1)	5.0
Reinsurance . . . . .	(12.5)	15.2	—	49.5	—	—
<b>Net increase/(decrease) in profit before tax . . . . .</b>	<b>(19.5)</b>	<b>32.3</b>	<b>(9.0)</b>	<b>(4.0)</b>	<b>(22.1)</b>	<b>5.0</b>



<u>30 June 2011</u>	<u>Interest rates</u>	<u>Interest rates</u>	<u>Maintenance expenses</u>	<u>Mortality</u>	<u>Property prices</u>	<u>Voluntary redemptions</u>
	<b>+1%</b>	<b>– 1%</b>	<b>+10%</b>	<b>– 5%</b>	<b>– 10%</b>	<b>– 10%</b>
Gross .....	(6.1)	6.2	(7.6)	(30.1)	(15.0)	3.5
Reinsurance .....	(2.4)	2.8	—	23.3	—	—
<b>Net increase/(decrease) in profit before tax .....</b>	<b>(8.5)</b>	<b>9.0</b>	<b>(7.6)</b>	<b>(6.8)</b>	<b>(15.0)</b>	<b>3.5</b>

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

The sensitivity factors take into consideration that the JRGHL Group's assets and liabilities are actively managed and may vary at the time that any actual market movement occurs. The impacts indicated above for insurance contracts also reflect movements in financial derivatives, which are impacted by movements in interest rates. Related reinsurance assets are not impacted by financial derivatives.

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

#### 24) Investment Contract Liabilities

	<u>Year Ended 30 June 2013</u>	<u>Year Ended 30 June 2012</u>	<u>Year Ended 30 June 2011</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
<b>Balance at 1 July .....</b>	<b>61.5</b>	<b>—</b>	<b>—</b>
Deposits received from policyholders .....	78.8	63.2	—
Payments made to policyholders and fees deducted .....	(4.7)	(1.3)	—
Change in contract liabilities recognised in profit or loss .....	(5.2)	(0.4)	—
<b>Balance at 30 June .....</b>	<b>130.4</b>	<b>61.5</b>	<b>—</b>

Investment contracts are not reinsured

##### (a) Terms and conditions of investment contracts

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

##### (b) Principal assumptions underlying the calculation of investment contracts

###### *Valuation discount rates*

Valuation discount rate assumptions for investment contracts are set with regards to yields on supporting assets. An explicit allowance for credit risk is included by making an explicit deduction from the yields on debt and other fixed income securities based on historical default experience of each asset class.

The changes in the valuation discount rates reflect the changes in yields on the supporting assets

###### **Valuation discount rates**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Investment Contracts .....	4.20%	3.96%	—

## 25) Loans and borrowings

	30 June 2013	30 June 2012	30 June 2011
	£m	£m	£m
Bank borrowings . . . . .	55.2	—	—
	<u>55.2</u>	<u>—</u>	<u>—</u>

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

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

The fair value of the bank borrowings is £55.2m (2012: £nil).

## 26) Financial Liabilities

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

	Note	2013	2012	2011
		£m	£m	£m
<i>Amortised cost:</i>				
Class A loan notes . . . . .	(a)	13.6	11.2	11.2
Class B loan notes . . . . .	(a)	164.8	141.7	141.7
Class A Preference Shares . . . . .	(b)	3.7	3.1	3.1
Class B Preference Shares . . . . .	(b)	45.0	38.6	38.6
Other loans . . . . .	(c)	4.0	4.0	4.0
<b>Fair value through profit or loss:</b>				
Derivative financial instruments (note 27) . . . . .	(d)	66.6	83.5	16.5
<b>Liabilities measured using insurance rules:</b>				
Deposits received from reinsurers (note 28) . . . . .	(e)	3,313.3	2,943.5	2,119.6
Reinsurance finance . . . . .	(f)	94.4	86.8	68.8
<b>Total financial liabilities . . . . .</b>		<b><u>3,705.4</u></b>	<b><u>3,312.4</u></b>	<b><u>2,403.5</u></b>

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

### 26a) Financial Liabilities—Loan Notes

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

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

The Loan notes are repayable on the earlier of the 10<sup>th</sup> anniversary of the issue of the Notes, on a listing or sale of JRGHL.

### 26b) Financial Liabilities—Preference shares

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

The terms of the Class A and Class B preference shares are given in note 22.

### 26c) Financial Liabilities—Other loans

Other loans relate to loan notes and profit participating instruments. The terms of these loan notes are the same as the Class “A” and “B” loan notes. The profit participating instrument was issued on 27 November

2009 and has a term of 99 years. The yield on the profit participating instrument is based on the adjusted profits of JRGHL. The yield for the period to 30 June 2013 was 0% (2012: 0% and 2011: 0%).

#### 26d) Financial Liabilities—Derivative Financial Instruments (note 27)

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

#### 26e) Financial Liabilities—Deposits from reinsurers (note 28)

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

#### 26f) Financial Liabilities—Reinsurance finance

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

### 27) Derivative Financial Instruments

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

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

<u>Derivatives</u>	2012 Asset Fair Value	2012 Liability Fair Value	2012 Notional Amount
	£m	£m	£m
GBP USD asset swaps . . . . .	—	0.6	19.4
Sterling Interest Rate swaps . . . . .	37.9	82.9	532.0
Sterling Interest Rate swaptions . . . . .	4.7	—	295.0
<b>Total at 30 June . . . . .</b>	<b>42.6</b>	<b>83.5</b>	<b>846.4</b>

<u>Derivatives</u>	2011 Asset Fair Value	2011 Liability Fair Value	2011 Notional Amount
	£m	£m	£m
GBP USD asset swaps . . . . .	—	—	—
Sterling Interest Rate swaps . . . . .	3.8	16.5	334.0
Sterling Interest Rate swaptions . . . . .	—	—	—
<b>Total at 30 June . . . . .</b>	<b>3.8</b>	<b>16.5</b>	<b>334.0</b>

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

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

All over-the-counter derivative transactions are conducted under standardised ISDA (International Swaps and Derivatives Association Inc.) master agreements and the JRGHL Group has collateral agreements

between the individual group entities, of which JRGHL is one, and relevant counterparties in place under each of these market master agreements.

As at 30 June 2013, the JRGHL Group had pledged £34.3m (2012: £48.1m and 2011: £15.2m) of which £17.2m were Gilts (2012: £21.8m and 2011: £nil).

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

	Year Ended 30 June 2013	Year Ended 30 June 2012	Year Ended 30 June 2011
	£m	£m	£m
Movement in fair value of swaps . . . . .	11.4	(28.2)	1.0
Realised losses on interest rate swaps closed . . . . .	(4.6)	—	—
Net derivative cost of new trades . . . . .	(2.4)	—	—
	<u>4.4</u>	<u>(28.2)</u>	<u>1.0</u>

## 28) Deposits Received from Reinsurers

The JRGHL Group's subsidiary, Just Retirement Limited, has entered into long-term reinsurance arrangements with four reinsurance companies. Under the reinsurance treaties, a percentage of the liability under reinsured policies written, determined on the pillar 1 basis, is ceded to the reinsurers who deposit back an amount calculated to cover the credit risk that would otherwise be borne by Just Retirement Limited.

In addition to the reinsurance of the longevity risk, Just Retirement Limited receives a benefit for pillar 1 solvency purposes, because the reinsurance premium paid to the reinsurers represents less than 100% of the value of the reinsured liabilities on the treaty basis with the resultant capital benefit utilised as solvency capital in determining the regulatory pillar 1 solvency of Just Retirement Limited. The resultant benefit is treated as a liability in the financial statements and its repayment is contingent upon the emergence of surplus under pillar 1 valuation rules.

The amount of deposits received from reinsurers that is expected to be settled more than one year after the Statement of Financial Position date is £3,069.8m (2012: £2,748.7m and 2011: £1,960.5m).

During the period the JRGHL Group fully repaid the financing provided in respect of the JRGHL Group's underwriting year 2005/06 and exercised its right under the reinsurance contract to recapture the previously ceded insurance liabilities. As a consequence the reinsurers also reduced the level of deposit back granted to Just Retirement Limited. This business was recaptured at the end of March 2013, resulting in a decrease in ceded insurance liabilities of £115.4m and a reduction in the deposit back of £116.8m, giving rise to a profit before tax of £1.4m. The consequences of this recapture are that the JRGHL Group now solely bears the risks and rewards of the 2005/06 underwriting year.

## 29) Other Provisions

	Year ended 30 June 2013	Year ended 30 June 2012	Year ended 30 June 2011
	£m	£m	£m
Balance at 1 July . . . . .	1.2	1.0	0.3
Amounts charged to profit or loss . . . . .	0.5	0.2	0.7
<b>Balance at 30 June . . . . .</b>	<u><b>1.7</b></u>	<u><b>1.2</b></u>	<u><b>1.0</b></u>

The amount of provisions that is expected to be settled more than 12 months after the Statement of Financial Position date is £0.9m (2012: £0.4m and 2011: £0.4m).

## 30) Current Tax

Current tax assets/liabilities receivable/payable in more than one year are £nil (2012: £nil and 2011: £nil).

## 31) Accruals and Deferred Income

Accruals and deferred income payable in more than one year are £nil (2012: £nil and 2011: £nil).

### 32) Insurance and Other Payables

	2013	2012	2011
	£m	£m	£m
Payables arising from insurance and reinsurance contracts . . . . .	13.7	29.0	9.9
Interest accrued on Loan Notes and Preference Shares . . . . .	95.2	62.9	36.4
Other loan interest accrued . . . . .	0.7	0.5	0.3
Other payables . . . . .	50.0	36.4	22.3
	<u>159.6</u>	<u>128.8</u>	<u>68.9</u>

Insurance and other payables due in more than one year are £95.2m (2012: £62.9m and 2011: £36.4m).

### 33) Commitments

#### *Operating leases*

The JRGHL Group leases a number of properties under operating leases.

The future minimum lease payments payable over the remaining terms of non-cancellable operating leases are as follows:

	2013	2012	2011
	£m	£m	£m
Less than one year . . . . .	1.4	1.4	1.1
Between one and five years . . . . .	3.5	4.8	3.9
More than five years . . . . .	0.2	0.3	1.1
	<u>5.1</u>	<u>6.5</u>	<u>6.1</u>

#### *Capital commitments*

The JRGHL Group had no capital commitments as at 30 June 2013 (2012: £nil and 2011: £nil).

### 34) Contingent Liabilities

The JRGHL Group had no contingent liabilities as at 30 June 2013 (2012: £nil and 2011: £nil).

### 35) Financial and Insurance Risk Management

This note presents information about the major financial and insurance risks to which the JRGHL Group is exposed, and its objectives, policies and processes for their measurement and management. Financial risk comprises exposure to market, credit and liquidity risk.

#### **(a) Insurance risk**

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

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

Individually underwritten annuities are priced using assumptions about future longevity that are based on historic experience information, lifestyle and medical factors relevant to individual customers and judgements about the future development of longevity improvements. In the event of an increase in longevity, the actuarial reserve required to make future payments to customers may increase.

The loans secured by mortgages are used to match some of its liabilities arising from the sale of its annuities. In the event early repayments in a given period are higher than anticipated, less interest will have accrued on the mortgages and the amount repayable will be less than assumed at the time of sale. In the event of an increase in longevity, although more interest will have accrued and the amount repayable will be greater than assumed at the time of the sale, the associated cashflows will be received later than had

originally been anticipated. In addition, a general increase in longevity would have the effect of increasing the total amount repayable, which would increase the JRGHL Group's LTV ratio and could increase the risk of the JRGHL Group failing to be repaid in full as a consequence of the no-negative equity guarantee ("NNEG") that the JRGHL Group provides in connection with all of its mortgages. It is also exposed to morbidity risk as the contract ends when the customer moves into long-term care.

Underpinning the JRGHL Group's management of insurance risk is:

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

#### *Concentrations of insurance risk*

The key concentration of insurance risk arises with improving longevity. Improved longevity arises from enhanced medical treatment and improved life circumstances. Concentration risk is managed by writing business across a wide range of different medical and lifestyle conditions to avoid excessive exposure in any particular area.

#### **(b) Market Risk**

Market risk is the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

Significant market risk is implicit in the insurance business and arises from exposure to interest rate risk, property risk, inflation risk and currency risk. Market risk represents both upside and downside impacts but the JRGHL Group's policy to manage market risk is to limit downside risk. Falls in the financial markets can reduce the value of pension funds available to purchase annuities and changes in interest rates can affect the relative attractiveness of annuity products. Changes in the value of the JRGHL Group's investment portfolio will also impact the JRGHL Group's financial position.

In mitigation, the annuity monies are invested to match the asset and liability cash flows as closely as practicable. In practice it is not possible to eliminate market risk fully as there are inherent uncertainties surrounding many of the assumptions underlying the projected asset and liability cash flows.

For each of the material components of market risk, described in more detail below, the market risk policy sets out the JRGHL Group's risk appetite and management processes governing how each risk should be measured, managed, monitored and reported.

##### *(i) Interest rate risk*

Interest rate risk is the risk of loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets or liabilities or both in combination arising from relative or absolute changes in interest rates or in the volatility of interest rates.

The JRGHL Group is exposed to interest rate risk through its impact on the value of, or income from, specific assets, liabilities or both. It seeks to limit its exposure through appropriate asset and liability matching and hedging strategies.

The JRGHL Group's exposure to changes in interest rates is concentrated in the investment portfolio, loans secured by mortgages and its insurance obligations. Changes in investment and loan values attributable to interest rate changes are mitigated by corresponding and partially offsetting changes in the economic value of the insurance provisions. The JRGHL Group monitors this exposure through regular reviews of the asset and liability position, capital modelling, sensitivity testing and scenario analyses. Interest rate risk is also managed using derivative instruments, e.g. swaps and swaptions.



The following table indicates the earlier of contractual re-pricing or maturity dates for the JRGHL Group's significant financial assets:

<b>30 June 2013</b>	<b>Less than one year £m</b>	<b>One to five years £m</b>	<b>Five to ten years £m</b>	<b>Over ten years £m</b>	<b>No fixed term £m</b>	<b>Total £m</b>
Financial and insurance assets						
Debt securities and other fixed income securities . . . . .	235.9	1,042.6	1,120.4	1,361.0	—	3,759.9
Units in a sterling liquidity fund . . . . .	149.3	—	—	—	—	149.3
Loans secured by mortgages . . . . .	—	—	—	—	2,081.2	2,081.2
Financial derivatives . . . . .	—	1.9	25.3	9.9	—	37.1
Deposits with credit institutions . . . . .	17.2	—	—	—	—	17.2
<b>Total . . . . .</b>	<b>402.4</b>	<b>1,044.5</b>	<b>1,145.7</b>	<b>1,370.9</b>	<b>2,081.2</b>	<b>6,044.7</b>
<b>30 June 2012</b>	<b>Less than one year £m</b>	<b>One to five years £m</b>	<b>Five to ten years £m</b>	<b>Over ten years £m</b>	<b>No fixed term £m</b>	<b>Total £m</b>
Financial and insurance assets						
Debt securities and other fixed income securities . . . . .	117.4	729.9	941.9	1,229.4	—	3,018.6
Units in sterling liquidity fund . . . . .	34.0	—	—	—	—	34.0
Loans secured by mortgages . . . . .	—	—	—	—	1,842.8	1,842.8
Financial derivatives . . . . .	—	4.6	26.0	12.0	—	42.6
Deposits with credit institutions . . . . .	26.3	—	—	—	—	26.3
<b>Total . . . . .</b>	<b>177.7</b>	<b>734.5</b>	<b>967.9</b>	<b>1,241.4</b>	<b>1,842.8</b>	<b>4,964.3</b>
<b>30 June 2011</b>	<b>Less than one year £m</b>	<b>One to five years £m</b>	<b>Five to ten years £m</b>	<b>Over ten years £m</b>	<b>No fixed term £m</b>	<b>Total £m</b>
Financial and insurance assets						
Debt securities and other fixed income securities . . . . .	148.2	610.3	786.4	678.1	—	2,223.0
Units in sterling liquidity fund . . . . .	103.1	—	—	—	—	103.1
Loans secured by mortgages . . . . .	—	—	—	—	1,162.3	1,162.3
Financial derivatives . . . . .	—	3.8	—	—	—	3.8
Deposits with credit institutions . . . . .	15.2	—	—	—	—	15.2
<b>Total . . . . .</b>	<b>266.5</b>	<b>614.1</b>	<b>786.4</b>	<b>678.1</b>	<b>1,162.3</b>	<b>3,507.4</b>

(ii) *Property Risk*

Property risk is the risk of loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets arising from relative or absolute changes in residential or commercial property prices or in the volatility of property prices.

Property risk arises from indirect exposure to the UK residential property market through the provision of lifetime mortgages. A substantial decline or sustained underperformance in UK residential property prices against which the JRGHL Group's lifetime mortgages are secured could result in proceeds on sale being exceeded by the mortgage debt at the date of redemption. Demand may also reduce for lifetime mortgage products through reducing consumers' propensity to borrow and by reducing the amount they are able to borrow due to reductions in property values and the impact on loan-to-value limits. In addition, the JRGHL Group's return on existing mortgages could be impacted if prices realised on sale fall below the amount of outstanding principle and accrued interest at redemption.

The risk is mitigated by ensuring that the advance represents a low proportion of the property's value at outset and independent third-party valuations are undertaken on each property before initial mortgages are advanced. Lifetime mortgage contracts are also monitored through dilapidation reviews. House prices are monitored and the impact of exposure to adverse house prices (both regionally and nationally) is regularly reviewed.

### *(iii) Inflation Risk*

Inflation risk is the risk of loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets or liabilities or both in combination arising from relative or absolute changes in inflation or in the volatility of inflation.

Exposure to inflation occurs in relation to the JRGHL Group's own management expenses and its matching of index linked annuities. Its impact is managed through the application of disciplined cost control over its management expenses and through matching its index linked assets and index linked liabilities for the inflation risk associated with its index linked annuities.

### *(iv) Currency Risk*

Currency risk is defined as "The risk of loss as a direct result of fluctuations in the value of, or income from, assets denominated in foreign currencies arising from relative or absolute changes in foreign exchange rates or in the volatility of exchange rates".

Exposure to currency risk could arise from the JRGHL Group's investment in non-sterling denominated assets. From time to time, the JRGHL Group acquires fixed income securities denominated in US dollars or other foreign currencies for its financial asset portfolio. All JRGHL Group liabilities are in sterling. As the JRGHL Group does not wish to introduce foreign exchange risk into its investment portfolio, derivative or quasi-derivative contracts are entered into to eliminate the foreign exchange exposure as far as possible.

## **(c) Credit Risk**

Credit risk is incurred whenever the JRGHL Group is exposed to loss if another party fails to perform its financial obligations to the JRGHL Group, including failing to perform them in a timely manner.

The JRGHL Group is exposed to credit risk through its holdings of fixed income investments in its investment portfolio. The main risks are default and spread risk. The risk of default, (where the counterparty fails to pay back the capital and/or interest on a corporate bond) is mitigated by investing only in higher quality or investment grade assets. Spread risk is the risk of bond prices failing as a result of concerns over the counter party, or over the market or economy in which the issuing company operates. This leads to wider spreads against risk free returns. Concentration of credit risk exposures is managed by placing limits on exposures to individual counterparties and limits on exposures to credit rating levels.

The JRGHL Group uses financial instruments to mitigate interest rate and currency risk exposures. It therefore has credit exposure to various counterparties through which it transacts these instruments, although this is usually mitigated by collateral arrangements (see note 27).

The JRGHL Group manages credit risk on its investment portfolio through the appointment of specialist fund managers, who execute a diversified investment strategy, investing in investment grade assets and imposing individual counterparty limits. Current economic and market conditions are closely monitored, as are spreads on the bond portfolio in comparison with benchmark data. The JRGHL Group does not currently invest in government bonds other than UK Gilts, and it has taken steps to ensure it has no direct bond exposure to Ireland, Greece, Cyprus and Portugal, together with downsizing exposures to Italian and Spanish companies, with exposure to these countries at approximately 2% of the total investment portfolio.

Credit risk on reinsurance balances is mitigated by the reinsurer depositing back more than 100% of premiums ceded under the reinsurance agreements.

Credit risk on cash assets is managed by imposing restrictions over the credit ratings of third parties with whom cash is deposited.

The following table provides information regarding the credit risk exposure for financial investments of the Group which are neither past due nor impaired at 30 June:

<b>30 June 2013</b>	<b>AAA<sup>(1)</sup></b>	<b>AA</b>	<b>A</b>	<b>BBB<sup>(2)</sup></b>	<b>Unrated</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Debt securities and other fixed income securities .	377.7	466.4	1,711.0	1,204.8	—	3,759.9
Units in sterling liquidity fund . . . . .	149.3	—	—	—	—	149.3
Deposits with credit institutions . . . . .	—	—	17.2	—	—	17.2
Insurance and other receivables . . . . .	—	—	—	—	18.1	18.1
Financial derivatives . . . . .	—	—	37.1	—	—	37.1
Reinsurance . . . . .	—	124.1	39.4	—	—	163.5
	<b>527.0</b>	<b>590.5</b>	<b>1,804.7</b>	<b>1,204.8</b>	<b>18.1</b>	<b>4,145.1</b>
<b>30 June 2012</b>	<b>AAA<sup>(1)</sup></b>	<b>AA</b>	<b>A</b>	<b>BBB<sup>(2)</sup></b>	<b>Unrated</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Debt securities and other fixed income securities . .	319.2	384.5	1,410.2	904.7	—	3,018.6
Units in sterling liquidity fund . . . . .	34.0	—	—	—	—	34.0
Deposits with credit institutions . . . . .	—	—	21.3	5.0	—	26.3
Insurance and other receivables . . . . .	—	—	—	—	6.1	6.1
Financial derivatives . . . . .	—	—	—	—	42.6	42.6
Reinsurance . . . . .	—	95.3	40.9	—	—	136.2
	<b>353.2</b>	<b>479.8</b>	<b>1,472.4</b>	<b>909.7</b>	<b>48.7</b>	<b>3,263.8</b>
<b>30 June 2011</b>	<b>AAA<sup>(1)</sup></b>	<b>AA</b>	<b>A</b>	<b>BBB<sup>(2)</sup></b>	<b>Unrated</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Debt securities and other fixed income securities . .	267.6	252.9	1,089.2	613.3	—	2,223.0
Units in sterling liquidity fund . . . . .	103.1	—	—	—	—	103.1
Deposits with credit institutions . . . . .	—	—	15.2	—	—	15.2
Insurance and other receivables . . . . .	—	—	—	—	6.0	6.0
Financial derivatives . . . . .	—	—	—	—	3.8	3.8
Reinsurance . . . . .	—	18.3	7.8	—	—	26.1
	<b>370.7</b>	<b>271.2</b>	<b>1,112.2</b>	<b>613.3</b>	<b>9.8</b>	<b>2,377.2</b>

(1) Includes treasury gilts.

(2) Includes BBB+ and below.

The carrying amount of those assets subject to credit risk represents the maximum credit risk exposure.

#### (d) Liquidity risk

Liquidity risk is the risk of loss because the JRGHL Group, although solvent, either does not have sufficient financial resources available to it in order to meet its obligations as they fall due, or can secure them only at excessive cost.

The investment of annuity cash in corporate bonds, gilts and lifetime mortgages, and commitments to pay policyholders and other obligations requires liquidity risks to be taken.

Exposure to liquidity risk arises from:

- Deterioration in the external environment caused by economic shocks, regulatory changes or reputational damage.
- Realising assets to meet liabilities during stressed market conditions.
- Increasing cash flow volatility in the short term giving rise to mismatches between cash flows from assets and requirements from liabilities.
- Needing to support liquidity requirements for day-to-day operations.
- Ensuring financial support can be provided across the JRGHL Group.

- Maintaining and servicing collateral requirements arising from the changes in market value of financial derivatives used by the JRGHL Group.

Liquidity risk is managed by ensuring that assets of a suitable maturity and marketability are held to meet liabilities as they fall due. The JRGHL Group's short-term liquidity requirements are wholly funded by advance annuity premium payments and investment coupon receipts out of which contractual payments need to be made. There are significant barriers for policyholders to withdraw funds that have already been paid to the JRGHL Group in the form of premiums. Cash out-flows associated with annuity liabilities can be reasonably estimated and liquidity can be arranged to meet this expected outflow through asset-liability matching and new business premiums.

The cash flow characteristics of the lifetime mortgages are reversed when compared with annuities, with cash flows effectively representing an advance payment, which is eventually funded by repayment of principal plus accrued interest. Policyholders are able to redeem mortgages, albeit at a cost. The mortgage assets are considered illiquid, as they are not readily saleable due to the uncertainty about their value and the lack of a market in which to trade them.

Cash flow forecasts are regularly prepared to predict and monitor liquidity levels over both the short and medium-term.

The table below summarises the maturity profile of the financial liabilities, including both principal and interest payments, of the JRGHL Group based on remaining undiscounted contractual obligations.

<b>30 June 2013</b>	<b>Within one year or payable on demand</b>	<b>One to five years</b>	<b>More than five years</b>	<b>No fixed term</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Derivative financial instrument . . . . .	1.2	4.6	326.4	—
Deposits received from reinsurers . . . . .	248.2	967.3	4,063.6	—
Reinsurance finance . . . . .	—	—	—	94.4
Bank borrowings . . . . .	3.6	51.6	—	—
Class A loan notes . . . . .	—	—	13.6	—
Class B loan notes . . . . .	—	—	164.8	—
Class A Preference Shares . . . . .	—	—	—	3.7
Class B Preference Shares . . . . .	—	—	—	44.9
Other loans) . . . . .	—	—	4.0	—

<b>30 June 2012</b>	<b>Within one year or payable on demand</b>	<b>One to five years</b>	<b>More than five years</b>	<b>No fixed term</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Derivative financial instrument . . . . .	3.2	12.9	379.6	—
Deposits received from reinsurers . . . . .	197.5	771.8	3,213.6	—
Reinsurance finance . . . . .	—	—	—	86.8
Class A loan notes . . . . .	—	—	11.2	—
Class B loan notes . . . . .	—	—	141.7	—
Class A Preference Shares . . . . .	—	—	—	3.1
Class B Preference Shares . . . . .	—	—	—	38.6
Other loans . . . . .	—	—	4.0	—

<b>30 June 2011</b>	<b>Within one year or payable on demand</b>	<b>One to five years</b>	<b>More than five years</b>	<b>No fixed term</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Derivative financial instrument . . . . .	1.2	4.6	184.3	—
Deposits received from reinsurers . . . . .	161.8	632.8	2,475.4	—
Reinsurance finance . . . . .	—	—	—	68.8
Class A loan notes . . . . .	—	—	11.2	—
Class B loan notes . . . . .	—	—	141.7	—
Class A Preference Shares . . . . .	—	—	—	3.1
Class B Preference Shares . . . . .	—	—	—	38.6
Other loans . . . . .	—	—	4.0	—

## **Loan notes**

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

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

The Loan notes are repayable on the earlier of the 10<sup>th</sup> anniversary of the issue of the Notes, on a listing or sale of JRGHL.

## **Preference shares**

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

The terms of the Class A and Class B preference shares are given in note 22.

## **Other loans**

Other loans relate to loan notes and profit participating instruments. The terms of these loan notes are the same as the Class “A” and “B” loan notes. The profit participating instrument was issued on 27 November 2009 and has a term of 99 years. The yield on the profit participating instrument is based on the adjusted profits of JRGHL. The yield for the period to 30 June 2013 was 0% (2012: 0% and 2011 0%).

## **36) Capital**

The JRGHL Group and its regulated subsidiaries are required to maintain a minimum margin of solvency capital in excess of the value of its liabilities to comply with a number of regulatory requirements relating to the JRGHL Group’s and such subsidiaries’ solvency and reporting bases. These regulatory requirements apply to individual regulated subsidiaries on a stand-alone basis and in respect of the JRGHL Group as a whole and apply to different levels within the JRGHL Group and on different bases.

The amount of regulatory and economic capital required also depends on the level of risk facing the insurance and other subsidiaries in the JRGHL Group, and as such correlates to economic market cycles. The JRGHL Group must assess its capital resources on both a Pillar 1 (regulatory capital) and a Pillar 2 (individual capital assessment) basis and must hold sufficient qualifying regulatory capital to satisfy both tests. Pillar 1 capital requirement is calculated by applying fixed percentages to reserves in accordance with the Prudential Regulatory Authority’s (PRA) General Prudential Sourcebook, whereas the Pillar 2 capital requirement is determined following an individual capital assessment by the Group, which is then reviewed by the PRA. The Group may also be required by the Regulator to hold capital over and above that required to satisfy the Pillar 1 and 2 requirements and its group risk profile.

The JRGHL Group’s capital position can be adversely affected by a number of factors, in particular, factors that erode the JRGHL Group’s capital resources and/or which impact the quantum of risk to which the JRGHL Group is exposed. In addition, any event which erodes current profitability and is expected to reduce future profitability and/or make profitability more volatile could impact the JRGHL Group’s capital position, which in turn could have a negative effect on the JRGHL Group’s results of operations.

The JRGHL Group’s objectives when managing capital for all subsidiaries are:

- To comply with the insurance capital requirements required by the regulators of the insurance markets where the JRGHL Group operates. The JRGHL Group’s policy is to manage its capital in line with its risk appetite and in accordance with regulatory requirements;
- To safeguard the JRGHL Group’s ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk.

JRGHL Group entities that are under supervisory regulation are required to maintain a minimum level of regulatory capital include:

Authorised by the PRA, and regulated by the PRA and the FCA—Just Retirement Limited

Authorised and regulated by the FCA—Just Retirement Solutions Limited

JRGHL and its regulated subsidiaries complied with their regulatory requirements throughout the year.

### Group capital composition

The Group's capital composition comprises the following balances in the consolidated Statement of Financial Position:

	2013	2012	2011
	£m	£m	£m
Share capital . . . . .	80.0	73.0	72.9
Share premium . . . . .	5.2	0.2	0.1
Accumulated profit/(loss) . . . . .	66.1	7.2	(8.0)
<b>Capital attributable to owners of Just Retirement Group Holdings Limited . . . . .</b>	<b>151.3</b>	<b>80.4</b>	<b>65.0</b>
Non-controlling interest . . . . .	(1.2)	(0.8)	(0.2)
	<b>150.1</b>	<b>79.6</b>	<b>64.8</b>

### Just Retirement Limited—Pillar 1 capital position

	2013	2012	2011
	£m	£m	£m
Total capital resources . . . . .	411.4	260.7	244.7
Capital resources requirement (Pillar 1) . . . . .	(241.3)	(192.9)	(157.5)
<b>Excess of available capital resources . . . . .</b>	<b>170.1</b>	<b>67.8</b>	<b>87.2</b>
Cover ratio . . . . .	170%	135%	155%

### 37) Group Entities

JRGHL holds investments in the ordinary shares (unless otherwise stated) of the following subsidiary undertakings:

	Principal activity	Country of incorporation	Percentage of nominal share capital and voting rights held
Just Retirement (Holdings) Limited . . . .	Holding Company	England & Wales	100%
Just Retirement Limited* . . . . .	Life assurance	England & Wales	100%
Just Retirement Solutions Limited* . . . . .	Distribution	England & Wales	100%
Just Retirement Management Services Limited* . . . . .	Management services	England & Wales	100%
TOMAS Acquisitions Limited* . . . . .	Holding company	England & Wales	71.7%***
The Open Market Annuity Service Limited** . . . . .	Software solutions	Northern Ireland	71.7%
TOMAS Online Development Limited** . . . . .	Software development	Northern Ireland	71.7%

\* Subsidiaries of Just Retirement (Holdings) Limited

\*\* Subsidiaries of TOMAS Acquisitions Limited

\*\*\* A Ordinary Shares

TOMAS Acquisitions Limited and its subsidiaries have a financial year end of 30 September. All other subsidiary undertakings have a financial year end of 30 June.



