JRP Group plc

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10 March 2017

JRP GROUP PLC
PRELIMINARY RESULTS FOR THE 18 MONTH PERIOD ENDED 31 DECEMBER 2016
SUSTAINABLE PROFIT GROWTH IN ATTRACTIVE MARKETS

Highlights

- **Pro forma adjusted operating profit grew 58% in calendar year 2016 to £164m**. The increase was driven by an 82% growth in new business profit to £124m. IFRS statutory profit before tax for the 18 months to December 2016 was £199m
- **New business margin more than doubled**. JRP focused on profit rather than volume in 2016, with Retirement Income sales falling 13%, but IFRS new business margins increasing from 3.3% to 6.8%. Margin expansion was driven by price improvements, enhanced risk selection, and unusually high mortgage spreads
- **£30m run rate synergies achieved out of the £45m 2018 target**. The merger integration delivered run rate savings of £30m by the end of 2016, one year ahead of schedule
- **Capital resilient, dividend growth resumes**. We estimate the Group Solvency II coverage ratio rose to 151% at year-end (H1 2016: 134%), helped by our Q4 £250m hybrid debt issue. The Board proposes a 2.4p final dividend, taking the calendar year total to 3.5p, a 6% increase. Embedded value 219p per share

Rodney Cook, Group Chief Executive, said:
"I am truly proud of what our team achieved in 2016. To deliver a step change in profit at the same time as our merger and Solvency II implementation is very special. Fortunately, there is more to come.

Our focus is on growing profits, but this will be helped by market growth. This is clearest in the DB de-risking and lifetime mortgage markets, where growth is already underway. Although GIfL market growth is more measured, our addressable market is growing as pensions companies put broking services in place to give their retiring customers access to the open market. It is easier for us to be selective with respect to the risks we take when markets are growing. The 2016 margins demonstrated this, and we remain selective in relation to new business.

We are now in the later stages of the merger integration process. There are significant further savings to make, but now in more complex areas such as systems and IT. Our staff have shown considerable adaptability over the last year, and we appreciate their commitment despite the additional pressures of the merger.

We also strengthened the merged Group's capital position during the year, particularly through the issuance of hybrid debt during Q4. Our approach to new business has reduced capital consumption, and in underlying terms our year end figure was little changed from the prior year level. Given our solid 151% Solvency II coverage ratio I am delighted the board has proposed a return to dividend growth.

In summary, our merger has catalysed a transformation of our earnings potential, and there are opportunities ahead of us. It is an exciting time to be serving JRP's shareholders and we will strive to deliver further positive momentum during 2017."

Note

The merger of Just Retirement and Partnership is required for accounting purposes to be treated as an acquisition by Just Retirement of Partnership with an effective date of the beginning of April 2016. Just Retirement Group plc (renamed JRP Group plc) changed its year end to 31 December and consequently the statutory information includes 18 months of Just Retirement and nine months results of Partnership. As a consequence pro forma calendarised data as though the merger took place at the beginning of January 2015 have been presented to give the market an understanding of the business of the merged Group.

FINANCIAL CALENDAR	**DATE**
Annual General Meeting	18 May 2017
Record date for proposed final dividend	5 May 2017
Payment of final dividend, subject to shareholder approval	26 May 2017
Expected announcement of interim results for the six months ending 30 June 2017	13 September 2017

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A presentation for analysts will take place at 10.00am today at Numis Securities Limited, The London Stock Exchange Building, 10 Paternoster Square, London EC4M 7LT. A live webcast will also be available on www.jrpgroup.com at 10.00am.

Due to security restrictions at the venue attendance is limited to those who have registered.

A copy of this announcement, presentation slides and transcript will be available on the Group's website www.jrpgroup.com

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Forward-looking statements disclaimer:

This announcement in relation to JRP Group plc and its subsidiaries (the 'Group') contains, and we may make other statements (verbal or otherwise) containing, forward-looking statements about the Group's current plans, goals and expectations relating to future financial conditions, performance, results, strategy and/or objectives.

Statements containing the words: 'believes', 'intends', 'expects', 'plans', 'seeks', 'targets', 'continues' and 'anticipates' or other words of similar meaning are forward-looking (although their absence does not mean that a statement is not forward-looking). Forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the Group's control. For example, certain insurance risk disclosures are dependent on the Group's choices about assumptions and models, which by their nature are estimates. As such, although the Group believes its expectations are based on reasonable assumptions, actual future gains and losses could differ materially from those that we have estimated.

Other factors which could cause actual results to differ materially from those estimated by forward-looking statements include but are not limited to: domestic and global economic and business conditions; asset prices; market-related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of governmental and/or regulatory authorities including, for example, new government initiatives related to the provision of retirement benefits or the costs of social care and the effect of the European Union's Solvency II requirements on the Group's capital maintenance requirements; the impact of inflation and deflation; market competition; changes in assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, gender pricing and lapse rates); risks associated with arrangements with third parties, including joint ventures and distribution partners; inability of reinsurers to meet obligations or unavailability of reinsurance coverage; the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which the Group operates.

As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in the forward-looking statements within this announcement. The forward-looking statements only speak as at the date of this document and the Group undertakes no obligation to update or change any of the forward-looking statements contained within this announcement or any other forward-looking statements it may make. Nothing in this announcement should be construed as a profit forecast.

Group Chief Executive Officer's Operating Review

"We are focusing on profits and in 2016 have delivered increasing new business margins and increasing new business profits"

I am delighted to present the first CEO's Operating Review for the new JRP Group plc. This has been a challenging period for the two predecessor businesses and for the new Group. I am very pleased to be able to report a very strong performance that has been achieved while making significant progress in transforming and integrating our businesses and delivering our merger synergies.

The backdrop to these results is the unprecedented upheaval in our markets following the introduction of the Pension Freedoms in 2015, the implementation of Solvency II capital requirements in 2016 and the interest rate volatility both before and after the Brexit Referendum result. We took decisive action and responded to the changes in the external environment by innovating and using our intellectual property to penetrate new markets and grow our profits in existing ones. Our results for 2016 demonstrate that we have successfully done that.

The competitive landscape in the GIfL market is changing because of prudential regulatory interventions on capital through Solvency II and conduct intervention by the FCA, the combination of which has resulted in a number of major companies changing their business models and introducing open market GIfL broking services to replace their internal only manufacturing arrangements. Political and regulatory risks continue to exist within the pension environment as government and regulatory policies continue to evolve. At present we judge that these factors, coupled with the structural growth drivers for defined contribution pension savings will result in our addressable market increasing.

Combining the IP of Just Retirement and Partnership on GIfL policyholder mortality means that we have a significant competitive advantage in underwriting and pricing new business. We are using this advantage to better select risks and, given our addressable markets are expected to grow, we will only target business that meets our stringent profit and capital objectives.

The results in 2016 demonstrate our ability to use our strengths to improve profitability and grow new business profits without increasing sales. We have increased pro forma new business margins from 3.3% to pre-Pension Freedom levels of 6.8% in the last year. Despite lower pro forma new business sales, we are still a high-growth business, with new business far outstripping maturing business.

Our capital position has proved resilient over a period of significant market turbulence in the run-up to, and aftermath of, the EU Referendum vote. We have achieved this by focussing on pricing discipline on new business and prudent management of the balance sheet. The Group Solvency Capital Requirement ("SCR") coverage ratio increased from a pro forma 136% at 1 January 2016 to 151% at 31 December 2016. This ratio was boosted by the £250m of Tier 2 debt issued in October. Ignoring the impact of this debt issuance, the capital ratio was unchanged over the second half of 2016 despite writing £1.2bn of new business.

Looking forward, our current expectation is that the Solvency II new business capital strain will be a mid-single digit percentage of premium fully loaded for post-synergy expenses. We expect shareholder capital deployed on new business to earn a mid-teen return. These views are dependent on a number of factors. These include customer rates on DB, GIfL and LTM business, financial market conditions (for example, credit spreads and risk-free rates), reinsurance terms and any changes to the Solvency II regime as applied to our business.

There has been increased competition in the LTM market in 2016. This may in due course lead to pricing pressure, however, the developments in the lifetime mortgage market in 2016 have been very supportive to our business model. We use LTM to back our GIfL and DB De-risking business as these mortgage assets are a very good match for the long-term nature of our liabilities. This is currently a supply constrained market and we see new entrants as beneficial to customers and market growth.

Our multi-channel distribution and strategic funding relationships with other providers positions us well to maintain our position as a leader in the LTM market.

The LTM market has grown by c.30% in 2016 as new entrants provide more mortgage supply and increasing numbers of customers are disposed to using their housing wealth to support their needs in later life. We do not set LTM market share targets. We select the risks that deliver our profit targets and in 2016 we have been able to originate more than sufficient new mortgage business to support the GIfL and DB new business sales.

We are ahead of schedule in capturing the synergy benefits from the merger and have increased our target from £40m to £45m by the end of 2018. Integration of the two businesses is a complex process that may ultimately take longer or cost more than anticipated. However so far we have delivered annualised run rate cost savings of £30m to date and are on track to deliver our revised target of £45m of annualised savings. As these benefits are realised, they will contribute further to our new business profitability.

We have made great progress over the last year in positioning ourselves to deliver value to our shareholders. However, we are not complacent and we will remain focussed on capturing the remaining expense benefits of the merger and expanding access to our addressable markets such that we may deploy our IP to select only those risks that enable us to grow our profits, and use our capital wisely.

Performance review - pro forma

The merger of Just Retirement and Partnership is required for accounting purposes to be treated as an acquisition by Just Retirement of Partnership with an effective date of the beginning of April 2016. As a consequence, pro forma financial performance measures on a calendar year basis, as though the merger took place at the beginning of January 2015, have been presented to give a better understanding of the business of the merged Group. Pro forma financial information is shown in this CEO Operating Review. The underlying assumptions have been aligned to be consistent across both Group companies. Pro forma information is unaudited. A reconciliation of pro forma financial information to statutory financial information is given after the CEO review.

New business sales - pro forma basis (unaudited)

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Defined Benefit De-risking Solutions ("DB")	**943.4**	1,233.3
Guaranteed Income for Life Solutions ("GIfL")	**778.1**	762.8
Care Plans ("CP")	**97.2**	92.2
Retirement income sales	**1,818.7**	2,088.3
Drawdown	**25.2**	20.6
Total retirement sales	**1,843.9**	2,108.9
Protection	**4.7**	5.1
LTM loans advanced	**559.3**	598.0
Total new business sales	**2,407.9**	2,712.0

New business sales represent sales for the year ended 31 December 2016 for both Just Retirement and Partnership, together with comparative information on a pro forma basis representing sales for the year ended 31 December 2015 for both Just Retirement and Partnership.

Total new business sales for the Group decreased by 11%, from £2,712.0m for the year ended 31 December 2015, to £2,407.9m for the year ended 31 December 2016. The drivers for this decrease are explained below.

Defined Benefit De-risking sales

DB sales for the year ended 31 December 2016 were down 24% compared to the same period in the prior year, falling from £1,233.3m to £943.4m. This result is as expected, given exceptionally high sales in the second half of 2015 as a result of sales being brought forward before the introduction of Solvency II on 1 January 2016. Underlying growth is better considered by looking at 2016 sales compared to 2014 sales, which were up 37%.

Following the Solvency II disruption, sales momentum grew through 2016 with sales in the second half of the year of £779m, which was approaching five times the £164m sales in the first half.

Prospects for growth for this proposition remain strong. The total market DB liabilities are anticipated to be some £2 trillion, but our primary focus is on the 'Buy–in' sub-sector which de-risks pensions already in payment. This category makes up 39% of the DB market liabilities, so our addressable market of pensions in payment may be around £600bn. Our proposition works for every DB scheme in the market, including those with billions of pounds of liabilities, but we focus our participations on transactions below the £250m level. Over the last few years the market value of DB de-risking transactions has been in a corridor of £8bn-£15bn per year which, given the size of the market liabilities, illustrates there is significant headroom for growth during the next decade.

It is also worth noting the emergence of a further £100bn of life company annuity back book transfers in 2016, which has created competition for already scarce de- risking capital. Altogether we expect the DB de-risking market will continue to grow, and the demand dynamics appear sustainable.

GIfL sales

GIfL sales for the year ended 31 December 2016 have increased by 2% compared to the same period in the prior year (2016: £778.1m; 2015: £762.8m) confirming the stabilisation of the market after the introduction of Pension Freedom and Choice. It is our expectation that our addressable share of this market will grow in 2017, with increasing proportions of people buying this product on the open market.