### 38) Business combinations

TOMAS Acquisitions Limited (TAL) was incorporated on 23 September 2010 in order to acquire two trading companies: The Open Market Annuity Service Limited (TOMAS) and TOMAS Online Development Limited (TOMAS Devt). Just Retirement (Holdings) Limited owns 71.7% of TAL with the remainder owned by its management.

On 30 September 2010 TAL acquired the entire issued share capital of TOMAS and TOMAS Devt for consideration of £100. The fair value of net liabilities acquired was £784,000 and goodwill of £784,000 has been recognised in the Statement of Financial Position.

### 39) Related Parties

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

Key management personnel comprises the Directors of JRGHL and the Directors of subsidiary undertakings.

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

Key management compensation is as follows:

	2013	2012	2011
	£m	£m	£m
Short-term employee benefits	3.4	2.7	3.4
Long-term employee benefits	0.1	0.1	0.1
	<u>3.5</u>	<u>2.8</u>	<u>3.5</u>

In relation to the long term incentive scheme referred to in note 11, certain members of the Senior Management Team, as listed in the table below, have loan agreements with the Just Retirement Employee Benefit Trust and Just Retirement Services Limited, both of which are related parties. Interest accrues on the loans at a fixed rate of 1.5%.

	Amount of loan	Amount outstanding at 30 June 2013	Amount outstanding at 30 June 2012	Amount outstanding at 30 June 2011
	£000	£000	£000	£000
Chris Berryman	420	428	154	152
David Cooper	420	428	154	152
Rodney Cook	840	856	310	305
Shayne Deighton	420	423	154	152
Steve Kyle	261	265	52	51
Simon Thomas	285	292	154	152

### 40) Ultimate Parent Company and Ultimate Controlling Party

The ultimate parent undertaking of JRGHL is Avallux S.à r.l., a company incorporated in Luxembourg. The Directors consider the ultimate controlling party to be funds advised by Permira Advisers LLP. The funds have controlling interest of 100% in Avallux S.à r.l.

The main shareholders in JRGHL are as follows:

	%
Permira Funds	84
Employees	11
Other Co-Investors	5
	<u>100</u>

See note 9 for details regarding the remuneration of directors.

Permira is an international private equity firm advising private equity funds raised from a diverse group of investors in public and corporate pension funds, insurance companies, charities and foundations, banks and government entities.

## PART 13

### UNAUDITED PRO FORMA FINANCIAL INFORMATION

#### 1. Pro Forma Net Asset Statement

The following unaudited pro forma financial information contains a pro forma net asset statement of the Group. The unaudited pro forma financial information has been prepared to illustrate the effect on the consolidated statement of financial position of the Group, as if the following connected transactions had occurred at 30 June 2013:

- (a) the conversion of Just Retirement Group Holdings Limited's A Loan Notes, B Loan Notes and a shareholder loan (and accrued interest thereon, respectively) and the PPI (as defined in Part 15 "Reorganisation of the Group") into new ordinary shares in Just Retirement Group Holdings Limited, which will take effect immediately prior to Admission;
- (b) the conversion of Just Retirement Group Holdings Limited's A Preference Shares and B Preference Shares (and accrued dividends thereon, respectively) into new ordinary shares in Just Retirement Group Holdings Limited, which will take effect immediately prior to Admission; and
- (c) the intended raising of additional ordinary share capital of £280.0 million, after expected transaction costs, as part of the Offer.

The unaudited pro forma net asset statement as at 30 June 2013 has been prepared on the basis of the accounting policies adopted by the JRGHL Group in preparing the historical financial information, as discussed in Part 12 "Historical Financial Information", and is presented for illustrative purposes only and in accordance with Annex II of the Prospectus Directive Regulation, and should be read in conjunction with the notes set out below.

Due to its nature, the pro forma financial information addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position.

		JRGHL Group consolidated historical financial information	Adjustments			Unaudited Pro Forma Financial Information
	Company historical financial information	historical financial information	Conversion of loan notes, shareholder loan and PPI	Conversion of preference shares	New share issue	
	Note 1	Note 2	Note 3	Note 4	Note 5	Note 6
	£m	£m	£m	£m	£m	£m
<b>Assets</b>						
<b>Total assets</b> . . . . .	0.1	9,762.2	—	—	280.0	10,042.3
<b>Equity and liabilities</b>						
<b>Total equity</b> . . . . .	0.0	150.1	250.2	76.8	280.0	757.1
<b>Liabilities</b>						
Other liabilities . . . . .	—	5,747.1	—	—	—	5,747.1
Financial liabilities . . . . .	0.1	3,705.4	(182.4)	(48.7)	—	3,474.4
Insurance and other payables . . . . .	—	159.6	(67.8)	(28.1)	—	63.7
<b>Total liabilities</b> . . . . .	0.1	9,612.1	(250.2)	(76.8)	—	9,285.2
<b>Total equity and liabilities</b>	0.1	9,762.2	—	—	280.0	10,042.3
<b>Just Retirement Limited</b>						
<b>Pillar 1 capital</b>						
Excess of available capital resources . . . . .	—	170.1	—	—	175.0	345.1
Cover ratio . . . . .		170%				243%

#### Note 1. Source of Company Historical Financial Information

The Company is a dormant company with no trading history and initial share capital of £50,000, divided into 20 ordinary shares of 10 pence each and 49,998 preference shares of 100 pence each.

## Note 2. Source of JRGHL Group Consolidated Historical Financial Information

The financial information for the JRGHL Group (including Just Retirement Limited) as at 30 June 2013 has been extracted without material adjustment from the “Historical Financial Information” as set out in Part 12 of this document.

## Note 3. Conversion of Loan Notes, Shareholder Loan and PPI

Before Admission, A Loan Notes, with a nominal value of £13.6 million, B Loan Notes, with a nominal value of £164.8 million, the PPI, with a value of £1.7 million, and a shareholder loan, with a nominal value of £2.3 million, held by Just Retirement Group Holdings Limited, will be converted into new ordinary shares in Just Retirement Group Holdings Limited, reducing financial liabilities by £182.4 million and increasing total equity by £182.4 million.

Interest accrued on A Loan Notes, B Loan Notes, and the shareholder loan of £5.0 million, £62.1 million and £0.7 million, respectively, owed by Just Retirement Group Holdings Limited, will be converted into new ordinary shares in Just Retirement Group Holdings Limited, reducing insurance and other payables by £67.8 million and increasing total equity by £67.8 million.

The following table sets forth the nominal value and interest of the A Loan Notes, B Loan Notes, PPI and the shareholder loan:

	<b>Nominal value</b>	<b>Interest</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
A Loan Notes . . . . .	13.6	5.0	18.6
B Loan Notes . . . . .	164.8	62.1	226.9
PPI . . . . .	1.7	0.0	1.7
Shareholder loan . . . . .	2.3	0.7	3.0
	<b><u>182.4</u></b>	<b><u>67.8</u></b>	<b><u>250.2</u></b>

## Note 4. Conversion of Preference Shares

Before Admission, A Preference Shares, with a nominal value of £3.7 million, and B Preference Shares, with a nominal value of £45.0 million, held by Just Retirement Group Holdings Limited, will be converted into new ordinary shares in Just Retirement Group Holdings Limited, reducing financial liabilities by £48.7 million and increasing total equity by £48.7 million.

Dividends on A Preference Shares and B Preference Shares of £2.1 million and £26.0 million, respectively, owed by Just Retirement Group Holdings Limited, will be converted into new ordinary shares in Just Retirement Group Holdings Limited, reducing insurance and other payables by £28.1 million and increasing total equity by £28.1 million.

The following table sets forth the nominal value and interest of the A Preference Shares and B Preference Shares:

	<b>Nominal value</b>	<b>Interest</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
A Preference Shares . . . . .	3.7	2.1	5.8
B Preference Shares . . . . .	45.0	26.0	71.0
	<b><u>48.7</u></b>	<b><u>28.1</u></b>	<b><u>76.8</u></b>

## Note 5. New Share Issue

The Offer adjustment has been calculated as follows:

	<b>£m</b>
Cash proceeds raised from issuance of new ordinary equity . . . . .	300.0
Estimated net transaction costs from the Offer . . . . .	(20.0)

The excess of available capital resources of Just Retirement Limited will be increased by £175.0 million following the Offer.

**Note 6. Unaudited Pro Forma Financial Information**

The unaudited pro forma statement of net assets does not reflect any changes in the trading position of the Group or any other changes arising from any transactions, other than those outlined in the above notes, since 30 June 2013.

**REPORT FROM KPMG AUDIT PLC ON THE UNAUDITED  
PRO FORMA FINANCIAL INFORMATION**



The Directors  
Just Retirement Group plc  
Vale House  
Roebuck Close  
Bancroft Road  
Reigate  
Surrey  
RH2 7RU

12 November 2013

KPMG Audit Plc  
15 Canada Square  
Canary Wharf  
London E14 5GL  
United Kingdom

Dear Sirs

**Just Retirement Group plc**

We report on the pro forma financial information (the 'Pro forma financial information') set out in Part 13 of the prospectus dated 12 November 2013, which has been prepared on the basis described in notes 1 to 6, for illustrative purposes only, to provide information about how the offer might have affected the financial information presented on the basis of the accounting policies to be adopted by Just Retirement Group plc in preparing the financial statements for the period ending 30 June 2014. This report is required by paragraph 20.2 of Annex I of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose.

**Responsibilities**

It is the responsibility of the directors of Just Retirement Group plc to prepare the Pro forma financial information in accordance with paragraph 20.2 of Annex I of the Prospectus Directive Regulation.

It is our responsibility to form an opinion, as required by paragraph 7 of Annex II of the Prospectus Directive Regulation, as to the proper compilation of the Pro forma financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the prospectus.

**Basis of Opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the directors of Just Retirement Group plc.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of Just Retirement Group plc.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

**Opinion**

In our opinion:

- the Pro forma financial information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of Just Retirement Group plc.

**Declaration**

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG Audit Plc



**PART 14**  
**EUROPEAN EMBEDDED VALUE SUPPLEMENTARY INFORMATION**  
**SECTION A—GROUP EEV**  
**ACCOUNTANT’S REPORT ON EUROPEAN EMBEDDED VALUE SUPPLEMENTARY**  
**INFORMATION**



The Directors  
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Bancroft Road  
Reigate  
Surrey  
RH2 7RU

KPMG Audit Plc  
15 Canada Square  
Canary Wharf  
London E14 5GL  
United Kingdom

12 November 2013

Dear Sirs

**Just Retirement Group plc (the ‘Company’)**

We report on the European Embedded Value (“EEV”) supplementary financial information (the “EEV Supplementary Information”) set out on pages 176 to 188 of the prospectus for the years ended 30 June 2012 and 30 June 2013. This supplementary financial information has been prepared for inclusion in the prospectus dated 12 November 2013 of Just Retirement Group plc under the JRGHL Group’s accounting policy for EEV (“EEV Accounting Policy”) which follows the EEV Principles issued in May 2004 by the CFO Forum of European Insurance Companies and expanded by the Additional Guidance on EEV Disclosures issued in October 2005 “the EEV Principles”. This report is supplemental to the information required by paragraph 20.1 of Annex I of the Prospectus Directive Regulation and should be read in conjunction with the JRGHL Group’s historical financial information set out in Part 12 of the prospectus.

**Responsibilities**

The Directors of the Company are responsible for preparing the EEV Supplementary Information in accordance with the EEV Principles.

It is our responsibility to form an opinion on the EEV Supplementary Information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the prospectus.

**Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the EEV Supplementary Information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the EEV Supplementary Information and whether the EEV Accounting Policy is appropriate to the entity’s circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the

EEV Supplementary Information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

**Opinion on financial information**

In our opinion, the EEV Supplementary Information of the JRGHL Group has been properly prepared, in all material respects, in accordance with the EEV Principles using the methodology and assumptions set out in the basis of preparation of the accountant's report on European Embedded Value Supplementary Information.

**Declaration**

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG Audit Plc

## Overview of European Embedded Value Supplementary Information

For the financial year ending 30 June 2013 Just Retirement Group Holdings Limited (“JRGHL”) has prepared supplementary financial statements on a European Embedded Value (“EEV”) basis for JRGHL and its consolidated subsidiaries (the “JRGHL Group”). The value is calculated initially at the Just Retirement (Holdings) Limited level and then adjusted for consolidating items to JRGHL Group level. The result is a significant reduction in equity due to the substantial amounts of loans and preference shares in JRGHL Group.

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

### JRGHL Group Summarised Statement of Comprehensive Income for the year ended 30 June 2013

	Year ended 30 June 2013	Year ended 30 June 2012
	£m	£m
Operating profit for covered business . . . . .	87.5	17.6
Operating loss of Distribution Company . . . . .	(1.1)	(0.8)
Operating loss from other Just Retirement Holdings Group companies . . . . .	(0.6)	(4.1)
Operating loss for JRGHL . . . . .	(36.4)	(27.4)
<b>Operating profit</b> . . . . .	<b>49.4</b>	<b>(14.7)</b>
Economic variance . . . . .	45.2	12.8
<b>Profit before tax</b> . . . . .	<b>94.6</b>	<b>(1.9)</b>
Tax		
Covered business . . . . .	(31.2)	(8.5)
Other . . . . .	4.0	1.3
<b>Total Comprehensive Income</b> . . . . .	<b>67.4</b>	<b>(9.1)</b>

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

The embedded value at the Just Retirement (Holdings) Limited group level (i.e. before consolidation) was £503.9m (2012: £365.0m). Section 4 provides a reconciliation of the embedded value of Just Retirement Limited, the Just Retirement (Holdings) Limited group and JRGHL Group.

### JRGHL Group Statement of Changes in Equity for the year ended 30 June 2013

	Year ended 30 June 2013	Year ended 30 June 2012
	£m	£m
<b>Balance at 1 July</b> . . . . .	<b>108.7</b>	<b>117.0</b>
Total Comprehensive Income for the year . . . . .	67.4	(9.1)
Capital injections . . . . .	12.0	0.2
Share-based payments . . . . .	0.7	0.6
<b>Balance at 30 June</b> . . . . .	<b>188.8</b>	<b>108.7</b>

Shareholder Equity within the supplementary statements represents the consolidated JRGHL Group Embedded Value. In accordance with the EEV principles it includes a liquidity premium for liabilities backed by corporate bonds. This has been set at 77bps at 30 June 2013 using methodology published by the CFO / CRO Forums.

An alternative possible methodology is shown for illustration in the table below, which sets the liquidity premium based on a lower level of defaults of 50 bps p.a. applied to the actual spread on the portfolio:

	Method	Liquidity Premium (bps)	JRGHL Group EEV (£m)
Base . . . . .	Current approach	77	188.8
Alternative . . . . .	Default rate 50 bps p.a.	131	275.0

#### JRGHL Group Statement of Financial Position as at 30 June 2013

	30 June 2013 £m	30 June 2012 £m
<b>Assets</b>		
Value of in-force business . . . . .	133.8	105.5
Intangible assets . . . . .	5.6	3.7
Equipment . . . . .	1.6	2.1
Financial assets . . . . .	6,475.7	5,238.5
Current tax assets . . . . .	—	5.0
Deferred tax assets . . . . .	4.6	4.7
Reinsurance assets . . . . .	3,522.3	3,079.8
Prepayments and accrued income . . . . .	84.4	91.8
Insurance and other receivables . . . . .	18.1	6.1
Cash and cash equivalents . . . . .	40.6	19.9
<b>Total assets . . . . .</b>	<b>10,286.7</b>	<b>8,557.1</b>
<b>Equity . . . . .</b>	<b>188.8</b>	<b>108.7</b>
<b>Liabilities</b>		
Insurance liabilities . . . . .	6,243.8	5,121.1
Financial liabilities . . . . .	3,611.0	3,183.9
Loans and borrowings . . . . .	55.2	—
Other provisions . . . . .	4.0	1.2
Insurance and other payables . . . . .	159.6	128.9
Current tax liabilities . . . . .	7.9	—
Accruals and deferred income . . . . .	16.4	13.3
<b>Total liabilities . . . . .</b>	<b>10,097.9</b>	<b>8,448.4</b>
<b>Total equity and liabilities . . . . .</b>	<b>10,286.7</b>	<b>8,557.1</b>

#### Notes on the EEV supplementary financial information

##### 1) Basis of Presentation

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

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

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

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

October 2009 the CFO Forum published an amendment to the MCEV Principles to recognise formally the use of an illiquidity premium where appropriate.

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

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

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

Embedded value reporting is intended to provide shareholders with more realistic information on the financial position and current performance of the JRGHL Group than is otherwise provided in the primary financial statements. Under the EEV method, the total profit recognised over the lifetime of a policy is the same as that recognised under alternative reporting bases, but the timing of recognition is different.

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

## **2) Methodology**

The following methodology applies to the covered business of Just Retirement Limited.

### **A. Embedded Value Overview**

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

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

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

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

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

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

## **B. Covered Business**

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

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

## **C. New Business**

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

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

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

Any changes to the mortality assumptions for new business are introduced at the point of sale and are therefore reflected in the new business values.

## **D. Components of Value**

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

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

### *(i) Certainty Equivalent value*

The certainty equivalent value is the value of the future cash flows, excluding the time value of financial options and guarantees. It is calculated assuming assets earn the reference rate and the cash flows are discounted at the reference rate. The future cash flows are those arising from the assets backing the liabilities as assessed on a regulatory basis and from the liabilities themselves. The projection of the regulatory liabilities assumes the continuation of the bases used to calculate the liabilities at the valuation date.

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

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

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



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

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

#### *(iii) Allowance for Non-Market Risk*

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

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

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

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

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

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

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

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

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

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

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

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

#### *(ii) New Business*

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

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

## **F. Reinsurance**

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

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

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

## **G. Taxation**

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

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

### **3) Assumptions**

#### **A. Economic Assumptions**

##### ***Reference Rates***

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

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

Swap rates (at sample terms, %)					
Term (years)	1	5	10	20	30
30 June 2013 . . . . .	0.7	1.5	2.6	3.2	3.3
30 June 2012 . . . . .	1.1	1.3	2.1	2.8	3.0

The in-force liquidity premium adjustment as at 30 June 2013 was 77bp (30 June 2012:114bp). The liquidity premium adjustment for each month's new business has varied over the financial year but the effect is equivalent to an average adjustment of 72bp (previous financial year: 113bp) for each month's new business.

#### **Residential Property Assumptions**

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

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

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

In the absence of a reliable long-term forward curve for UK residential property price inflation, the JRGHL Group has assumed that residential property will grow in line with a bespoke house price inflation

curve. This has been derived by reference to mid-market UK retail price inflation swap rates together with an explicit term dependent house price inflation spread.

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

House price inflation rates (at sample terms, %)						
Term (years)		1	5	10	20	30
30 June 2013	.....	(3.9)	1.0	3.3	4.3	4.3
30 June 2012	.....	(4.5)	1.1	3.6	4.0	4.1

In deriving an assessment of long-term UK residential property price volatility, the JRGHL Group has used house price data published by the Nationwide Building Society. The JRGHL Group has adjusted the derived value to allow for the additional volatility expected to be observed in Just Retirement Limited's portfolio compared with the market as a whole. The volatility assumption used at 30 June 2013 was 9.9% p.a. (10.1% p.a. at 30 June 2012). The volatility assumption used for new business was 10.1% p.a. during the year ended 30 June 2013.

### Expense inflation

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

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

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

### Taxation

The rate of corporation tax assumed is 23.75% throughout being the effective weighted average tax rate for the financial year (previous financial year: 25.5%).

## B. Operating Assumptions

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

### Mortality

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

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

For the lifetime mortgages the mortality assumptions are based on the PCMAOO and PCFAOO mortality tables and the CMI 2012 model improvement factors.

### Mortgage Repayments

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

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

## **Expenses**

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

Just Retirement Limited has set maintenance expense allowances for each product which it considers to be realistic.

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

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

Some of the expenses incurred in the financial year ending 30 June 2013 have been considered exceptional and one-off in nature. These exceptional expenses have been identified separately and have not been included in the calculation of the value of in-force business or in the value of new business although they have been reflected in the operating profit. Total exceptional expenses for the year ended 30 June 2013 were £7.9m (year ended 30 June 2012: £9.4m).

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

The remaining expenses are included within the operating results of the distribution and other JRGHL Group companies.

## **Non-Market Risk**

At 30 June 2013 the provision for non-market risk has been established as 0.22% of the mathematical reserves in respect of all annuity business. At 30 June 2012 the provision for non-market risk was based on 0.23% of the mathematical reserves in respect of all annuity business. For the value of new business in the year to 30 June 2013, a deduction of 0.22% of gross statutory reserves at point of sale has been applied.

## **Required Capital**

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

#### 4) JRGHL Group Embedded Value

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

	30 June 2013	30 June 2012
	£m	£m
<b>Just Retirement Limited</b>		
Shareholders' net assets . . . . .	357.4	260.7
Value of in-force business		
—Certainty Equivalent Value . . . . .	214.6	181.5
—Time value of financial options and guarantees . . . . .	(46.1)	(48.4)
—Allowance for non-market risk . . . . .	(10.2)	(8.7)
—Cost of capital . . . . .	(24.5)	(18.9)
Value of in-force business . . . . .	133.8	105.5
Embedded value of Just Retirement Limited . . . . .	491.2	366.2
Net assets of other Just Retirement (Holdings) Ltd companies <sup>(1)</sup> . . . . .	12.7	(1.2)
<b>Just Retirement (Holdings) Limited group embedded value . . . . .</b>	<b>503.9</b>	<b>365.0</b>
JRGHL adjustments <sup>(2)</sup> . . . . .	(315.1)	(256.3)
<b>JRGHL Group Embedded Value . . . . .</b>	<b>188.8</b>	<b>108.7</b>

Notes:

(1) Net assets of other companies exclude investments in subsidiary companies.

(2) JRGHL adjustments relate to the net liabilities of JRGHL, excluding its investments in subsidiary companies.

Based on the appropriate year-end assumption (as set out above), the amount of Just Retirement Limited's required capital as at 30 June 2013 and 30 June 2012 was £337.8m and £270.0m respectively. The free surplus in Just Retirement Limited at 30 June 2013 and 30 June 2012 was £19.6m and £(9.3)m respectively.

The Just Retirement Limited embedded value includes a liquidity premium for liabilities backed by corporate bonds. This has been set at 77bps at 30 June 2013 using methodology published by the CFO / CRO Forums.

An alternative possible methodology is shown for illustration in the table below, which sets the liquidity premium based on a lower level of defaults of 50 bps p.a. applied to the actual spread on the portfolio:

	Method	Liquidity Premium (bps)	Just Retirement Limited EEV (£m)
Base . . . . .	Current approach	77	491.2
Alternative . . . . .	Default rate 50 bps p.a.	131	577.4

#### 5) After-tax Value of New Covered Business of Just Retirement Limited

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

	Year ended 30 June 2013	Year ended 30 June 2012
	£m	£m
Certainty equivalent value . . . . .	114.8	111.9
Time value of financial options and guarantees . . . . .	(6.7)	(8.6)
Allowance for non-market risk . . . . .	(2.3)	(5.9)
Cost of capital . . . . .	(5.3)	(7.1)
<b>Value of new business . . . . .</b>	<b>100.5</b>	<b>90.3</b>

The value of new business reflects strengthened mortality assumptions as described in Note (9), which have been introduced at the point of sale in accordance with the stated policy.

The amounts of required capital for new business in the financial years ending on 30 June 2013 and 30 June 2012 were £65.5m and £85.5m respectively. The latter figure was based on the higher percentage of regulatory capital then in use.

The liquidity premium for new business uses point of sale liquidity premium (as described in note (2)C) determined using the same formula as at year end. An alternative possible methodology is shown for illustration in the table below, which sets the average liquidity premium consistent with a lower level of defaults of 50 bps p.a. at year end applied to the actual spread on the portfolio.

	Method	Average Liquidity Premium (bps)	Just Retirement Limited value of new business (£m)
Base .....	Current approach	84	100.5
Alternative .....	Default rate consistent with 50 bps at year end	138	124.3

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

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

	Year ended 30 June 2013	Year ended 30 June 2012
	£m	£m
Opening embedded value .....	366.2	337.4
Closing embedded value .....	491.2	366.2
Increase in embedded value .....	125.0	28.8
Capital injections .....	(25.0)	(4.0)
<b>Embedded value profit after tax .....</b>	<b>100.0</b>	<b>24.8</b>

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

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

	Free Surplus	Required Capital	Value of in-force business	Total for Year ended 30 June 2013	Total for Year ended 30 June 2012
	£m	£m	£m	£m	£m
<b>Opening embedded value .....</b>	<b>(9.3)</b>	<b>270.0</b>	<b>105.5</b>	<b>366.2</b>	<b>337.4</b>
Expected return on opening embedded value ...	4.3	0.0	52.5	56.8	22.8
Expected surplus from in-force business .....	17.1	(10.2)	(6.9)	—	—
New business contribution .....	0.1	69.3	62.4	131.8	121.2
Operating experience variance .....	5.9	0.3	(24.4)	(18.2)	(19.6)
Operating assumption changes .....	(49.9)	4.6	(37.6)	(82.9)	(106.8)
<b>Operating profit for covered business .....</b>	<b>(22.5)</b>	<b>64.0</b>	<b>46.0</b>	<b>87.5</b>	<b>17.6</b>
Economic variance <sup>(1)</sup> .....	48.8	3.8	(8.9)	43.7	15.7
<b>Embedded value profit before tax .....</b>	<b>26.3</b>	<b>67.8</b>	<b>37.1</b>	<b>131.2</b>	<b>33.3</b>
Tax .....	(22.4)	0.0	(8.8)	(31.2)	(8.5)
<b>Profit after tax .....</b>	<b>3.9</b>	<b>67.8</b>	<b>28.3</b>	<b>100.0</b>	<b>24.8</b>
New capital .....	25.0	—	—	25.0	4.0
<b>Closing embedded value .....</b>	<b>19.6</b>	<b>337.8</b>	<b>133.8</b>	<b>491.2</b>	<b>366.2</b>

(1) The economic variance of £45.3m (2012: £12.8m) reported in the JRGHL Group Statement of Comprehensive Income includes £1.5m (2012: £(2.9)m) in respect of the fair value movement on the interest rate swap derivatives held by Just Retirement (Holdings) Limited

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

The “expected surplus from in-force business” represents the surplus expected to emerge during the period from business that was in-force at the beginning of that period. The effect is a transfer of value



between the value of in-force business and shareholders' net assets, with the overall effect on the embedded value being zero.

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

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

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

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

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

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

	Shareholders' net assets	Value of in-force business	Total for Year ended 30 June 2013	Total for Year ended 30 June 2012
	£m	£m	£m	£m
Reinsurance arrangements . . . . .	14.4	(14.5)	(0.1)	(2.2)
Maintenance and investment expenses . . . . .	(4.6)	(2.4)	(7.0)	(5.1)
Exceptional expenses . . . . .	(5.8)	—	(5.8)	(9.4)
Tax variances . . . . .	(0.5)	—	(0.5)	(0.2)
Experience variances . . . . .	2.7	(7.5)	(4.8)	(2.7)
<b>Total . . . . .</b>	<b>6.2</b>	<b>(24.4)</b>	<b>(18.2)</b>	<b>(19.6)</b>

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

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

	Shareholders' net assets	Value of in-force business	Total for Year ended 30 June 2013	Total for Year ended 30 June 2012
	£m	£m	£m	£m
Annuitant mortality assumptions . . . . .	(35.1)	(47.2)	(82.3)	(49.4)
Underwriting classification changes . . . . .	—	—	—	(64.1)
Maintenance expenses . . . . .	(1.7)	1.6	(0.1)	(1.2)
Mortgage assumptions . . . . .	(8.1)	4.1	(4.0)	(15.2)
Tax . . . . .	(0.4)	3.3	2.9	4.7
Cost of capital . . . . .	—	—	—	7.4
Non-market risk . . . . .	—	0.6	0.6	11.0
<b>Total . . . . .</b>	<b>(45.3)</b>	<b>(37.6)</b>	<b>(82.9)</b>	<b>(106.8)</b>

The annuitant mortality assumption changes reflect changes to both the statutory and embedded value assumptions on business in force throughout the year. These reflect a revised mortality basis derived from the company's extensive experience data and incorporating the latest view of disease shapes and improvement factors arising from the research undertaken as part of the PrognoSys™ development.

Furthermore, at year end 30 June 2012, insights arising from the PrognoSys™ development at that stage caused Just Retirement Limited to revisit the allocation of customers with certain conditions between its various underwriting levels. The re-allocations were typically to levels with lighter mortality assumptions, causing a reduction of £64.1m in the embedded value.

The tax item reflects the change from the effective tax rate used at the previous reporting date (25.5%) to the rate used at this reporting date (23.75%).

## 10) Sensitivities

The JRGHL Group embedded value at 30 June 2013 and the value of new business for the year ended 30 June 2013 have been recalculated to show the sensitivity of the results to changes in certain of the assumptions discussed above.

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

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

The sensitivities tested were:

- Interest rates 1% lower than in the central case with resulting changes in asset values and reference rates. The impact for the values of new business has not been calculated for this sensitivity as the JRGHL Group actively reviews its premium rates and in the event of such a sudden change in economic conditions the JRGHL Group would change its rates.
- Interest rates 1% higher than in the central case with resulting changes in asset values and reference rates.
- Reference rates 10bp lower than in the central case, with no change in asset values. The purpose of this sensitivity is to illustrate the impact of using a different definition of the reference rate than basing it on mid-market swap rates.
- Credit spreads (represented by the difference between corporate bond yields and swap rates) 10bp narrower than in the central case. For this sensitivity there is no change to the liquidity premium.
- Credit spreads 10bp wider than in the central case. For this sensitivity there is no change to the liquidity premium.
- Liquidity premium 10bp lower than in the central case.
- Property market values 10% lower than in the central case.
- Implied property volatility assumption 125% of the assumption in the central case.
- Implied property volatility assumption 75% of the assumption in the central case.
- Annuitant base mortality 5% lower than in the central case (i.e. 95% of the central mortality rates).
- Lifetime mortgage base mortality 5% lower than in the central case (i.e. 95% of the central mortality rates). For this sensitivity, the allowance for moving into long-term care is also assumed to be 5% lower
- Lifetime mortgage voluntary redemption assumption 10% lower than in the central case (i.e. 90% of the base case assumption).
- Maintenance expenses 10% lower than in the central case (i.e. 90% of base case costs) including the resulting reduction in the maintenance expense overrun.
- Corporation tax rate set to 22.75% (i.e. 1% lower than in the central case).
- Required capital equal to 100% of the LTICR plus 100% of the RCR. For this purpose, all of the required capital has been applied to annuities.

## JRGHL Group Sensitivity of Values to Changes in Assumptions

	Embedded value at 30 June 2013	Value of new business for year ended 30 June 2013
	£m	£m
Central value . . . . .	188.8	100.5
Impact of:		
• 1% reduction in yield curves . . . . .	74.7	n/a
• 1% increase in yield curves . . . . .	(53.5)	n/a
• 10bp reduction in reference rate . . . . .	(6.1)	(3.3)
• 10bp reduction in credit spreads . . . . .	17.6	n/a
• 10bp increase in credit spreads . . . . .	(17.7)	n/a
• 10bp reduction in liquidity premium . . . . .	(15.6)	(4.1)
• 10% reduction in property values . . . . .	(18.9)	(2.6)
• 125% of implied property volatilities . . . . .	(35.4)	(6.0)
• 75% of implied property volatilities . . . . .	23.9	3.9
• 5% reduction in annuitant base mortality . . . . .	(56.2)	(10.8)
• 5% reduction in lifetime mortgage base mortality . . . . .	17.3	3.5
• 10% reduction in lifetime mortgage voluntary redemptions . . . . .	9.2	1.9
• 10% reduction in maintenance expenses . . . . .	10.2	2.2
• 1% reduction in corporation tax rate . . . . .	4.2	1.6
• Required capital equal to 100% of LTICR plus 100% of RCR . . . . .	7.0	2.4

Note: Although these sensitivities are shown at JRGHL Group level, the entire contribution comes from Just Retirement Limited. There are no material items of variance in other JRGHL Group companies.