In the short term, growth is more likely to be driven by changing distribution patterns. This should benefit us, given our focus on the products bought by customers who shop around for guaranteed income for life products on the open market where we are now the leading provider. The open market accounted for approaching 50% of sales in the first three quarters of 2016, up from 41% in 2015, which means more than a 20% increase in our addressable market. There is still plenty of room for improvement before we get back to open market sales that were around 60% of the total market prior to the Pension Reforms.

Care sales

Sales of Care Plans were up 5%, from £92.2m in 2015 to £97.2m in 2016. This remains an attractive market with longer-term structural growth prospects.

Drawdown sales

Drawdown sales, which include Flexible Pension Plan ("FPP") and Capped Drawdown ("CD") sales, increased from £20.6m in 2015 to £25.2m in 2016, growth of 22%. This is in line with our expectations and reflects growth in sales of the FPP product which allows customers to take advantage of the new Pensions Freedoms. The product is no longer available to new customers.

Protection sales

Protection sales remained stable at £5m.

Lifetime mortgage loans

LTM sales have decreased by 6% from £598.0m in 2015 to £559.3m in 2016. We took full advantage of favourable economic conditions in the first nine months of the year for lifetime mortgages and then intentionally managed back sales in the final quarter towards our target ratio of LTM to new Retirement Income liabilities. These assets provide a good match for the Group's long-term liabilities, including DB De-risking solutions where the profile of liabilities can be of a longer duration than for GIfL contracts due to benefit indexation. The LTM market grew by more than 30% in 2016, and it remains attractive with favourable underlying dynamics.

Financial highlights - pro forma basis

Adjusted operating profit - pro forma basis (unaudited)

Adjusted operating profit for the year ended 31 December 2016 and comparatives for 2015 are for both Just Retirement and Partnership.

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
New business operating profit	**123.9**	68.0
In-force operating profit	**75.3**	70.9
Underlying operating profit	**199.2**	138.9
Operating experience and assumption changes	**2.6**	(5.6)
Other Group companies' operating results	**(12.4)**	(10.4)
Reinsurance and finance costs	**(25.7)**	(19.4)
Adjusted operating profit before tax	**163.7**	103.5

New business operating profit

New business operating profit has increased to £123.9m (2015: £68.0m), due to the increase in new business margins. Margins have grown due to pricing changes following implementation of Solvency II, favourable mortgage yields, initial benefits from delivering the post-merger cost synergies and our focus on profits over volumes using our IP to select higher margin new business.

In-force operating profit

In-force operating profit has increased to £75.3m (2015: £70.9m). This is as a result of growth in the size of the in-force business offset by the impact of lower interest rates on the returns earnt on surplus assets and the effect of narrowing bond spreads which have reduced the corporate bond default margin emerging.

Underlying operating profit

Underlying operating profit grew by 43% to £199.2m (2015: £138.9m) primarily reflecting the growth in new business profits. Underlying operating profit is the sum of the new business operating profit and in-force operating profit. This measure excludes the impact of one- off assumption changes and investment variances.

Operating experience and assumption changes

Operating experience and assumption changes, which include expense and mortality experience variances, amounted to £2.6m for 2016 (2015: £(5.6)m).

Other Group companies' operating results

This includes the results of our professional services companies and Group holding companies. The increase in the loss to £12.4m (2015: £10.4m) mainly reflects investment in our distribution companies.

Reinsurance and finance costs

Reinsurance and bank finance costs increased to £25.7m (2015: £19.4m), primarily driven by the increase in interest payable on Tier 2 financing including the Partnership £100m bond which was issued in March 2015 and the JRP £250m bond issued in October 2016.

Financial investments

Financial investments have increased to £17.3bn (2015: £14.4bn). Of these, £10.7bn is invested in corporate bonds, gilts and liquidity funds, and £6.6bn in residential and commercial mortgages. Of the corporate bonds, gilt and liquidity fund portfolio, 13% is invested in AAA grade investments and 62% is invested in investments rated A grade or higher.

LTM advances continue to provide the Group with a high-quality source of enhanced investment return and an appropriate match for the Group's long-duration liabilities. The loan to value ("LTV") ratio of the LTM portfolio is 28% at 31 December 2016.

European embedded value ("EEV") amounted to £2,047.0m at 31 December 2016 (31 December 2015: £1,772.6m). New business value generated during the year after tax was £141.7m (2015: £98.1m).

Capital and dividends

The Group's capital position remains strong. The Group economic capital ratio at 31 December 2016 was 216% (30 June 2016: 185%). The estimated Solvency II capital ratio was 151% at 31 December 2016.

In October 2015 we raised equity capital through a placing and open offer amounting to £97m. We issued shares in connection with the acquisition of Partnership amounting to £570m in April 2016.

Additionally, in October 2016 we raised £250m of Solvency II qualifying Tier 2 debt capital. After this issuance, the Group's gearing remains comfortably within the range of other listed insurance companies.

The Board has proposed a final dividend of 2.4p per share, making a total dividend 3.5p for 2016. This represents an increase of 6% over the prior calendar year.

Business development

HUB Financial Solutions, the Group's division that provides services to UK businesses and their customers, has continued to win new mandates, including deals with Prudential UK and Phoenix Life. This is an exciting business that enables the Group to expand access to and grow our addressable markets and we have a healthy pipeline of prospects. The Group has continued to develop its DB business and now transacts with all the major employee benefit consultants.

We continue to explore further opportunities for geographical diversification and our South African subsidiary is building out its distribution reach and our American joint venture is beginning to gain traction with advisers and care facilities.

We have successfully implemented our Solvency II internal model for Just Retirement Limited and are progressing our work with the regulators to attain approval for Partnership Life Assurance Company Limited.

Current trading and outlook

There has been and continues to be considerable uncertainty in the external environment as a result of exceptional geopolitical upheavals which drove risk free rates to historic lows. Our new business margin expansion in 2016 was boosted by unusually high mortgage spreads. The combination of more normal mortgage spreads in 2017, partially offset by cost synergies, should allow us to maintain the new business margin at above 6%. We remain focused on margins rather than volumes.

And finally…

In the last three years we have successfully completed our Initial Public Offering, addressed the 2014 Budget changes, launched and achieved a leading position for our DB business in the market, transformed our Retirement Income offering from an old style annuity into a diversified proposition offering guaranteed income for life and flexible drawdown, completed the merger with Partnership and made great progress in integrating the two businesses. None of this would have been possible without the hard work of my outstanding management team and Group colleagues. The merger with Partnership has further accelerated the rate of change and it is only right for me to recognise the huge efforts the JRP team has already made and continues to make as the integration progresses.

In this context I am particularly proud that the quality of our service has not suffered, and that we were awarded the Financial Adviser 5 Star Service award for the twelfth consecutive year for our Guaranteed Income for Life service and the ninth consecutive year for Lifetime Mortgages. This is a fantastic achievement.

The values of the Group remain unchanged, and I am confident they will help drive the business forward and continue to create benefits for our shareholders, colleagues and customers.

Rodney Cook
Group Chief Executive Officer
9 March 2017

Reconciliation of pro forma information to IFRS results

The financial performance figures are based on pro forma financial results for the calendar year 2016 compared to calendar year 2015 assuming that the merger of Just Retirement and Partnership had taken place on 1 January 2015. This information is presented as, in the opinion of the Directors, it provides a more meaningful view of the performance of the JRP Group in 2016 compared to 2015.

Below are reconciliations between pro forma adjusted operating profits and pro forma sales to the adjusted operating profit, KPIs and sales. Reconciliations between the sales KPI and gross written premiums and the adjusted operating profit KPI and IFRS profit before tax, are set out in note 7 to the financial statements. The Board believes that adjusted operating profit, which excludes effects of short-term economic and investment changes, provides a better view of the longer-term performance and development of the business and aligns with the longer-term nature of the products.

Reconciliation of pro forma new business sales to new business sales KPI

		Current period £m	Prior period £m
Pro forma new business sales (unaudited)	12 months to December 2016/15	**2,407.9**	2,712.0
New business sales relating to Partnership Assurance Group plc	12 months to December 2016/15 pre-acquisition	**(160.5)**	(843.2)
Post-acquisition new business sales	12 months to December 2016/15	**2,247.4**	1,868.8
Effect of change in reporting date	6 months to December 2015	**1,233.2**	(1,233.2)
	6 months to December 2014	**–**	820.2
New business sales	**18 months to December 2016/ 12 months to June 2015**	**3,480.6**	1,455.8

Reconciliation of pro forma adjusted operating profit to adjusted operating profit KPI

		Current period £m	Prior period £m
Pro forma adjusted operating profit before tax (unaudited)	12 months to December 2016/15	**163.7**	103.5
Operating profit relating to Partnership Assurance Group plc	12 months to December 2016/15 pre-acquisition	**2.2**	(21.0)
Post-acquisition adjusted operating profit	12 months to December 2016/15	**165.9**	82.5
Effect of change in year end	6 months to December 2015	**49.8**	(49.8)
	6 months to December 2014	**–**	34.9
Adjusted operating profit	**18 months to December 2016/ 12 months to June 2015**	**215.7**	67.6

Financial review

"We have a sound financial position and are well-placed to make the most of our opportunities and are uniquely placed to grow profits and economic value"

The results discussed in the Financial Review are for the 18 month period ended 31 December 2016, which incorporate the results of the acquired Partnership Group from 1 April 2016. The comparative results are for the Just Retirement Group for the year ended 30 June 2015.

Our financial results demonstrate the robustness of our business model, having worked through the significant challenges of the last three years. The financial benefits of the merger are seen in the results for the period, with very strong growth in new business margins and profitability. We have been able to write business at attractive margins by using our IP to select the most attractive risks and using the strong returns on lifetime mortgages. We have conserved capital through our selective approach to writing new business and strengthened our capital base during the period with additional debt financing.

We have a sound financial position and are well-placed to make the most of the opportunities in front of us, where we are able to write new business at good rates of return.

The financial review describes the Group's financial performance in terms of its business segments and highlights the key factors driving movements in the Group's Consolidated statement of comprehensive income and Consolidated statement of financial position.

The Insurance segment writes insurance products for the retirement market – which include Guaranteed Income for Life Solutions and Defined Benefit De-risking Solutions, Care Plans, Flexible Pension Plan and Protection – and invests the premiums received from these contracts in debt securities, gilts, liquidity funds and lifetime mortgage advances. From a management reporting perspective, these are managed together, with LTM being an integral part of the insurance business model.

The professional services business is included with other corporate companies in the Other segment. This business is not currently sufficiently significant to separate from other companies' results and the CODM does not separately consider its results at present. The Other segment also includes the Group's corporate activities that are primarily involved in managing the Group's liquidity, capital and investment activities.

The table below aggregates the financial performance of the Group's segments.

Group performance

	18 months ended 31 December 2016 £m	Year ended 30 June 2015 £m	Change £m
New business operating profit	**171.7**	36.8	134.9
In-force operating profit	**89.3**	49.6	39.7
Underlying operating profits	**261.0**	86.4	174.6
Operating experience and assumption changes	**2.5**	2.4	0.1
Other Group companies' operating results	**(18.4)**	(8.7)	(9.7)
Reinsurance and bank finance costs	**(29.4)**	(12.5)	(16.9)
Adjusted operating profit before tax	**215.7**	67.6	148.1
Non-recurring and project expenditure	**(21.1)**	(19.4)	(1.7)
Investment and economic profits/(losses)	**93.1**	(74.1)	167.2
Profit/(loss) before acquisition transaction and amortisation costs, before tax	**287.7**	(25.9)	313.6
Acquisition integration costs	**(40.7)**	–	(40.7)
Acquisition transaction costs	**(23.4)**	–	(23.4)
Amortisation and impairment of intangible assets	**(24.8)**	(3.7)	(21.1)
Profit/(loss) before tax	**198.8**	(29.6)	228.4

Insurance segment performance

	18 months ended 31 December 2016 £m	Year ended 30 June 2015 £m	Change £m
New business operating profit	**171.7**	36.8	134.9
In-force operating profit	**88.2**	48.8	39.4
Underlying operating profit	**259.9**	85.6	174.3
Operating experience and assumption changes	**2.5**	2.4	0.1
Reinsurance and bank finance costs	**(52.0)**	(28.7)	(23.3)
Adjusted operating profit before tax	**210.4**	59.3	151.1
Non-recurring and project expenditure	**(18.4)**	(16.8)	(1.6)
Investment and economic profits/(losses)	**95.7**	(74.2)	169.9
Profit/(loss) before tax from insurance segment	**287.7**	(31.7)	319.4

Insurance segment

The Group's insurance segment reported an adjusted operating profit before tax of £210.4m (2015: £59.3m), and a profit before tax of £287.7m (2015: loss before tax of £31.7m).