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

	Year ended 30 June 2013	Year ended 30 June 2012
	£m	£m
<b>Shareholders' equity on IFRS basis . . . . .</b>	<b>150.1</b>	<b>79.6</b>
Asset valuation differences . . . . .	397.0	231.5
Liability valuation differences . . . . .	(528.8)	(346.0)
Deferred tax . . . . .	36.7	38.1
Value of in-force business . . . . .	133.8	105.5
<b>Shareholders' equity on EEV basis . . . . .</b>	<b>188.8</b>	<b>108.7</b>
<b>Analysis of ordinary shareholders' equity</b>		
IFRS basis ordinary shareholders' equity . . . . .	150.1	79.6
Additional retained profit on an EEV basis . . . . .	38.7	29.1
	<b>188.8</b>	<b>108.7</b>

The asset valuation differences of £397.0m (2012: £231.5m) are caused largely by the different valuation of the lifetime mortgages under IFRS compared to EEV, and the removal of intangible assets recorded under IFRS, which are not recognised on the EEV basis. The liability valuation differences of £(528.8)m (2012: £(346.0)m) are caused largely by the different discount rate used to value the annuitant liabilities. A higher discount rate arises under IFRS due to the lower value placed on the lifetime mortgages.

## SECTION B—PRO FORMA GROUP EEV

The following unaudited pro forma financial information contains a pro forma EEV balance sheet for the Group. The unaudited pro forma financial information has been prepared to illustrate the effect on the EEV balance sheet of the Group, as if the following connected transactions had occurred at 30 June 2013:

- (a) the conversion of Just Retirement Group Holdings Limited's A Loan Notes, B Loan Notes and a shareholder loan (and accrued interest thereon, respectively) and the PPI (as defined in Part 15 "Reorganisation of the Group") into new ordinary shares in Just Retirement Group Holdings Limited, which will take effect immediately prior to Admission;
- (b) the conversion of Just Retirement Group Holdings Limited's A Preference Shares and B Preference Shares (and accrued dividends thereon, respectively) into new ordinary shares in Just Retirement Group Holdings Limited, which will take effect immediately prior to Admission; and
- (c) the intended raising of additional ordinary share capital of £280 million, after expected transaction costs, as part of the Offer.

The unaudited pro forma EEV financial information has been prepared on the basis of the accounting policies adopted by the JRGHL Group for the period ended 30 June 2013, for illustrative purposes only and in accordance with Annex II of the Prospectus Directive Regulation, and should be read in conjunction with the notes set out below.

Due to its nature, the pro forma Group EEV addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position.

### *Pro-forma Group EEV balance sheet as at 30 June 2013*

	Company historical financial information	JRGHL Group consolidated historical EEV balance sheet	Adjustments			Unaudited Pro Forma Group EEV balance sheet
			Conversion of loan notes, shareholder loan and PPI	Conversion of preference shares	New share issue	
	Note 1	Note 2	Note 3	Note 4	Note 5	Note 6
	£m	£m	£m	£m	£m	£m
<b>EEV Balance Sheet . . . . .</b>	<u>0.0</u>	<u>188.8</u>	<u>250.2</u>	<u>76.8</u>	<u>280.0</u>	<u>795.8</u>

### **1. Source of Company Historical Financial Information**

The Company is a dormant company with no trading history and initial share capital of £50,000, divided into ordinary shares of 10 pence each and 49,998 preference shares of 100 pence each.

### **2. Source of JRGHL Group Consolidated Historical EEV Balance Sheet**

The financial information for the JRGHL Group (including Just Retirement Limited) as at 30 June 2013 has been extracted without material adjustment from the "European Embedded Value Supplementary Information" as set out in Part 14 of this document.

### **3. Conversion of Loan Notes, Shareholder Loan and PPI**

Before Admission, A Loan Notes, with a nominal value of £13.6 million, B Loan Notes, with a nominal value of £164.8 million, the PPI, with a value of £1.7 million, and a shareholder loan, with a nominal value of £2.3 million, held by Just Retirement Group Holdings Limited, will be converted into new ordinary shares in Just Retirement Group Holdings Limited, reducing financial liabilities by £182.4 million and increasing total equity by £182.4 million.

Interest accrued on A Loan Notes, B Loan Notes, and the shareholder loan of £5.0 million, £62.1 million, £0.7 million, respectively, owed by Just Retirement Group Holdings Limited, will be converted into new ordinary shares in Just Retirement Group Holdings Limited, reducing insurance and other payables by £67.8 million and increasing total equity by £67.8 million.

The following table sets forth the nominal value and interest of the A Loan Notes, B Loan Notes, PPI and the shareholder loan:

	<u>Nominal value</u>	<u>Interest</u>	<u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
A Loan Notes . . . . .	13.6	5.0	18.6
B Loan Notes . . . . .	164.8	62.1	226.9
PPI . . . . .	1.7	0.0	1.7
Shareholder loan . . . . .	2.3	0.7	3.0
	<u>182.4</u>	<u>67.8</u>	<u>250.2</u>

#### 4. Conversion of Preference Shares

Before Admission, A Preference Shares, with a nominal value of £3.7 million, and B Preference Shares, with a nominal value of £45.0 million, held by Just Retirement Group Holdings Limited, will be converted into new ordinary shares in Just Retirement Group Holdings Limited, reducing financial liabilities by £48.7 million and increasing total equity by £48.7 million.

Dividends on A Preference Shares and B Preference Shares of £2.1 million and £26.0 million, respectively, owed by Just Retirement Group Holdings Limited, will be converted into new ordinary shares in Just Retirement Group Holdings Limited, reducing insurance and other payables by £28.1 million and increasing total equity by £28.1 million.

The following table sets forth the nominal value and interest of the A Preference Shares and B Preference Shares:

	<u>Nominal value</u>	<u>Interest</u>	<u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
A Preference Shares . . . . .	3.7	2.1	5.8
B Preference Shares . . . . .	45.0	26.0	71.0
	<u>48.7</u>	<u>28.1</u>	<u>76.8</u>

#### 5. New Share Issue

The Offer adjustment has been calculated as follows:

	<u>£m</u>
Cash proceeds raised from issuance of new ordinary equity . . . . .	300.0
Estimated net transaction costs from the Offer . . . . .	(20.0)

#### 6. Unaudited Pro Forma Group EEV Balance Sheet

The unaudited pro forma Group EEV balance sheet does not reflect any changes in the trading position of the Group or any other changes arising from any transactions, other than those outlined in the above notes, since 30 June 2013.

**ACCOUNTANT'S REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF  
EUROPEAN EMBEDDED VALUE**



The Directors  
Just Retirement Group plc  
Vale House  
Roebuck Close  
Bancroft Road  
Reigate  
Surrey  
RH2 7RU

12 November 2013

KPMG Audit Plc  
15 Canada Square  
Canary Wharf  
London E14 5GL  
United Kingdom

Dear Sirs

**Just Retirement Group plc**

We report on the European Embedded Value (“EEV”) pro forma information (the “EEV Pro Forma Financial Information”) set out in Section B of Part 14 of the prospectus, which has been prepared on the basis described in notes 1 to 6 for illustrative purposes only, to provide information about how the offer might have affected the EEV supplementary financial information presented on the basis of the Just Retirement Group plc’s accounting policy for European Embedded Value (“EEV Accounting Policy”) which follows the EEV Principles issued in May 2004 by the CFO Forum of European Insurance Companies and expanded by the Additional Guidance on EEV Disclosures issued in October 2005 “the EEV Principles”. This report is required by item 20.2 of Annex I of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose.

**Responsibilities**

It is the responsibility of the directors of Just Retirement Group plc to prepare the EEV Pro Forma Financial Information in accordance with item 20.2 of Annex I of the Prospectus Directive Regulation.

It is our responsibility to form an opinion, as required by item 7 of Annex II of the PD Regulation, as to the proper compilation of the EEV Pro Forma Financial Information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the EEV Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the prospectus.

**Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the EEV Pro Forma Financial Information with the directors of Just Retirement Group plc.



We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the EEV Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the EEV Accounting Policy.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

### **Opinion**

In our opinion:

- the EEV Pro Forma Financial Information has been properly compiled on the basis stated; and
- such basis is consistent with the EEV Accounting Policy of Just Retirement Group plc.

### **Declaration**

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with item 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG Audit Plc

## PART 15

### REORGANISATION OF THE GROUP

The principal purpose of the Reorganisation is to make the Company the ultimate holding company of the Group and to convert the existing shareholders' economic interests in Just Retirement Group Holdings Limited into Shares of Just Retirement Group plc, thereby ensuring that the interests of existing shareholders and those of investors who purchase Shares in the Offer rank *pari passu*.

#### 1. Background

- 1.1 Prior to the Reorganisation, the Company is a non-trading subsidiary of Avallux, which is the ultimate holding company of the Group and controlled by the Permira Funds.
- 1.2 The Reorganisation will be effected by the Company acquiring the entire issued share capital of Just Retirement Group Holdings Limited, the parent company of Just Retirement (Holdings) Limited, which is the holding company of the Group operating companies. In addition, the Reorganisation will (i) ensure that the Shares are the only class of ordinary shares in the capital of the Company at Admission, (ii) convert the Group's existing debt and debt-like instruments into equity, and (iii) create distributable reserves in the Company such that the Directors may pay dividends after Admission if appropriate. The result of the steps taken upon Admission is that, as at Admission and taking into account the issued New Shares by the Company as part of the Offer (the "Primary Offering"), Avallux, the management shareholders (the "Management Shareholders") and other minority investors (the "Minority Investors") will hold Shares in each case in proportion (or as nearly as may be in proportion, allowing for fractional entitlements) to the value of the debt or debt-like instruments and shareholder instruments in Just Retirement Group Holdings Limited held by them immediately prior to the Reorganisation.

#### 2. Structure Immediately Prior to Reorganisation

- 2.1 Just Retirement Group Holdings Limited has (immediately prior to the Reorganisation) four classes of shares in issue: A and A1 Ordinary Shares, B Ordinary Shares, C1 and C2 Ordinary Shares, A and B Preference Shares. The B Ordinary Shares carry all voting rights in respect of Just Retirement Group Holdings Limited's share capital. Just Retirement Group Holdings Limited also has two classes of loan notes outstanding, the A Loan Notes and the B Loan Notes, an outstanding shareholder term loan (the "Shareholder Loan") in the principal amount of £2,315,790.40, plus accrued and unpaid interest, and a profit participating instrument ("PPI") in the principal amount of £1,684,211.20, plus accrued and unpaid interest.

The ownership of equity and debt capital in Just Retirement Group Holdings Limited (immediately prior to the Reorganisation) is as follows:

Equity/Debt	Value	Control of voting rights in Just Retirement Group Holdings Limited	Holder
	£	%	
A and A1 Ordinary Shares . . . . .	5,675,464.20	Nil	Management Shareholders / Minority Investors / EBT
A Preference Shares . . . . .	3,720,497.70 <sup>(4)</sup>	Nil	Management Shareholders / Minority Investors / EBT
A Loan Notes . . . . .	13,641,835.20 <sup>(1)</sup>	N/A	Management Shareholders / Minority Investors / EBT
B Ordinary Shares . . . . .	70,623,157.20	100	Avallux <sup>(2)</sup>
B Preference Shares . . . . .	44,952,530.30 <sup>(4)</sup>	Nil	Avallux <sup>(2)</sup>
B Loan Notes . . . . .	164,825,944.30 <sup>(1)</sup>	N/A	Avalire Limited <sup>(2)</sup>
Shareholder Loan . . . . .	2,315,790.40 <sup>(3)</sup>	N/A	Avalire Limited <sup>(2)</sup>
PPI . . . . .	1,684,211.20 <sup>(3)</sup>	N/A	Avallux <sup>(2)</sup>
C1 and C2 Ordinary Shares . . . . .	3,738,243.70	Nil	Management Shareholders

Notes:

- (1) The value of the loan notes will also include the accrued and unpaid coupon thereon.

- (2) Avallux and Avalire Limited are each controlled by the Permira Funds and, accordingly, the B Ordinary Shares (and therefore 100 per cent. of the voting rights in Just Retirement Group Holdings Limited), B Preference Shares and B Loan Notes are controlled by the Permira Funds.
- (3) The value of the investment will also include any accrued and unpaid interest thereon.
- (4) The value of the preference shares will also include the accrued and unpaid dividend thereon.

### **3. Steps of Reorganisation**

The steps to effect the Reorganisation will take effect immediately prior to Admission and will be as follows:

- 3.1 the A Loan Notes (including any accrued and unpaid coupon) will be converted into new ordinary shares in Just Retirement Group Holdings Limited (the “New JRGHL Shares”);
- 3.2 the B Loan Notes (including any accrued and unpaid coupon) and the Shareholder Loan (including any accrued and unpaid interest) will be assigned from Avalire Limited to Avallux;
- 3.3 the B Loan Notes, the Shareholder Loan and the PPI (including any accrued and unpaid interest or coupon in respect of each instrument) will each be converted into New JRGHL Shares;
- 3.4 the A, A1, B, C1 and C2 Ordinary Shares and the A and B Preference Shares (including any accrued and unpaid dividend) will be reclassified into a New JRGHL Shares, together with a residual class of deferred shares (the “New JRGHL Deferred Shares”). Avallux will also receive certain preference shares as a result of this step so as to mirror the shares it holds in the Company which it subscribed for on incorporation. The New JRGHL Deferred Shares will have a negligible market value and will be repurchased by Just Retirement Group Holdings Limited immediately prior to the share for share exchange described in paragraph 3.5 of this Part 15. The preference shares held by Avallux as a result of this step will also be repurchased as soon as reasonably practicable after Admission (following the reduction in Just Retirement Group Holdings Limited’s capital described in more detail at paragraph 6 of this Part 15 below);
- 3.5 Certain loans (plus a certain amount of the accrued and unpaid interest thereon) made to various employees of the Group will be assigned from Just Retirement Management Services Limited to the Just Retirement Employee Benefit Trust (the “EBT”) in consideration for a receivable in the same amount, and this assignment will be immediately followed by the repayment of all loans from the EBT by way of a transfer of New JRGHL Shares from the relevant managers to the EBT;
- 3.6 Avallux, the Management Shareholders and the Minority Investors will exchange the New JRGHL Shares which they each hold for Shares in a share for share exchange. As a result of such exchange, there will be a single class of ordinary shares in the Company in issue at Admission and the Company will be the holder of all of the issued share capital of Just Retirement Group Holdings Limited. The terms of this exchange are further described in paragraph 12.4 of Part 17 “Additional Information”.

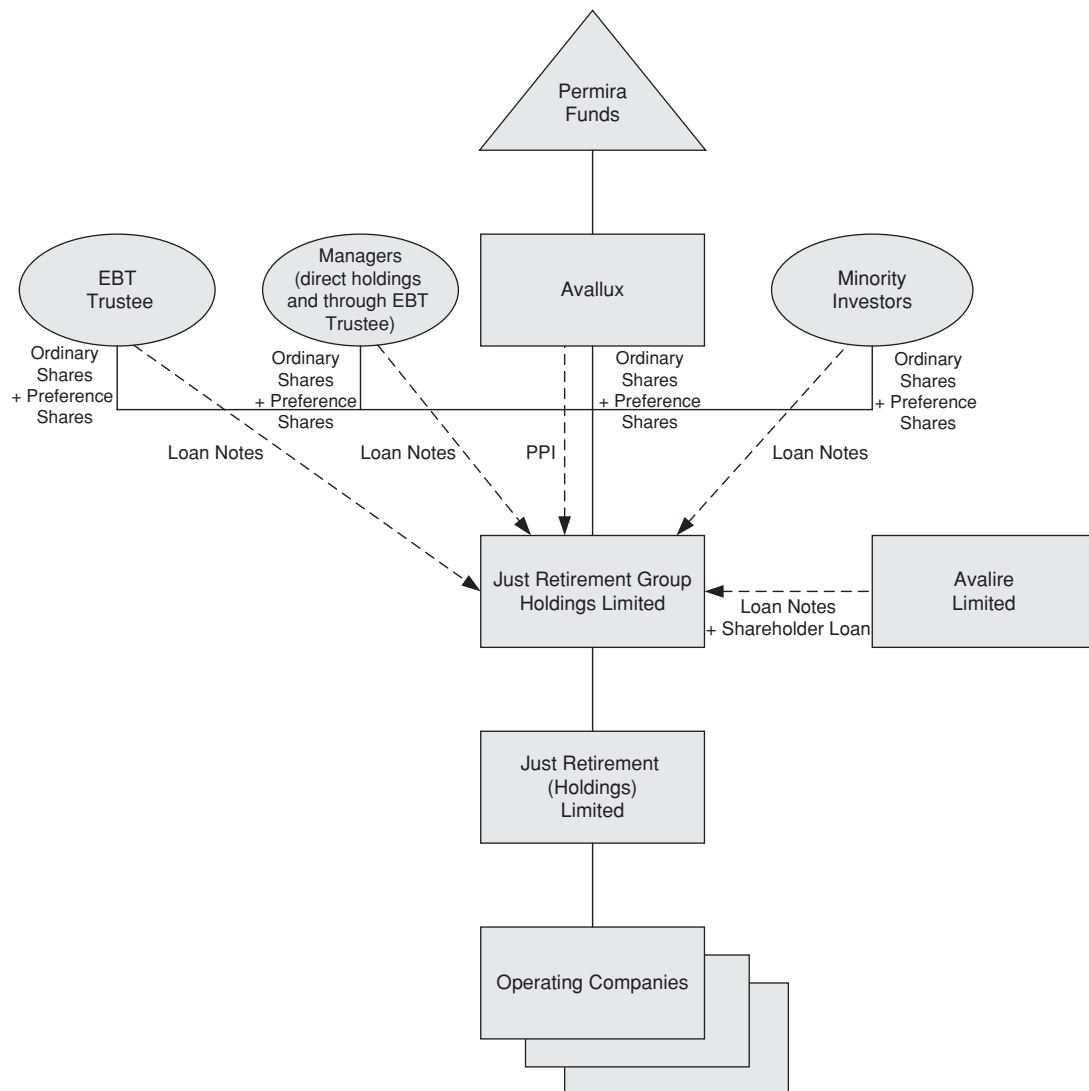
### **4. Structure after Reorganisation**

- 4.1 The number of Shares which Avallux, the Management Shareholders and the Minority Investors will receive due to the Reorganisation as described in paragraph 3 of this Part 15 is determined by reference to the Offer Price. Through the Reorganisation:
  - 4.1.1 Avallux will receive:
    - (a) 182,193,208 Shares in respect of the B Ordinary Shares it holds immediately prior to the Reorganisation;
    - (b) 33,224,044 Shares in respect of the B Preference Shares it holds immediately prior to the Reorganisation, being equal to the nominal value of the B Preference Shares plus any accrued and unpaid dividend, divided by the Offer Price;
    - (c) 106,789,311 Shares in respect of the B Loan Notes, Shareholder Loan and PPI, being equal to the face value of the B Loan Notes, Shareholder Loan and PPI plus any accrued and unpaid coupon or interest, divided by the Offer Price.

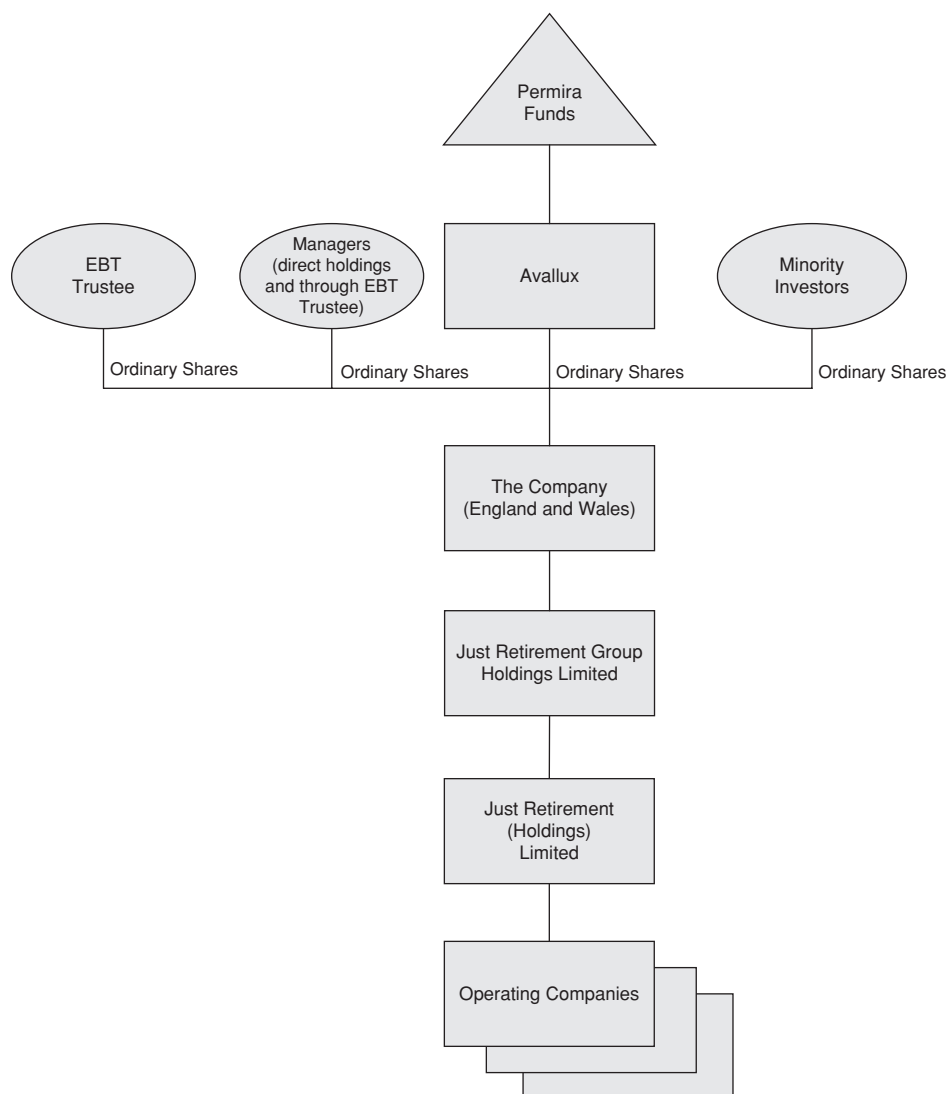
- 4.1.2 The Management Shareholders and EBT will receive in aggregate:
- (a) 4,200,736 Shares in respect of the A and A1 Ordinary Shares they hold immediately prior to the Reorganisation;
  - (b) 773,233 Shares in respect of the A Preference Shares they hold immediately prior to the Reorganisation, being equal to the nominal value of their A Preference Shares plus any accrued and unpaid dividend, divided by the Offer Price;
  - (c) 2,356,616 Shares in respect of the A Loan Notes, being equal to the face value of the A Loan Notes plus any accrued and unpaid coupon, divided by the Offer Price; and
  - (d) 10,448,374 Shares in respect of their C1 and C2 Ordinary Shares.
- 4.1.3 The Minority Investors will receive in aggregate:
- (a) 10,644,949 Shares in respect of the A and A1 Ordinary Shares they hold immediately prior to the Reorganisation;
  - (b) 1,921,541 Shares in respect of the A Preference Shares they hold immediately prior to the Reorganisation, being equal to the nominal value of their A Preference Shares plus any accrued and unpaid dividend, divided by the Offer Price; and
  - (c) 5,683,388 Shares in respect of the A Loan Notes, being equal to the face value of the A Loan Notes plus any accrued and unpaid coupon, divided by the Offer Price.
- 4.2 As set out in Part 17 “Additional Information”, Avallux and certain of the Management Shareholders will sell certain of these Shares in the Offer.
- 4.3 Following the Reorganisation and the Offer, the Company will have one class of ordinary shares in issue which will rank *pari passu* as to voting and economic rights and will, prior to the transfer of any Shares pursuant to the exercise of the Over-allotment Option, be held in the following proportions;
- 4.3.1 Avallux will hold 62.4 per cent. of the Shares;
  - 4.3.2 the Management Shareholders will together hold 2.2 per cent. of the Shares; and
  - 4.3.3 the Minority Investors will together hold 5.0 per cent. of the Shares;
  - 4.3.4 new shareholders will hold 30.5 per cent. of the Shares.

## 5. Structural Changes to the Group under the Reorganisation

5.1 The structure chart below illustrates the structure of the Group as at the date of this document and immediately prior to the Reorganisation.



5.2 The structure chart below illustrates the structure of the Group immediately prior to Admission, following completion of the Reorganisation.



## 6. Capital Reductions

It is contemplated that shortly after completion of the Reorganisation (as detailed above) and Admission, a court-approved capital reduction of the Company will be initiated. This will result in the cancellation of all share premium attaching to the Shares. The purpose of the capital reduction is to create distributable reserves to enable the Company to pay dividends post-Admission. The Company will also repurchase in due course the preference shares that it issued to Avallux on incorporation on completion of the capital reduction. The details of these shares are set out in paragraph 1.5 of Part 17 “Additional Information” and are not shown in the structure chart above as they will be bought back by the Company and cancelled as soon as reasonably practicable after Admission. The capital reduction and the repurchase of the preference shares have been approved (conditional on Admission) by a special resolution of the shareholder controlling all voting rights in the Company prior to the Reorganisation, Avallux, and the capital reduction will require the approval of the Court. Additionally, it is contemplated that Just Retirement Group Holdings Limited will undergo a capital reduction to reduce the nominal value of its shares and to cancel all share premium.



## **PART 16**

### **THE OFFER**

#### **1. Background**

Pursuant to the Offer, the Company intends to issue 133,333,747 New Shares, raising proceeds of approximately £280.0 million, net of underwriting commissions and other estimated fees and expenses of approximately £20.0 million. The New Shares will represent approximately 26.7 per cent. of the expected issued ordinary share capital of the Company immediately following Admission.

The Selling Shareholders expect to sell 19,201,203 Existing Shares. In addition, a further 22,880,243 Over-allotment Shares are being made available by the Over-allotment Shareholder pursuant to the Over-allotment Option described below.

In the Offer, Shares will be offered (i) to certain institutional investors in the United Kingdom and elsewhere outside the United States and (ii) in the United States only to qualified institutional buyers in reliance on an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Certain restrictions that apply to the distribution of this document and the Shares being issued and sold under the Offer in jurisdictions outside the United Kingdom are described below.

When admitted to trading, the Shares will be registered with ISIN number GB00BCRX1J15 and SEDOL number BCRX1J1.

Immediately following Admission, it is expected that in excess of 33.4 per cent. of the Company's issued ordinary share capital will be held in public hands assuming that no Over-allotment Shares are acquired pursuant to the Over-allotment Option (increasing to 38.0 per cent. if the maximum number of Over-allotment Shares are acquired pursuant to the Over-allotment Option).

#### **2. Use of Proceeds**

The Company intends to allocate £175 million of the net proceeds from the issue of New Shares in such a way as to strengthen regulatory and economic capital ratios in Just Retirement Limited, thereby supporting growth in new business, with the remaining £105 million to be used for Group solvency and liquidity and for general corporate purposes. The Directors believe that, following the Offer, Just Retirement Limited will also be better positioned to accommodate any future changes to the UK capital regime, including those changes required by the implementation of the EU Solvency II proposals.

#### **3. Reasons for the Offer**

The Directors believe that the Offer will provide the Group with significant benefits as compared to its present ownership structure and capital base, including providing liquidity for shareholders, a higher corporate profile and enhanced brand, allowing the Group to recruit and retain key staff through share schemes and long-term incentive plans, enhancing the Group's reputation and standing in the financial services marketplace and providing access to additional sources of capital.

Had the Offer, the Reorganisation (as described in Part 15 "Reorganisation of the Group") and use of proceeds described above occurred on 1 July 2012, the effect would have been to increase earnings for the year ended 30 June 2013 by reducing finance costs.

#### **4. Allocation**

The rights attaching to the Shares will be uniform in all respects and they will form a single class for all purposes. The Shares allocated under the Offer have been underwritten, subject to certain conditions, by the Underwriters as described in paragraph 8 below and in paragraph 9 of Part 17 "Additional Information". Allocations under the Offer will be determined at the discretion of the Company and Avallux following consultation with the Underwriters, subject to certain conditions. All Shares issued or sold pursuant to the Offer will be issued or sold, payable in full, at the Offer Price. Liability for UK stamp duty and stamp duty reserve tax is described in paragraph 14 of Part 17 "Additional Information".

## **5. Dealing Arrangements**

The Offer is subject to the satisfaction of certain conditions contained in the Underwriting Agreement, which are typical for an agreement of this nature. Certain conditions are related to events which are outside the control of the Company, the Directors and the Underwriters. Further details of the Underwriting Agreement are described in paragraph 9.1 of Part 17 “Additional Information”.

It is expected that Admission will become effective, and that unconditional dealings in the Shares will commence on the London Stock Exchange at 8.00 a.m. (London time) on 15 November 2013. Settlement of dealings from that date will be on a three day rolling basis. Prior to Admission, conditional dealings in the Shares are expected to commence on the London Stock Exchange on 12 November 2013. Dealings on the London Stock Exchange before Admission will only be settled if Admission takes place. The earliest date for such settlement of such dealings will be 15 November 2013. All dealings before the commencement of unconditional dealings will be of no effect if Admission does not take place and such dealings will be at the sole risk of the parties concerned. These dates and times may be changed without further notice.

Each investor will be required to undertake to pay the Offer Price for the Shares issued or sold to such investor in such manner as shall be directed by the Joint Global Co-ordinators.

It is expected that Shares allocated to investors in the Offer will be delivered in uncertificated form and settlement will take place through CREST on Admission. No temporary documents of title will be issued. Dealings in advance of crediting of the relevant CREST stock account shall be at the risk of the person concerned.

## **6. Over Allotment and Stabilisation**

In connection with the Offer, Deutsche Bank AG, London Branch, as Stabilising Manager, or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law, over allot Shares or effect other stabilising transactions with a view to supporting the market price of the Shares at a higher level than that which might otherwise prevail in the open market. The Stabilising Manager is not required to enter into such transactions and such transactions may be effected on any securities market, over the counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of the commencement of conditional dealings in the Shares on the London Stock Exchange and ending no later than 30 calendar days thereafter. However, there will be no obligation on the Stabilising Manager or any of its agents to effect stabilising transactions and there is no assurance that stabilising transactions will be undertaken. Such stabilisation, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken to stabilise the market price of the Shares above the Offer Price. Except as required by law or regulation, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over allotments made and/or stabilising transactions conducted in relation to the Offer.

In connection with the Offer, the Stabilising Manager may, for stabilisation purposes, over allot Shares up to a maximum of 15 per cent. of the total number of Shares comprised in the Offer. For the purposes of allowing the Stabilising Manager to cover short positions resulting from any such over-allotments and/or from sales of Shares effected by it during the stabilising period, the Over-allotment Shareholder will have granted to the Stabilisation Manager the Over-allotment Option, pursuant to which the Stabilising Manager may purchase or procure purchasers for additional Shares up to a maximum of 15 per cent. of the total number of Shares comprised in the Offer at the Offer Price. The Over-allotment Option will be exercisable in whole or in part, upon notice by the Stabilising Manager, at any time on or before the 30<sup>th</sup> calendar day after the commencement of conditional dealings of the Shares on the London Stock Exchange. Any Over-allotment Shares made available pursuant to the Over-allotment Option will rank *pari passu* in all respects with the Shares, including for all dividends and other distributions declared, made or paid on the Shares, will be purchased on the same terms and conditions as the Shares being issued or sold in the Offer and will form a single class for all purposes with the other Shares.