New business operating profit was £171.7m, compared with £36.8m in the prior year. The increase of £134.9m primarily reflects the longer financial reporting period with increased sales and improved margins. The new business operating margin for the 18 month period ended 31 December 2016 was 6.3%, up from 3.3% in the prior year.

Profits emerging from the in-force portfolio continue to grow. After allowing for the longer reporting period, these are broadly in line with the continuing increase in the size of the in -force book of business, together with the contribution, post-acquisition, from Partnership and amounted to £88.2m (2015: £48.8m), an increase of £39.4m compared to the previous period.

Underlying profit for the insurance segment increased by £174.3m from £85.6m for the year to 30 June 2015 to £259.9m for the 18 months to 31 December 2016 as a result of the factors described above.

Total adjusted operating profit amounted to £210.4m for the period, an increase of £151.1m compared to the prior year. Total adjusted operating profit includes underlying operating profit described above, as well as changes in operating experience and assumptions, and reinsurance and finance costs.

Operating experience and assumption changes, which include expense, mortgage and mortality items, amounted to a small positive result of £2.5m for the 18 months to 31 December 2016 (2015: £2.4m).

Reinsurance and bank finance costs increased by £23.3m to £52.0m for the 18 months to 31 December 2016 (2015: £28.7m), primarily driven by the longer accounting period, increased interest payable on Tier 2 financing from Group corporate companies, including interest on the Partnership, and JRL Tier 2 debt issuances, which amounted to £40.0m (2015: £18.3m).

The insurance segment reported a profit before tax for the 18 months to 31 December 2016 of £287.7m (2015: loss before tax of £31.7m). After the £151.1m increase in adjusted operating profit described above, the profit before tax includes the impact of non-recurring and project expenditure and investment and economic variances.

Non-recurring and project expenditure amounted to £18.4m (2015: £16.8m) and includes any one- off regulatory, project and development costs. This line item does not include acquisition integration or acquisition transaction costs, which are shown as separate line items and are explained further below.

Changes in economic and investment conditions over the period led to a profit of £95.7m, compared to a loss of £74.2m in the prior year, mainly reflecting the impact of the significant reduction of risk-free rates during the period, and the positive impact from the difference between actual and expected investment returns earned, together with a narrowing of credit spreads, offset by property valuation movements, and by changes in future property assumptions.

Other segment performance

	18 months ended 31 December 2016 £m	Year ended 30 June 2015 £m	Change £m
Adjusted operating profit before tax	**5.3**	8.3	(3.0)
Non-recurring expenditure	**(2.7)**	(2.6)	(0.1)
Investment and economic profits	**(2.6)**	0.1	(2.7)
Acquisition integration costs	**(40.7)**	–	(40.7)
Acquisition transaction costs	**(23.4)**	–	(23.4)
Amortisation and impairment of intangible assets	**(24.8)**	(3.7)	(21.1)
Loss/(profit) before tax from other activities	**(88.9)**	2.1	(91.0)
Profit/(loss) before tax from Insurance segment	**287.7**	(31.7)	319.4
Group profit/(loss) before tax	**198.8**	(29.6)	228.4

Results from other activities included adjusted operating profit before tax of £5.3m (2015: £8.3m). The decrease in adjusted operating profit mainly reflects higher losses in the distribution companies, partly due to the longer reporting period.

Non-recurring expenditure of £2.7m (2015: £2.6m) relates to one-off costs incurred by the Group including regulatory, project and development costs.

Acquisition integration costs of £40.7m relate to the cost arising from the post-merger integration of the Just Retirement and Partnership businesses and operations. The restructuring changes made to date have already delivered approximately £30m of synergies on an annualised basis.

Acquisition transaction costs of £23.4m reflect the one-off costs incurred during the period in relation to the acquisition of Partnership Assurance Group plc. These costs include advisory, legal and stamp duty costs.

Amortisation costs relate to the amortisation of the Group's intangible assets, including the amortisation of intangible assets newly recognised in relation to the acquisition of Partnership Assurance Group plc by Just Retirement Group plc. Acquired in-force business and other intangibles of £169.6m were recognised on acquisition of Partnership Assurance Group plc. The acquired in-force business asset of £142.7m is being amortised in line with the run-off of the in-force business. Amortisation of the acquired in-force business relating to Partnership Assurance Group plc during the period to 31 December 2016 totalled £10.7m and impairment of brand and Partnership related property lease intangible assets totalled £3.8m.

Highlights from Consolidated statement of comprehensive income

The table below presents the Consolidated statement of comprehensive income for the Group, with key line explanations.

	18 months ended 31 December 2016 £m	Year ended 30 June 2015 £m
Gross premiums written	**2,693.5**	1,099.0
Reinsurance premiums ceded	**(1,553.4)**	(122.9)
Reinsurance recapture	**1,166.9**	950.9
Net premium revenue	**2,307.0**	1,927.0
Net investment income	**1,616.8**	635.2
Other operating income	**17.1**	5.1
Total revenue	**3,940.9**	2,567.3
Net claims paid	**(692.1)**	(250.5)
Change in insurance liabilities	**(2,406.7)**	(2,095.9)
Change in investment contract liabilities	**(15.5)**	(3.5)
Acquisition costs	**(53.6)**	(18.5)
Other operating expenses	**(341.5)**	(127.6)
Finance costs	**(232.7)**	(100.9)
Total claims and expenses	**(3,742.1)**	(2,596.9)
Profit/(loss) before tax	**198.8**	(29.6)
Income tax	**(51.3)**	4.8
Total comprehensive income for the period	**147.5**	(24.8)

Gross premiums written

Gross premiums written are the total premiums received by the Group in relation to its GIfL, DB and Care Plan contracts in the period, gross of commission paid.

Gross premiums written for the period to 31 December 2016 were £2,693.5m (2015: £1,099.0m). The increase reflects the longer accounting period and the growth in sales in our Defined Benefit De-risking business compared to the prior period, together with the post-acquisition sales of the Partnership business.

Net premium revenue

Net premium revenue represents the sum of gross premiums written and reinsurance recapture, less reinsurance premium ceded.

Net premium revenue increased from £1,927.0m in 2015 to £2,307.0m in the period to 31 December 2016. This increase reflected the growth in gross premiums offset by higher reinsurance ceded. In the period prior to the commencement of Solvency II, the Group restructured its reinsurance financing arrangements, exercising its option to recapture £1,166.9m of premiums and entered into new treaties providing more extensive cover. As a result, reinsurance premiums ceded increased substantially, from £122.9m in the year ended 30 June 2015 to £1,553.4m in the period to 31 December 2016.

Net investment income

Net investment income comprises interest received on financial assets, and the net gains and losses on financial assets designated at fair value through profit or loss upon initial recognition and on financial derivatives.

Net investment income increased by £981.6m, from £635.2m for the year ended 30 June 2015 to £1,616.8m for the period ended 31 December 2016. The increase in net investment income reflected higher interest income of £683.1m (year to 30 June 2015: £196.4m) reflecting the longer reporting period and acquisition of Partnership, and a more favourable movement in fair value of financial assets of £998.7m (year to 30 June 2015: £568.1m) driven by the falling long-term interest rate environment over the period. Reduction in the value of derivative financial instruments was lower at £65.2m (year to 30 June 2015: £129.3m); the derivatives portfolio was restructured during the period following the implementation of Solvency II.

Net claims paid

Net claims paid represents the total payments due to policyholders during the accounting period, less the reinsurers' share of such claims which are payable back to the Group under the terms of the reinsurance treaties.

Net claims paid increased by £441.6m from £250.5m for the year ended 30 June 2015 to £692.1m at 31 December 2016, reflecting the continuing growth of the in-force book, the longer accounting period and the acquisition of the Partnership business offset by the reinsurers' share of claims paid.

Change in insurance liabilities

Change in insurance liabilities represents the difference between the year-on-year change in the carrying value of the Group's insurance liabilities and the year-on-year change in the carrying value of the Group's reinsurance assets.

Change in insurance liabilities increased by £310.8m from £2,095.9m for the year to 30 June 2015, to £2,406.7m for the period to 31 December 2016. The gross change in liabilities was £2,687.1m in the period to 31 December 2016 compared with £956.7m in the year ended 30 June 2015, reflecting a similar increase as that seen in gross premiums. The change in insurance liabilities net of reinsurance reflected the recapture and implementation of new reinsurance financing arrangements as noted above.

Acquisition costs

Acquisition costs comprise the direct costs (such as commissions) and indirect costs of obtaining new business.

Acquisition costs increased by £35.1m, from £18.5m for the year to 30 June 2015 to £53.6m for the period to 31 December 2016. This reflects primarily the longer accounting period and increased sales of LTM and GIfL business.

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, amortisation of intangibles and other expenses incurred in running the Group's operations.

Other operating expenses increased by £213.9m, from £127.6m for the year to 30 June 2015 to £341.5m for the period ended 31 December 2016. The increase includes the effect of a longer accounting period, acquisition-related transaction and integration costs, increased amortisation of acquired intangible assets and the acquisition of Partnership. Within this figure are merger-related costs of £64.1m.

Finance costs

Finance costs represent interest payable on the deposits received from reinsurers, interest payable on subordinated debt, interest on reinsurance financing and bank finance costs.

Finance costs increased by £131.8m from £100.9m for the year to 30 June 2015 to £232.7m for the period to 31 December 2016. The increase is due to the longer period of account, the subordinated debt interest costs for both the Partnership and JRP debt together with additional reinsurance finance costs following the acquisition of Partnership.

Income tax

There is an income tax charge of £51.3m for the period to 31 December 2016 (2015: credit of £4.8m). The effective tax rate has increased due to non-tax-deductible expenses incurred in connection with the acquisition of Partnership, with some offset due to reductions in the UK rate of corporation tax. The tax credit also includes the impact of certain transitional rules regarding life company taxation.

Highlights from Consolidated statement of financial position

The following table presents selected items from the Consolidated statement of financial position, with key line item explanations below.

	As at 31 December 2016 £m	As at 30 June 2015 £m
Assets		
Financial investments	**17,319.6**	8,577.7
Reinsurance assets	**6,057.1**	2,477.1
Other assets	**517.8**	193.8
Total assets	**23,894.5**	11,248.6
Share capital and share premium	**185.0**	51.3
Reorganisation and merger reserves	**881.1**	347.4
Accumulated profit and other adjustments	**544.5**	415.3
Total equity	**1,610.6**	814.0
Liabilities		
Insurance liabilities	**15,748.0**	7,440.3
Other financial liabilities	**5,740.8**	2,643.2
Insurance and other payables	**113.1**	22.7
Other liabilities	**682.0**	328.4
Total liabilities	**22,283.9**	10,434.6
Total equity and liabilities	**23,894.5**	11,248.6

Financial investments

The table below provides a breakdown by credit rating of financial investments where applicable as at 31 December 2016 compared with the position at 30 June 2015. Financial investments increased by £8.8bn from £8.5bn at 30 June 2015 to £17.3bn at 31 December 2016 due to the acquisition of Partnership together with the continued investment of new business premiums into gilts, corporate bonds and LTM contracts. The quality of the corporate bond portfolio remains high with 63% (2015: 62%) of our bond and gilt portfolio rated 'A' or above. There were no corporate bond defaults during the period (2015: £nil). The loan-to-value ratio of the mortgage portfolio at 31 December 2016 was 28% (30 June 2015: 25%).

Credit rating analysis

Financial investment ratings	**As at 31 December 2016 £m**	As at 30 June 2015 £m
AAA*	**1,359.9**	304.5
AA and gilts	**1,603.2**	995.3
A	**3,471.0**	1,731.8
BBB	**3,759.0**	1,741.1
BB or below	**150.7**	123.6
Unrated[1]	**381.6**	209.6
Loans secured by mortgages	**6,594.2**	3,471.8
Total	**17,319.6**	8,577.7

* Includes units held in liquidity funds

Sector analysis	**As at 31 December 2016 £m**	%
Basic materials	**239.2**	1.4%
Communications	**871.3**	5.0%
Auto manufacturers	**273.7**	1.6%
Consumer	**896.1**	5.2%
Energy	**281.6**	1.6%
Banks	**2,355.6**	13.6%
Insurance	**841.6**	4.8%
Financial - other	**1,023.7**	5.9%
Government	**927.5**	5.4%
Industrial	**472.6**	2.7%
Utilities	**1,625.8**	9.4%
Cash and units in liquidity funds	**645.5**	3.7%
Loans secured by mortgages	**6,594.2**	38.1%
Other	**271.2**	1.6%
Total	**17,319.6**	100.0%

Other balances

Reinsurance assets increased by £3.6bn from £2.5bn at 30 June 2015 to £6.1bn at 31 December 2016 as a result of the acquisition of Partnership and reinsured new business in the period.

Insurance liabilities increased from £7.4bn at 30 June 2015 to £15.7bn at 31 December 2016 due to the Partnership acquisition and liabilities arising on new insurance business written less claims paid in the period.

Other financial liabilities increased by £3.1bn from £2.6bn at 30 June 2015 to £5.7bn at 31 December 2016. These liabilities relate mainly to deposits received from reinsurers, with the increase largely due to the acquired Partnership business. Insurance and other payables increased by £90.4m from £22.7m at 30 June 2015 to £113.1m at 31 December 2016.

The increase is due to the acquired Partnership business as well as an unsettled investment transaction balance.

Other liability balances have increased by £353.6m from £328.4m at 30 June 2015 to £682.0m at 31 December 2016. The increase has largely been driven by the issuance of Tier 2 debt by JRP Group in 2016 and the acquired Partnership debt.

Total equity increased by £796.6m from £814.0m at 30 June 2015 to £1,610.6m at 31 December 2016, reflecting the issuance of shares to acquire the Partnership business and the retained profits for the period after dividend payments.

European embedded value

The statement of change in embedded value represents the change for the 18 months ended 31 December 2016 for the JRP Group, together with the comparative figures for the year ended 30 June 2015. The solvency regime changed to a Solvency II basis from 1 January 2016. As results up to 31 December 2015 have been prepared under the previous Solvency I regime, the analysis of movement for the 18 months ended 31 December 2016 has been split into two periods to reflect the different reporting bases in place for the two periods. Material economic assumptions have been aligned to be consistent across both Group companies at 31 December 2015, and, for JRL, are included within the methodology change as at December 2015.

Statement of change in European embedded value

	18 months ended 31 December 2016			12 months ended 30 June 2015
	Covered business £m	Non-covered business £m	**Total £m**	£m
Opening Group EEV	782.8	236.5	**1,019.3**	959.1
Operating EEV earnings	87.8	2.7	**90.5**	53.6
Non-operating EEV earnings	(33.9)	(18.1)	**(52.0)**	25.5
Total EEV earnings	53.9	(15.4)	**38.5**	79.1
Other movements in IFRS net equity	–	1.5	**1.5**	0.9
Dividend and capital flows	30.0	54.5	**84.5**	(11.0)
December closing Group EEV	866.7	277.1	**1,143.8**	1,028.1
Methodology change as at December 2015	6.5	–	**6.5**	–
Restated December EEV	873.2	277.1	**1,150.3**	1,028.1
Acquisition of Partnership Assurance Group	571.8	63.8	**635.6**	–
Operating EEV earnings	186.8	(9.6)	**177.2**	36.5
Non-operating EEV earnings	143.5	(51.0)	**92.5**	(41.6)
Total EEV earnings	330.3	(60.6)	**269.7**	(5.1)
Other movements in IFRS net equity	–	11.9	**11.9**	1.8
Dividend and capital flows	10.0	(30.5)	**(20.5)**	(5.5)
Closing Group EEV	1,785.3	261.7	**2,047.0**	1,019.3

Group EEV increased by £1,027.7m from £1,019.3m at 30 June 2015 to £2,047.0m at 31 December 2016, due primarily to EEV earnings of £308.2m for the period, £635.6m from the acquisition of Partnership and £96.9m from net capital raised.

Capital management

Both Just Retirement and Partnership managed their businesses on a basis of both economic and regulatory capital, and the combined JRP Group will continue to do so.

Solvency II

The Solvency II regime came into effect on 1 January 2016. The Group has approval to apply the matching adjustment and transitional measures in its calculation of technical provisions and uses a combination of an Internal Model and the Standard Formula to calculate its Group Solvency Capital Requirement.

Transitional measures ("TMTP") provide a bridge between the previous capital regime and Solvency II for business written prior to 1 January 2016.

The Group received approval to recalculate the TMTP as at 30 June 2016 in light of the significant decrease in interest rates that were experienced in the period after 1 January 2016.

Further recalculations, if agreed with the regulator, may be made if there are significant changes in the risk profile of the insurance companies.

Our capital position has proved resilient during the period by focussing on pricing discipline on new business and prudent management of the balance sheet. Our underlying capital ratio was practically unchanged over the year. The Group SCR coverage ratio increased from a pro forma 136% at 1 January 2016 to an estimated 151% at 31 December 2016, including 12 months' amortisation of transitional relief. This ratio was boosted by the £250m of Tier 2 debt issued in October.

The Group's estimated Solvency II position was as follows:

31 December 2016	**£m**
Own funds	**2,192**
Solvency Capital Requirement	**(1,449)**
Excess own funds	**743**
Solvency coverage ratio	**151%**

Estimated Group Solvency II sensitivities:	%	£m
Solvency II capital surplus at 31 December 2016	**151%**	**743**
-50 bps fall in interest rates (no TMTP recalculation)	**-13%**	**(141)**
-50 bps fall in interest rates (with TMTP recalculation)	**0%**	**56**
+100bps credit spreads	**+5%**	**43**
+10% LTM early redemption	**+1%**	**3**
-20% property values	**-13%**	**(173)**
-5% longevity	**-14%**	**(189)**

Economic capital

The Group's economic capital surplus position at 31 December 2016 was as follows:

	31 December 2016 £m	30 June 2015 £m
Available capital	**2,670**	916
Required capital	**(1,234)**	(521)
Economic capital	**1,436**	395
Solvency ratio	**216%**	176%

The period end economic capital reflects the acquisition of Partnership, the Tier 2 debt raised in 2016 and harmonisation of economic capital models.

Dividends

The Group paid two interim dividends of 1.1 pence per share in respect of the 18 months to 31 December 2016. The Board has recommended a final dividend of 2.4 pence per share, bringing the total dividend for the 18 months to 31 December 2016 to 4.6 pence per share (year ended 30 June 2015: 3.3 pence per share).

Risk management

"Through our strong risk culture, we are confident of making better decisions to achieve business success"

Purpose

We use risk management to make better informed business decisions that generate value for shareholders while delivering appropriate outcomes for our customers and providing confidence to other stakeholders. Our risk management processes are designed to ensure that our understanding of risk underpins how we run the business.

Risk framework

Our risk management framework is developed in line with our risk environment and best practice. The framework, owned by the Group Board, covers all aspects of risk management including risk governance, reporting and policies. Our appetite for different types of risk is embedded across the business to create a culture of confident risk taking.

Risk evaluation and reporting

We evaluate risks in our operating environment and decide how best to manage them within our risk appetite. Management regularly review their risks and produce reports to provide assurance that material risks in the business are being mitigated. The Risk function, led by the Chief Risk Officer ("CRO"), challenges the management team on the effectiveness of its risk evaluation and mitigation. The CRO provides the Group Board's Risk and Compliance Committee with his independent assessment of the principal risks to the business and emerging risk themes.

Financial risk modelling is used to assess the amount of each risk type against our risk appetite. This modelling is aligned to both our economic capital and regulatory capital metrics to allow the Board to understand the capital requirements for our principal risks. By applying stress and scenario testing, we gain insights into how risks might impact the Group in different circumstances.

Own Risk and Solvency Assessment

The Group's Own Risk and Solvency Assessment ("ORSA") further embeds comprehensive risk reviews into our Group management structure. Our annual ORSA report is a key part of our business cycle and informs strategic decision making. ORSA updates are prepared each quarter to keep the Board apprised of the Group's evolving risk profile.

Principal risks and uncertainties

"The Group's enterprise-wide risk management strategy is to enable all colleagues to take more effective business decisions through a better understanding of risk"

Risk description and impact	Mitigation and management action
Risks from our chosen market environment	
Change in previous 18 months: Decreased risk The Group operates in a market where changes in pensions legislation can have a considerable effect on our strategy and could reduce our sales and profitability or require us to hold more capital. The Pension Reforms introduced in 2015 have had a fundamental impact on the retirement income market, which will continue to evolve. Customers have reacted to Pension Freedoms by looking for more flexible retirement solutions and some customers are deferring their retirement decisions. Customer needs for a secure income in retirement have, however, not changed and the Group expects that demand for guaranteed income for life solutions will continue to grow.	**Risk Outlook**: No change Our approach to legislative change is to participate actively and engage with policymakers in the UK, and this will not change. The Group offers a wide range of retirement options, allowing it to remain agile in this changing environment, and has flexed its offerings in response to market dynamics. We believe we are well-placed to adapt to the changing customer demand, supported by our brand promise, innovation credentials and financial strength. The most influential factors in the successful delivery of the Group's plans are closely monitored to help inform the business. The factors include market forecasts and market share, supported by insights into customer and competitor behaviour.

Risk description and impact	Mitigation and management action
Risks from regulatory changes	
Change in previous 18 months: Increased risk	**Risk Outlook**: No change
The financial services industry continues to see a high level of regulatory change and intense regulatory supervision. The regulatory agenda for the coming year covers many areas directly relevant to the Group. The Prudential Regulation Authority ("PRA") started an industry-wide review during 2016 of the valuation and capital treatment of equity release mortgages, which could prompt changes in the Group's approach in this respect. The Treasury Select Committee is undertaking an enquiry into the operation of Solvency II to supplement its work on the relationships that the UK may now seek with the EU. The ultimate terms of the UK's exit from the EU could have significant consequences for the regulation and legislation that applies to the Group's operations. The Solvency II risk margin is particularly sensitive to movements in interest rates, which can cause volatility. The introduction of the matching adjustment to meet Solvency II requirements has made management of liquidity within the Group more complex. The FCA is developing a strategy to address the challenges for financial services of the ageing UK population and is pursuing other reviews and initiatives pertinent to the retirement and mortgage markets. The EU General Data Protection Regulation ("GDPR") comes into effect on 25 May 2018. Although many of the GDPR's requirements are already present in the UK Data Protection Act 1998 ("DPA"), its requirements are more prescriptive and the rights of data subjects are clearer and easier for data subjects to enforce.	We monitor and assess regulatory developments on an on-going basis and engage fully with the regulators. Our aims are to implement any required changes effectively, and to deliver better outcomes for our customers and competitive advantage for the business. Regulatory approval was obtained in 2015 for Just Retirement Limited to use an internal model to calculate its Solvency Capital Requirement ("SCR") under Solvency II. As a consequence of the merger, the Group has applied for regulatory approval to use its internal model to calculate a Group SCR. The Group has gained approval from the PRA for the recalculation of the transitional measure on technical provisions ("TMTP"). We will continue to work closely with the PRA to understand and seek to influence its developing views on solvency capital. The Group responded directly to the PRA discussion paper (DP 1/16) on equity release mortgages, and through work with the Association of British Insurers and Equity Release Council. Any potential changes needed to our internal model or matching adjustment criteria resulting from the PRA's equity release mortgage review will be carefully reviewed. Where possible, we seek to actively participate in all regulatory initiatives which may affect or provide future opportunities for the Group. We aim to champion outcomes that are positive for consumers by ensuring their retirement needs are understood. We develop our strategy by giving consideration to planned political and regulatory developments and allow for contingencies should outcomes differ from our expectations. The Group is actively engaged in the insurance industry's work with the UK government and regulators on the potential form of the UK's exit from the EU. We manage sensitive personal data in accordance with existing DPA requirements but are reviewing our existing practices and processes to ensure they remain compliant as the new regime comes into force.
Risks from our pricing assumptions	
Change in previous 18 months: No change	**Risk Outlook**: Decreased risk
Writing long-term retirement income and equity release business requires a range of assumptions to be made based on market data and historical experience, including customers' longevity, corporate bond yields, interest rates, property values and expenses. These assumptions are applied to the calculation of the reserves needed for future liabilities and solvency margins using recognised actuarial approaches. The Group's assumptions on these risk factors may be materially inaccurate, requiring them to be recalibrated. This could affect the level of reserves needed with an impact on profitability and the Group's solvency position.	To manage the risk of our longevity assumptions being incorrect, the Group now has the benefit of the combined experience of its legacy businesses to provide insights and enhanced understanding of the longevity risks that the Group chooses to take. Longevity and other decrement experience is analysed to identify any outcomes materially different from our assumptions and is used for the regular review of the reserving assumptions for all products. Some longevity risk exposure is shared with reinsurance partners, who perform due diligence on the Group's approach to risk selection. There is a related counterparty risk of a reinsurer not meeting its repayment obligations. This counterparty risk is typically mitigated through the reinsurer depositing the reinsurance premiums back to the Group or into third party trusts and by collateral arrangements. For equity release, the Group underwrites the properties against which it lends using valuations from expert third parties. The Group's property risk is controlled by limits to the initial loan-to-property value ratio, supported by product design features, limiting of concentration of risks on specific property types or regions, and monitoring of the exposure to adverse house price movements.