For a discussion of certain stock lending arrangements entered into in connection with the Over-allotment Option, see paragraph 9.2 of Part 17 “Additional Information”.

## **7. CREST**

With effect from Admission, the Articles will permit the holding of Shares under the CREST system. CREST is a paperless settlement system allowing securities to be transferred from one person's CREST account to another's without the need to use share certificates or written instruments of transfer. Settlement of transactions in the Shares following Admission may take place within the CREST system if any shareholder so wishes. CREST is a voluntary system and holders of Shares who wish to receive and retain share certificates will be able to do so.

## **8. Underwriting Arrangements**

The Underwriters have entered into commitments under the Underwriting Agreement pursuant to which they have agreed, subject to certain conditions, to use reasonable endeavours to procure subscribers for the New Shares to be issued by the Company and purchasers for the Existing Shares to be sold by the Selling Shareholders in the Offer, or, failing which, themselves to subscribe for or purchase such Shares, at the Offer Price. The Underwriting Agreement contains provisions entitling the Joint Global Co-ordinators (on behalf of themselves and the other Underwriters), acting jointly and in good faith, to terminate the Offer (and the arrangements associated with it) at any time prior to Admission in certain circumstances. If this right is exercised, the Offer and these arrangements will lapse and any moneys received in respect of the Offer will be returned to applicants without interest. The Underwriting Agreement provides for the Underwriters to be paid commission in respect of the New Shares issued, the Existing Shares sold and any Over-allotment Shares sold following exercise of the Over-allotment Option. Any commissions received by the Underwriters may be retained, and any Shares acquired by them may be retained or dealt in, by them, for their own benefit.

Further details of the terms of the Underwriting Agreement are set out in paragraph 9.1 of Part 17 "Additional Information". Certain selling and transfer restrictions are set out below.

## **9. Lock-up Arrangements**

Pursuant to the Underwriting Agreement, the Company has agreed that, subject to certain exceptions, during the period of 180 days from the date of Admission, it will not, without the prior written consent of the Joint Global Co-ordinators (acting on behalf of themselves and the other Underwriters), issue, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce an offer of any Shares (or any interest therein or in respect thereof) or enter into any transaction with the same economic effect as any of the foregoing.

Pursuant to the Underwriting Agreement, the Directors and certain members of Senior Management have agreed that, subject to certain exceptions, during the period of 365 days from the date of Admission, they will not, without the prior written consent of the Joint Global Co-ordinators (acting on behalf of themselves and the other Underwriters), offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce an offer of any Shares (or any interest therein in respect thereof) or enter into any transaction with the same economic effect as any of the foregoing.

Pursuant to the Underwriting Agreement, Avallux has agreed that, subject to certain exceptions, during the period of 180 days from the date of Admission, it will not, without the prior written consent of the Joint Global Co-ordinators (acting on behalf of themselves and the other Underwriters), offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce an offer of any Shares (or any interest therein in respect thereof) or enter into any transaction with the same economic effect as any of the foregoing.

## **10. Selling Restrictions**

The distribution of this document and the offer of Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any restrictions, including those set out in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Shares, or possession or distribution of this document or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the Shares may not be offered or sold, directly or indirectly, and neither this document nor any other offering material or advertisement in connection with

the Shares may be distributed or published in or from any country or jurisdiction except in circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this document comes should inform themselves about and observe any restrictions on the distribution of this document and the offer of Shares contained in this document. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an offer to subscribe for or purchase any of the Shares to any person in any jurisdiction to whom it is unlawful to make such offer of solicitation in such jurisdiction.

### ***10.1 European Economic Area***

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”) no Shares have been offered or will be offered pursuant to the Offer to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that offers of Shares may be made to the public in that Relevant Member State at any time under the following exemptions under the Prospectus Directive, if they are implemented in that Relevant Member State:

- (a) to any legal entity which is a qualified investor as defined under the Prospectus Directive;
- (b) to fewer than 100, or, if the Relevant Member State has implemented the relevant provision of EU Directive (2010/73/EU) (the “Prospectus Directive Amending Directive”), 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Global Co-ordinators for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Shares shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or any measure implementing the Prospectus Directive in a Relevant Member State.

For the purposes of this provision, the expression an “offer to the public” in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Shares to be offered so as to enable an investor to decide to purchase any Shares, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state. The expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 Prospectus Directive Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State and the expression “2010 Prospectus Directive Amending Directive” means Directive 2010/73/EU.

In the case of any Shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the Shares acquired by it in the Offer have not been acquired on a non discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to persons in circumstances which may give rise to an offer of any Shares to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the Joint Global Co-ordinators has been obtained to each such proposed offer or resale. The Company, the Selling Shareholders, the Underwriters and their affiliates, and others will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement. Notwithstanding the above, a person who is not a qualified investor and who has notified the Underwriters of such fact in writing may, with the prior consent of the Joint Global Co-ordinators, be permitted to acquire Shares in the Offer.

### ***10.2 United States***

The Shares have not been and will not be registered under the Securities Act or under any applicable securities laws or regulations of any state of the United States and, subject to certain exceptions, may not be offered or sold within the United States except to persons reasonably believed to be QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Shares are being offered and sold outside the United States in offshore transactions in reliance on Regulation S under the Securities Act (“Regulation S”).

In addition, until 40 days after the commencement of the Offer of the Shares an offer or sale of Shares within the United States by any dealer (whether or not participating in the Offer) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the Securities Act.

The Underwriting Agreement provides that the Underwriters may directly or through their respective United States broker-dealer affiliates arrange for the offer and resale of Shares within the United States only to QIBs in reliance on Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the Securities Act.

Each acquirer of Shares within the United States, by accepting delivery of this document, will be deemed to have represented, agreed and acknowledged that it has received a copy of this document and such other information as it deems necessary to make an investment decision and that:

- (a) it is (a) a QIB within the meaning of Rule 144A, (b) acquiring the Shares for its own account or for the account of one or more QIBs with respect to whom it has the authority to make, and does make, the representations and warranties set forth herein, (c) acquiring the Shares for investment purposes, and not with a view to further distribution of such Shares, and (d) aware, and each beneficial owner of the Shares has been advised, that the sale of the Shares to it is being made in reliance on Rule 144A or in reliance on another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act;
- (b) it understands that the Shares are being offered and sold in the United States only in a transaction not involving any public offering within the meaning of the Securities Act and that the Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold, pledged or otherwise transferred except (a) to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) or (d) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States. It further (a) understands that the Shares may not be deposited into any unrestricted depositary receipt facility in respect of the Shares established or maintained by a depositary bank, (b) acknowledges that the Shares (whether in physical certificated form or in uncertificated form held in CREST) are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of the Shares and (c) understands that the Company may not recognise any offer, sale, resale, pledge or other transfer of the Shares made other than in compliance with the above-stated restrictions;
- (c) it understands that the Shares (to the extent they are in certificated form), unless otherwise determined by the Company in accordance with applicable law, will bear a legend substantially to the following effect:

**THE SHARES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON THAT THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES**



**ACT FOR RESALES OF THE SHARES. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, THE SHARES REPRESENTED HEREBY MAY NOT BE DEPOSITED INTO ANY UNRESTRICTED DEPOSITARY RECEIPT FACILITY IN RESPECT OF THE SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK. EACH HOLDER, BY ITS ACCEPTANCE OF SHARES, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS; and**

- (d) it represents that if, in the future, it offers, resells, pledges or otherwise transfers such Shares whilst they remain “restricted securities” within the meaning of Rule 144, it shall notify such subsequent transferee of the restrictions set out above.

The Company, the Selling Shareholders, the Underwriters and their affiliates and others will rely on the truth and accuracy of the foregoing acknowledgements, representations and agreements.

### ***10.3 Japan***

The Shares have not been, and will not be, registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948 as amended, the “FIEL”) and disclosure under the FIEL has not been, and will not be, made with respect to the Shares. Neither the Shares nor any interest therein may be offered, sold, resold, or otherwise transferred, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and all other applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities. As used in this paragraph, a resident of Japan is any person that is resident in Japan, including any corporation or other entity organized under the laws of Japan.



**PART 17**  
**ADDITIONAL INFORMATION**

**1. Incorporation and Share Capital**

- 1.1 The Company was incorporated and registered in England and Wales on 13 June 2013 as a public company limited by shares under the Companies Act 2006, as amended (the “Act”) with the name Just Retirement Group plc and with the registered number 8568957.
- 1.2 In order to facilitate the Reorganisation, the Company was re-registered first as a private limited company with the name Just Retirement Group Limited on 14 August 2013, and then as a public company with the name Just Retirement Group plc on 25 October 2013. The Reorganisation is described in Part 15 “Reorganisation of the Group”.
- 1.3 The Company’s registered office and principal place of business is at Vale House, Roebuck Close, Bancroft Road, Reigate, Surrey RH2 7RU and its telephone number is 01737 827 301.
- 1.4 The principal laws and legislation under which the Company operates and the ordinary shares have been created are the Act and regulations made thereunder.
- 1.5 The share capital history of the Company is as follows:
  - 1.5.1 on incorporation the share capital of the Company was £50,000 divided into 20 ordinary shares of 10 pence each and 49,998 preference shares of 100 pence each, all of which were allotted to Avallux.
- 1.6 On 11 November 2013, by resolution of the Company in general meeting:
  - 1.6.1 conditional on Admission, the Company adopted the Articles (as defined in paragraph 4 below), a summary of which is included at paragraph 4 below;
  - 1.6.2 the Board is authorised for the purposes of section 551 of the Act, for a period expiring at the end of the annual general meeting of the Company to be held in 2014 (or, if earlier, at the close of business on the date which is fifteen months after the date the resolution was passed) and unless previously renewed, varied or revoked by the Company in a general meeting, in substitution for all prior authorities conferred upon them, but without prejudice to any allotments made pursuant to the terms of such authorities, to exercise all of the powers of the Company to allot Shares in the Company, and to grant rights to subscribe for or to convert any security into Shares in the Company, as follows:
    - (a) in connection with the Reorganisation and the Offer, Shares with an aggregate nominal value of up to £49,999,998; and
    - (b) following Admission:
      - (i) Shares with an aggregate nominal value of up to £16,666,667, being approximately one-third of the aggregate nominal value of the issued ordinary share capital of the Company immediately following Admission; and
      - (ii) Shares with an aggregate nominal value of up to £33,333,333, being approximately two-thirds of the aggregate nominal value of the issued ordinary share capital of the Company immediately following Admission (such amount to be reduced by allotments made under sub-paragraph (i) above) in connection with a rights issue in favour of the holders of Shares in the Company in proportion (as nearly as may be practicable) to the respective number of Shares in the Company held by them on the record date for such allotment;
  - 1.6.3 the Board is authorised, for a period expiring at the end of the annual general meeting of the Company to be held in 2014 (or, if earlier, at the close of business on the date which is fifteen months after the date the resolution was passed) and unless previously renewed, varied or revoked by the Company in a general meeting, in substitution for all prior authorities conferred upon them, but without prejudice to any allotments made pursuant to the terms of such authorities, to allot equity securities for cash, pursuant to the resolution

described in sub-paragraph 1.6.2 above, as if section 561(1) of the Act did not apply to such allotment, such power being limited to:

- (a) the allotment of Shares with an aggregate nominal value of up to £49,999,998 in connection with the Reorganisation and the Offer;
- (b) the allotment of equity securities in connection with an issue in favour of holders of Shares in the capital of the Company in proportion (as nearly as may be) to their existing holdings of Shares but subject to such exclusions or other arrangements as the Directors of the Company deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and
- (c) the allotment of equity securities for cash (other than as described in (a) and (b) above) with an aggregate nominal value of up to £2,500,000 (being approximately 5 per cent. of the issued ordinary share capital of the Company immediately following Admission);

1.6.4 the Company is generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the Act) of Shares subject to the following conditions:

- (a) the maximum aggregate number of Shares authorised to be purchased is 50,000,000, representing 10 per cent. of the Company's issued ordinary share capital immediately following Admission;
- (b) the minimum price (excluding expenses) which may be paid for each Share is 10 pence (being the nominal value of a Share);
- (c) the maximum price (excluding expenses) which may be paid for each Share is the higher of (i) 105 per cent. of the average of the middle market quotations for the Shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Share is contracted to be purchased and (ii) an amount equal to the higher of the price of the last independent trade of a Share and the highest current independent bid for a Share as derived from the London Stock Exchange Trading System; and
- (d) the authority shall expire on the date that is 18 months from the passing of the relevant resolution, or, if earlier, at the end of the annual general meeting of the Company to be held in 2014 so that the Company may, before the expiry of the authority enter into a contract to purchase Shares which will or may be executed wholly or partly after the expiry of such authority;

1.6.5 the Company is authorised in accordance with the Articles, until the Company's next annual general meeting, to call general meetings on 14 clear days' notice; and

1.6.6 the Company and all companies that are its subsidiaries at any time up to the end of the annual general meeting of the Company to be held in 2014, is authorised, in aggregate, to:

- (a) make political donations to political parties and/or independent election candidates not exceeding £100,000 in total;
- (b) make political donations to political organisations other than political parties not exceeding £100,000 in total; and
- (c) incur political expenditure not exceeding £100,000 in total.

For the purposes of this authority the terms "political donation", "political parties", "independent election candidates", "political organisation" and "political expenditure" have the meanings given by sections 363 to 365 of the Act.

The Company notes that it is not its policy to make political donations and that it has no intention of using the authority for that purpose.

1.7 Immediately prior to the publication of this document, the issued share capital of the Company was £50,000, comprising 20 Shares of 10 pence each and 49,998 preference shares of 100 pence each, (all of which were fully paid or credited as fully paid). Immediately following completion of the Offer, the issued ordinary share capital of the Company is expected to be £50,000,000 comprising 500,000,000 Shares of 10 pence each (all of which will be fully paid or credited as fully paid). The

preference shares in issue will be bought back after the completion of the capital reduction referred to in paragraph 3 below.

1.8 Save as disclosed above and in paragraphs 5 and 8 below:

1.8.1 no share or loan capital of the Company has, within three years of the date of this document, been issued or agreed to be issued, or is now proposed to be issued (other than pursuant to the Offer), fully or partly paid, either for cash or for a consideration other than cash, to any person;

1.8.2 no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any share or loan capital of any such company; and

1.8.3 no share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option.

1.9 The Company will be subject to the continuing obligations of the UK Listing Authority with regard to the issue of shares for cash. The provisions of section 561(1) of the Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash other than by way of allotment to employees under an employees' share scheme as defined in section 1166 of the Act) apply to the issue of shares in the capital of the Company except to the extent such provisions have been disapplied as referred to in paragraph 1.6.2 above.

1.10 Subject to and conditional upon (i) completion of the Reorganisation, (ii) the Company having issued New Shares pursuant to the Offer as contemplated by this document and (iii) Admission, the share capital of the Company is expected to be reduced by reducing the share premium account of the Company to nil.

## **2. Reorganisation**

For information on the Reorganisation see Part 15 "Reorganisation of the Group". The agreements relating to the Reorganisation are also described in paragraph 12.4 of this Part 17 "Additional Information".

## **3. Capital Reductions and Corporate Steps Following Admission**

The Company has not traded since incorporation and lacks distributable reserves. This could restrict the Group's ability to pay future dividends. Therefore, the Company proposes following Admission to undertake a court-approved capital reduction in accordance with the 2006 Act and the Companies (Reduction of Share Capital) Order 2008 in order to provide it with the distributable reserves required to support the dividend policy described above. The proposed capital reduction will cancel all share premium attaching to such Shares. The capital reduction has been approved (conditional on Admission) by a special resolution of the shareholder of the Company passed prior to the Reorganisation, and will require the approval of the Court.

Additionally, and for the same purposes, it is proposed that the Company's immediate subsidiary following the Reorganisation, Just Retirement Group Holdings Limited, will undergo a capital reduction. Just Retirement Group Holdings Limited is a private company (registered number 06930326) which was incorporated on 10 June 2009. As it is a private company, the necessary capital reduction will not require the approval of the Court, but will require certain resolutions and statements of solvency to be given by its directors. It is expected that this capital reduction will be effected following the capital reduction of the Company becoming effective.

Following Admission, preference shares referred to in paragraph 1.5.1 of this Part 17 will continue to be held by the holders thereof, but will carry no rights to vote. The Company intends to repurchase these shares as soon as reasonably practicable after the reduction of capital described above for an amount equal to the amount paid up on such shares.

#### **4. Articles of Association**

The Articles of Association of the Company (the “Articles”) include provisions to the following effect:

##### **4.1 Share rights**

Subject to the provisions of the Act, and without prejudice to any rights attached to any existing shares or class of shares: (i) any share may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, subject to and in default of such determination, as the Board shall determine; and (ii) shares may be issued which are to be redeemed or are liable to be redeemed at the option of the Company or the holder and the Board may determine the terms, conditions and manner of redemption of such shares provided that it does so prior to the allotment of those shares.

##### **4.2 Voting rights**

Subject to any rights or restrictions attached to any shares, on a show of hands every member who is present in person or by proxy shall have one vote and on a poll every member present in person or by proxy shall have one vote for every share of which he is the holder.

No member shall be entitled to vote at any general meeting, or at any separate meeting of the holders of any class of shares in the capital of the Company, in respect of a share unless all moneys presently payable by him in respect of that share have been paid.

If at any time the Board is satisfied that any member, or any other person appearing to be interested in shares held by such member, has been duly served with a notice under section 793 of the Act and is in default for the prescribed period in supplying to the Company the information thereby required, or, in purported compliance with such a notice, has made a statement which is false or inadequate in a material particular, then the Board may, in its absolute discretion at any time thereafter by notice to such member direct that, in respect of the shares in relation to which the default occurred, the member shall not be entitled to attend or vote either personally or by proxy at a general meeting or at a separate meeting of the holders of that class of shares or on a poll.

##### **4.3 Dividends and other distributions**

Subject to the provisions of the Act, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but no dividend (other than a Preference Dividend, as defined in the Articles) shall exceed the amount recommended by the Board. Except as otherwise provided by the rights and restrictions attached to shares, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid, but no amount paid on a share in advance of the date on which a call is payable shall be treated for these purposes as paid on the share.

Subject to the provisions of the Act, the Board may pay interim dividends if it appears to the Board that they are justified by the profits of the Company available for distribution.

If the share capital is divided into different classes, the Board may also pay, at intervals determined by it, any dividend payable at a fixed rate if it appears to the Board that the profits available for distribution justify the payment. If the Board acts in good faith it shall not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on any shares having deferred or non preferred rights.

No dividend or other moneys payable in respect of a share shall bear interest against the Company unless otherwise provided by the rights attached to the share.

Except as otherwise provided by the rights and restrictions attached to any class of shares, all dividends will be declared and paid according to the amounts paid up on the shares on which the dividend is paid.

The Board may, if authorised by an ordinary resolution of the Company, offer any holder of shares the right to elect to receive shares, credited as fully paid, by way of scrip dividend instead of cash in respect of the whole (or some part, to be determined by the Board) of all or any dividend.

Any dividend which has remained unclaimed for 12 years from the date when it became due for payment shall, if the Board so resolves, be forfeited and cease to remain owing by the Company.

Except as provided by the rights and restrictions attached to any class of shares, the holders of the Company's shares will under general law be entitled to participate in any surplus assets in a winding up in proportion to their shareholdings. A liquidator may, with the sanction of a special resolution and any other sanction required by the Insolvency Act 1986, divide among the members in specie the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members.

#### **4.4    *Variation of rights***

Rights attached to any class of shares may (unless otherwise provided by the terms of allotment of the shares of that class) be varied or abrogated with the written consent of the holders of three quarters in nominal value of the issued shares of the class (excluding any shares of that class held as treasury shares), or the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class.

#### **4.5    *Lien and forfeiture***

The Company shall have a first and paramount lien on every share (not being a fully paid share) for all moneys payable to the Company (whether presently or not) in respect of that share. The Company may sell, in such manner as the Board determines, any share on which the Company has a lien if a sum in respect of which the lien exists is presently payable and is not paid within 14 clear days after notice has been sent to the holder of the share demanding payment and stating that if the notice is not complied with the share may be sold.

The Board may from time to time make calls on the members in respect of any moneys unpaid on their shares. Each member shall (subject to receiving at least 14 clear days' notice) pay to the Company the amount called on his shares. If a call or any instalment of a call remains unpaid in whole or in part after it has become due and payable, the board may give the person from whom it is due not less than 14 clear days' notice requiring payment of the amount unpaid together with any interest which may have accrued and any costs, charges and expenses incurred by the Company by reason of such non payment. The notice shall name the place where payment is to be made and shall state that if the notice is not complied with the shares in respect of which the call was made will be liable to be forfeited.

#### **4.6    *Transfer of shares***

A member may transfer all or any of his certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve. An instrument of transfer shall be signed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee. An instrument of transfer need not be under seal.

The Board may, in its absolute discretion, refuse to register the transfer of a certificated share which is not a fully paid share, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Board may also refuse to register the transfer of a certificated share unless the instrument of transfer:

- 4.6.1 is lodged, duly stamped (if stampable), at the office or at another place appointed by the Board accompanied by the certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer;
- 4.6.2 is in respect of one class of share only; and
- 4.6.3 is in favour of not more than four transferees.

If the Board refuses to register a transfer of a share in certificated form, it shall send the transferee notice of its refusal within two months after the date on which the instrument of transfer was lodged with the Company.

No fee shall be charged for the registration of any instrument of transfer or other document relating to or affecting the title to a share.

Subject to the provisions of the Regulations, the Board may permit the holding of shares in any class of shares in uncertificated form and the transfer of title to shares in that class by means of a relevant system and may determine that any class of shares shall cease to be a participating security.

#### **4.7    *Alteration of share capital***

Subject to the Act, the Company may by ordinary resolution increase, consolidate or sub-divide its share capital.

#### **4.8    *Purchase of own shares***

Subject to the Act and without prejudice to any relevant special rights attached to any class of shares, the Company may purchase any of its own shares of any class in any way and at any price (whether at par or above or below par).

#### **4.9    *General meetings***

The Board shall convene and the Company shall hold general meetings as annual general meetings in accordance with the requirements of the Act. The Board may call general meetings whenever and at such times and places as it shall determine.

#### **4.10   *Directors***

##### **4.10.1   *Appointment of Directors***

Unless otherwise determined by ordinary resolution, the number of Directors shall be not less than two but shall not be subject to any maximum in number. Directors may be appointed by ordinary resolution of Shareholders or by the Board.

##### **4.10.2   *No share qualification***

A Director shall not be required to hold any shares in the capital of the Company by way of qualification.

##### **4.10.3   *Annual retirement of Directors***

At every annual general meeting held after the first annual general meeting after the date of adoption of the Articles, all Directors at the date of notice of annual general meeting shall retire from office.

##### **4.10.4   *Remuneration of Directors***

The emoluments of any Director holding executive office for his services as such shall be determined by the Board, and may be of any description.

The ordinary remuneration of the Directors who do not hold executive office for their services (excluding amounts payable under any other provision of the Articles) shall not exceed in aggregate £1 million per annum or such higher amount as the Company may from time to time by ordinary resolution determine. Subject thereto, each such Director shall be paid a fee for that service (which shall be deemed to accrue from day to day) at such rate as may from time to time be determined by the Board.

In addition to any remuneration to which the Directors are entitled under the Articles, they may be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of the Board or committees of the Board, general meetings or separate meetings of the holders of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties.

The Board may provide benefits, whether by the payment of gratuities or pensions or by insurance or otherwise, for any past or present Director or employee of the Company or any of its subsidiary undertakings or any body corporate associated with, or any business acquired by, any of them, and for any member of his family or any person who is or was dependent on him.

##### **4.10.5   *Permitted interests of Directors***

Subject to the provisions of the Act, and provided that he has disclosed to the Board the nature and extent of his interest (unless the circumstances referred to in section 177(5) or section 177(6) of the Act apply, in which case no such disclosure is required), a Director notwithstanding his office:

4.10.5.1   may be a party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is otherwise (directly or indirectly) interested;



- 4.10.5.2 may act by himself or for his firm in a professional capacity for the Company (otherwise than as auditor), and he or his firm shall be entitled to remuneration for professional services as if he were not a Director;
- 4.10.5.3 may be a director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any body corporate in which the Company is (directly or indirectly) interested as a shareholder or otherwise or with which he has such relationship at the request or direction of the Company; and
- 4.10.5.4 shall not, by reason of his office, be accountable to the Company for any remuneration or other benefit which he derives from any such office or employment or from any such transaction or arrangement or from any interest in any such body corporate the acceptance, entry into or existence of which has been approved by the Board pursuant to Article 153 of the Articles or which he is permitted to hold or enter into by virtue of paragraph (a), (b) or (c) of Article 154.

#### *4.10.6 Restrictions on voting*

A Director shall not vote on any resolution of the Board concerning a matter in which he has an interest which can reasonably be regarded as likely to give rise to a conflict with the interests of the Company, unless his interest arises only because the resolution concerns one or more of the following matters:

- 4.10.6.1 the giving of a guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person at the request of, or for the benefit of, the Company or any of its subsidiary undertakings;
- 4.10.6.2 the giving of a guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which the Director has assumed responsibility (in whole or part and whether alone or jointly with others) under a guarantee or indemnity or by the giving of security;
- 4.10.6.3 a contract, arrangement, transaction or proposal concerning an offer of shares, debentures or other securities of the Company or any of its subsidiary undertakings for subscription or purchase, in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub underwriting of which he is to participate;
- 4.10.6.4 a contract, arrangement, transaction or proposal concerning any other body corporate in which he or any person connected with him is interested, directly or indirectly, and whether as an officer, shareholder, creditor or otherwise, if he and any persons connected with him do not to his knowledge hold an interest (as that term is used in sections 820 to 825 of the Act) representing 1 per cent. or more of either any class of the equity share capital (excluding any shares of that class held as treasury shares) of such body corporate (or any other body corporate through which his interest is derived) or of the voting rights available to members of the relevant body corporate (any such interest being deemed for the purpose of this Article to be likely to give rise to a conflict with the interests of the Company in all circumstances);
- 4.10.6.5 a contract, arrangement, transaction or proposal for the benefit of employees of the Company or of any of its subsidiary undertakings which does not award him any privilege or benefit not generally accorded to the employees to whom the arrangement relates; and
- 4.10.6.6 a contract, arrangement, transaction or proposal concerning any insurance which the Company is empowered to purchase or maintain for, or for the benefit of, any Directors or for persons who include Directors.

#### *4.10.7 Indemnity of officers*

Subject to the provisions of the Act, but without prejudice to any indemnity to which the person concerned may otherwise be entitled, every Director or other officer of the Company (other than any person (whether an officer or not) engaged by the Company as auditor) shall be indemnified out of the assets of the Company against any liability incurred by him for negligence, default, breach of duty or breach of trust in relation to the affairs of the Company, provided that this Article shall be deemed not to provide for, or entitle any such person to, indemnification to the extent that it would cause this Article, or any element of it, to be treated as void under the Act.

## 5. Interests in Shares

- 5.1 The following table sets out the interests in the share capital of the Company of the Directors and Senior Management (including beneficial interests or interests of a person connected with a Director or a member of Senior Management) following the Reorganisation and immediately prior to Admission, on the one hand, and immediately following Admission, on the other hand, assuming no exercise of the Over-allotment Option are as follows:

Director / Member of Senior Management	Following the Reorganisation and immediately prior to Admission		Immediately following Admission <sup>(1)</sup>	
	Number of Shares	Percentage of issued ordinary share capital	Number of Shares	Percentage of issued ordinary share capital
Kate Avery <sup>(2)</sup>	0	0.0	44,444	0.0
Christopher Berryman	3,871,739	1.1	2,129,457	0.4
Tom Cross Brown	655,054	0.2	655,054	0.1
Rodney Cook	3,157,374	0.9	2,657,374	0.5
David Cooper	1,743,929	0.5	924,283	0.2
Shayne Deighton	1,615,564	0.4	1,130,895	0.2
Alex Duncan	249,293	0.1	124,647	0.0
James Fraser	0	0.0	0	0.0
Steve Kyle	2,808,940	0.8	1,685,364	0.3
Keith Nicholson <sup>(2)</sup>	0	0.0	13,333	0.0
Les Owen	361,015	0.1	263,541	0.1
Anne Ridge	277,596	0.1	166,558	0.0
Simon Thomas	1,535,880	0.4	1,029,040	0.2

Notes:

- (1) The interests of the Executive Directors and members of Senior Management do not include rights to acquire Shares that are to be awarded to such persons under the LTIP on the date of Admission, as described in paragraph 8.1.2 of this Part 17. The Shares under these awards will be equal to a value, at the Offer Price, of 200% of salary for Rodney Cook, 150% of salary for Simon Thomas and Shayne Deighton and 125% of salary for the members of Senior Management. Non-Executive Directors are not eligible to participate in the LTIP.
- (2) The interests of Keith Nicholson and Kate Avery immediately following Admission represent Shares purchased by them from Avallux.

The Executive Directors and members of Senior Management have been offered the opportunity to participate in the offer of Free Share awards granted under the SIP (described in paragraph 8.4.3 below) as soon as practicable after Admission. The value of their Free Share awards (calculated by reference to the closing middle market quotation for Shares on the relevant date) will be determined as set out in paragraph 8.4.3 and will be £3,000 for each of them except Alex Duncan, for whom it will be £1,000. The Non-Executive Directors have each confirmed that, for corporate governance reasons, they do not wish to participate in the offer of Free Share awards.

The disposal of any Shares by any Director will be subject to the Company's code on directors' dealings in securities.

- 5.2 In so far as is known to the Directors, the following are the interests (within the meaning of Part VI of the Act) (other than interests held by the Directors) which will represent, directly or indirectly, 3 per cent. or more of the issued share capital of the Company following the Reorganisation and immediately prior to Admission, on the one hand, or immediately following Admission, on the other hand, assuming no exercise of the Over-allotment Option:

Name	Following the Reorganisation and immediately prior to Admission		Immediately following Admission	
	Number of Shares	Percentage of issued ordinary share capital	Number of Shares	Percentage of issued ordinary share capital
Avallux <sup>(1)</sup>	322,206,563	87.9	311,873,991	62.4
Michael Fuller	15,047,402	4.1	14,372,402	2.9

- (1) The interest of Avallux immediately following Admission reflects its sale of Shares to Keith Nicholson, Kate Avery and employees of the Group, which do not form part of the Offer.

Save as disclosed above, in so far as is known to the Directors, following the Reorganisation and immediately prior to Admission, on the one hand, or immediately following Admission, on the other hand, there is no other person who will be, directly or indirectly, interested in 3 per cent. or more of the issued share capital of the Company, or of any other person who will or could, directly or indirectly, jointly or severally, exercise control over the Company. The Directors have no knowledge of any arrangements the operation of which may at a subsequent date result in a change of control of the Company. None of the Company's major shareholders have or will have different voting rights attached to the Shares they hold in the Company.

### 5.3 Selling Shareholders

The following table sets out the interests of each of the Selling Shareholders following the Reorganisation and immediately prior to Admission, and immediately following Admission, and the number of Shares such Selling Shareholder is selling in the Offer. The business address of each such Selling Shareholder, save as noted in the following table, is Just Retirement Group plc, Vale House, Roebuck Close, Bancroft Road, Reigate, Surrey RH2 7RU.