Risk description and impact	Mitigation and management action
Risks from the economic environment	
Change in previous 18 months: Increased risk	**Risk Outlook**: Increased risk
The premiums paid by the Group's customers are invested to enable future benefits to be paid. The economic environment and financial market conditions have a significant influence on the value of assets and liabilities and on the income the Group receives. An adverse market could increase the risk of credit downgrades and defaults in our corporate bond portfolio. The macro-economic outlook is unclear, driven by uncertainty regarding the UK's future trading arrangements with the EU. The Referendum result has introduced material uncertainty for the UK economy in the medium and long-term. It is too early to be clear on the long-term implications of the vote for the UK economy and indeed the wider economic impacts on the rest of Europe and the world; market conditions can be expected to be volatile for some time to come. The macro-economic outlook will also be impacted by US policy following the inauguration of a new President and the outcome of European elections, in particular in France and Germany, later in 2017. In an environment of continued low interest rates, investors may be more willing to accept higher credit and liquidity risk to improve investment returns. These conditions could make it difficult to source sufficient assets to offer attractive retirement income terms. Low credit spreads similarly affect the income that can be made available, although margins from our equity release portfolio help offset this risk. Most defined benefit pension schemes link member benefits to inflation through indexation. As the Group's Defined Benefit De-risking business volumes grow, its exposure to inflation risk increases. A fall in residential property values could reduce the amounts received from equity release redemptions and may also affect the relative attractiveness of the equity release product to customers. The regulatory capital needed to support the no-negative equity guarantee in the equity release product also increases if property values drop. Uncertainty following the EU Referendum could result in property values stagnating or even falling in some, or all, UK regions. Conversely, significant future rises in property values could increase early mortgage redemptions, leading to a loss of anticipated value. Market risks may affect the liquidity position of the Group by, for example, having to realise assets to meet liabilities during stressed market conditions or to service collateral requirements due to the changes in market value of financial derivatives.	Economic conditions are actively monitored and alternative scenarios modelled to better understand the potential impacts of significant economic changes and to inform management action plans. It is anticipated that the UK's withdrawal from the EU will have limited direct impact on the Group as it is almost wholly UK based with no services provided into the EEA, and its customers and policyholders are predominantly UK-based. Any changes to the regulatory environment as a result of the UK's withdrawal are being monitored, but a long-term departure from the Solvency II specifications, for example, is considered unlikely. The Group's strategy is to buy and hold high-quality, lower-risk assets in its investment portfolio to facilitate management of the asset and liability matching position. Portfolio credit risk is managed by specialist fund managers executing a diversified investment strategy in investment grade assets while adhering to counterparty limits. In a low interest rate environment, improved returns are sought by diversifying the types, geographies and industry sectors of investment assets. Such diversification creates an exposure to foreign exchange risk, which is controlled using derivative instruments. Swaps and swaptions are used to reduce exposures to interest rate volatility. The credit exposure to the counterparties with whom we transact these instruments is mitigated by collateral arrangements. The Group's exposure to inflation risk through the Defined Benefit De-risking business is managed with inflation-hedging mechanisms. Liquidity risk is managed by ensuring that assets of a suitable maturity and marketability are held to meet liabilities as they fall due. Sufficient liquid assets are maintained so the Group can readily access the cash it needs should business cash inflows unexpectedly reduce. There is little short-term volatility in the Group's cash flows, which can be reliably estimated in terms of timing and amount. Regular cash flow forecasts predict liquidity levels both short term and long term and stress tests help us understand any potential periods of strain. The Group's liquidity requirements have been comfortably met over the past year and forecasting confirms that this position can be expected to continue for both investments and business operations.

Risk description and impact	Mitigation and management action
Risks to the Group's brands and reputation	
Change in previous 18 months: No change	**Risk Outlook**: Increased risk
We believe everyone deserves a fair, fulfilling and secure retirement. Our aim is to help people to rethink retirement to achieve this. Our Just brand reflects the way we intend to conduct our business and treat our customer and wider stakeholder groups. There is a risk that the Group's brands and reputation could be damaged if the Group is found to be acting, even unintentionally, below the standards we set for ourselves. Damage to our brand or reputation may adversely affect our underlying profitability, through reducing sales volumes, restricting access to distribution channels and attracting increased regulatory scrutiny. Additionally, the Group's brands and reputation could be threatened by external risks such as regulatory intervention or enforcement action, either directly or as a result of contagion from other companies in the sectors in which we operate.	The Group actively seeks to differentiate its business from competitors by investing in the Group's brand-enhancing activities. Fairness to customers and high service standards are at the heart of the Just brand and were a shared ethos of the Group's legacy Just Retirement and Partnership Assurance businesses and we encourage our staff to take pride in the quality of service they provide to our customers. Engaging our employees in the Just brand and its associated values has been, and remains, a critical part of our post-merger integration activity. The Group's system of internal control, and associated policies and operational procedures, has been updated following the merger and defines the standards we expect of all employees.
Risks arising from operational processes and IT systems	
Change in previous 18 months: No change	**Risk Outlook**: Increased risk
The Group relies on its operational processes and IT systems to conduct its business, including the pricing and sale of its products, measuring and monitoring its underwriting liabilities, processing applications and maintaining customer service and accurate records. There is a risk that 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 disaster 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 as well as harm the Group's reputation. Large organisations, including the Group, are increasingly becoming targets for cyber-crime, particularly those organisations that hold customers' personal details. The Group is no exception and a cyber-attack could affect customer confidence.	The Group maintains a suite of risk management tools to help identify, measure, monitor, manage and report its operational risks including, but not limited to, those arising from operational processes and IT systems. These include a risk management system, risk and control assessments, risk event management, loss reporting, scenario analysis and risk reporting through the ORSA. The Group maintains newly modified plans and controls to minimise the risk of business disruption and information security related events, commensurate to that of our peers. Detailed incident and crisis management plans also exist to ensure effective responses. These are supported by specialist third parties for our mass notification (call cascade) system, and our workplace recovery centre. Our approach to information security is under constant review as the cyber-threat landscape evolves. Due diligence is performed on all partners to ensure that they work to the same high security standards as the Group. We remain vigilant to the range of cyber-risks but recognise the speed of change in cyber-threats means that a risk exposure remains. The Group has recently established an Information & Resilience Risk team, reporting to the Group Chief Risk Officer, to oversee the Group's strategy and controls in this area.
Risks arising from the post-merger integration process	
Change in previous 18 months: Increased risk	**Risk Outlook**: Decreased risk
On 4 April 2016 the merger of Just Retirement and Partnership Assurance completed to form JRP Group plc. The purpose of the merger is to deliver significant strategic and financial benefits for the combined Group. Integration of the two businesses is a complex process and may take longer, or cost more, than expected to deliver the intended synergies, or those synergies may not be fully realised. During the integration process, management could be distracted from day-to-day business, resulting in missed opportunities. The process of combining two organisations may have an undesirable effect on the culture of the new Group, impacting its effectiveness in the short term.	Given the complementary business models of the two organisations, business as usual activity has been maintained and strategic development moved forward at the same time as integrating the businesses. The integration process, which is currently ahead of schedule, reflects this approach and is being carefully managed and overseen by senior management and the Board. Our integration philosophy is "best of both" and this is being applied as key decisions are made for the future of the business; this also sets the tone for the culture of the organisation going forward and is a key focus for the management team.

Directors' responsibility statement

We confirm to the best of our knowledge that:

- The financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;

- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and

- The Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the performance, strategy and business model of the Company.

The Strategic Report contains certain forward-looking statements providing additional information to shareholders to assess the potential for the Company's strategies to succeed. Such statements are made by the Directors in good faith, based on the information available to them up to the date of their approval of this report, and should be treated with caution due to the inherent uncertainties underlying forward-looking information.

Neither the Company nor the Directors accept any liability to any person in relation to the Annual Report and Accounts except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A and schedule 10A of the Financial Services and Markets Act 2000.

By order of the Board:

Rodney Cook
Group Chief Executive Officer

Simon Thomas
Group Chief Finance Officer

Consolidated statement of comprehensive income

For the 18 months ended 31 December 2016

	Note	**18 months ended 31 December 2016 £m**	Year ended 30 June 2015 £m
Gross premiums written		**2,693.5**	1,099.0
Reinsurance premiums ceded		**(1,553.4)**	(122.9)
Reinsurance recapture		**1,166.9**	950.9
Net premium revenue		**2,307.0**	1,927.0
Net investment income	3	**1,616.8**	635.2
Fee and commission income		**17.1**	5.1
Total revenue		**3,940.9**	2,567.3
Gross claims paid		**(1,204.5)**	(498.6)
Reinsurers' share of claims paid		**512.4**	248.1
Net claims paid		**(692.1)**	(250.5)
Change in insurance liabilities:			
Gross amount		**(2,687.1)**	(956.7)
Reinsurers' share		**1,447.3**	(188.3)
Reinsurance recapture		**(1,166.9)**	(950.9)
		(2,406.7)	(2,095.9)
Change in investment contract liabilities	23	**(15.5)**	(3.5)
Acquisition costs	4	**(53.6)**	(18.5)
Other operating expenses	5	**(341.5)**	(127.6)
Finance costs	6	**(232.7)**	(100.9)
Total claims and expenses		**(3,742.1)**	(2,596.9)
Profit/(loss) before tax	7	**198.8**	(29.6)
Income tax	8	**(51.3)**	4.8
Profit/(loss) for the period		**147.5**	(24.8)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss: exchange differences on translating foreign operations		**0.4**	(0.2)
Total comprehensive income for the period		**147.9**	(25.0)
Profit/(loss) attributable to:			
Equity holders of JRP Group plc		**147.5**	(24.8)
Profit/(loss) for the period		**147.5**	(24.8)
Total comprehensive income attributable to:			
Equity holders of JRP Group plc		**147.9**	(25.0)
Total comprehensive income for the period		**147.9**	(25.0)
Basic earnings per share (pence)	12	**20.16**	(4.96)
Diluted earnings per share (pence)	12	**20.02**	(4.96)

The notes are an integral part of these financial statements.