Selling Shareholder	Shares owned following the Reorganisation and immediately prior to Admission <sup>(1)</sup>		Shares to be sold in the Offer <sup>(2)</sup>		Shares owned immediately following Admission <sup>(7)(8)</sup>	
	No.	Per cent.	No.	Per cent.	No.	Per cent.
Avallux <sup>(2)(3)(8)</sup> . . . . .	322,206,563	87.9	10,265,905	2.1	311,873,991	62.4
Christopher Berryman <sup>(4)</sup> . . . . .	3,871,739	1.1	1,742,282	0.3	2,129,457	0.4
Rodney Cook <sup>(4)</sup> . . . . .	3,157,374	0.9	500,000	0.1	2,657,374	0.5
David Cooper <sup>(4)</sup> . . . . .	1,743,929	0.5	819,646	0.2	924,283	0.2
Shayne Deighton <sup>(4)</sup> . . . . .	1,615,564	0.4	484,669	0.1	1,130,895	0.2
Michael Fuller . . . . .	15,047,402	4.1	675,000	0.1	14,372,402	2.9
Steve Kyle <sup>(4)</sup> . . . . .	2,258,138	0.6	572,774	0.1	1,685,364	0.3
Simon Thomas <sup>(4)</sup> . . . . .	1,535,880	0.4	506,840	0.1	1,029,040	0.2
Ogier Employee Benefit Trustee Limited <sup>(5)</sup> . . . . .	4,001,194	1.1	3,536,613	0.7	464,581	0.1
Ogier Nominee Holdings Limited <sup>(6)</sup> . . . . .	883,344	0.2	97,474	0.0	785,870	0.2
<b>Total</b> . . . . .			<b>19,201,203</b>	<b>3.8</b>		

Notes:

- (1) The interests in Shares as at the date of this document have been stated on the basis that the Reorganisation described in Part 15 "Reorganisation of the Group" is completed in full at Admission.
- (2) Assuming no exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, Avallux will have sold a further 22,880,243 Shares, representing 4.6 per cent. of the Company's issued share capital.
- (3) Avallux's business address is 282 Route de Longwy L-1940, Luxembourg.
- (4) The interests of individual Selling Shareholders represent Shares held directly by such shareholders.
- (5) The interests of Ogier Employee Benefit Trustee Limited represent Shares that the Just Retirement Employee Benefit Trust holds on its own account and on behalf of certain Director and Senior Management Selling Shareholders.
- (6) The interests of Ogier Nominee Holdings Limited represent Shares it holds on behalf of certain Director and Senior Management Selling Shareholders.
- (7) The interests of individual Selling Shareholders do not include rights to acquire Shares that are to be awarded to the Executive Directors and members of Senior Management under the LTIP on the date of Admission, as described in paragraph 8.1.2 of this Part 17.
- (8) The interest of Avallux immediately following Admission reflects its sale of Shares to Keith Nicholson, Kate Avery and employees of the Group, which do not form part of the Offer.

## 6. Directors' Terms of Employment

- 6.1 The Directors and their functions are set out in Part 8 "Directors, Senior Management and Corporate Governance". Each of the Executive Directors has entered into a new service agreement with Just Retirement Management Services Limited: Shayne Deighton and Simon Thomas on 25 October 2013 and Rodney Cook on 28 October 2013, and in each case the new agreement will take effect from Admission. Each of the Non-Executive Directors has entered into letters of engagement with the Company: Keith Nicholson on 23 August 2013; Kate Avery on 19 August 2013; and Tom Cross Brown, James Fraser and Les Owen on 14 October 2013.

## **6.2 Executive Directors**

- 6.2.1 The salaries of the Executive Directors, effective from 1 July 2013, are £560,000 per annum for Rodney Cook, £330,000 per annum for Simon Thomas and £330,000 per annum for Shayne Deighton. From Admission, Rodney Cook, Simon Thomas and Shayne Deighton will also be eligible to participate in the Group's short term incentive plan, deferred share bonus scheme, long-term incentive plan, SIP and SAYE (see paragraphs 5.1, 6.8 and 8.1 to 8.4 of this Part 17).
- 6.2.2 Each Executive Director receives an annual Benefits Allowance in lieu of pension, car, private medical insurance and other benefits equal to £104,000 for Rodney Cook and £69,500 each for Simon Thomas and Shayne Deighton. Each Executive Director also receives life assurance and permanent health insurance.
- 6.2.3 Each Executive Director's service agreement is terminable on six months' notice given by either party. Just Retirement Management Services Limited, acting on the authority of the Board (and not otherwise), is entitled to terminate the Executive Director's employment by payment of a cash sum in lieu of notice, equal to (i) his basic salary that would have been payable, (ii) his Benefits Allowance and (iii) the cost that would have been incurred by the Company in providing the Executive Director with life and permanent health insurance, in each case for any unexpired portion of the notice period. Just Retirement Management Services Limited can also choose to continue providing the benefits under item (iii) instead of paying a cash sum representing their cost.
- 6.2.4 Each of the Executive Directors will also be eligible for an annual bonus as described in paragraph 6.8. Any such bonus is discretionary and subject to achievement of a combination of financial and personal performance measures.

If an Executive Director's employment is terminated before the end of a financial year by reason of redundancy, retirement or a takeover of the Company (or, in the case of Rodney Cook, if his employment is terminated before the end of a financial year by the Company for any reason other than summary dismissal), the Remuneration Committee may in its discretion pay the Executive Director a pro rated bonus in respect of the proportion of that financial year for which he has worked.

- 6.2.5 Pursuant to sections 79 to 82 of the Enterprise and Regulatory Reform Act 2013, the Executive Directors' remuneration will be subject to shareholder approval. In the event that such approval is not obtained when required, the service agreements provide that the Executive Directors will have no entitlement to compensation or damages in respect of loss suffered as a consequence.
- 6.2.6 Each Executive Director will be entitled to 30 working days' paid holiday per annum in addition to bank and public holidays.
- 6.2.7 Each of the Executive Directors is subject to a confidentiality undertaking without limitation in time and to non-competition, non-solicitation, non-dealing and non-hiring restrictive covenants for a period of 6 months after the termination of his employment (save that Rodney Cook's non-competition covenant will, unless he is summarily dismissed, be limited to any period of notice for which he is paid in lieu).
- 6.2.8 Each Executive Director will have the benefit of a qualifying third-party indemnity from the Company (the terms of which are in accordance with the Act) and appropriate directors' and officers' liability insurance.

## **6.3 Non-Executive Directors**

- 6.3.1 Tom Cross Brown is entitled to receive an annual fee of £180,000 as Chairman. His appointment as chairman of the board of directors of Just Retirement (Holdings) Limited commenced on 25 October 2006. His appointment as Chairman of the Board of Directors of the Company was effective on 1 August 2013 and is terminable by either party giving to the other six months' written notice. It may also be terminated at any time if he is removed as a director by resolution at a general meeting or pursuant to the Articles, provided that in such circumstances the Company will (except where the removal is by reason of his misconduct) pay the Chairman an amount in lieu of his fees for the unexpired portion of his notice period.
- 6.3.2 The appointments to the Board of Directors of the Company of James Fraser and Les Owen were effective on 1 August 2013 and the appointments of Keith Nicholson and Kate Avery were effective on 9 October 2013. James Fraser and Les Owen have been members of the board of directors of Just Retirement (Holdings) Limited since 16 December 2009 and 26 May 2010, respectively. James Fraser was nominated by Avallux for appointment to the Board pursuant to the terms of the

Relationship Agreement. The appointments of all Non-Executive Directors and the Chairman are subject to re-election when appropriate by the Company in general meeting.

- 6.3.3 From Admission, each Non-Executive Director other than James Fraser is entitled to receive an annual fee of £60,000. In addition to this annual fee of £60,000, Keith Nicholson is entitled to an additional fee of £10,000 as Senior Independent Director. Each of Les Owen, Kate Avery and Keith Nicholson is entitled to an additional fee of £10,000 for their roles as Chairmen of the Audit, Remuneration and Risk and Compliance committees, respectively.
- 6.3.4 The appointment of each Non-Executive Director may be terminated at any time with immediate effect if he/she is removed as a director by resolution at a general meeting or pursuant to the Articles. The Non-Executive Directors (other than the Chairman) are not entitled to receive any compensation on termination of their appointment.
- 6.3.5 The Chairman and the Non-Executive Directors are entitled to reimbursement of reasonable expenses.
- 6.3.6 Keith Nicholson and Kate Avery have each indicated their intention to acquire Shares from their own funds in an amount equal to their annual fee within the period of two years from Admission.
- 6.3.7 The Non-Executive Directors will not participate in the Company's share, bonus or pension schemes.
- 6.3.8 The Company has appropriate directors' and officers' indemnity insurance in place in respect of the Chairman and the Non-Executive Directors.
- 6.3.9 Each of the Chairman and the Non-Executive Directors will have the benefit of a qualifying third-party indemnity (the terms of which are in accordance with the Act).
- 6.3.10 The Chairman and each of the Non-Executive Directors is subject to a confidentiality undertaking without limitation in time and to non-competition, non-solicitation, non-dealing and non-hiring restrictive covenants for a period of 6 months after the termination of the appointment.
- 6.3.11 Pursuant to sections 79 to 82 of the Enterprise and Regulatory Reform Act 2013, the Non-Executive Directors' remuneration will be subject to shareholder approval. In the event that such approval is not obtained when required, the letters of appointment provide that the Non-Executive Directors will have no entitlement to compensation or damages in respect of loss suffered as a consequence.
- 6.4 Save as set out in paragraphs 6.2 and 6.3 above, there are no existing or proposed service agreements or letters of appointment between the Directors and any member of the Group.

## 6.5 *Directors' and Senior Management's Remuneration*

- 6.5.1 Under the terms of their service agreements, letters of appointment and applicable incentive plans, in the year ended 30 June 2013, the aggregate remuneration and benefits to the directors of Just Retirement Group Holdings Limited (formerly Avalon Acquisitions Limited) and the six members of Senior Management who served during the year ended 30 June 2013 was £3,638,627.

Under the terms of their service agreements, letters of appointment and applicable incentive plans, in the year ended 30 June 2013, the Directors of Just Retirement (Holdings) Limited were remunerated as set out below:

Name	Position	Annual salary (£)	Pension (£)	Other benefits (£)	Date of joining the Group
Tom Cross Brown . . . . .	Chairman	95,000	—	—	25 Oct 06
Rodney Cook . . . . .	Chief Executive Officer	435,000	30,425*	257,940	5 July 10
Simon Thomas . . . . .	Group Finance Director	250,000	22,500	148,590	24 July 06
Shayne Deighton . . . . .	Group Chief Actuary	295,000	26,550	174,393	20 Oct 08
James Fraser . . . . .	Non-Executive Director	—	—	—	16 Dec 09
Charles Sherwood . . . . .	Non-Executive Director	—	—	—	16 Dec 09
Les Owen . . . . .	Non-Executive Director	60,000	—	—	26 May 10
Clifton Melvin . . . . .	Senior Independent Director	60,000	—	—	13 Aug 04
Keith Jones . . . . .	Non-Executive Director	60,000	—	—	26 May 10

Note:

- \* In addition to this amount, Rodney Cook received a taxable payment of £8,725 as his total pension contributions for the year would otherwise have exceeded the £50,000 annual allowance for tax relief.



- 6.5.2 There is no arrangement under which any Director has waived or agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.
- 6.5.3 No Director has or has had any interest in any transactions which are or were unusual in their nature or conditions or are or were significant to the business of the Group or any of its subsidiary undertakings and which were effected by the Group or any of its subsidiaries during the current or immediately preceding financial year or during an earlier financial year and which remain in any respect outstanding or unperformed.
- 6.5.4 Save as described in Note 39 to the Consolidated Financial Statements contained in Part 12 “Historical Financial Information”, there are no outstanding loans or guarantees granted or provided by any member of the JRGHL Group to or for the benefit of any of the Directors.

## **6.6 Directors’ and Senior Management’s current and past directorships and partnerships**

- 6.6.1 Set out below are the directorships (unless otherwise stated) and partnerships held by the Directors and members of Senior Management (other than, where applicable, directorships held in the Company and/or in any subsidiaries of the Company), in the five years prior to the date of this document:

<b>Name</b>	<b>Current directorships / partnerships</b>	<b>Past directorships / partnerships</b>
Tom Cross Brown . . .	<ul style="list-style-type: none"> <li>• Phoenix Group Holdings</li> <li>• Artemis Alpha Trust plc</li> <li>• Artemis Investment Management LLP</li> <li>• Financial Planning Standards Board Ltd</li> <li>• Trustee, Lazard London Directors’ Pension Scheme</li> <li>• Heathfield School Limited (UK)</li> <li>• Trustee, Cancer Care &amp; Haematology Fund, Stoke Mandeville Hospital</li> <li>• Islip Consulting Limited (UK)</li> </ul>	<ul style="list-style-type: none"> <li>• Pearl Assurance plc</li> <li>• National Provident Life Ltd</li> <li>• NPI Ltd</li> <li>• London Life Ltd</li> <li>• Axial Investment Management Ltd</li> <li>• Ignis Asset Management Ltd</li> <li>• BlueBay Asset Management plc</li> <li>• Aethra Asset Management BV</li> <li>• P.A.T. Pensions Ltd</li> </ul>
Rodney Cook . . . . .	<ul style="list-style-type: none"> <li>• Orwell Films LLP</li> <li>• Hurn Court Management Company Ltd</li> <li>• Cherwell Films LLP</li> <li>• Kennet Films LLP</li> <li>• Vienna Films LLP</li> <li>• Electra Films LLP</li> <li>• Gemini Films LLP</li> </ul>	<ul style="list-style-type: none"> <li>• Liverpool Victoria Life Company Ltd</li> <li>• Liverpool Victoria Portfolio Managers Ltd</li> <li>• Liverpool Victoria Asset Management Ltd</li> <li>• LV Equity Release Ltd</li> <li>• LV Life Services Ltd</li> <li>• NM Pensions Trustees Ltd</li> <li>• Liverpool Victoria Financial Advice Services Ltd</li> <li>• The Association of Friendly Societies</li> </ul>
Simon Thomas . . . . .	—	—
Shayne Deighton . . .	—	—
James Fraser . . . . .	<ul style="list-style-type: none"> <li>• Permira Advisers LLP</li> </ul>	<ul style="list-style-type: none"> <li>• L.E.K. International Limited</li> </ul>
Keith Nicholson . . . .	<ul style="list-style-type: none"> <li>• Wesleyan Assurance Society</li> <li>• The Equitable Life Assurance Society</li> <li>• Liberty Syndicate Management Limited</li> <li>• Liberty Corporate Capital Limited</li> <li>• Liberty Syndicate Services Limited</li> </ul>	<ul style="list-style-type: none"> <li>• KPMG LLP</li> <li>• Auditing Practices Board</li> </ul>
Les Owen . . . . .	<ul style="list-style-type: none"> <li>• Dolebury Capital Ltd</li> <li>• Dolebury Management Ltd</li> <li>• CPP Group plc</li> <li>• Jelf Group plc</li> <li>• 74 Redcliffe Square Management Ltd</li> <li>• Royal Mail Group Ltd</li> <li>• Computershare Ltd</li> <li>• Discovery Holdings Ltd</li> <li>• Solvexia Pty Ltd</li> <li>• Royal Mail plc</li> </ul>	<ul style="list-style-type: none"> <li>• Postal Services Holding Company plc</li> <li>• Post Office Ltd</li> <li>• Coverzones Ltd</li> </ul>
Kate Avery . . . . .	<ul style="list-style-type: none"> <li>• Openwork Holdings Ltd</li> <li>• Newcastle Building Society</li> </ul>	<ul style="list-style-type: none"> <li>• Legal &amp; General Plc</li> <li>• Rathbone Brothers Plc</li> </ul>



<u>Name</u>	<u>Current directorships / partnerships</u>	<u>Past directorships / partnerships</u>
Chris Berryman . . . .	—	—
David Cooper . . . . .	• Origo Services Limited	—
Steve Kyle . . . . .	• The Equity Release Council	—
Alex Duncan . . . . .	—	• BizzEnergy Limited • Old Mutual Reassurance (Ireland) Ltd. • Skandia UK Limited
Anne Ridge . . . . .	—	• HR Future Ltd.

6.6.2 Within the period of five years preceding the date of this document, none of the Directors:

- (i) has had any convictions in relation to fraudulent offences;
- (ii) has been a member of the administrative, management or supervisory bodies or director or senior manager (who is relevant in establishing that a company has the appropriate expertise and experience for management of that company) of any company at the time of any bankruptcy, receivership or liquidation of such company; or
- (iii) has received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of affairs of a company,

save that Les Owen was a director of Coverzones Ltd when an administrator was appointed on 10 May 2010.

## 6.7 *Forward Looking Remuneration*

6.7.1 The objective of the Company's remuneration policy is to ensure that Just Retirement has an effective remuneration policy in place that falls in line with the overall business strategy and risk tolerance, and considers the long-term interests of Just Retirement with a view to adequately attracting and rewarding skilled individuals. The policy, as far as possible, follows the guidance from the PRA and FCA on best practice.

The policy sets out, at high level, how Just Retirement manages its remuneration framework and is intended to ensure consistency and common practice across the Group.

Desired outcomes are as follows:

- (a) To operate remuneration practices across the Group in order to attract, motivate, reward and retain appropriately qualified and experienced individuals
- (b) To encourage a high performing culture
- (c) To ensure personal and company objectives are aligned
- (d) To ensure remuneration and incentives support good risk management practice
- (e) To ensure employment legislation is followed
- (f) To align employees with the interests of shareholders, customers and other external stakeholders

6.7.2 Consistent with this remuneration strategy, the Remuneration Committee has agreed a remuneration policy for senior management, including Executive Directors, whereby:

- (a) both salaries and total pay potential will be set at competitive levels compared to insurance peers and other companies of equivalent size and complexity;
- (b) performance-related pay, based on stretching targets, will form a significant part of remuneration packages; and
- (c) there will be an appropriate balance between short and longer-term performance targets linked to delivery of the Group's business plan.

6.7.3 The Company intends to deliver this policy for senior management, including Executive Directors, via a remuneration framework which combines base salary, benefits, a Short Term Incentive Plan and employee share plans.

- 6.7.4 As a result of new UK company law, it is expected that, following Admission, the Company will be required to submit its remuneration policy (as it relates to the Directors) to a binding vote of Shareholders at the Company's 2014 annual general meeting. Accordingly, the Company will outline its future policy relating to the Directors' remuneration, including participation in the Short Term Incentive Plan and employee share plans, in its report and accounts for its financial year ending 30 June 2014.

## **6.8 Short Term Incentive Plan**

Annual bonuses for the financial year ending 30 June 2014 will be determined by a combination of financial and non-financial performance measures appropriate to an individual's role and business area. The on-target bonus opportunity for Executive Directors for the financial year ending 30 June 2014 will be 75 per cent. of salary with a maximum opportunity of 150 per cent. of salary. One-third (or such other proportion as has been determined by the Remuneration Committee) of any annual bonus earned by the Executive Directors and other nominated senior management will be deferred into awards over Shares under a Deferred Share Bonus Plan, with such awards vesting after a three-year period. The Remuneration Committee has the discretion to adjust the deferral percentage if required to comply with future regulatory requirements relevant to the insurance industry, including the remuneration-related terms of Solvency II, when these are introduced.

## **7. Pensions**

The Group operates a DC group personal pension scheme for employees (including Executive Directors) who are employed in the United Kingdom, to which the employer makes additional contributions.

The Group does not operate a DB pension scheme for the benefit of the Company's Directors or members of Senior Management.

For the year ended 30 June 2013, the Group made pension contributions on behalf of the directors of Just Retirement Group Holdings Limited and the six members of Senior Management who served during that financial year in an amount of £176,752.

## **8. Employee Share Plans**

Following Admission, the Company intends to operate the following employee share plans: a Long-Term Incentive Plan ("LTIP"), a Deferred Share Bonus Plan ("DSBP") and, subject to HMRC approval, a Save As You Earn Share Option Plan ("SAYE") and Share Incentive Plan ("SIP"), all of which were adopted by the Board on 14 October 2013, subject to Admission.

The principal features of these employee share plans, and details of initial awards, are summarised below.

### **8.1 LTIP**

- 8.1.1 At the discretion of the Remuneration Committee, any employee (including an Executive Director) of the Company or any of its subsidiaries will be eligible to participate in the LTIP. The Remuneration Committee intends to make awards under the LTIP ("LTIP Awards") to Executive Directors and other senior managers as soon as practicable after Admission.

LTIP Awards may be made in the form of:

- (a) a conditional right to acquire Shares at no cost to the participant ("Conditional Award");
- (b) an option to acquire Shares at no cost to the participant ("Nil-Cost Option"); or
- (c) a right to receive a cash amount which relates to the value of a certain number of notional Shares ("Cash Award"),

and in this paragraph 8.1, Conditional Awards, Nil-Cost Options and Cash Awards are together referred to as "LTIP Awards" and each an "LTIP Award", as appropriate.

References in this paragraph 8.1 to Shares include notional Shares to which a Cash Award relates, where appropriate.

- 8.1.2 LTIP Awards will not be granted to a participant in respect of any financial year of the Company over Shares with a value in excess of 250 per cent. of salary. The value of Shares under the initial LTIP Awards to be granted on the date of Admission to Rodney Cook, Simon Thomas, Shayne

Deighton, members of Senior Management and other senior managers will be determined by reference to the Offer Price. The value of Shares under any subsequent LTIP Awards will be determined by reference to the average of the middle-market quotation for Shares over such period, not exceeding five days, as the Remuneration Committee may determine.

The aggregate value (at the Offer Price) of the Shares underlying the initial LTIP Awards to be granted on the date of Admission will be £6,765,138, of which £6,505,138 will be in respect of LTIP Awards subject to performance conditions and £260,000 will be in respect of Restricted Share Units (which are not subject to performance conditions, as described in paragraph 8.1.3 below). None of these initial Restricted Share Units will be granted to those members of Senior Management whose interests are listed at paragraph 5.1 above.

- 8.1.3 LTIP Awards will normally be subject to the satisfaction of performance conditions which will determine the proportion (if any) of the LTIP Award which will vest. Performance conditions will normally be tested over a period of at least three financial years.

In addition, the LTIP allows for the Remuneration Committee to grant LTIP Awards which are not subject to any performance conditions (“Restricted Share Units”) in such circumstances as the Remuneration Committee considers appropriate (including, without limitation, the recruitment or retention of an individual) provided that no Restricted Share Unit may be awarded to an Executive Director.

The initial LTIP Awards (other than the Restricted Share Units) to be granted on the date of Admission will be subject to performance conditions measuring the Company’s IFRS operating profit growth and total shareholder return (“TSR”) performance as described below. Subsequent LTIP Awards may be subject to the same performance conditions as the initial LTIP Awards or to such other objective performance conditions as the Remuneration Committee may determine at the date of grant.

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

The remaining 50 per cent. of the initial LTIP Awards (other than the Restricted Share Units) will be subject to a condition measuring the Company’s TSR performance relative to the constituent companies of the FTSE 250 index (excluding investment trusts, mining companies and oil and gas producers) over the performance period from Admission to 30 June 2016, where the initial TSR shall be determined by reference to the Offer Price. Vesting of 25 per cent. of these LTIP Awards will occur for median performance and the maximum 100 per cent. will vest for upper quintile performance or above, with straight line vesting in between these points. None of these awards will vest if TSR is below the median.

Any performance condition may be amended or substituted if one or more events occur which cause the Remuneration Committee to consider that an amended or substituted performance condition would be more appropriate. Any amended or substituted performance condition would not be materially less difficult to satisfy.

- 8.1.4 The Remuneration Committee may, in its absolute discretion in circumstances in which it considers such action is appropriate, determine at any time prior to the vesting of an LTIP Award to reduce the number of Shares (including to zero) to which such LTIP Award relates; cancel an LTIP Award; impose further conditions on an LTIP Award; or require the Participant to make a cash payment to the Company in respect of an LTIP Award.

Such circumstances include, but are not limited to:

- (a) a material misstatement of the Company’s audited financial results;

- (b) a material failure of risk management by the Company, any Group member or a relevant business unit;
  - (c) a material miscalculation of any relevant performance measure; or
  - (d) the Participant's material misconduct.
- 8.1.5 LTIP Awards will normally vest on the third anniversary of the date of grant and then only to the extent that any performance conditions have been satisfied. Nil-Cost Options will then be exercisable until the tenth anniversary of the grant date.
- 8.1.6 At any time before or after the point at which an LTIP Award (which is not a Cash Award) has vested, or a Nil-Cost Option has been exercised, but the underlying Shares have yet to be issued or transferred to the participant, the Remuneration Committee may decide to pay a participant a cash amount equal to the value of the Shares he would otherwise have received.

***Other terms of the LTIP***

- 8.1.7 LTIP Awards may only be granted within the 42 day period following Admission, the announcement of the Company's results for any period, or on any day on which the Remuneration Committee determines that exceptional circumstances exist, unless the grant of LTIP Awards is restricted, in which case LTIP Awards will be granted within 21 days of the day on which the restriction on such grant is lifted.
- 8.1.8 LTIP Awards are not transferable (other than on death). No payment will be required for the grant of an LTIP Award. LTIP Awards will not form part of pensionable earnings.
- 8.1.9 The Remuneration Committee may determine that a participant shall be paid on vesting a cash amount equal to the aggregate amount of the dividends paid on the number of vested Shares subject to his LTIP Award from the grant date until the date of vesting, or that the participant will receive additional Shares with an aggregate value equal to part or all of such amount.
- 8.1.10 LTIP Awards may be granted over newly issued Shares, Shares held in treasury or Shares purchased in the market.
- 8.1.11 The LTIP is subject to the following overall limits:
- (a) in any 10 year period, the number of Shares which may be issued under the LTIP and under any other discretionary share plan adopted by the Company may not exceed 5 per cent. of the issued ordinary share capital of the Company from time to time; and
  - (b) in any 10 year period, the number of Shares which may be issued under the LTIP and under any other employees' share plan adopted by the Company may not exceed 10 per cent. of the issued ordinary share capital of the Company from time to time.

Shares held in treasury will be treated as newly issued for the purpose of these limits until such time as guidelines published by institutional investor representative bodies recommend otherwise.

Shares which are issued to satisfy the initial awards of Free Shares granted under the SIP (described in paragraph 8.4.3 below), and Shares purchased in the market to satisfy any awards, will not count towards these limits.

- 8.1.12 If a participant ceases to be employed by the Group by reason of death, ill-health, injury, disability, redundancy, retirement with the consent of the Remuneration Committee (acting fairly and reasonably) or the sale of the entity that employs him out of the Group, a participant's unvested LTIP Award will usually continue until the normal vesting date, unless the Remuneration Committee determines that the LTIP Award will vest as soon as reasonably practicable following the date on which the participant ceases to be employed by the Group.

The Remuneration Committee will decide the extent to which an unvested LTIP Award vests in these circumstances, taking account of the extent to which the performance conditions are satisfied at the end of the performance period or, as appropriate, at the date on which the participant ceases to be employed by the Group (except in the case of Restricted Share Units, to which no performance conditions attach). Unless the Remuneration Committee in its discretion determines otherwise, the period of time that has elapsed since the LTIP Award was granted until the date on which the participant ceases to be employed by the Group will also be taken into account.

If a participant ceases employment with the Group in any circumstances other than those referred to above, an LTIP Award will lapse unless there are exceptional circumstances such that the Remuneration Committee in its discretion determines that the LTIP Award should not lapse.

- 8.1.13 In the event of a takeover of the Company, LTIP Awards will vest to the extent that the performance conditions (if any) have been satisfied at the date of the takeover, and, unless the Remuneration Committee determines otherwise, pro-rated to reflect the period of time which has elapsed between the grant date and the date of the relevant event.

Alternatively, the Remuneration Committee may permit or, in the case of an internal reorganisation or if the Board so determines, require LTIP Awards to be exchanged for equivalent awards which relate to shares in a different company.

- 8.1.14 If the Company is wound up, or if other corporate events occur such as a demerger, delisting, special dividend or other event which, in the opinion of the Remuneration Committee may affect the current or future value of Shares, LTIP Awards will vest subject to the satisfaction of the performance conditions (if any) and, unless the Remuneration Committee determines otherwise, pro-rating to reflect the period of time which has elapsed between the grant date and the date of the relevant event.

- 8.1.15 In the event of a variation of the Company's share capital or a demerger, special dividend, rights issue or other event, which may, in the Remuneration Committee's opinion, affect the current or future value of Shares, the number of Shares subject to an LTIP Award and/or any performance conditions attached to the LTIP Award may be adjusted.

- 8.1.16 The Remuneration Committee may amend the LTIP at any time, provided that prior approval of the Company's shareholders in a general meeting will be required for amendments to the advantage of participants relating to eligibility, plan limits, the basis for determining a participant's entitlement to, and the terms of, the Shares or cash comprised in an LTIP Award and any adjustment made in respect of a variation of capital.

However, any minor amendment to benefit administration, to take into account legislative changes, or to obtain or maintain favourable tax treatment, exchange control or regulatory treatment may be made by the Remuneration Committee without shareholder approval.

No amendment may be made to the material disadvantage of participants in the LTIP unless consent is sought from the affected participants and given by a majority of them.

- 8.1.17 The LTIP will usually terminate on the tenth anniversary of its adoption but the rights of existing participants will not be affected by any termination.

- 8.1.18 Participation in the LTIP does not form part of the terms of a participant's contract of employment and participants have no rights in respect of LTIP benefits.

## **8.2 DSBP**

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

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

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

- (a) a conditional right to acquire Shares at no cost to the participant ("Conditional Award");
- (b) an option to acquire Shares at no cost to the participant ("Nil-Cost Option"); or
- (c) a right to receive a cash amount which relates to the value of a certain number of notional Shares ("Cash Award"),

and in this paragraph 8.2, Conditional Awards, Nil-Cost Options and Cash Awards are together referred to as "Bonus Awards" and each "Bonus Award", as appropriate.



References in this paragraph 8.2 to Shares include notional Shares to which a Cash Award relates, where appropriate.

- 8.2.3 The Remuneration Committee may, in its absolute discretion in circumstances in which it considers such action to be appropriate, determine at any time prior to the vesting of a Bonus Award, to reduce the number of Shares (including to zero) to which such Bonus Award relates; cancel a Bonus Award; impose further conditions on a Bonus Award; or require the Participant to make a cash payment to the Company in respect of a Bonus Award.

Such circumstances include, but are not limited to:

- (a) a material misstatement of the Company's audited financial results;
  - (b) a material failure of risk management by the Company, any Group member or a relevant business unit;
  - (c) a material miscalculation of any relevant performance measure; or
  - (d) the Participant's material misconduct.
- 8.2.4 Bonus Awards will normally vest on the third anniversary of the last day of the financial year in respect of which they were granted (or on such other date as the Remuneration Committee determines).
- 8.2.5 At any time before or after the point at which a Bonus Award (which is not a Cash Award) has vested but the underlying Shares have yet to be issued or transferred to the participant, the Remuneration Committee may decide to pay a participant a cash amount equal to the value of the Shares he would otherwise have received.

***Other terms of the DSBP***

- 8.2.6 Bonus Awards may only be granted within the 42 day period following Admission, the announcement of the Company's results for any period, or on any day on which the Remuneration Committee determines that exceptional circumstances exist, unless the grant of Awards is restricted, in which case Awards will be granted within 21 days of the day on which the restriction on such grant is lifted.
- 8.2.7 Bonus Awards are not transferable (other than on death). No payment will be required for the grant of a Bonus Award. Bonus Awards will not form part of pensionable earnings.
- 8.2.8 The Remuneration Committee may determine either that a participant shall be paid on vesting a cash amount equal to the aggregate amount of the dividends paid on the number of vested Shares subject to his Bonus Award from the grant date until the date of vesting, or that the participant will receive additional Shares with an aggregate value equal to part or all of such amount.
- 8.2.9 Bonus Awards may be granted over newly issued Shares, Shares held in treasury or Shares purchased in the market.
- 8.2.10 The DSBP is subject to the following overall limits:
- (a) in any 10 year period, the number of Shares which may be issued under the DSBP and under any other discretionary share plan adopted by the Company may not exceed 5 per cent. of the issued ordinary share capital of the Company from time to time; and
  - (b) in any 10 year period, the number of Shares which may be issued under the DSBP and under any other employees' share plan adopted by the Company may not exceed 10 per cent. of the issued ordinary share capital of the Company from time to time.

Shares held in treasury will be treated as newly issued for the purpose of these limits until such time as guidelines published by institutional investor representative bodies recommend otherwise.

Shares which are issued to satisfy the initial awards of Free Shares granted under the SIP (described in paragraph 8.4.3 below), and Shares purchased in the market to satisfy any awards, will not count towards these limits.

- 8.2.11 If a participant ceases to be employed by the Group by reason of death, ill-health, injury, disability, redundancy, retirement with the consent of the Remuneration Committee (acting fairly and



reasonably) or the sale of the entity that employs him out of the Group, a participant's unvested DSBP Award will usually vest in full upon such cessation.

If a participant ceases employment with the Group in any other circumstances, a Bonus Award will lapse unless there are exceptional circumstances such that the Remuneration Committee in its discretion determines that the Bonus Award should not lapse.

8.2.12 In the event of a takeover of the Company, Bonus Awards will vest in full.

Alternatively, the Remuneration Committee may permit or, in the case of an internal reorganisation or if the Board so determines, require Bonus Awards to be exchanged for equivalent awards which relate to shares in a different company.

8.2.13 If the Company is wound up, or if other corporate events occur such as a demerger, delisting, special dividend or other event which, in the opinion of the Remuneration Committee may affect the current or future value of Shares, Bonus Awards will vest in full.

8.2.14 In the event of a variation of the Company's share capital or a demerger, special dividend, rights issue or other event, which may, in the Remuneration Committee's opinion, affect the current or future value of Shares, the number of Shares subject to a Bonus Award may be adjusted.

8.2.15 The Remuneration Committee may amend the DSBP at any time, provided that prior approval of the Company's shareholders in a general meeting will be required for amendments to the advantage of participants relating to eligibility, plan limits, the basis for determining a participant's entitlement to, and the terms of, the Shares or cash comprised in a Bonus Award and any adjustment made in respect of a variation of capital.

However, any minor amendment to benefit administration, to take into account legislative changes, or to obtain or maintain favourable tax treatment, exchange control or regulatory treatment may be made by the Remuneration Committee without shareholder approval.

No amendment may be made to the material disadvantage of participants in the DSBP unless consent is sought from the affected participants and given by a majority of them.

8.2.16 The DSBP will usually terminate on the tenth anniversary of its adoption but the rights of existing participants will not be affected by any termination.

8.2.17 Participation in the DSBP does not form part of the terms of a participant's contract of employment and participants have no rights in respect of DSBP benefits.

### 8.3 SAYE

The SAYE is an "all-employee" share option plan, which it is intended will be approved, subject to Admission, by HMRC under Schedule 3 to the Income Tax (Earnings and Pensions Act) 2003. The operation of the SAYE will be supervised by the Remuneration Committee.

8.3.1 Under the SAYE, the Remuneration Committee may, subject to HMRC approval of the SAYE, invite all eligible employees to apply for options over a number of Shares ("Options"). As part of the application process, employees must enter into a savings contract under which they agree to save up to £250 per month (or such other limit as may be permitted by the tax legislation governing the SAYE from time to time) for either three or five years (a "Sharesave Contract"). Options must be granted on the same terms to all eligible employees.

8.3.2 The number of Shares over which an Option is granted will be determined by the Remuneration Committee at the grant date to reflect the amount that each employee has agreed to save under his Sharesave Contract. The exercise price for the Options will be set by the Remuneration Committee and will not be less than the higher of (i) (in the case of an Option to subscribe for Shares) the nominal value of a Share on the date of grant, and (ii) 80 per cent. of: (a) the market value of a Share on the dealing day immediately before the invitation to apply for Options is issued, (b) if the Remuneration Committee so determines, the average of the market value of a Share for the three dealing days immediately before the invitation to apply for Options is issued, or (c) the market value of a share at such other date as the Remuneration Committee may agree with HMRC. Invitations may be sent in the 42 day period following: the date of HMRC approval of the plan; the day immediately following the announcement of the Company's results for any period; the day on which any change to the legislation affecting HMRC-approved savings-related share option plans is

proposed or made; or when the Remuneration Committee determines that exceptional circumstances exist, unless the issue of invitations is restricted, in which case invitations may be issued within 42 days of that restriction being lifted. The employee uses the proceeds of his Sharesave Contract including any bonus payable under his Sharesave Contract to pay the exercise price upon exercise of his Option.

- 8.3.3 No Options may be granted more than 10 years after the date when the SAYE was approved by HMRC.
- 8.3.4 All employees of the Company and any designated participating subsidiary of the Company who are UK-resident taxpayers must be offered the opportunity to participate in the SAYE. Other employees may be permitted to participate at the Remuneration Committee's discretion. Employees invited to participate may be required to have completed a minimum qualifying period of service before they can participate (of up to five years).
- 8.3.5 Ordinarily, an Option may be exercised within six months of the maturity of the related Sharesave Contract. Earlier exercise is permitted if an employee ceases to be employed by the Group by reason of injury, disability, redundancy, the transfer of the employee's employing business or company out of the Group, retirement or on death.
- 8.3.6 In addition, an employee can also exercise his Option if he ceases to be employed by the Group more than three years after his Option was granted (except where he has been summarily dismissed) for six months following such cessation (for example, where the employee is saving under a five year Savings Contract and ceases to be employed by the Group more than three years after his related Option was granted).
- 8.3.7 If there is a change of control or a voluntary winding-up of the Company, Options may be exercised within a period of up to six months of the occurrence of that event, or any longer period required in the case of the employee's cessation of participation in certain good leaver circumstances. In the event of an internal reorganisation, Options may be replaced by equivalent options over shares in a new holding company.
- 8.3.8 In the event of a variation of the Company's share capital (whether by way of capitalisation or rights issue or sub-division or consolidation of the Shares or a share capital reduction), the number of Shares subject to an option and the exercise price may be adjusted by the Remuneration Committee.
- 8.3.9 Options granted under the SAYE are not transferable other than to a participant's personal representatives in the event of his death. Options will not form part of pensionable earnings.
- 8.3.10 The SAYE may operate over new issue Shares, Shares held in treasury or Shares purchased in the market.

In any 10-year period, the number of Shares which may be issued in respect of Options granted under the SAYE and under any other employees' share plan adopted by the Company may not exceed 10 per cent. of the issued ordinary share capital of the Company from time to time.

Shares which are issued to satisfy the initial awards of Free Shares granted under the SIP (described in paragraph 8.4.3 below), and shares purchased in the market to satisfy any awards, will not count towards this limit.

Shares held in treasury will be treated as newly issued for the purpose of this limit until such time as guidelines published by institutional investor representative bodies recommend otherwise. Shares purchased in the market to satisfy awards will not count towards this limit.

- 8.3.11 The Remuneration Committee may amend the SAYE at any time, provided that the prior approval of the Company's shareholders in a general meeting will be required for amendments to the advantage of participants relating to eligibility, limits, the basis for determining a participant's entitlement to, and the terms of, the Shares provided under the SAYE and adjustments that may be made in the event of any variation to the share capital of the Company.

However, any minor amendment to benefit the administration of the SAYE, to take into account legislative changes, or to obtain or maintain favourable tax treatment, exchange control or regulatory treatment may be made by the Remuneration Committee without shareholder approval.

Once formal HMRC approval has been obtained, any change to the key features of the SAYE requires the prior approval of HMRC.

- 8.3.12 Participation in the SAYE does not form part of the terms of a participant's contract of employment and participants have no rights in respect of plan benefits.

#### **8.4 SIP**

- 8.4.1 The SIP is an "all-employee" share ownership plan, which it is intended will be approved, subject to Admission, by HMRC under Schedule 2 to the Income Tax (Earnings and Pensions Act) 2003. The operation of the SIP will be supervised by the Remuneration Committee.

All employees (including directors) of the Company and any designated participating subsidiary of the Company who are UK-resident taxpayers and, if the Remuneration Committee so determines, have such qualifying period of continuous service (not exceeding 18 months) as the Remuneration Committee may determine, are entitled to participate in the SIP. Other employees may be permitted to participate at the Remuneration Committee's discretion.

- 8.4.2 The Remuneration Committee may, in its discretion, operate the SIP by offering to eligible employees some or all of the following:

- an award of Shares for free ("Free Shares");
- the opportunity of using their pre-tax salary to buy Shares ("Partner Shares"); and/or
- an award of additional free Shares ("Matching Shares") for each Partner Share bought.

Unless approved by the Company at a general meeting, no SIP awards may be granted more than 10 years after the date on which the SIP is formally approved by HMRC, without approval of the Company's shareholders being obtained.

- 8.4.3 Subject to Admission and to the SIP receiving final approval from HMRC, the Company intends to grant awards of Free Shares as soon as practicable after Admission. These initial Awards will be made to all of the Group's employees who have been employed by the Group for 6 months or more as at 1 November 2013 and who are still so employed on the date of grant. The value of Free Shares awarded to each such employee will be determined by reference to the employee's length of service, with the value of an employee's award increasing incrementally by £500 for each 6 months of service up to a maximum value of £3,000 for employees who have at least three years' service as at 1 November 2013. Awards to eligible part-time employees will be reduced pro-rata to their contractual paid weekly hours. These awards shall be subject to the terms of the SIP applicable to Free Shares as described below. The holding period will be three years from the date of the award and these Free Shares will be forfeited if the employee ceases employment (except for Permitted Reasons) during that holding period. Assuming all the eligible employees accept the offer of Free Shares, the aggregate market value of the Free Shares at the time the Awards are made after Admission is not expected to exceed £1,635,000.

- 8.4.4 The maximum value of Free Shares which an eligible employee may receive in a tax year may not exceed £3,000 (or such other limit as may be permitted by the tax legislation governing the SIP from time to time). The basis of allocation of Free Shares is at the Remuneration Committee's discretion. The Remuneration Committee may determine whether or not Free Shares are awarded and the number or value of Free Shares awarded. Free Shares must be awarded on the basis of an objective formula by reference to the employee's remuneration, length of service or number of hours worked or a fixed number or value of shares. An award of Free Shares can, if the Remuneration Committee so chooses, be subject to the satisfaction of objective performance criteria which measure the objective success of the individual, team, division or business.

- 8.4.5 The SIP operates through a UK-resident trust (the "SIP Trust"). The SIP Trust purchases or subscribes for Shares that are awarded to or purchased by employees under the SIP and holds the Shares subject to the SIP on behalf of participants.

When granting Free Shares or Matching Shares, the Remuneration Committee will specify a holding period (which must be between three and five years from the date of award) during which the employee cannot normally withdraw the Free Shares or Matching Shares from the SIP unless he ceases to be employed by the Group. The Free Shares or Matching Shares are held in trust by the SIP Trust for the specified holding period.

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

- 8.4.6 The Remuneration Committee can, at its discretion, provide that Free Shares will be forfeited if the employee ceases to be employed by the Group within a period of up to three years from the date of the award of such Free Shares, for any reason other than injury, disability, redundancy, the sale of the employee's employing business or company out of the Group, retirement or on death ("Permitted Reasons").

- 8.4.7 The Remuneration Committee may allow eligible employees to use deductions from their pre-tax salary to buy Partner Shares. The maximum amount that an eligible employee can use to acquire Partner Shares is the lower of £1,500 and 10 per cent. of the individual's pre-tax salary in any tax year (or such other limit as may be permitted by the tax legislation governing the SIP from time to time). The minimum amount of any deduction cannot be greater than £10.

The salary allocated to acquire Partner Shares can be accumulated for a period of up to 12 months (the "Accumulation Period") or Partner Shares can be purchased out of deductions from the employee's pre-tax salary when those deductions are made. In either case, Partner Shares must be bought within 30 days of, as appropriate, the end of the Accumulation Period or the deduction from pay.

An employee may stop and start (or, with the agreement of the Company, vary) salary deductions at any time. Once acquired, Partner Shares are not capable of forfeiture and may be withdrawn from the SIP by the employee at any time (subject to the payment of any applicable income tax and national insurance contributions).

- 8.4.8 The Remuneration Committee may award Matching Shares for free to all employees who have purchased Partner Shares. The Remuneration Committee may award up to a maximum of two Matching Shares for every Partner Share purchased (or such other limit as may be permitted by the tax legislation governing the SIP from time to time).

The Remuneration Committee can, at its discretion, provide that if an employee withdraws his Partner Shares from the SIP within a period of up to three years after they were acquired (other than on a corporate event or where the employee ceases to be employed by the Group for a Permitted Reason) the corresponding Matching Shares will be forfeited.

- 8.4.9 The Remuneration Committee may allow or require an employee to reinvest cash dividends that may be paid on Shares held in the SIP in the acquisition of further Shares ("Dividend Shares") and may impose a maximum value on the Dividend Shares that may be so acquired. Dividend Shares must be held for three years, unless the employee ceases to be employed by the Group. Once acquired, Dividend Shares are not capable of forfeiture and may be withdrawn from the SIP by the employee at any time (subject to the payment of any applicable income tax and national insurance contributions). Any dividends not reinvested in Dividend Shares will be distributed to the employee.

- 8.4.10 If there is a change of control of the Company, employees will normally be able to direct the trustee of the SIP Trust as to how to act in relation to their Shares held in the SIP. If the consideration payable for Shares under such transaction is in the form of shares which qualify under Schedule 2 to the Income (Earnings and Pensions) Act 2003, any Shares held by employees under the SIP may be replaced by equivalent shares in the acquiring company and may remain in the SIP. In all other circumstances, Shares (and the consideration payable for them) will be withdrawn from the SIP Trust.

- 8.4.11 In the event of a rights issue, participants will be able to direct the trustee of the SIP Trust as to how to act in respect of their Shares held in the SIP.

- 8.4.12 With the exception of Partner Shares, awards made under the SIP are not transferable other than to a participant's personal representatives in the event of his death. Benefits received under the SIP are not pensionable.

- 8.4.13 The SIP Trust may subscribe for newly issued Shares, acquire Shares from treasury or purchase Shares in the market in order to satisfy awards made under the SIP.

In any 10 year period, the number of Shares which may be issued under the SIP and under any other employees' share plan adopted by the Company may not exceed 10 per cent. of the issued ordinary share capital of the Company from time to time.

Shares which are issued to satisfy the initial awards of Free Shares granted under the SIP described in paragraph 8.4.3 above will not count towards this limit.

Shares held in treasury will be treated as newly issued for the purpose of these limits until such time as guidelines published by institutional investor representative bodies recommend otherwise. Shares purchased in the market to satisfy awards will not count towards these limits.

- 8.4.14 The Remuneration Committee (with the consent of the trustees of the SIP Trust) may amend the SIP at any time, provided that the prior approval of the Company's shareholders in a general meeting will be required for amendments to the advantage of participants relating to eligibility, plan limits, the basis for determining a participant's entitlement to, and the terms of, the Shares provided under the SIP and the rights of participants on a winding-up of the Company.

However, any minor amendment to benefit the administration of the SIP, to take into account legislative changes, or to obtain or maintain favourable tax treatment, exchange control or regulatory treatment may be made by the Remuneration Committee without shareholder approval.

Once formal HMRC approval has been obtained, any change to the key features of the SIP requires the prior approval of HMRC.

- 8.4.15 Participation in the SIP does not form part of the terms of a participant's contract of employment and participants have no rights in respect of SIP benefits.

## **8.5 Employee benefit trusts**

- 8.5.1 The Just Retirement Employee Benefit Trust (the "EBT") was established by Just Retirement (Holdings) Limited in 2004 and is a discretionary employee benefit trust. The class of beneficiaries includes employees and former employees of Just Retirement (Holdings) Limited and of any subsidiaries of Just Retirement (Holdings) Limited. Following the Reorganisation (including the repayment by the managers of their loans, as described in Part 15 "Reorganisation of the Group") the EBT will hold an aggregate of 1,344,422 Shares (the "Allocated Shares") as nominee for individuals. In addition, the EBT will hold a further 2,656,772 Shares (the "Unallocated Shares") and £864,902 in cash (the "Unallocated Cash"). It is expected that the EBT will sell all of the Unallocated Shares in the Offer. A portion of the proceeds of this sale will be used to pay the receivable owed by the EBT to Just Retirement Management Services Limited in exchange for the assignment of loans from Just Retirement Management Services Limited to the EBT (as described in Part 15 "Reorganisation of the Group"). A further amount will be used to settle certain phantom share awards which were granted by Just Retirement (Holdings) Limited to employees of the Group in 2010 and 2013 and which will vest upon Admission. The remainder of the proceeds of sale of the Unallocated Shares and the Unallocated Cash will then be transferred to a new discretionary employee benefit trust (the "New EBT") after Admission.

- 8.5.2 The New EBT may acquire Shares either by market purchase or by subscription and the trustee shall be entitled to hold or distribute Shares in respect of awards granted under the Company's employee share plans (except for the SIP) from time to time. It is intended that the New EBT will be funded by way of loans and other contributions from the Company and may not, at any time without prior shareholder approval, hold more than five per cent. of the issued ordinary share capital of the Company. Any Shares issued to any employee benefit trust following Admission will count for the purposes of the limits set out in paragraphs 8.1.11, 8.2.10, 8.3.10 and 8.4.13.

- 8.5.3 The Company has also established the SIP Trust, which will use funds provided by the Company to subscribe for newly issued Shares and will hold such newly issued Shares for employees who will be granted the initial awards of Free Shares granted under the SIP as described in paragraph 8.4.3.



## **9. Underwriting Arrangements**

### **9.1 Underwriting agreement**

On 12 November 2013 the Company, the Directors, the Selling Shareholders and the Underwriters entered into the Underwriting Agreement. Pursuant to the Underwriting Agreement:

- 9.1.1 the Company has agreed, subject to certain conditions, to allot and issue, at the Offer Price, the New Shares to be issued in connection with the Offer;
- 9.1.2 the Selling Shareholders have agreed, subject to certain conditions, to sell the Existing Shares in the Offer at the Offer Price;
- 9.1.3 the Underwriters have severally agreed, subject to certain conditions, to use reasonable endeavours to procure subscribers for or, failing which, themselves to subscribe for the New Shares (in such proportions as will be set out in the Underwriting Agreement) and to procure purchasers for or, failing which, themselves to purchase the Existing Shares (in such proportions as will be set out in the Underwriting Agreement) pursuant to the Offer at the Offer Price;
- 9.1.4 the Underwriters will deduct (i) from the proceeds of the Offer to the Company a commission of 1.5 per cent. of the product of the Offer Price and the number of New Shares allotted pursuant to the Offer; (ii) from the proceeds of the Offer to Avallux a commission of 1.5 per cent. of the product of the Offer Price and the number of Existing Shares sold in the Offer by Avallux (including following any exercise of the Over-allotment Option) and (iii) from the proceeds of the Offer to each Selling Shareholder (other than Avallux) a commission of 1.0 per cent. of the product of the Offer Price and the number of Existing Shares sold in the Offer by such Selling Shareholder;
- 9.1.5 in addition, the Company and Avallux may, at the Company's absolute discretion (having consulted with Avallux), pay an additional commission of (i) in the case of the Company, up to 1.5 per cent. of the product of the Offer Price and the number of New Shares and (ii) in the case of Avallux, up to 1.5 per cent. of the product of the Offer Price and the number of Existing Shares sold in the Offer by Avallux (including following any exercise of the Over-allotment Option);
- 9.1.6 the obligations of the Underwriters to procure subscribers and/or purchasers for or, failing which, themselves to subscribe for or purchase Shares on the terms of the Underwriting Agreement are subject to certain conditions. These conditions include the absence of any breach of representation or warranty under the Underwriting Agreement and Admission occurring on or before Admission. In addition, the Joint Global Co-ordinators (on behalf of themselves and the other Underwriters) have the right to terminate the Underwriting Agreement, exercisable in certain circumstances, prior to Admission;
- 9.1.7 Deutsche Bank AG, London Branch, as Stabilising Manager, has been granted the Over-allotment Option by the Over-allotment Shareholder pursuant to which it may purchase or procure purchasers for up to 22,880,243 Over-allotment Shares at the Offer Price for the purposes of covering short positions arising from over-allocations, if any, in connection with the Offer and/or from sales of Shares, if any, effected during the stabilising period. Except as required by law or regulation, neither the Stabilising Manager, nor any of its agents, intends to disclose the extent of any over-allotments and/or stabilising transactions conducted in relation to the Offer. The number of Over-allotment Shares to be transferred pursuant to the Over-allotment Option, if any, will be determined not later than 12 December 2013. Settlement of any purchase of Over-allotment Shares will take place shortly after such determination (or if acquired on Admission, at Admission). If any Over-allotment Shares are acquired pursuant to the Over-allotment Option, Deutsche Bank AG, London Branch will be committed to pay to the Over-allotment Shareholder, or procure that payment is made to it of, an amount equal to the Offer Price multiplied by the number of Over-allotment Shares purchased from the Over-allotment Shareholder, less commissions and expenses;
- 9.1.8 each of the Selling Shareholders has agreed to pay any stamp duty and/or stamp duty reserve tax arising on the sale of such Selling Shareholder's Existing Shares;
- 9.1.9 the Company has agreed to pay the costs, charges, fees and expenses of the Offer (together with any related value added tax);



- 9.1.10 each of the Company, the Directors and the Selling Shareholders has given certain representations, warranties and undertakings, subject to certain limits (in the case of the Directors and the Selling Shareholders), to the Underwriters;
- 9.1.11 the Company has given an indemnity to the Underwriters on customary terms;
- 9.1.12 each of the Selling Shareholders has given an indemnity to the Underwriters on customary terms; and
- 9.1.13 the parties to the Underwriting Agreement have given certain covenants to each other regarding compliance with laws and regulations affecting the making of the Offer in relevant jurisdictions.

## 9.2 Stock lending agreement

In connection with settlement and stabilisation, Deutsche Bank AG, London Branch, as Stabilising Manager, has entered into a stock lending agreement with the Over-allotment Shareholder. Pursuant to this agreement, the Stabilising Manager will be able to borrow up to a maximum of 15 per cent. of the total number of Shares comprised in the Offer (excluding the Shares subject to the Over-allotment Option) on Admission for the purposes, amongst other things, of allowing the Stabilising Manager to settle, on Admission, over-allotments, if any, made in connection with the Offer. If the Stabilising Manager borrows any Shares pursuant to the stock lending agreement, it will be required to return equivalent securities to the Over-allotment Shareholder by the earlier of: (i) close of business on the third business day after the date that is the thirtieth day after the commencement of conditional dealings of the Shares on the London Stock Exchange, and (ii) such earlier date as the Stabilising Manager may notify the Over-allotment Shareholder.

## 10. Subsidiaries, Investments and Principal Establishments

Following the Reorganisation, the Company will be the principal operating and holding company of the Group. The principal subsidiaries and subsidiary undertakings of the Company following the Reorganisation will be as follows:

### *Subsidiaries and subsidiary undertakings*

Name	Country of incorporation and registered office	Class and percentage of ownership interest and voting power	Field of activity
Just Retirement Group Holdings Limited . . .	England and Wales	100 per cent.	Intermediate holding company
Just Retirement (Holdings) Limited . . . . .	England and Wales	100 per cent.	Intermediate holding company
Just Retirement Limited . . . . .	England and Wales	100 per cent.	Life assurance
Just Retirement Solutions Limited . . . . .	England and Wales	100 per cent.	Distribution
Just Retirement Management Services Limited . . . . .	England and Wales	100 per cent.	Management services
TOMAS Acquisitions Limited . . . . .	England and Wales	71.7 per cent.	Intermediate holding company
The Open Market Annuity Service Limited .	Northern Ireland	71.7 per cent.	Software solutions
TOMAS Online Development Limited . . . . .	Northern Ireland	71.7 per cent.	Software development

### *Principal establishments*

The following are the principal establishments of the Group:

Name and location	Type of facility	Tenure
Vale House, Surrey . . . . .	Office	Leasehold
Roebuck House, Surrey . . . . .	Office	Leasehold
Enterprise House, Surrey . . . . .	Office	Leasehold
Arena Building, Belfast . . . . .	Office	Leasehold

All the Group's leases are short term.

## **11. Statutory Auditors**

The auditors of the Company for the period from incorporation on 13 June 2013 to the present have been KPMG Audit Plc, chartered accountants, whose registered address is at 15 Canada Square, Canary Wharf, London E14 5GL. KPMG Audit Plc have audited the consolidated accounts for the JRGHL Group for financial information as at and for the periods ended 30 June 2011, 30 June 2012, and 30 June 2013, in accordance with auditing standards. For the period ended 30 June 2013, KPMG Audit Plc have made a report under section 495 of the Act in respect of this set of statutory accounts and such report was unqualified and did not contain a statement under sections 498(2) or 498(3) of the Act.

## **12. Material Contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or another member of the Group: (a) within the two years immediately preceding the date of this document which are, or may be, material to the Company or any member of the Group, and (b) at any time and contain provisions under which the Company or any member of the Group has an obligation or entitlement which is, or may be, material to the Company or any member of the Group as at the date of this document:

### **12.1 Underwriting Agreement**

The Underwriting Agreement is described in paragraph 9.1 of this Part 17 “Additional Information”.

### **12.2 Relationship Agreement**

On 12 November 2013, the Company and Avallux entered into the Relationship Agreement which will, conditional upon Admission, regulate the ongoing relationship between the Company and Avallux. The principal purpose of the Relationship Agreement is to ensure that the Company and its subsidiaries are capable of carrying on their business independently of Avallux, that transactions and relationships with Avallux (including any transactions and relationships with any member of the Group) are at arm’s length and on normal commercial terms, and that the goodwill, reputation and commercial interests of the Company are maintained. The Relationship Agreement will continue for so long as (a) the Shares are listed on the premium listing segment of the Official List and traded on the London Stock Exchange’s main market for listed securities and (b) Avallux together with its associates are entitled to exercise or to control the exercise of 15 per cent. or more of the votes able to be cast on all or substantially all matters at general meetings of the Company.

Under the Relationship Agreement, which is conditional on Admission, Avallux undertakes:

- (a) to refrain from and to procure that its associates refrain from:
  - (i) doing any act that would have the effect of preventing the Company from carrying on an independent business or preventing the Company from complying with its obligations under the Listing Rules; and
  - (ii) entering into any transaction or relationship with any member of the Group which is not conducted at arm’s length and on normal commercial terms.
- (b) to exercise all of its voting rights so as to ensure that at least half the Board, excluding the Chairman, will consist of independent directors, as defined in the UK Corporate Governance Code, for so long as Avallux together with its associates is entitled to exercise or to control the exercise of 15 per cent. or more of the votes able to be cast on all or substantially all matters at general meetings of the Company;
- (c) to provide the Company with information it requires in connection with its obligations under the Listing Rules;
- (d) to keep confidential and not use for their own benefit any confidential information relating to the Company or the Group; and
- (e) to exercise its voting rights to procure (inter alia) that the Company and its subsidiaries are capable at all times of carrying on their business independently of Avallux and/or its associates, that all transactions entered into between Avallux and/or its associates, on the one hand, and the Company, on the other hand, are made on an arm’s length basis and on normal commercial terms, that no

variations are made to the Articles which would be contrary to the Company's independence from Avallux and/or its associates, and that the independence of the Board is maintained.

Under the Relationship Agreement, Avallux is entitled to appoint one Non-Executive Director to the Board for so long as it and its associates are entitled to exercise or to control the exercise of 15 per cent. or more of the votes able to be cast on all or substantially all matters at general meetings of the Company.

The Directors believe that the terms of the Relationship Agreement as described above will enable the Group to carry on its business independently of Avallux and/or its associates and ensure that all transactions and relationships between the Company and/or the members of the Group, on the one hand, and Avallux and/or its associates, on the other hand, are, and will be, on arm's length terms and on a normal commercial basis.

### **12.3 Investment agreement**

On 30 September 2010, Just Retirement Group Holdings Limited (formerly Avalon Acquisitions Limited), Avallux, Ogier Employment Benefit Trustee Limited (the "EBT Trustee"), Ogier Nominee Holdings Limited (the "EBT Nominee"), and the Individuals (as defined therein) entered into an investment agreement, which set out the terms on which Avallux, the EBT Trustee, the EBT Nominee and the Individuals, were willing to invest in Just Retirement Group Holdings Limited, and the terms on which Just Retirement Group Holdings Limited was to be governed (the "Investment Agreement"). The Investment Agreement will terminate upon Admission.

### **12.4 Reorganisation agreements**

#### **12.4.1 Share for share exchange contract**

On 24 October 2013, the Company and the shareholders of Just Retirement Group Holdings Limited entered into a conditional share exchange agreement for the acquisition by the Company of all the New JRGHL Shares in exchange for the issue to each holder of New JRGHL Shares of such number of Shares as is equal to (or as nearly as may be equal to) the number of New JRGHL Shares held by such holder at that time (the "Share Exchange Agreement").

The Share Exchange Agreement is conditional upon (i) the re-registration of the Company from a private limited company to a public limited company, (ii) each of the shareholder resolutions set out in the circular sent to holders of New JRGHL Shares and other relevant stakeholders in relation to the Share Exchange Agreement and the Reorganisation being approved, (iii) the reclassification of all outstanding shares in the capital of Just Retirement Group Holdings Limited and the conversion of all shareholder debt instruments of Just Retirement Group Holdings Limited, in each case as existing immediately prior to the Reorganisation, into New JRGHL Shares (as further described in Part 15 "Reorganisation of the Group"), and (iv) all other conditions to Admission being fulfilled. The Share Exchange Agreement will become unconditional immediately prior to Admission, at which point 366,666,233 Shares will be issued by the Company to holders of the New JRGHL Shares.

### **12.5 Reinsurance treaties**

#### **12.5.1 Hannover Re**

##### **12.5.1.1 Reinsurance Treaty**

On 20 September 2009, Just Retirement Limited entered into an English-law governed reinsurance treaty (the "Hannover Re Treaty") with Hannover Re, as amended on 16 October 2013, in relation to Just Retirement Limited's annuity policies written from 1 July 2004 to 31 December 2014 and underwritten using the JR Merica underwriting system. Under the Hannover Re Treaty, Hannover Re agrees to reinsure 46.2 per cent. of Just Retirement Limited's qualifying IUA new business, based on a reinsured share of 70 per cent. of the 66 per cent. total portion of Just Retirement Limited's qualifying IUA new business collectively reinsured by Hannover Re and Reinsurance Group of America from 1 July 2012 to 31 December 2014. The amount of annuity payments for which Hannover is liable is subject to a reinsurance capacity limit of £1,900 million of reinsurance premiums ceded by Just Retirement Limited from 1 July 2004 to 30 June 2012 and £1,750 million of reinsurance premiums ceded from 1 July 2012 to 31 December 2014.

At the end of each quarter, (i) Just Retirement Limited is obligated to pay a reinsurance premium to Hannover Re that is, depending on a variable financing rate determined each quarter, between 97 and

100 per cent. of Hannover Re's reinsured share of the present value of Just Retirement Limited's liabilities under annuities written in that quarter; and (ii) Hannover Re is obligated to deposit with Just Retirement Limited an amount equal to 100 per cent. of its share of the present value of all liabilities reinsured. This leaves a balance ("the deficit account") owing from Just Retirement Limited to Hannover Re on which Hannover Re earns interest and which is repaid by Just Retirement Limited over time, subject to the availability of statutory surplus out of which repayments can be made.