Consolidated statement of changes in equity

For the 18 months ended 31 December 2016

18 months ended 31 December 2016	Share capital £m	Share premium £m	Reorganisation reserve £m	Merger reserve £m	Shares held by trusts £m	Accumulated Profit[2] £m	Total shareholders' equity £m
Balance at 1 July 2015	**50.1**	**1.2**	**348.4**	**–**	**(0.7)**	**415.0**	**814.0**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**147.5**	**147.5**
Other comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**0.4**	**0.4**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**147.9**	**147.9**
Contributions and distributions							
Shares issued (net of issue costs)[1]	**43.2**	**90.5**	**–**	**532.7**	**–**	**–**	**666.4**
Dividends	**–**	**–**	**–**	**–**	**–**	**(32.9)**	**(32.9)**
Share-based payments	**–**	**–**	**–**	**–**	**(0.9)**	**16.1**	**15.2**
Total contributions and distributions	**43.2**	**90.5**		**532.7**	**(0.9)**	**(16.8)**	**648.7**
Balance at 31 December 2016	**93.3**	**91.7**	**348.4**	**532.7**	**(1.6)**	**546.1**	**1,610.6**

[1] Share issue costs recognised directly in equity were £4.1m.
[2] Includes Currency translation reserve

Year ended 30 June 2015	Share capital £m	Share premium £m	Reorganisation reserve £m	Merger reserve £m	Shares held by trusts £m	Accumulated Profit[2] £m	Total shareholders' equity £m
Balance at 1 July 2014	50.1	1.2	348.4	–	(0.1)	453.2	852.8
Loss for the period	–	–	–	–	–	(24.8)	(24.8)
Other comprehensive income for the year	–	–	–	–	–	(0.2)	(0.2)
Total comprehensive income for the year	–	–	–	–	–	(25.0)	(25.0)
Contributions and distributions							
Dividends	–	–	–	–	–	(16.5)	(16.5)
Share-based payments	–	–	–	–	(0.6)	3.3	2.7
Total contributions and distributions	–	–	–	–	(0.6)	(13.2)	(13.8)
Balance at 30 June 2015	50.1	1.2	348.4	–	(0.7)	415.0	814.0

Consolidated statement of financial position
As at 31 December 2016

	Note	**31 December 2016 £m**	30 June 2015 (restated)[1] £m
Assets			
Intangible assets	14	**217.0**	75.2
Property, plant and equipment	15	**17.1**	0.7
Financial investments	16	**17,319.6**	8,577.7
Investment in joint ventures and associates		**0.3**	–
Reinsurance assets	22	**6,057.1**	2,477.1
Deferred tax assets	17	**10.3**	4.2
Current tax assets	29	**11.1**	17.6
Prepayments and accrued income	18	**53.3**	3.2
Insurance and other receivables	19	**137.3**	34.1
Cash and cash equivalents	20	**71.4**	58.8
Total assets		**23,894.5**	11,248.6
Equity			
Share capital	21	**93.3**	50.1
Share premium	21	**91.7**	1.2
Reorganisation reserve		**348.4**	348.4
Merger reserve	21	**532.7**	–
Shares held by trusts		**(1.6)**	(0.7)
Accumulated profit		**546.1**	415.0
Total equity attributable to owners of JRP Group plc		**1,610.6**	814.0
Liabilities			
Insurance liabilities	22	**15,748.0**	7,440.3
Investment contract liabilities	23	**222.3**	228.3
Loans and borrowings	24	**343.1**	46.9
Other financial liabilities	25	**5,740.8**	2,643.2
Deferred tax liabilities	17	**46.4**	32.9
Other provisions	28	**8.5**	1.5
Current tax liabilities	29	**27.3**	0.1
Accruals and deferred income	30	**34.4**	18.7
Insurance and other payables	31	**113.1**	22.7
Total liabilities		**22,283.9**	10,434.6
Total equity and liabilities		**23,894.5**	11,248.6

[1] The fair value of debt securities includes accrued interest previously classified as prepayments and accrued income on the statement of financial position. As a result of this change in presentation, £83.0m of accrued interest has been reclassified from prepayments and accrued income at 30 June 2015.

The notes are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 9 March 2017 and were signed on its behalf by:

Simon Thomas
Director

Consolidated statement of cash flows

For the 18 months ended 31 December 2016

	Note	18 months ended 31 December 2016 £m	Year ended 30 June 2015 £m
Cash flows from operating activities			
Profit/(loss) before tax		**198.8**	(29.6)
Depreciation of equipment		**2.6**	0.5
Amortisation of intangible assets		**24.3**	4.2
Impairment of intangible assets		**3.8**	–
Share-based payments		**15.2**	2.7
Interest income		**(683.1)**	(196.4)
Interest expense		**232.7**	100.9
Increase in financial investments		**(2,794.5)**	(1,082.6)
(Increase)/decrease in reinsurance assets		**(280.5)**	1,139.2
Decrease in prepayments and accrued income		**(47.0)**	–
Increase in insurance and other receivables		**(61.7)**	(29.1)
Increase in insurance liabilities		**2,687.9**	956.7
(Decrease)/increase in investment contract liabilities		**(6.0)**	30.9
Increase/(decrease) in deposits received from reinsurers		**98.2**	(990.4)
Increase in accruals and deferred income		**4.3**	2.3
Increase/(decrease) in insurance and other payables		**53.6**	(12.8)
Increase/(decrease) in other creditors		**219.4**	(38.8)
Interest received		**388.1**	201.6
Interest paid		**(208.6)**	(91.8)
Taxation paid		**(35.9)**	(24.1)
Net cash outflow from operating activities		**(188.4)**	(56.6)
Cash flows from investing activities			
Cash acquired on the acquisition of Partnership Assurance Group plc	2	**268.6**	–
Additions to internally generated intangible assets		–	(1.8)
Acquisition of property and equipment		**(10.3)**	(0.2)
Net cash inflow/(outflow) from investing activities		**258.3**	(2.0)
Cash flows from financing activities			
Increase/(decrease) in borrowings		**202.1**	(4.5)
Interest paid		**(6.0)**	(2.3)
Dividends paid		**(32.9)**	(16.5)
Issue of ordinary share capital (net of costs)		**96.9**	–
Net cash inflow/(outflow) from financing activities		**260.1**	(23.3)
Net increase/(decrease) in cash and cash equivalents		**330.0**	(81.9)
Cash and cash equivalents at start of period		**313.7**	395.6
Cash and cash equivalents at end of period		**643.7**	313.7
Cash available on demand		**71.4**	58.8
Units in liquidity funds		**572.3**	254.9
Cash and cash equivalents at end of period	20	**643.7**	313.7

Notes to the Consolidated financial statements

1 Significant accounting policies

General information

JRP Group plc ("the Company") was incorporated and registered in England and Wales on 13 June 2013 as a public company limited by shares. The Company's registered office is Vale House, Roebuck Close, Bancroft Road, Reigate, Surrey, RH2 7RU.

As explained in note 2, on 4 April 2016, Just Retirement Group plc ("JRG") and Partnership Assurance Group plc ("PAG") completed an all-share transaction to create JRP Group plc ("JRP"). This has been accounted for as a business combination in which JRG has acquired 100% of the ordinary share capital of PAG through a share-for-share exchange, with effective control passing on 1 April 2016. JRG changed its name to JRP Group plc on 4 April 2016. In May 2016 JRP changed its accounting reference date from 30 June to 31 December. As such, these financial statements comprise the Consolidated financial statements of JRP Group plc (formerly Just Retirement Group plc) and its subsidiaries, together referred to as "the Group", as at, and for the 18 month period ended, 31 December 2016.

1.1 Basis of preparation

The results in this preliminary announcement have been taken from the Group's Annual Report and Accounts for the period ended 31 December 2016 which will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union effective for accounting periods commencing on or before 1 July 2015 and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

This preliminary announcement does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The auditor has reported on the consolidated financial statements. Their report was unqualified and neither contained a statement under section 498 (2) or (3) of the Companies Act 2006.

The following new accounting standards, interpretations and amendments to existing accounting standards in issue, but either not yet effective or endorsed by the EU, have not been early adopted by the Group. Unless stated, the new and amended standards and interpretations are being assessed but are not expected to have a significant impact on the Group's financial statements:

- IFRS 9, Financial instruments (effective 1 January 2018) and amendment to IFRS 4, Insurance contracts (effective 1 January 2018, not yet endorsed).

  IFRS 9 includes comprehensive requirements relating to the classification and measurement of financial instruments. In 2016 the IASB amended IFRS 4, the existing Insurance Contracts standard, to allow entities that issue insurance contracts to defer application of IFRS 9 until accounting periods beginning on or after 1 January 2021. This is intended to align with the expected effective date of IFRS 17, the forthcoming Insurance Contracts standard.

  This option, which the Group intends to adopt, is subject to meeting criteria relating to the predominance of insurance activity. It is expected that the amendment of the insurance standard will have a significant impact on the presentation of future cashflows within the financial statements, which will be formally assessed once the standard has been finalised.

- IFRS 15, Revenue from contracts with customers (effective 1 January 2017, not yet fully endorsed by the EU).

  IFRS 15 specifies how and when an entity recognises revenue, providing a single, principles-based model to be applied to all contracts with customers, whilst requiring more informative and relevant disclosures. Insurance contracts, although contracts with customers, are outside the scope of IFRS 15.

- IFRS 16, Leases (effective 1 January 2019, not yet endorsed).

  IFRS 16 specifies how to recognise, measure, present and disclose leases. The standard provides a single accounting model, requiring lessees to recognise assets and liabilities for leases unless the term is 12 months or less, or the underlying asset has a low value.

  The effect of applying this standard will be to bring the operating leases disclosed in note 32 onto the balance sheet.

- Amendments to IAS 1, Disclosure initiative (effective 1 January 2016, not yet endorsed).

  The amendments clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

- Amendment to IAS 12, Income taxes (effective 1 January 2017, not yet endorsed).

  The amendments clarify the recognition of deferred tax assets for unrealised losses on debt instruments, and provide guidance on estimates for future taxable profits and the assessment of multiple deferred tax assets in combination.

- Amendment to IAS 7, Statement of cash flows (effective 1 January 2017, not yet endorsed).

  The amendments require additional disclosures that will allow users to understand changes in liabilities arising from financing activities, including changes arising from cash flows, such as drawdowns and repayments of borrowings, and non-cash changes, such as acquisitions, disposals and unrealised exchange differences.

1.2 Significant accounting policies and the use of judgements, estimates and assumptions

The preparation of financial statements requires the Group to select accounting policies and make estimates and assumptions that affect items reported in the Consolidated statement of comprehensive income, Consolidated statement of financial position, other primary statements and Notes to the consolidated financial statements.

The major areas of judgement used as part of accounting policy application are summarised below.

Accounting policy	Item involving judgement	Critical accounting judgement
1.6	Classification of insurance and investment contracts	Assessment of significance of insurance risk transferred.
1.19	Financial investments	Classification of financial investments, including assessment of market observability of valuation inputs.

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and predictions of future events and actions. Actual results may differ significantly from those estimates.

The table below sets out those items the Group considers susceptible to changes in critical estimates and assumptions together with the relevant accounting policy.

Accounting policy and notes	Item involving estimates and assumptions	Critical estimates and assumptions
1.18, 16(a) and (d)	Measurement of fair value of loans secured by residential mortgages	The critical estimates used in valuing loans secured by residential mortgages include the projected future receipts of interest and loan repayments, future house prices, and the future costs of administering the loan portfolio. The key assumptions used as part of the valuation calculation include future property prices and their volatility, mortality, the rate of voluntary redemptions and the liquidity premium added to the risk-free curve and used to discount the mortgage cash flows. Further details can be found in note 16(a).
1.19, 22	Measurement of reinsurance assets arising from reinsurance arrangements	The critical estimates used in measuring the value of reinsurance assets include the projected future cash flows arising from reinsurers' share of the Group's insurance liabilities. The key assumptions used in the valuation include discount rates and mortality experience, as described below, and assumptions around the reinsurers' ability to meet its claim obligations.
1.22, 22(b), 23(b)	Measurement of insurance liabilities arising from writing Retirement Income insurance contracts	The critical estimates used in measuring insurance liabilities include the projected future Retirement Income payments and the cost of administering payments to policyholders. The key assumptions are the discount rates and mortality experience used in the valuation of future Retirement Income payments. The valuation discount rates are derived from yields on supporting assets after deducting allowances for default. Mortality assumptions are derived from the appropriate standard mortality tables, adjusted to reflect the future expected mortality experience of the policyholders. Further detail can be found in notes 22 and 23.
1.3, 2	Fair value of Partnership Assurance Group on acquisition	The key assumptions for the valuation of the acquired in-force business are the projected profits of the acquired business and the discount rate. The discount rate used represents a weighted-average cost of capital determined using a capital asset pricing model (CAPM) approach.

1.3 Consolidation principles

The consolidated financial statements incorporate the assets, liabilities, results and cash flows of the Company and its subsidiaries.

Subsidiaries are those investees over which the Group has control. The Group has control over an investee if all of the following are met: (1) it has power over the investee; (2) it is exposed, or has rights, to variable returns from its involvement with the investee; and (3) it has the ability to use its power over the investee to affect its own returns.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are excluded from consolidation from the date on which control ceases. All inter-company transactions, balances and unrealised surpluses and deficits on transactions between Group companies are eliminated. Accounting policies of subsidiaries are aligned on acquisition to ensure consistency with Group policies.
The Group uses the acquisition method of accounting for business combinations. Under this method, the cost of acquisition is measured as the aggregate of the fair value of the consideration at date of acquisition and the amount of any non-controlling interest in the acquiree. The excess of the consideration transferred over the identifiable net assets acquired is recognised as goodwill.
The Group uses the equity method to consolidate its investments in joint ventures and associates. Under the equity method of accounting the

investment is initially recognised at fair value and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the joint ventures and associates.