Provided the deficit account for an underwriting year and all previous underwriting years has been repaid, Just Retirement Limited has the option to recapture the business reinsured for these underwriting years, the effect of which is that if mortality is more favourable than anticipated, Just Retirement Limited will retain the benefit of that favourable experience from the date of the recapture.

The Hannover Re Treaty is open to new business until 31 December 2014, although the reinsurance of new business may be cancelled prior to this date ("new business cancellation"), as follows:

- by Just Retirement Limited with six months' notice if Hannover Re modifies the underlying actuarial basis of the Hannover Re Treaty and Just Retirement Limited disagrees with the modification;
- by Hannover Re with three months' notice if Just Retirement Limited exercises its option to reduce payment of business and management fees under the statutory surplus provision, which sets an available capital limit on Just Retirement Limited's obligation to make certain payments to Hannover Re;
- if the reinsurance capacity is exhausted without the parties agreeing on an increased capacity; or
- if the software licence agreement with Infexpert for use of the Merica underwriting system, detailed in paragraph 12.6 of this Part 17, is terminated.

If cancellation occurs on any of the grounds above, the Hannover Re Treaty is terminated in respect of new business, but shall continue in force for all plans already reinsured under the Hannover Re Treaty unless both parties agree otherwise.

Either party may terminate the Hannover Re Treaty immediately by giving the other party notice ("immediate termination"), if, among other things:

- there is an un-remedied material breach by the other party;
- there is insolvency of the other party (or loss of authority to transact any class of insurance);
- there are armed hostilities or occupation within the country of the other party; or
- performance of the Hannover Re Treaty is rendered legally impossible.

The Hannover Re Treaty may be immediately terminated by Hannover Re if there is any material change in the ownership, management or control of Just Retirement Limited, its parent or ultimate parent.

Subject to certain conditions being met, Hannover Re has confirmed that Admission will not give rise to a right to terminate the Hannover Re Treaty on the grounds of a material change in the ownership, management or control of Just Retirement Limited.

If immediate termination occurs on any of the grounds above, the Hannover Re Treaty is terminated in respect of new business and the terminating party may exercise an option either to continue the Hannover Re Treaty in respect of business already written, or to require recapture of that business, which has the effect of also withdrawing the reinsurance in respect of past business. In these circumstances, recapture may be unfavourable to Just Retirement Limited, depending on the mortality experience in respect of the business recaptured. However, repayment of any outstanding financing will still be contingent on emerging surpluses, even after full recapture.

The Hannover Re Treaty contains a number of restrictions on Just Retirement Limited. For example, without the consent of Hannover Re (not to be unreasonably withheld), Just Retirement Limited cannot enter into certain acquisitions or disposals; make a profit distribution that exceeds a profit distribution headroom calculated within three months of the distribution; or enter into any other reinsurance treaties of a financing nature aside from Just Retirement Limited's existing reinsurance treaties with Achmea Re and Reinsurance Group of America, described in paragraphs 12.5.2 and 12.5.3 of this Part 17.

#### 12.5.1.2 Co-operation Agreement

Just Retirement Limited also has a German-law governed co-operation agreement (the “Co-operation Agreement”) with Hannover Re that is co-terminus with the Hannover Re Treaty. Under the Co-operation Agreement, Hannover Re consents to Just Retirement Limited’s use of JR Merica, an automated underwriting system that incorporates Hannover Re’s medical dictionary for the purpose of underwriting Just Retirement Limited’s IUA policies.

Under the agreement, Just Retirement Limited may also use the automated underwriting system for assessing applications for its fixed lifetime mortgage product. Hannover Re may unilaterally cancel this right on one month’s notice for any reason.

Annual licence fees for the software for the automated underwriting system are payable to Infexpert, the licensor of the software. The amount of these fees is specified in a separate licence agreement detailed in paragraph 12.6 of this Part 17.

Hannover Re excludes liability for errors in the system and for its fitness for purpose; instead Infexpert is responsible for any software related problems under the terms of the software licence.

Just Retirement Limited has the non-exclusive right to continue using the automated underwriting system for a run-off period following termination of the Hannover Re Treaty, Co-operation Agreement and Infexpert software licence. The circumstances in which these are terminated determines the length of such run-off period, as follows:

- a six month run-off period from the date of giving notice of termination will apply if Just Retirement Limited terminates the Hannover Re Treaty or Co-operation Agreement in accordance with the new business cancellation provisions described in paragraph 12.5.1.1 of this Part 17;
- a three month run-off period from the date of giving notice of termination will apply if Hannover Re terminates the Hannover Re Treaty or Co-operation Agreement in accordance with the new business cancellation provisions described in paragraph 12.5.1.1 of this Part 17; or
- a three-month run-off period from the date of termination will apply if Just Retirement Limited or Hannover Re terminates the Hannover Re Treaty or Co-operation Agreement in accordance with the immediate termination provisions described in paragraph 12.5.1.1 of this Part 17.

#### *12.5.2 Reinsurance Group of America*

##### 12.5.2.1 RGA International Lead Reinsurance Treaty

On 19 June 2013, Just Retirement Limited entered into an English-law governed reinsurance treaty (the “RGA Lead Treaty”), as amended on 26 September 2013, with RGA International acting as lead reinsurer and RGA Americas acting as following reinsurer in relation to Just Retirement Limited’s IUA policies written from 1 July 2012 to 30 June 2015 and underwritten using the JR Merica underwriting system. Under the RGA Lead Treaty, RGA International agrees to reinsure 0.99 per cent. of Just Retirement Limited’s qualifying IUA new business, based on a reinsured share of 1.5 per cent. of the 66 per cent. total reinsured portion. The amount of annuity payments for which RGA International is liable is subject to a reinsurance capacity limit of (i) £16.5 million of reinsurance premiums ceded by Just Retirement Limited by 31 December 2013 and (ii) £16.5 million of reinsurance premiums ceded by Just Retirement Limited from 1 January 2014.

At the end of each quarter, (i) Just Retirement Limited is obligated to pay a reinsurance premium to RGA International that, from 1 July 2012 to 31 December 2013, is equal to 95.5 per cent. of RGA International’s reinsured share of the present value of Just Retirement Limited’s liabilities under annuities written in that quarter and, from 1 January 2014, is, depending on a variable financing rate determined each quarter, between 95.5 and 100 per cent. of RGA International’s reinsured share of the present value of Just Retirement Limited’s liabilities under annuities written in that quarter; and (ii) RGA International is obligated to deposit with Just Retirement Limited an amount equal to 100 per cent. of its share of the present value of all liabilities reinsured. This leaves a balance (“the deficit account”) owing from Just Retirement Limited to RGA International on which RGA International earns interest and which is repaid by Just Retirement Limited over time, subject to the availability of statutory surplus out of which repayments can be made.

Provided the deficit account for an underwriting year and all previous underwriting years has been repaid, Just Retirement Limited has the option to recapture the business reinsured for these underwriting years, the effect of which is that if mortality is more favourable than anticipated, Just Retirement Limited will retain the benefit of that favourable experience from the date of the recapture.



The RGA Lead Treaty is open to new business until 30 June 2015, although the reinsurance of new business may be cancelled prior to this date (“new business cancellation”), under the following circumstances:

- by Just Retirement Limited with six months’ notice if RGA International modifies the underlying actuarial basis of the RGA Lead Treaty and Just Retirement Limited disagrees with the modification;
- by RGA International with three months’ notice if Just Retirement Limited exercises its option to reduce payment of business and management fees under the statutory surplus provision, which sets an available capital limit on Just Retirement Limited’s obligation to make certain payments to RGA International;
- if the reinsurance capacity is exhausted without the parties agreeing on an increased capacity limit;
- if the Hannover Treaty is cancelled for new business, unless RGA International notifies Just Retirement Limited within 30 days that it will not be exercising its right to cancel for new business; or
- by either party with not less than three months’ notice, but neither party may give notice for new business cancellation under this provision prior to 1 January 2014.

If cancellation occurs on any of the grounds above, the RGA Lead Treaty is terminated in respect of new business, but shall continue in force for all plans already reinsured under the RGA Lead Treaty unless both parties agree otherwise.

The RGA Lead Treaty may be terminated immediately on the following grounds, among others:

- by RGA International if there is any material change in the ownership, management or control of Just Retirement Limited;
- by RGA International if there is any fraudulent conduct by Just Retirement Limited in relation to the RGA Lead Treaty, including any material misrepresentations about a state of affairs material to the RGA Lead Treaty known to Just Retirement Limited at or before the time the RGA Lead Treaty was entered into;
- by RGA International in the event Just Retirement Limited fails to pay reinsurance premiums within 30 days notice of non-payment;
- by either party if the Hannover Re Treaty is terminated or recaptured;
- by either party if there is an un-remedied material breach by the other party;
- by either party if there is insolvency of the other party (or loss of authority to transact any class of insurance);
- by either party if there are armed hostilities or occupation within the country of the other party; or
- by either party if performance of the RGA Lead Treaty is rendered legally impossible.

Subject to certain conditions being met, RGA International has confirmed that Admission will not give rise to a right to terminate the RGA Lead Treaty on the grounds of a material change in the ownership, management or control of Just Retirement Limited.

If immediate termination occurs on any of the grounds above, the RGA Lead Treaty is terminated in respect of new business and the terminating party may exercise an option either to continue the RGA Lead Treaty in respect of business already written, or to require recapture of that business, which has the effect of also withdrawing the reinsurance in respect of past business. In these circumstances, recapture may be unfavourable to Just Retirement Limited, depending on the mortality experience in respect of the business recaptured.

The RGA Lead Treaty contains a number of restrictions on Just Retirement Limited, so that, for example, without the consent of RGA International (not to be unreasonably withheld), Just Retirement Limited cannot enter into certain acquisitions or disposals, nor make a profit distribution that exceeds a profit distribution headroom calculated within three months of the distribution.

Under the RGA Lead Treaty, RGA International agrees to act as the lead reinsurer with respect to the RGA Lead Treaty and the RGA Following Treaty detailed in paragraph 12.5.2.2 of this Part 17. As the lead reinsurer, RGA International acts as the point of communication between RGA International and RGA



Americas, but RGA International shall not be required to make any required payments on behalf of RGA Americas and incurs no additional liability if RGA Americas fails to make its required payments.

#### 12.5.2.2 RGA Americas Following Reinsurance Treaty

On 19 June 2013, Just Retirement Limited entered into an English-law governed reinsurance treaty (the “RGA Following Treaty”), as amended on 26 September 2013, with RGA Americas acting as following reinsurer and RGA International acting as lead reinsurer in relation to Just Retirement Limited’s IUA policies written from 1 July 2012 to 30 June 2015 and underwritten using the JR Merica underwriting system. The RGA Following Treaty is open to new business until 30 June 2015. The terms of the RGA Following Treaty are substantially similar to those of the RGA Lead Treaty, detailed at paragraph 12.5.2.1, with the following differences:

- RGA Americas agrees to reinsure 18.81 per cent. of Just Retirement Limited’s qualifying IUA new business, representing 28.5 per cent. of the 66 per cent. reinsured portion; and
- the amount of annuity payments for which RGA Americas is liable is subject to a reinsurance capacity of
  - (i) £313.5 million of reinsurance premiums ceded by Just Retirement Limited by 31 December 2013 and
  - (ii) £313.5 million of reinsurance premiums ceded by Just Retirement Limited from 1 January 2014.

#### 12.5.3 Achmea Re

##### 12.5.3.1 Reinsurance Treaty

On 1 December 2005, Just Retirement Limited entered into an English-law governed reinsurance treaty with Achmea Re, formerly known as Eureko Reinsurance Ireland Limited and Interpolis Reinsurance Services Limited, amended by subsequent addendums, most recently by Addendum 7 executed on 30 March 2013 (together, the “Achmea Re Treaty”), in relation to Just Retirement Limited’s annuity policies written from 1 July 2004 to 30 June 2012. Under the Achmea Re Treaty, Achmea Re agreed to reinsure 19.8 per cent. of Just Retirement Limited’s qualifying IUA new business, based on a reinsured share of 30 per cent. of the 66 per cent. total portion of Just Retirement Limited’s qualifying IUA new business collectively reinsured by Hannover Re and Achmea Re. The amount of annuity payments for which Achmea Re is liable is subject to a reinsurance capacity limit of £875 million of reinsurance premiums ceded by Just Retirement Limited from 1 July 2004 to 30 June 2012.

At the end of each quarter, (i) Just Retirement Limited is obligated to pay a reinsurance premium to Achmea Re that is equal to 95.5 per cent. of Achmea Re’s reinsured share of the present value of Just Retirement Limited’s liabilities under annuities written in that quarter; and (ii) Achmea Re is obligated to deposit with Just Retirement Limited an amount equal to 100 per cent. of its share of the present value of all liabilities reinsured. This leaves a balance (the “deficit account”) owing from Just Retirement Limited to Achmea Re on which Achmea Re earns interest and which is repaid by Just Retirement Limited over time, subject to the availability of statutory surplus out of which repayments can be made.

Provided the deficit account for an underwriting year and all previous underwriting years has been repaid, Just Retirement Limited has the option to recapture the business reinsured for these underwriting years, the effect of which is that if mortality is more favourable than anticipated, Just Retirement Limited will retain the benefit of that favourable experience from the date of the recapture.

The Achmea Re Treaty was open to new business from 1 July 2004 to 30 June 2012.

Either party may terminate the Achmea Re Treaty immediately by giving the other party notice, if, among other things:

- there is any material change in the ownership, management or control of the other party;
- there is an un-remedied material breach by the other party;
- there is insolvency of the other party (or loss of authority to transact any class of insurance);
- there are armed hostilities or occupation within the country of the other party; or
- performance of the Achmea Re Treaty is rendered legally impossible.

Subject to certain conditions being met, Achmea Re has confirmed that Admission will not give rise to a right to terminate the Achmea Treaty on the grounds of a material change in the ownership, management or control of Just Retirement Limited.

If immediate termination occurs on any of the grounds above, the terminating party may exercise an option either to continue the Achmea Re Treaty in respect of business already written, or to require recapture of that business, which has the effect of also withdrawing the reinsurance in respect of past business. In these circumstances, recapture may be unfavourable to Just Retirement Limited, depending on the mortality experience in respect of the business recaptured. However, repayment of any outstanding financing will still be contingent on emerging surpluses, even after full recapture.

The Achmea Re Treaty contains a number of restrictions on Just Retirement Limited. For example, without the consent of Achmea Re (not to be unreasonably withheld), Just Retirement Limited cannot enter into certain acquisitions or disposals, nor make a profit distribution that exceeds a profit distribution headroom calculated within three months of the distribution.

## **12.6 Software license agreement**

Just Retirement Limited has a Swiss-law governed software license agreement with Infexpert that is co-terminus with the Co-operation Agreement and, as a result, the Hannover Re Treaty. Under the software license agreement, Infexpert grants to Just Retirement Limited a non-exclusive, non-transferable license to use JR Merica.

Under the agreement, Just Retirement Limited is obliged to pay an annual renewal license fee to Infexpert which is due on 1 January of each year. Infexpert is obliged to use its reasonable efforts to correct or have corrected any errors, defects or malfunctions with the software and application as soon as practicable after being notified of such error by Just Retirement Limited. However, Infexpert disclaims responsibility for the medical dictionary and the underwriting decisions produced by JR Merica, which remain the responsibility of Hannover Re.

In addition to termination of the software license agreement upon the termination of the Co-operation Agreement (which in turn, is co-terminus the Hannover Re Treaty), Infexpert may terminate the software license agreement, if, among other things:

- Just Retirement Limited fails to pay the annual renewal license fee within 60 days after receiving notice from Infexpert that payment is due; or
- Just Retirement Limited fails to perform its material obligations under the software license agreement within 90 days after receiving notice from Infexpert of its applicable prior breach.

If termination occurs as a result of the termination of the Co-operation Agreement, there may be a run-off period following termination of the software license agreement (to the extent such continued use has been provided for in the Co-operation Agreement) depending on the circumstances under which the Co-operation Agreement was terminated, for example:

- a twelve month run-off period will apply from the effective date of such termination if the Co-operation Agreement was terminated by Hannover Re;
- a twelve month run-off period will apply from the date of giving notice of termination if the Co-operation Agreement or the Hannover Re Treaty was cancelled by Just Retirement Limited in the ordinary course; or
- no run-off period if the Co-operation Agreement was terminated for cause.

## **13. Banking Facilities**

### **13.1 RBS facility**

Just Retirement (Holdings) Limited (the “Borrower”) entered into an English-law governed £35 million term loan facility agreement (the “Facility”) dated 25 September 2012 (and as amended on 9 November 2012, 9 May 2013 and 16 October 2013) as borrower with The Royal Bank of Scotland plc (“RBS”) as original lender, facility agent and security agent. The Facility includes an increase provision that permits the Borrower to increase the total commitment of the loan by selecting additional lenders from an approved list who will assume all the rights and obligations of a lender under the Facility. Pursuant to this provision, the Facility was increased by £20 million on 9 May 2013 with Deutsche Bank AG and Nomura International plc acting as lenders and each assuming a commitment of £10 million. The resulting total commitment is £55 million.

Just Retirement Group Holdings Limited (the “Guarantor”) provides a continuing guarantee of the punctual performance of the Borrower’s payment obligations under the finance documents. This Guarantor’s liability extends to the ultimate balance of sums payable by the Borrower under the finance documents, regardless of any intermediate payment or discharge in whole or in part.

The Guarantor and the Borrower have provided a fixed and floating charge debenture to secure their obligations under the finance documents, which includes charges over all key assets (excluding those over which a charge is prohibited by a pre-existing agreement) and the assignment to RBS of all rights, title and interest in certain insurance policies and intercompany loans.

The interest rate payable on the loan for each interest period is LIBOR (or zero if LIBOR is less than zero) plus a margin and mandatory costs (if applicable). The margin is subject to a margin ratchet calculated by reference to the ratio of consolidated total net debt (“CTND”) to embedded value (“EV”).

The Borrower must repay the aggregate loans in annual instalments with full repayment on the termination date, being five years and one day from the date of first utilisation. Mandatory prepayment provisions apply, including mandatory prepayment (i) on the occurrence of a change of control of the Guarantor or (ii) from excess cash flow (calculated by reference to the ratio of CTND to EV). Completion of the Offer does not constitute a change of control for purposes of the Facility. Voluntary prepayments may be made upon five business days’ notice in minimum amounts of £1 million.

A number of standard representations and warranties have been given in the Facility for facilities and transactions of this nature as well as representations specific to carrying on a regulated insurance business, some of which will be repeated on the date of each utilisation request and on the first day of each interest period. Customary materiality tests, carve-outs and grace periods also apply. The Facility requires the Borrower and the Guarantor to comply, and to ensure the compliance of the Group, with a number of customary undertakings and with financial covenants for facilities and transactions of this type including undertakings and requirements specific to carrying on a regulated insurance business. Customary materiality tests, carve-outs and grace periods also apply. These undertakings include various controls on the application of cashflow from the operating account, payment of dividends (see further below) and level of risk appetite assumed by the Group. The financial covenants include a maximum ratio of CTND to EV and requirements on capital resources.

The events of default provisions are usual for facilities and transactions of this type where the Borrower is an insurance business and include a situation where an applicable regulatory authority gives notice of a prohibition or limitation on the ability of members of the Group to make payments of dividends, distributions or other payments to the Borrower (and in the case of a limitation, such limitation is reasonably likely to have a substantial effect on the ability of such member of the Group to make payments to the Borrower) and such dividend block is in place for more than two years. Upon the occurrence of an event of default that is not remedied or waived, the lenders may cancel the available facility, may declare all outstanding payments immediately due and payable or immediately due and payable on demand and may instruct the security agent to exercise its rights under the finance documents.

Subject to certain conditions being met, to the extent cash is available and a default is not continuing and would not result, dividends and distributions would be permitted to be made to shareholders unless (i) a scheduled repayment of principal has not been made and (ii) payments, dividends or distributions to the Borrower from other members of the Group are prohibited or limited by an applicable regulatory authority (and in the case of a limitation, the limitation is reasonably likely to have a substantial effect on the ability of such member of the Group to make payments to the Borrower).

Subject to certain conditions being met, RBS (as agent for and on behalf of the finance parties under the Facility) has consented to certain steps in connection with the Offer to the extent such steps could implicate certain terms of the Facility.

#### **14. UK Taxation**

The following statements are intended only as a general guide to certain UK tax considerations and do not purport to be a complete analysis of all potential UK tax consequences of holding Shares. They are based on current UK legislation and what is understood to be the current practice of HM Revenue & Customs (“HMRC”) as at the date of this document, both of which may change, possibly with retroactive effect.

These statements apply only to Shareholders who are resident (and, in the case of individuals, domiciled) for tax purposes in (and only in) the United Kingdom (except insofar as express reference is made to the

treatment of non-UK residents), who hold their Shares as an investment (other than under an individual savings account) and who are the absolute beneficial owner of both the Shares and any dividends paid on them. The tax position of certain categories of Shareholders who are subject to special rules (such as persons acquiring their Shares in connection with employment, dealers in securities, insurance companies and collective investment schemes or those who hold 10 per cent. or more of the Shares) is not considered.

The statements in paragraph 14.3.4 apply to any holders of Shares irrespective of their residence and summarise the current position and are intended as a general guide only.

Legislation has recently been enacted which introduces new rules for the determination of the residence status of individuals for UK tax purposes. Prospective investors who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom are strongly recommended to consult their own professional advisers.

#### ***14.1 Taxation of Dividends***

The Company is not required to withhold tax when paying a dividend. The amount of any liability to tax on dividends paid by the Company will depend upon the individual circumstances of an Shareholder.

An individual Shareholder who is resident for tax purposes in the United Kingdom and who receives a dividend from the Company will generally be entitled to a tax credit equal to one-ninth of the amount of the dividend received, which is equivalent to 10 per cent. of the aggregate of the dividend received and the tax credit (the “gross dividend”), and will be subject to income tax on the gross dividend. An individual UK resident Shareholder who is subject to income tax on the gross dividend at the dividend ordinary rate only will be liable to tax on the gross dividend at the rate of 10 per cent., so that the tax credit will satisfy the income tax liability of such a Shareholder in full. A Shareholder who is subject to income tax on the gross dividend at the dividend upper rate or the dividend additional rate will be liable to income tax on the gross dividend at the rate of 32.5 per cent. or 37.5 per cent. respectively to the extent that such sum, when ordered as required for the calculation of that Shareholder’s income tax liability, falls above the threshold for higher rate or additional rate income tax. After taking into account the 10 per cent. tax credit, a higher rate taxpayer will therefore be liable to additional income tax of 22.5 per cent. of the gross dividend, equal to 25 per cent. of the cash dividend and an additional rate taxpayer will therefore be liable to additional income tax of 27.5 per cent. of the gross dividend, equal to approximately 30.6 per cent. of the cash dividend. Where the tax credit exceeds the Shareholder’s tax liability the Shareholder cannot claim repayment of the tax credit from HMRC.

Shareholders who are subject to UK corporation tax on dividends paid by the Company should note that legislation has been enacted that has made significant changes to the corporation tax treatment of dividends. This legislation removed the previous blanket exemption from corporation tax that generally applied to dividends paid by one UK resident company to another and replaced it with more limited classes of exemption. Although it is likely that most dividends paid on the Shares to corporate Shareholders would fall within one or more of the classes of dividend qualifying for exemption from corporation tax, the exemptions are not comprehensive and are also subject to anti-avoidance rules. Shareholders within the charge to corporation tax should consult their own professional advisers.

UK resident Shareholders who are not liable to UK tax on dividends, including pension funds and charities, are not entitled to claim repayment of the tax credit.

Shareholders who are resident outside the United Kingdom for tax purposes will not generally be able to claim repayment of any part of the tax credit attaching to dividends received from the Company, although this will depend on the existence and terms of any double taxation convention between the United Kingdom and the country in which such Shareholder is resident. A Shareholder resident outside the United Kingdom may also be subject to taxation on dividend income under local law. A Shareholder who is resident outside the United Kingdom for tax purposes should consult his own tax adviser concerning his tax position on dividends received from the Company.

#### ***14.2 Taxation of Disposals***

A disposal or deemed disposal of Shares by a Shareholder who is (at any time in the relevant UK tax year) resident in the United Kingdom for tax purposes may, depending upon the Shareholder’s circumstances and subject to any available exemption or relief (such as the annual exempt amount for individuals and indexation for corporate shareholders), give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of capital gains.

Shareholders who are not resident in the United Kingdom will not generally be subject to UK taxation of capital gains on the disposal or deemed disposal of Shares unless they are carrying on a trade, profession or vocation in the United Kingdom through a branch or agency (or, in the case of a corporate Shareholder, a permanent establishment) in connection with which the Shares are used, held or acquired.

An individual Shareholder who has ceased to be resident or ordinarily resident for tax purposes in the United Kingdom for a period of five years or less and who disposes of all or part of his Shares during that period may be liable to capital gains tax on his return to the United Kingdom, subject to any available exemptions or reliefs.

### ***14.3 Stamp duty and Stamp Duty Reserve Tax ("SDRT")***

#### ***14.3.1 The Offer***

The stamp duty and SDRT treatment of the subscription or purchase of Shares under the Offer will be as follows:

- (a) Subject to paragraph 14.3.4 below, the issue of Shares direct to persons acquiring Shares pursuant to the Offer will not generally give rise to stamp duty or SDRT.
- (b) The transfer of, or agreement to transfer, Shares sold by the Selling Shareholders under the Offer will generally give rise to a liability to stamp duty and/or SDRT at a rate of 0.5 per cent. of the Offer Price (in the case of stamp duty, rounded up to the nearest multiple of £5). The Selling Shareholders have agreed to meet such liability. An exemption from stamp duty is available on an instrument transferring Shares where the amount or value of the consideration is £1,000 or less, and it is certificated on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions in respect of which the aggregate amount or value of the consideration exceeds £1,000.

#### ***14.3.2 Subsequent Transfers***

Stamp duty at the rate of 0.5 per cent. (rounded up to the next multiple of £5) of the amount or value of the consideration given is generally payable on an instrument transferring Shares. As noted above, an exemption from stamp duty is available on an instrument transferring Shares where the amount or value of the consideration is £1,000 or less, and it is certificated on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions in respect of which the aggregate amount or value of the consideration exceeds £1,000. Alternatively, a charge to SDRT will arise on an unconditional agreement to transfer Shares (at the rate of 0.5 per cent. of the amount or value of the consideration payable). However, if within six years of the date of the agreement becoming unconditional an instrument of transfer is executed pursuant to the agreement, and stamp duty is paid on that instrument, any SDRT already paid will be refunded (generally, but not necessarily, with interest) provided that a claim for repayment is made, and any outstanding liability to SDRT will be cancelled. The liability to pay stamp duty or SDRT is generally satisfied by the purchaser or transferee.

#### ***14.3.3 Shares held through CREST***

Paperless transfers of Shares within CREST are generally liable to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration. CREST is obliged to collect SDRT on relevant transactions settled within the system. The charge is generally borne by the purchaser. Under the CREST system, no stamp duty or SDRT will arise on a transfer of Shares into the system unless such a transfer is made for a consideration in money or money's worth, in which case a liability to SDRT (usually at a rate of 0.5 per cent.) will arise.

#### ***14.3.4 Shares held through Clearance Systems or Depositary Receipt Arrangements***

Under current UK law, where Shares are issued or transferred (a) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT will be payable at the higher rate of 1.5 per cent. of the amount or value of the consideration payable or, in certain circumstances, the value of the Shares (rounded up to the next multiple of £5 in the case of stamp duty). This liability for stamp duty or SDRT will strictly be accountable by the depositary or clearance service operator or their nominee, as the case may be, but will, in practice, generally be reimbursed by participants in the clearance service or depositary receipt system. Clearance services may opt, provided certain conditions are satisfied,



for the normal rate of stamp duty or SDRT (0.5 per cent. of the amount or value of consideration given) to apply to issues or transfers of Shares into, and to transactions within, such clearance services instead of the higher rate of 1.5 per cent. generally applying to an issue or transfer of Shares into the clearance service and instead of the exemption from SDRT on transfers of Shares whilst in the service.

Following the European Court of Justice judgment in *HSBC Holdings plc and Vidacos Nominees Ltd v Commissioners for Her Majesty's Revenue & Customs*, which held that the 1.5 per cent. SDRT charge on issuing UK shares into clearance services is contrary to EU law, HMRC have confirmed that they will no longer seek to apply the 1.5 per cent. SDRT charge on the issue of shares into a clearance service or depositary receipt system within the European Union to which a 1.5 per cent. charge would have previously applied. It is possible that the applicability of the 1.5 per cent. charge may also be affected in other circumstances. HMRC have also introduced certain anti-avoidance rules with effect from 1 October 2009 in relation to schemes under which shares are issued to an EU depositary receipt system or clearance service without a 1.5 per cent. charge being paid and subsequently transferred to a non-EU depositary receipt system or clearance service. Accordingly specific professional advice should be sought before paying the 1.5 per cent. charge.

The statements in this paragraph 14.3.4 apply to any holders of Shares irrespective of their residence, summarise the current position and are intended as a general guide only. Special rules apply to agreements made by, amongst others, intermediaries.

#### *14.3.5 Inheritance Tax*

The Shares will be assets situated in the United Kingdom for the purposes of UK inheritance tax. A gift or settlement of such assets by, or on the death of, an individual holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax regardless of their domicile status and tax residence status. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit.

A charge to inheritance tax may arise in certain circumstances where Shares are held by UK or offshore close companies and by UK or offshore trustees of settlements. Shareholders who are either close companies or trustees of settlements should consult an appropriate tax adviser as to any inheritance tax implications.

### **15 U.S. Federal Income Taxation**

The following discussion is a general summary based on present law of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of Shares. The discussion is not a complete description of all tax considerations that may be relevant. It applies only to U.S. Holders (as defined below) that acquire Shares in the Offer, hold Shares as capital assets and use the U.S. dollar as their functional currency. The discussion is a general summary; it is not a substitute for tax advice. It does not address the tax treatment of investors subject to special rules, such as banks or other financial institutions, tax-exempt entities, insurance companies, dealers, traders in securities that elect to mark-to-market, investors liable for alternative minimum tax, U.S. expatriates, investors that directly, indirectly or constructively own 10 per cent. or more of the Company's voting stock, investors that are resident or ordinarily resident or have a permanent establishment outside the United States or investors that hold Shares as part of a straddle, hedging, conversion or other integrated transaction. It also does not address U.S. state and local tax considerations.

THE STATEMENTS ABOUT U.S. FEDERAL TAX CONSIDERATIONS ARE MADE TO SUPPORT THE MARKETING OF THE SHARES. NO TAXPAYER CAN RELY ON THEM TO AVOID TAX PENALTIES. EACH PROSPECTIVE PURCHASER SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISER ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN THE SHARES UNDER THE LAWS OF THE UNITED KINGDOM, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS AND ANY OTHER JURISDICTIONS WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION.

As used here, a "U.S. Holder" means a beneficial owner of the Company's Shares that is for U.S. federal income tax purposes (i) a citizen or individual resident of the United States, (ii) a corporation or other business entity treated as a corporation created or organised under the laws of the United States or its political subdivisions, (iii) a trust subject to the control of one or more U.S. persons and the primary



supervision of a U.S. court or (iv) an estate the income of which is subject to U.S. federal income tax without regard to its source.

The U.S. federal income tax treatment of a partner in a partnership that holds Shares will depend on the status of the partner and the activities of the partnership. Partnerships should consult their tax advisers concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of Shares.

Except for the discussion under paragraph 15.3 below, this discussion assumes that the Company has not been, and will not become, a passive foreign investment company (“PFIC”).