1.4 Segments

The Group's segmental results are presented on a basis consistent with internal reporting used by the Chief Operating Decision Maker ("CODM") to assess the performance of operating segments and the allocation of resources. The CODM has been identified as the Group Executive Office Committee.

The internal reporting used by the CODM includes product information (which comprises analysis of product revenues, LTM advances and amounts written under investment contracts) and information on adjusted operating profit and profit before tax for the Group's operating segments.

Product information is analysed by product line and includes DB, GIfL, Care Plans, Protection, LTM and Capped Drawdown products.

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses.

The operating segments from which the Group derives revenues and incurs expenses are as follows:

- The writing 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 guaranteed income for life contracts and lifetime mortgages through a regulated advice and intermediary services; and
- The provision of licensed software to financial advisers, banks, building societies, life assurance companies and pension trustees.

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, the arranging of guaranteed income for life contracts, providing intermediary mortgage advice and arranging, plus the provision of licensed software, are included in the Other segment along with Group activities, such as capital and liquidity management, and investment activities.

The information on adjusted operating profit and profit before tax used by the CODM is presented on a combined product basis within the insurance operating segment and is not analysed further by product.

1.5 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 year. 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 profit or loss.

The assets and liabilities of foreign operations are translated to sterling at the rates of exchange at the reporting date. The revenues and expenses are translated to sterling at the average rates of exchange for the period. Foreign exchange differences arising on translation to sterling are accounted for through other comprehensive income.

1.6 Classification of insurance and investment contracts

The measurement and presentation of assets, liabilities, income and expenses arising from life and pensions business contracts is dependent upon the classification of those contracts as either insurance or investment contracts.

A contract is classified as insurance only if it transfers significant insurance risk. Insurance risk is significant if an insured event could cause an insurer to pay significant additional benefits to those payable if no insured event occurred. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire.

Any contracts not considered to be insurance contracts under IFRS are classified as investment contracts. Capped Drawdown pension business and Flexible Pension Plan contracts are classified as investment contracts as there is no transfer of longevity risk due to the fixed term and unit-linked natures of these respective contracts.

1.7 Premium revenue

Premium revenue in respect of Individual GIfL contracts is accounted for when the premiums are received, which coincides with when the liability to pay the GIfL contract is established.

Premium revenue in respect of Defined Benefit De-risking contracts is accounted for when the Company becomes 'on risk', which is the date from which the policy is effective. If a timing difference occurs between the date from which the policy is effective and the receipt of payment, the amount due for payment but not yet received is recognised as a receivable in the Consolidated statement of financial position.

Premium revenue in respect of Care Plans and Protection policies are recognised in the accounting period in which the insurance contract commences.

Facilitated adviser charges, are not accounted for within premium revenue, and do not represent a charge on the Group.
Deposits collected under investment contracts are not accounted for through the Consolidated statement of comprehensive income, except for fee income and attributable investment income, but are accounted for directly through the Consolidated statement of financial position as an adjustment to the investment contract liability.

Reinsurance premiums payable in respect of reinsurance treaties are accounted for when the reinsurance premiums are due for payment under the terms of the contract. Reinsurance premiums previously incurred can be recaptured under certain conditions, notably once reinsurance financing for an underwriting year is fully repaid.

1.8 Net investment income

Investment income consists of interest receivable for the period and realised and unrealised gains and losses on financial assets and liabilities at fair value through profit and loss.

Interest income is recognised as it accrues.

Realised gains and losses on financial assets and liabilities occur on disposal or transfer and represent the difference between the proceeds received net of transaction costs, and the original cost.

Unrealised gains and losses arising on financial assets and liabilities represent the difference between the carrying value at the end of the reporting period and the carrying value at the start of the reporting period or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the period.

1.9 Fee and commission income

Fee and commission income, which consists of fee income for initial advances made on loans secured by mortgages, investment management fees, administration fees and commission, are recognised as the services are rendered. Revenue is recognised in full on acceptance and inception of the contract by the product provider as there are no post-placement obligations. In addition, operating income includes fees from software licensing which are recognised across the license period.

1.10 Claims paid

Policyholder benefits are accounted for when due for payment. Reinsurance paid claim recoveries are accounted for in the same period as the related claim.

Death claims are accounted for when notified.

1.11 Acquisition costs

Acquisition costs comprise direct costs such as commission and indirect costs of obtaining and processing new business. Acquisition costs are not deferred as they relate to single premium business.

1.12 Leases

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

1.13 Finance costs

Finance costs on deposits received from reinsurers are recognised as an expense in the period in which they are incurred. Interest on reinsurance financing is accrued in accordance with the terms of the financing arrangements.

Interest on loans and borrowings is accrued in accordance with the terms of the loan agreement. Loan issue costs are capitalised and amortised on a straight-line basis over the term of the loan issued. Interest expense is calculated using the effective interest rate method.

1.14 Employee benefits

Defined contribution plans

The 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 when due.

Share-based payment transactions

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at grant date, determined using stochastic and scenario-based modelling techniques where appropriate. The fair value is expensed in the Consolidated statement of comprehensive income on a straight-line basis over the vesting period, with a corresponding credit to equity, based on the Group's estimate of the equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments that will eventually vest as a result of changes in non-market-based vesting conditions, and recognises the impact of the revision of original estimates in the Consolidated statement of comprehensive income over the remaining vesting period, with a corresponding adjustment to equity. Where a leaver is entitled to their scheme benefits, this is treated as an acceleration of the vesting in the period they leave. Where a scheme is modified before it vests, any change in fair value as a result of the modification is recognised over the remaining vesting period. Where a scheme is cancelled, this is treated as an acceleration in the period of the vesting of all remaining options.

1.15 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted-average number of ordinary shares outstanding during the period. The calculation of the weighted-average number of ordinary shares excludes ordinary shares held in trusts on behalf of employee share schemes.

For diluted earnings per share, the weighted-average number of ordinary shares outstanding during the period, excluding ordinary shares held in trusts on behalf of employee share schemes, is adjusted to assume conversion of potential ordinary shares, such as share options granted to employees, if their conversion would dilute earnings per share.

1.16 Intangible assets

Intangible assets consist of goodwill, which is deemed to have an indefinite useful life, Purchased Value of In-Force ("PVIF"), brand and purchased and internally developed software (including PrognoSys™), which are deemed to have finite useful lives.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary and represents the future economic benefit arising from assets that are not capable of being individually identified and separately recognised. Goodwill is measured at initial value less any accumulated impairment losses. Goodwill is not amortised, but assessed for impairment annually or when circumstances or events indicate there may be uncertainty over the carrying value.

For the purpose of impairment testing, goodwill has been allocated to cash generating units and an impairment is recognised when the carrying value of the cash generating unit exceeds its recoverable amount. Impairment losses are recognised directly in the Consolidated statement of comprehensive income and are not subsequently reversed.

Other intangible assets are recognised if it is probable that the relevant future economic benefits attributable to the asset will flow to the Group, and are measured at cost less accumulated amortisation and any impairments.

PVIF, representing the present value of future profits from the purchased inforce business, is recognised upon acquisition and is amortised over its expected remaining economic life up to 16 years on a straight-line basis.

PrognoSys™ is the Group's proprietary underwriting engine. The Group has over 2 million person-years of experience collected over twenty years of operations. It is enhanced by an extensive breadth of external primary and secondary healthcare data and medical literature.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group are capitalised and recognised as an intangible asset. Direct costs include the incremental software development team's employee costs. All other costs associated with researching or maintaining computer software programmes are recognised as an expense as incurred.

Intangible assets with finite useful lives are amortised on a straight-line basis over their useful lives, which range from three to 16 years. The useful lives are determined by considering relevant factors, such as usage of the asset, potential obsolescence, competitive position and stability of the industry.

For intangible assets with finite useful lives, impairment testing is performed where there is an indication that the carrying value of the assets may be subject to an impairment. An impairment loss is recognised where the carrying value of an intangible asset exceeds its recoverable amount.

The significant intangible assets recognised by the 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
PVIF	Up to 16 years	Estimated value in-force using European Embedded Value model
Brand	2 – 5 years	Estimated royalty stream if the rights were to be licensed
Distribution network	3 years	Estimated discounted cash flow
Software	2 – 3 years	Estimated replacement cost
Intellectual property	12 - 15 years	Estimated replacement cost

The useful economic lives of intangible assets recognised by the Group other than those acquired in a business combination are as follows:

Intangible asset	Estimated useful economic life
PrognoSys™	12 years
Software	3 years

1.17 Property, plant and equipment

Land and buildings are measured at their revalued amounts less subsequent depreciation, and impairment losses are recognised at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of the revalued asset does not differ materially from its carrying value.

A revaluation surplus is recognised in Other comprehensive income and credited to the revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the revaluation reserve.

Buildings are depreciated on a straight-line basis over the estimated useful lives of the buildings of 25 years.

Equipment is stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis to write down the cost to residual value over the estimated useful lives as follows:

Computer equipment – 3 to 4 years
Furniture and fittings – 2 to 10 years

1.18 Financial investments

Classification

The Group classifies financial investments in accordance with IAS 39 whereby, subject to specific criteria, they are accounted for at fair value through profit and loss. This comprises assets designated by management as fair value through profit and loss on inception, as they are managed on a fair value basis, and derivatives that are classified as held for trading. These investments are measured at fair value with all changes thereon being recognised in investment income in the Consolidated statement of comprehensive income.

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets. Amounts payable or receivable on unsettled purchases or sales are recognised in other payables or other receivables respectively. Transaction costs are expensed through profit and loss.

Loans secured by residential mortgages are recognised when cash is advanced to borrowers.

The Group receives and pledges collateral in the form of cash or gilts in respect of derivative contracts. Collateral received is recognised as an asset in the Consolidated statement of financial position with a corresponding liability for the repayment in other financial liabilities. Collateral pledged is recognised in the Consolidated statement of financial position within the appropriate asset classification.

Derivatives are recognised at fair value through profit and loss. The fair values are obtained from quoted market prices or, if these are not available, by using standard valuation techniques based on discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair value is positive and liabilities when the fair values are negative. The Group does not use hedge accounting.

The Group's policy is to derecognise financial investments when it is deemed that substantially all the risks and rewards of ownership have been transferred.

Use of fair value

The Group uses current bid prices to value its investments with quoted prices. Actively traded investments without quoted prices are valued using prices provided by third parties. If there is no active established market for an investment, the Group applies an appropriate valuation technique such as discounted cash flow analysis.

Determining the fair value of financial investments when the markets are not active

The Group holds certain financial investments for when the markets are not active. These comprise financial investments which are not quoted in active markets and include loans secured by residential mortgages, derivatives and other financial investments for when markets are not active. When the markets are not active, there is generally no or limited observable market data that can be used in the fair value measurement of the financial investments. The determination of whether an active market exists for a financial investment requires management's judgement.

If the market for a financial investment of the Group is not active, the fair value is determined using valuation techniques. The Group establishes fair value for these financial investments by using quotations from independent third parties or internally developed pricing models. The valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis. The valuation techniques may include a number of assumptions relating to variables such as credit risk and interest rates and, for loans secured by mortgages, mortality, future expenses, voluntary redemptions and house price assumptions. Changes in assumptions relating to these variables impact the reported fair value of these financial instruments positively or negatively.

The financial investments measured at fair value are classified into the following three-level hierarchy on the basis of the lowest level of inputs that are significant to the fair value measurement of the financial investment concerned:

Level 1: Quoted price (unadjusted) in active markets for identical assets and liabilities;
Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly (i.e. derived from prices); and
Level 3: Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs).

1.19 Reinsurance

Reinsurance assets

Amounts recoverable from reinsurers are measured in a consistent manner with insurance liabilities and are classified as reinsurance assets. If a reinsurance asset is impaired, the carrying value is reduced accordingly and that impairment loss is recognised in the Consolidated statement of comprehensive income.