### **15.1 Dividends**

Distributions on Shares will generally be dividend income from foreign sources to the extent of the Company’s current or accumulated earnings and profits as determined for U.S. federal income tax purposes. The dividends will not be eligible for the dividends-received deduction available to U.S. corporations. Dividends received by eligible non-corporate U.S. Holders should be taxed at the preferential rate applicable to qualified dividend income if (i) the Company qualifies for the benefits of the income tax treaty between the United States and the United Kingdom, which the Company believes it will, (ii) the Company is not a PFIC in the year of distribution or the preceding year and (iii) the holder has held the Shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date.

Dividends paid in pounds sterling will be included in income in a U.S. dollar amount based on the exchange rate in effect on the date of receipt of the dividend, whether or not the pounds are converted into U.S. dollars at that time. A U.S. Holder’s tax basis in the pounds sterling will equal the U.S. dollar amount included in income. Any gain or loss on a subsequent conversion or other disposition of the pounds sterling for a different U.S. dollar amount will be U.S. source ordinary income or loss. If dividends received in pounds sterling are converted into U.S. dollars on the day they are received, the U.S. Holder generally will not be required to recognise foreign currency gain or loss in respect of the dividend income. Dividends received by non-corporate U.S. Holders generally will be includable in computing net investment income of such U.S. Holders for purposes of the Medicare surtax.

Distributions on Shares in excess of the Company’s current and accumulated earnings and profits would be treated first as a non-taxable return of capital that would reduce the U.S. Holder’s tax basis in the Shares, and would thereafter be treated as capital gain, the tax treatment of which is discussed below under “—Dispositions”. Because the Company does not currently maintain calculations of its earnings and profits under U.S. federal income tax principles, it is expected that all distributions on Shares will generally be reported to U.S. Holders as dividends.

### **15.2 Dispositions**

A U.S. Holder generally will recognise capital gain or loss on the sale or other disposition of Shares equal to the difference between the U.S. dollar value of the amount realised and the U.S. Holder’s tax basis in the Shares. A U.S. Holder’s tax basis in the Shares will generally be the U.S. dollar cost of the Shares. The U.S. dollar cost of a Share purchased with pounds sterling will be the U.S. dollar value of the purchase price paid in the Offer. Any gain or loss generally will be treated as arising from U.S. sources. The gain or loss will be long-term capital gain or loss if the U.S. Holder’s holding period exceeds one year. Deductions for capital loss are subject to significant limitations. Gains and losses realised by non-corporate U.S. Holders generally will be includable in computing net investment income of such U.S. Holders for purposes of the Medicare surtax.

A U.S. Holder that receives pounds sterling on the sale or other disposition of the Shares will realise an amount equal to the U.S. dollar value of the pounds sterling on the date of sale or other disposition (or in the case of Shares traded on an “established securities market” that are sold by a cash basis or electing accrual basis taxpayer, the settlement date). A U.S. Holder will recognise currency gain or loss if the U.S. dollar value of the foreign currency received at the spot rate on the settlement date differs from the amount realised. A U.S. Holder will have a tax basis in the pounds sterling received equal to its value at the spot rate on the settlement date. Any foreign currency gain or loss realised on the settlement date or on a subsequent conversion of the pounds sterling into U.S. dollars will be U.S. source ordinary income or loss.

### 15.3 PFIC Considerations

Based on the Company's income, assets and business operations, the Company believes that it is not and has not been classified as a PFIC for U.S. federal income tax purposes for the current or prior taxable year. Whether the Company is a PFIC must be determined annually and will depend on the Company's activities, its gross income and the nature and quarterly market value of its assets. A non-U.S. corporation will be considered a PFIC for a taxable year if, taking into account the income and assets of 25 per cent. or more owned subsidiaries, either (i) at least 75 per cent. of its gross income is passive income or (ii) at least 50 per cent. of the quarterly average value of its assets is attributable to assets that produce or are held for the production of passive income. For the above purposes, passive income generally includes interest, dividends, annuities and other investment income. The PFIC rules provide that income derived in the active conduct of an insurance business by a corporation which is predominantly engaged in an insurance business and which would be taxed as an insurance company if it were a U.S. corporation is not treated as passive income. Income attributable to financial reserves in excess of the reasonable needs of the insurance business will not be treated as active income under the insurance company exception. Although there are no rules on how to determine when an insurance company's investments would exceed the reasonable needs of its insurance business for purposes of the PFIC rules, based on an analysis of regulations addressing analogous standards relating to whether a corporation qualifies as an insurance company for other purposes of the Code, the Company believes that it should qualify for the insurance company exception, so that its income on reserves and other assets held in connection with its insurance business will not be treated as passive income.

If the Company were a PFIC in any taxable year during which a U.S. Holder owns Shares, the U.S. Holder generally would be subject in that and subsequent years to additional taxes (including taxation at ordinary income rates and an interest charge) on any "excess distributions" received from the Company and on any gain realised from a sale or other disposition of the Shares (regardless whether the Company continued to be a PFIC). A U.S. Holder would have an excess distribution to the extent that distributions on Shares during a taxable year exceed 125 per cent. of the average amount received during the three preceding taxable years (or, if shorter, the U.S. Holder's holding period). To compute the tax on excess distributions or any gain, (i) the excess distribution or gain would be allocated rateably over the U.S. Holder's holding period, (ii) the amount allocated to the current taxable year and any year before the Company became a PFIC would be taxed as ordinary income in the current year and (iii) the amount allocated to other taxable years would be taxed at the highest applicable marginal rate in effect for each year (i.e., at ordinary income tax rate) and an interest charge would be imposed to recover the deemed benefit from the deferred payment of the tax attributable to each earlier year. In addition, dividends on the Shares also would not be eligible for the preferential tax rate applicable to qualified dividend income.

A U.S. Holder may be able to avoid some of the adverse impacts of the PFIC rules described above with respect to Shares by electing to mark the Shares to market annually. The election is available only if Shares are traded in more than *de minimis* quantities on the London Stock Exchange. Any gain from marking Shares to market or from disposing of them would be ordinary income. Any loss from marking Shares to market would be recognised only to the extent of unreversed gains previously included in income. Loss from marking Shares to market would be ordinary, but loss on disposing of them would be capital loss except to the extent of mark to market gains previously included in income. Each U.S. Holder should ask its own tax advisor whether a mark to market election is available or desirable. A valid mark to market election cannot be revoked without the consent of the U.S. Internal Revenue Service ("IRS") unless the Shares cease to be marketable.

A U.S. Holder would not be able to avoid the tax consequences described above by electing to treat the Company as a qualified electing fund ("QEF") because the Company does not intend to provide U.S. Holders with the information that would be necessary to make a QEF election with respect to Shares.

U.S. Holders should consult their own tax advisors concerning the Company's possible PFIC status and the consequences to them if the Company were a PFIC for any taxable year.

### 15.4 FATCA Withholding

If the Company is an FFI, the Company may be required to withhold on foreign passthru payments paid in respect of beneficial owners or through intermediaries that (i) are other FFIs that have not entered into an FFI Agreement (or are not otherwise exempt from or in deemed compliance with FATCA under an applicable IGA) and (ii) do not provide sufficient information about themselves to determine the beneficial ownership of the Shares. Although the Company does not expect any distributions on the Shares

to be foreign passthru payments, no rules have been issued defining what constitutes a foreign passthru payment and thus no assurance can be made that payments in respect of the Shares will not be subject to withholding under FATCA. However, under present law there will be no withholding on foreign passthru payments under FATCA prior to 1 January 2017, at the earliest. If an amount were required to be withheld from any payment on the Shares under FATCA, neither the Company nor any other person would be required to pay additional amounts as a result of such withholding.

### ***15.5 Reporting and Backup Withholding***

Dividends on Shares and proceeds from the sale or other disposition of Shares may be reported to the U.S. Internal Revenue Service unless the holder establishes a basis for exemption. Backup withholding tax may apply to amounts subject to reporting. Any amount withheld may be credited against the holder's U.S. federal income tax liability subject to certain rules and limitations.

Certain U.S. Holders may be required specifically to report their investment in Shares to the IRS on Form 926. Recently enacted legislation also requires certain U.S. Holders to report information with respect to investments in Shares not held through an account with a domestic financial institution. U.S. Holders that fail to report required information could become subject to substantial penalties. Potential investors are encouraged to consult with their own tax advisors about these and any other reporting obligations arising from their investment in Shares.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT ITS OWN TAX ADVISER ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN SHARES IN LIGHT OF THE INVESTOR'S OWN CIRCUMSTANCES.

## **16. Mandatory bids and compulsory acquisition rules relating to Shares**

Other than as provided by the UK City Code on Takeovers and Mergers (the "Takeover Code") and Chapter 28 of the Companies Act, there are no rules or provisions relating to mandatory bids and/or squeeze-out and sell-out rules that apply to the Shares.

### ***16.1 Mandatory bid***

The Takeover Code applies to the Company. Under Rule 9 of the Takeover Code, if an acquisition of interests in shares were to increase the aggregate holding of the acquirer and its concert parties to interests in shares carrying 30 per cent. or more of the voting rights in the Company, the acquirer and, depending on circumstances, its concert parties would be required (except with the consent of the Panel on Takeovers and Mergers) to make a cash offer for the outstanding shares in the Company at a price not less than the highest price paid for interests in shares by the acquirer or its concert parties during the previous 12 months. This requirement would also be triggered by any acquisition of interests in shares by a person holding (together with its concert parties) shares carrying between 30 per cent. and 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase that person's percentage of the total voting rights in the Company.

### ***16.2 Rule 9 disclosures***

#### ***16.2.1 Stabilisation arrangements in connection with the Offer***

Under the stabilisation arrangements described in paragraph 6 of Part 16 "The Offer", the Stabilising Manager may borrow Shares (representing in aggregate up to 15 per cent. of the Shares available in the Offer) from Avallux under the terms of the Stock Lending Agreement for the purposes of satisfying over-allotments of Shares. The Stabilising Manager will, within 30 calendar days of the date of the commencement of conditional dealings of the Shares on the London Stock Exchange, redeliver to Avallux any equivalent securities in respect of any borrowing it makes under the terms of the Stock Lending Agreement by transferring the same number of Shares to Avallux as the Stabilising Manager has borrowed from Avallux. The Stabilising Manager may also utilise the Over-allotment Option to acquire Shares representing in aggregate up to 15 per cent. of the Shares available in the Offer (prior to the utilisation of the Over-allotment arrangements) from Avallux, whereupon Avallux will be obliged to transfer such Shares to the Stabilising Manager.

As a result of the combined effect of lending Shares pursuant to the Stock Lending Agreement and granting the Over-allotment Option, Avallux's shareholding in the Company can only remain the same or decrease from what its shareholding would be if it were not party to any stabilisation arrangements. In particular, Avallux's shareholding in the Company will decrease by the number of Shares (if any) which the Stabilising Manager (i) borrows from Avallux under the terms of the Stock Lending Agreement and/or (ii) acquires from Avallux pursuant to utilisation of the Over-allotment Option. At the end of the Stabilisation Period, Avallux's shareholding in the Company will increase again when the Stabilising Manager transfers back to Avallux the number of Shares lent to the Stabilising Manager under the Stock Lending Agreement.

The Panel has confirmed, on an ex parte basis, to the Company that no mandatory offer for the Company need be made as a result of an increase in Avallux's shareholding in the Company as a result of the arrangements and transactions described above. In particular, the Takeover Panel has confirmed that, pursuant to Note 4 to the definition of "Interests in securities" in, and Notes 17 and 18 to Rule 9.1 of, the Takeover Code, Avallux will not be treated as having disposed of an interest in any Shares when it lends Shares to the Stabilising Manager under the Stock Lending Agreement and will not therefore be treated as having increased its interest in Shares upon the repayment of such loan.

An announcement will be made by the Company or by the Stabilising Manager on its behalf following utilisation of the Over-allotment Option, not later than one week after the end of the stabilisation period, and a further announcement will be made to record the movements that have taken place in Avallux's shareholding in the Company consequent upon the arrangements referred to above.

#### *16.2.2 Acquisitions of further shares following Admission*

Prospective investors should be aware that, depending on the Offer size, following Admission, Avallux may continue to hold more than 50 per cent. of the Company's voting share capital and may, accordingly, be able to increase its aggregate shareholding without incurring any obligation under Rule 9 to make a general offer.

#### *16.2.3 Whitewash procedure*

When a company redeems or purchases its own voting shares, under Rule 37 of the Takeover Code any resulting increase in the percentage of shares carrying voting rights in which a person or group of persons acting in concert is interested will be treated as an acquisition for the purpose of Rule 9 of the Takeover Code. Rule 37 of the Takeover Code provides that, subject to prior consultation, the Panel will normally waive any resulting obligation to make a general offer if there is a vote of independent shareholders and a procedure along the lines of that set out in Appendix 1 to the Takeover Code is followed. Appendix 1 to the Takeover Code sets out the procedure which should be followed in obtaining that consent of independent shareholders. Under Note 1 on Rule 37.1 of the Takeover Code, a person who comes to exceed the limits in Rule 9.1 in consequence of a company's purchase of its own shares will not normally incur an obligation to make a mandatory offer unless that person is a director, or the relationship of the person with any one or more of the directors is such that the person is, or is presumed to be, acting in concert with any of the directors. Under the terms of the Relationship Agreement, Avallux will have the right to nominate one non-executive director for appointment to the board of directors of the Company for so long as Avallux together with its associates is entitled to exercise or control the exercise of 15 per cent. or more of the votes able to be cast on all or substantially all matters at general meetings of the Company.

Under Note 2 on Rule 37 of the Takeover Code, the exception in Note 1 on Rule 37 described above will not apply, and an obligation to make a mandatory offer may therefore be imposed, if a person (or any relevant member of a group of persons acting in concert) has acquired an interest in shares at a time when it or they had reason to believe that such a purchase of its own shares by the Company would take place. However, Note 2 will not normally be relevant unless the relevant person has knowledge that a purchase for which requisite shareholder authority exists is being, or is likely to be, implemented (whether in whole or in part).

The Panel must be consulted in advance in any case where Rule 9 of the Takeover Code might be relevant. This will include any case where a person or group of persons acting in concert is interested in shares carrying 30 per cent. or more but does not hold shares carrying more than 50 per cent. of the voting rights of a company, or may become interested in 30 per cent. or more on full implementation of the proposed purchase by the Company of its own shares. In addition, the Panel should always be consulted if the aggregate interests in shares of the directors and any other persons acting in concert, or presumed to be

acting in concert, with any of the directors amount to 30 per cent. or more, or may be increased to 30 per cent. or more on full implementation of the proposed purchase by the Company of its own shares.

Subject to certain limits, the Company has authority to purchase Shares under the terms of the shareholder resolution summarised in paragraph 1.6.4 of this Part 17. The maximum number of Shares that the Company may purchase under this authority is 50,000,000. The authority shall expire on the date that is 18 months from the passing of the relevant resolution or, if earlier, at the end of the annual general meeting of the Company to be held in 2014. Assuming (i) no exercise of the Over-allotment Option, (ii) the Company issues no additional Shares and (iii) the Company, pursuant to the above-described authority, purchases the maximum number of Shares from Shareholders other than Avallux, Avallux would own beneficially approximately 69.3 per cent. of the issued ordinary share capital of the Company.

Notwithstanding the provisions of Rule 37 of the Takeover Code, the Panel has confirmed that there is no obligation that would otherwise require Avallux and any person deemed to be acting in concert with Avallux to make a mandatory offer under Rule 9 of the Takeover Code on the grounds that its or their interest in the Shares has increased as a result only of the purchase by the Company of its own shares pursuant to the authority conferred by the written resolution summarised above. The Company currently expects to seek renewal of that authority from Shareholders at the first annual general meeting of the Company following Admission and may (if applicable) seek Shareholder consent to an equivalent waiver in respect of any renewed authority to purchase Shares that is sought. The granting of any such waiver would then also be subject to renewed approval from the Panel, without which Rule 9 of the Takeover Code will typically apply with respect to increases in interests in Shares in the Company caused by the purchase by the Company of its own shares.

## **17. Enforcement and Civil Liabilities under U.S. Federal Securities Laws**

The Company is a public limited company incorporated under English law. Many of the Directors are citizens of the United Kingdom (or other non-U.S. jurisdictions), and a portion of the Company's assets are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Directors or to enforce against them in the U.S. courts judgments obtained in U.S. courts predicated upon the civil liability provisions of the U.S. federal securities laws. There is doubt as to the enforceability in England, in original actions or in actions for enforcement of judgments of the U.S. courts, of civil liabilities predicated upon U.S. federal securities laws.

## **18. Litigation**

There are no governmental, legal or arbitration proceedings (including such proceedings which are pending or threatened of which the Company is aware) during the 12 months preceding the date of this document, which may have, or have had a significant effect on the Company's and/or the Group's financial position or profitability.

## **19. Related Party Transactions**

Save as described in Just Retirement Group Holdings Limited's audited consolidated financial information for the three years ended 30 June 2013, 2012 and 2011 set out in Part 12 "Historical Financial Information", there are no related party transactions between the Company or members of the Group that were entered into during the financial years ended 30 June 2013, 2012 and 2011 and during the period between 1 July 2013 and 11 November 2013 (the latest practicable date prior to the publication of this document).

## **20. Working Capital**

In the opinion of the Company, taking into account the net proceeds receivable by the Company from the New Shares available in the Offer, the working capital available to the Group is sufficient for the Group's present requirements, that is for the next 12 months following the date of this document.

## **21. No Significant Change**

There has been no significant change in the financial or trading position of the Company since 13 June 2013, being the date of its incorporation.

There has been no significant change in the financial or trading position of the Group since 30 June 2013, the date to which the last audited consolidated accounts of the Group were prepared.



## **22. Consents**

KPMG Audit Plc is a member firm of the Institute of Chartered Accountants in England and Wales and has given and has not withdrawn its written consent to the inclusion of the reports in Part 12 “Historical Financial Information”, Part 13 “Unaudited Pro Forma Financial Information”, Section A “Group EEV” of Part 14 “European Embedded Value Supplementary Information” and Section B “Pro Forma Group EEV” of Part 14 “European Embedded Value Supplementary Information”, in the form and context in which they appear and has authorised the contents of those parts of this document which comprise its reports for the purposes of Rule 5.5.3R(2)(f) of the Prospectus Rules. As the Shares have not been and will not be registered under the Securities Act, KPMG have not filed and will not file a consent under the Securities Act.

## **23. General**

- 23.1 The fees and expenses to be borne by the Company in connection with Admission including the Underwriters’ commission, the FCA’s fees, professional fees and expenses and the costs of printing and distribution of documents are estimated to amount to approximately £20 million (including VAT).
- 23.2 The financial information contained in this document does not amount to statutory accounts within the meaning of section 434(3) of the Act. Full audited accounts have been delivered to the Registrar of Companies for the Company for the period from 1 July 2012 to 30 June 2013, from 1 July 2011 to 30 June 2012, and from 1 July 2010 to 30 June 2011.
- 23.3 Each New Share is expected to be issued at a premium of 215 pence to its nominal value of 10 pence.

## **24. Documents Available for Inspection**

Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of 12 months following Admission at the offices of Freshfields Bruckhaus Deringer LLP at 65 Fleet Street, London EC4Y 1HS:

- (a) the Articles of Association of the Company;
- (b) the consolidated financial information of the JRGHL Group for the three years ended 30 June 2013, 2012 and 2011, as reported on by KPMG Audit Plc, which are set out in Part 12 “Historical Financial Information”;
- (c) the report from KPMG Audit Plc on the pro forma financial information, which is set out in Section B of Part 13 “Unaudited Pro Forma Financial Information”;
- (d) the report from KPMG Audit Plc on European Embedded Value, which is set out in Section A of Part 14 “European Embedded Value Supplementary Information”;
- (e) the report from KPMG Audit Plc on the pro forma EEV financial information, which is set out in Section B of Part 14 “European Embedded Value Supplementary Information”;
- (f) the consent letter referred to in “Consents” in paragraph 22 above; and
- (g) this document.

Dated: 12 November 2013



## PART 18 DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

“Act”	the Companies Act 2006, as amended
“Admission”	the admission of the ordinary shares to the premium listing segment of the Official List and to trading on the London Stock Exchange’s main market for listed securities
“Articles”	the Articles of Association of the Company to be adopted upon Admission
“Avallux”	Avallux S.à r.l.
“Board”	the board of directors of the Company
“Company”	Just Retirement Group plc
“CREST”	the UK based system for the paperless settlement of trades in listed securities, of which Euroclear UK and Ireland Limited is the operator
“Customer Agreed Remuneration”	the policy introduced by the RDR whereby fees from customers replace commissions paid by manufacturers
“Director and Senior Management Selling Shareholders”	certain Directors and certain members of Senior Management
“Directors”	The directors of the Company, whose names appear on page 88 of this document
“Disclosure and Transparency Rules”	the Disclosure and Transparency Rules of the FCA made for the purposes of part VI of the FSMA in relation to the disclosure of information by an issuer whose financial instruments are admitted to trading on a regulated market in the United Kingdom
“EBT”	the Just Retirement Employee Benefit Trust
“EBT Trustee”	Ogier Employee Benefit Trustee Limited
“EEA”	the European Economic Area
“EU”	the European Union
“Exchange Act”	United States Securities Exchange Act of 1934, as amended
“Executive Directors”	the executive Directors of the Company
“Existing Shares”	existing ordinary shares be sold as part of the Offer by the Selling Shareholders (excluding, for the avoidance of doubt, the Over-allotment Shares)
“FCA”	the Financial Conduct Authority
“FSA”	the Financial Services Authority
“FSCS”	the Financial Services Compensation Scheme
“FSMA”	the Financial Services and Markets Act 2000, as amended
“GENPRU”	General Prudential Sourcebook for Banks, Building Societies, Insurers and Investment Firms
“General Re”	General Reinsurance, London Branch

the “Group” or “Just Retirement” . . .	Just Retirement (Holdings) Limited and each of its consolidated subsidiaries and subsidiary undertakings prior to the completion of the Reorganisation steps as set out in paragraph 3 of Part 15 “Reorganisation of the Group” (which is expected to be immediately prior to Admission) and, thereafter, the Company and its consolidated subsidiaries and subsidiary undertakings from time to time
“Hannover Re” . . . . .	Hannover Rueck SE
“HMRC” . . . . .	HM Revenue and Customs
“IFRS” . . . . .	International Financial Reporting Standards, as adopted by the European Union
“Infexpert” . . . . .	COR Infexpert AG
“INSPRU” . . . . .	the PRA’s Interim Prudential Sourcebook for Insurers
“Joint Global Co-ordinators” and “Joint Bookrunners” . . . . .	Deutsche Bank AG, London Branch and Nomura International plc
“Listing Rules” . . . . .	the listing rules of the FCA made under section 74(4) of the FSMA
“London Stock Exchange” . . . . .	London Stock Exchange plc
“Management Shareholders” . . . . .	The Directors, Senior Management and other employees of the Group who hold shares either directly or via (i) in the case of certain Non-Executive Directors, Ogier Nominee Holdings Limited; and (ii) in the case of other Directors, Senior Management and employees, the EBT Trustee
“New Shares” . . . . .	new ordinary shares in the capital of the Company to be allotted and issued as part of the Offer
“NEST” . . . . .	National Employment Savings Trust
“Non-Executive Directors” . . . . .	the non-executive Directors
“Offer Price” . . . . .	the price at which each Share is to be issued or sold under the Offer
“Official List” . . . . .	the Official List of the FCA
“OFT” . . . . .	the Office of Fair Trading
“Over-allotment Option” . . . . .	the option granted to the Stabilising Manager by the Over-allotment Shareholder to purchase, or procure purchasers for, up to 22,880,243 additional ordinary shares as more particularly described in Part 16 “The Offer”
“Over-allotment Shareholder” . . . . .	Avallux
“Over-allotment Shares” . . . . .	the ordinary shares the subject of the Over-allotment Option
“PCAOB” . . . . .	the Public Company Accounting Oversight Board (United States)
“PRA” . . . . .	the Prudential Regulation Authority
“Prospectus” . . . . .	the final prospectus as approved by the FCA as a prospectus prepared in accordance with the Prospectus Rules made under section 73A of the FSMA
“Prospectus Directive” . . . . .	Directive (2003/71/EC) (and amendments thereto, including the 2010 Prospectus Directive Amending Directive, to the extent implemented in the Relevant Member State) and any relevant implementing measure in each Relevant Member State
“Prospectus Directive Amending Directive” . . . . .	Directive (2010/73/EU)

“Prospectus Rules” . . . . .	the rules of the FCA made for the purposes of Part VI of the FSMA in relation to offers of transferable securities to the public and admission of transferable securities to trading on a regulated market and brought into effect on 1 July 2005 pursuant to Commission Regulation (EC) No.809/2004
“qualified institutional buyers” or “QIBs” . . . . .	has the meaning given by Rule 144A
“Qualified Investors” . . . . .	persons who are “qualified investors” within the meaning of Article 2(1)(e) of the Prospectus Directive
“Registrars” . . . . .	Equiniti Limited
“Regulation S” . . . . .	Regulation S under the Securities Act
“Relevant Member State” . . . . .	a member state of the European Economic Area which has implemented the Prospectus Directive
“Reorganisation” . . . . .	the reorganisation of the Group, as described in Part 15 “Reorganisation of the Group”
“Reinsurance Group of America” . . .	RGA International and RGA Americas
“RGA Americas” . . . . .	RGA Americas Reinsurance Company, Ltd.
“RGA International” . . . . .	RGA International Reinsurance Company Limited
“Rule 144A” . . . . .	Rule 144A under the Securities Act
“SDRT” . . . . .	stamp duty reserve tax
“Securities Act” . . . . .	United States Securities Act of 1933, as amended
“Selling Shareholders” . . . . .	Avallux, the Director and Senior Management Selling Shareholders, Michael Fuller, Ogier Employee Benefit Trustee Limited (acting in its capacity as trustee of the EBT), Ogier Nominee Holdings Limited (acting in its capacity as nominee for certain Director and Senior Management Selling Shareholders) and Ogier Employee Benefit Trustee Limited (acting in its capacity as trustee of the EBT acting in its capacity as nominee for certain Director and Senior Management Selling Shareholders), as detailed in paragraph 5.3 of Part 17 “Additional Information”
“Senior Management” . . . . .	those members of the management bodies of the Company and its subsidiaries who are relevant to establishing that the Company has the appropriate expertise and experience for the management of its business for the purposes of item 14.1 of Annex I of the Prospectus Rules, being those persons named in Part 8 “Directors, Senior Management and Corporate Governance”
“Shareholders” . . . . .	the holders of Shares
“Shares” . . . . .	the ordinary shares of 10 pence each in the capital of the Company
“Stabilising Manager” . . . . .	Deutsche Bank AG, London Branch
“UK” . . . . .	the United Kingdom of Great Britain and Northern Ireland
“Underwriters” . . . . .	Deutsche Bank AG, London Branch; Nomura International plc; Execution Noble Limited; Keefe, Bruyette & Woods Limited; and Panmure Gordon (UK) Limited
“Underwriting Agreement” . . . . .	the underwriting agreement entered into between the Company, the Directors, the Selling Shareholders and the Underwriters, as described in paragraph 9.1 of Part 17 “Additional Information”
“United States” or “U.S.” . . . . .	the United States of America, its territories and possessions, any State of the United States of America, and the District of Columbia
“U.S. GAAP” . . . . .	accounting principles generally accepted in the United States
“U.S. GAAS” . . . . .	auditing standards generally accepted in the United States

## PART 19 GLOSSARY

The following definitions apply throughout this document unless the context requires otherwise:

“ABI”	Association of British Insurers
“CAGR”	compound annual growth rate
“CRR”	capital resources requirement
“buy-in”	to take over the responsibility of meeting the cost of a pension promise made by a pension fund to its members.
“buy-out”	to take over the responsibility from the trustees and sponsor of a pension fund for meeting the pension promise made by that fund to its members
“credit spread”	the difference in yields between any given fixed income security and some risk-free benchmark security, determined as a function of the assessment of the credit risk of the fixed income security
“day-one”	on the first day, that is, from the sale/provision of an annuity, for example, in the context of profits or capital generated from sales
“DB”	defined benefit
“DB de-risking”	the buy-in or buy-out of small and mid-sized defined benefit schemes via a single premium paid by the trustees of the pension scheme to secure either a single insurance policy, in the case of a buy-in, or many individual insurance policies to each member, in the case of a buy-out
“de-risk”	to reduce the amount of risk; in the case of annuities, to reduce either longevity risk or investment risk through reinsurance
“DC”	defined contribution
“EBC”	employee benefit consultant
“FTAs”	fixed term annuities
“GWP”	gross written premium or gross premiums written, the line item on the Group’s consolidated income statement which reflects the revenue recognised in respect of premiums paid for its policies
“INA”	immediate needs annuity, otherwise known as a care annuity, which is designed to provide income for life to fund care costs in return for a one-off premium and is designed for adults requiring immediate financial support with their long-term care costs
“IP”	intellectual property
“IUAs”	individually underwritten annuities which offer individuals with lifestyle or medical factors which are expected to result in shorter life expectancy with superior annuity rates
“JR Merica”	the automated underwriting system licensed from Infexpert with the consent of Hannover Re (one of the Group’s leading reinsurers) that informs the Group’s annuity pricing model
“longevity risk”	the risk that an individual will live longer than expected
“LTMs”	life-time mortgages
“mortality risk”	the risk that an individual will not live as long as expected
“MPLE”	maximum probable life expectancy, which represents life expectancies for healthy male and female lives between 20 and 110 years as calculated by the Group’s actuarial department and which is used as a guideline for making life expectancy reductions on persons purchasing annuities

“NEST” . . . . .	the National Employment Savings Trust, a workplace pension scheme
“NNEG” . . . . .	no-negative equity guarantee, which is incorporated into the Group’s LTMs and ensures that a borrower’s liability to repay interest and principal at the time of repayment will never exceed the sale price of the property against which such liability is secured, thereby guaranteeing that no borrower will owe more than the value of the property securing his or her LTM and no debt will ever be left to his or her estate as a consequence of such mortgage
“OMO” . . . . .	open market option, which allows an individual to use pension savings from any pension fund to purchase an annuity from any annuity provider and enables the individual to shop around for the best available retirement product from all providers rather than take a default annuity product from the company where the pre-retirement accumulation of assets took place
“Pillar 1” . . . . .	EU-directive-based Pillar 1 capital requirements
“Pillar 2” . . . . .	the PRA’s Pillar 2 risk-based capital requirements that have been implemented in the United Kingdom;
“Prognosis <sup>TM</sup> ” . . . . .	a next generation underwriting system, which is based on individual mortality curves derived from Just Retirement’s own data collected since its launch in 2004
“Solvency II” . . . . .	a new directive in relation to solvency requirements and other matters approved by the European Parliament and Council of the European Union on 22 April 2009 and 10 November 2009, respectively
“SPE” . . . . .	single premium equivalent, which is calculated as total single premiums plus 10 times annual regular premiums; an industry accepted measure of revenue
“tele-underwriting” . . . .	the process whereby a scripted caller or underwriter calls an applicant and records such applicant’s medical data via a telephone call as opposed to a face-to-face meeting at the point of sale, which is the traditional underwriting process
“TPIE” . . . . .	total pension income exchange, where a population of pension scheme members are able to purchase an annuity in exchange for the cash equivalent value of a DB scheme
“triage” . . . . .	to sort based on certain characteristics; in the case of IUAs, it refers to the classification of potential annuitants on the basis of their level of medical impairment or particular sets of lifestyle factors, such as smoking or obesity
“underwrite” . . . . .	in the context of annuities, to perform an assessment of the life expectancy of an individual when he or she applies for an annuity in order to evaluate risk and price the annuity appropriately