Financial liabilities

Where reinsurance contracts entered into by the Group are structured to provide financing, with financing components to be repaid in future periods, such amounts are classified as "reinsurance finance" and included in other financial liabilities in the Consolidated statement of financial position.

Where reinsurance contracts entered into by the Group require deposits received from reinsurers to be repaid, such amounts are classified as "deposits received from reinsurers" and included in other financial liabilities in the Consolidated statement of financial position. Where the liability carries no insurance risk, it is initially recognised at fair value at the date the deposited asset is recognised and subsequently re-measured at fair value at each balance sheet date. The resulting gain or loss is recognised in the Consolidated statement of comprehensive income. Fair value is determined as the amount payable discounted from the first date that the amount is required to be paid. All other deposits received from reinsurers are valued in accordance with the terms of the reinsurance contracts, which take into account an appropriate discount rate for the timing of expected cash flows.

Amounts receivable/payable

Where reinsurance contracts the Group has entered into include longevity swap arrangements, such contracts are settled on a net basis and amounts receivable from or payable to the reinsurers are included in the appropriate heading under either Insurance and other receivables or Insurance and other payables.

1.20 Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, and other short-term highly liquid investments with less than 90 days' maturity from the date of acquisition.

1.21 Equity

The difference between the proceeds received on issue of the shares, net of share issue costs, and the nominal value of the shares issued is credited to the share premium account.

Interim dividends are recognised in equity in the period in which they are paid. Final dividends are recognised when they have been approved by shareholders.

Where the Company purchases shares for the purposes of employee incentive plans, the consideration paid, net of issue costs, is deducted from equity. Upon issue or sale any consideration received is credited to equity net of related costs.

The reserve arising on the reorganisation of the Group represents the difference in the value of the shares in the Company and the value of shares in Just Retirement Group Holdings Limited for which they were exchanged as part of the Group reorganisation in November 2013.

1.22 Insurance liabilities

Measurement

Long-term insurance liabilities arise from the Group writing Retirement Income contracts, including Defined Benefit De-risking solutions, long-term care insurance, and whole of life and term protection insurance. Their measurement uses estimates of projected future cash flows arising from payments to policyholders plus the costs of administering them. Valuation of insurance liabilities is derived using discount rates, adjusted for default allowance, and mortality assumptions, taken from the appropriate mortality tables and adjusted to reflect actual and expected experience.

Liability adequacy test

The Group performs adequacy testing on its insurance liabilities to ensure the carrying amount is sufficient to cover the current estimate of future cash flows. Any deficiency is immediately charged to the Consolidated statement of comprehensive income.

1.23 Investment contract liabilities

Investment contracts are measured at fair value through profit and loss in accordance with IAS 39. The fair value of investment contracts is estimated using an internal model and determined on a policy-by-policy basis using a prospective valuation of future Retirement Income benefit and expense cash flows, but with an adjustment to amortise any day-one gain over the life of the contract.

1.24 Loans and borrowings

Loans and borrowings are initially recognised at fair value, net of transaction costs, and subsequently amortised through profit and loss over the period to maturity at the effective rate of interest required to recognise the discounted estimated cash flows to maturity.

1.25 Other provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recorded as a provision is the best estimate of the expenditure required to settle the obligation at the balance sheet date. Where the effect of the time value of money is material, the provision is the present value of the expected expenditure.

1.26 Taxation

The current tax expense is based on the taxable profits for the year, using tax rates substantively enacted at the Consolidated statement of financial position date, and after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to components of other comprehensive income and equity as appropriate.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The principal temporary differences arise from the revaluation of certain financial assets and liabilities, including technical provisions and other insurance items and tax losses carried forward, and include amortised transitional tax adjustments resulting from changes in tax basis.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2 Acquisition of Partnership Assurance Group plc

On 4 April 2016, the Group completed the acquisition of 100% of the ordinary share capital of Partnership Assurance Group plc (PAG) through an all share exchange which gave PAG shareholders 0.834 Just Retirement Group plc (JRP) shares for every PAG share held, with effective control having passed on 1 April 2016. In total, 368,376,421 new JRP shares were issued and commenced trading on 4 April 2016. As a result, PAG shareholders hold approximately 40% of the enlarged share capital of the Combined Group. At the closing price of 154.60 pence on 1 April 2016, the share exchange represented consideration of £569.5m. As part of the acquisition certain employee share schemes granted to PAG employees have been exchanged for equivalent JRP employee share schemes. The fair value cost of replacing those schemes, included in the consideration for PAG, was £2.4m.

Established in 2005 following the acquisition of the business of the Pension Annuity Friendly Society, PAG was a UK life insurance group whose strategy was aligned with that of the Group. PAG was focused on retirement income products, offering better rates to customers who suffer from shortened life expectancy by utilising an intellectual property led, capital-efficient business model. Following the Pensions Freedom changes announced in the 2014 Budget, PAG increased its focus on the defined benefit scheme de-risking segment whilst continually developing its individually underwritten annuities. The acquisition recognises the benefits of greater scale, enhanced intellectual property, a broader product proposition and a more efficient distribution platform that will improve the potential of the Group to succeed in its chosen markets in the future.

In accordance with the accounting standard on Business Combinations (IFRS 3), valuations used in acquisition balance sheets may be refined within one year following the acquisition date. The fair value of PAG identifiable assets and liabilities acquired have been determined to have a net value of £571.6m, compared with the initial value of £644.7m disclosed in the 30 June 2016 Interim report. When compared with consideration of £571.9m, goodwill of £0.3m has arisen on acquisition, as follows:

Assets	Fair value £m
Acquired value of in-force business and intangible assets - before goodwill	169.6
Property, plant and equipment	8.7
Financial investments	5,293.9
Investment in joint ventures and associates	0.2
Reinsurance assets	3,299.5
Deferred tax assets	8.3
Prepayments and accrued income	3.1
Insurance and other receivables	41.5
Cash and cash equivalents	268.6
Total assets	9,093.4
Liabilities	
Insurance liabilities	5,619.8
Loans and borrowings	94.3
Financial liabilities	2,737.2
Deferred tax liabilities	32.5
Current tax liabilities	1.3
Insurance and other payables	36.7
Total liabilities	8,521.8
Net assets	571.6
Goodwill arising on acquisition	0.3
Total net assets acquired	571.9
Fair value of shares exchanged	569.5
Fair value cost of exchanging employee share schemes	2.4
Total consideration	571.9

The issue of new shares in the Company in exchange for shares of PAG will attract merger relief under section 612 of the Companies Act 2006. Of the £569.5m, £36.8m has been credited to share capital (representing 10 pence per ordinary share) and the remaining £532.7m has been credited to the merger reserve within equity.

Fair value and accounting policy adjustments

Insurance liabilities and reinsurance assets

On completion of the acquisition, the economic assumptions applied to the actuarial models used to determine the value of insurance liabilities and reinsurance assets have been reviewed across the Group. Following this review, consistent economic and other assumptions have been applied to all Group entities, resulting in an increase of £37.3m to PAG's insurance liabilities and an increase of £6.2m to PAG's reinsurance assets recognised on acquisition. Similarly, consistent economic assumptions have been applied to the models used to determine the fair value of loan assets secured by mortgages, resulting in an increase of £30.7m to the value of PAG's mortgage loan assets.

Financial liabilities

PAG's subordinated debt liability has been recognised at fair value on acquisition. The fair value represents a £5.8m reduction to the amortised cost of the debt liability. The methodology applied to the valuation of reinsurance deposit back liabilities in Partnership Life Assurance Company Limited has also been reviewed and a Group accounting basis has been adopted. Together with the impact of other basis alignments, this resulted in a £74.7m increase in the value of PAG's financial liabilities.

Acquired value of in-force business and intangible assets

An asset of £142.7m was recognised on acquisition representing the present value of future profits from the acquired in-force business as of 1 April 2016. Future profit streams have been discounted using a weighted-average cost of capital of 11.1%, which was determined using a capital asset pricing model (CAPM) approach. This will be amortised in accordance with the Group's accounting policies.

Intangible assets of £26.9m represent PAG's distribution and customer relationships, brands, technology and software including IP, and other intangibles. These balances will be amortised over their remaining useful economic lives, in accordance with the Group's accounting policies.

Goodwill arising on acquisition

The acquisition resulted in goodwill of £0.3m, representing the excess of purchase consideration over the fair value of assets acquired. The acquisition consideration consisted of shares in the Group exchanged for shares in PAG at a ratio set at the announcement of the transaction on 11 August 2015.

Profit and loss

If the acquisition had been effective on 1 July 2015, on a pro forma basis the Group's revenue is estimated at £4,368.7m and profit before tax attributable to shareholders is estimated at £121.2m for the 18 month period ending 31 December 2016. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 July 2015. The pro forma results are provided for information purposes only and do not necessarily reflect the actual results that would have occurred had the acquisition taken place on 1 July 2015. Since 1 April 2016 £363.3m has been recognised within the Group's revenue and £24.0m has been recognised within the Group's profit before tax attributable to shareholders arising from the acquired entities.

Acquisition costs of £23.4m incurred to support the transaction have been recognised within other operating expenses in the statement of comprehensive income.

3 Net investment income

	18 months ended 31 December 2016 £m	Year ended 30 June 2015 £m
Interest income:		
Assets at fair value through profit or loss	**683.1**	196.4
Movement in fair value:		
Financial assets and liabilities designated on initial recognition at fair value through profit and loss	**998.7**	568.1
Derivative financial instruments	**(65.2)**	(129.3)
Other income	**0.2**	–
Total net investment income	**1,616.8**	635.2

4 Acquisition costs

	18 months ended 31 December 2016 £m	Year ended 30 June 2015 £m
Commission	**25.9**	10.1
Other acquisition expenses	**27.7**	8.4
Total acquisition costs	**53.6**	18.5

5 Other operating expenses

	18 months ended 31 December 2016 £m	Year ended 30 June 2015 £m
Personnel expenses (note 10)	**138.0**	56.6
Investment expenses and charges	**9.8**	3.7
Depreciation of equipment	**2.6**	0.5
Operating lease rentals: land and buildings	**4.6**	1.5
Acquisition integration costs	**40.7**	–
Acquisition transaction costs	**23.4**	–
Impairment of intangible assets	**3.8**	–
Amortisation of intangible assets	**24.3**	4.2
Other costs	**94.3**	61.1
Total other operating expenses	**341.5**	127.6

During the period the following services were provided by the Group's auditor at costs as detailed below:

Services provided by Group's auditor

	18 months ended 31 December 2016 £'000	Year ended 30 June 2015 £'000
Fees payable for the audit of the Parent Company and consolidated accounts	**50**	41
Fees payable for other services:		
The audit of the Company's subsidiaries pursuant to legislation	**468**	313
Corporate finance services	**2,425**	–
Audit-related assurance services	**705**	78
Tax compliance services	**2**	5
Tax advisory services	**85**	28
Other assurance services	**15**	178
Auditor remuneration	**3,750**	643
Audit-related assurance services provided by other firms	**77**	-

6 Finance costs

	18 months ended 31 December 2016 £m	Year ended 30 June 2015 £m
Interest payable on deposits received from reinsurers	**208.6**	91.8
Interest payable on subordinated debt	**11.3**	–
Other interest payable	**12.8**	9.1
Total finance costs	**232.7**	100.9

The interest payable on deposits received from reinsurers is as defined by the respective reinsurance treaties and calculated with reference to the risk-adjusted yield on the relevant backing asset portfolio.

7 Segmental reporting

Adjusted operating profit

The Group reports adjusted operating profit as an alternative measure of profit which the Group uses for decision making and performance measurement. The Board believes that adjusted operating profit, which excludes effects of short-term economic and investment changes, provides a better view of the longer-term performance and development of the business and aligns with the longer-term nature of the products. The underlying operating profit represents a combination of both the profits generated from new business written in the period and profits expected to emerge from the in-force book of business based on current assumptions. Actual operating experience where different from that assumed at the start of the period and the impacts of changes to future operating assumptions applied in the period are then also included in arriving at adjusted operating profit.

New business profits represent expected investment returns on financial instruments backing shareholder and policyholder funds after allowances for expected movements in liabilities and acquisition costs. Profits arising from the in–force book of business represent the expected return on surplus assets, the expected unwind of prudent reserves above best estimates for mortality, expenses, corporate bond defaults and, with respect to lifetime mortgages, no-negative guarantee and early redemptions.

Adjusted operating profit excludes the impairment and amortisation of goodwill and other intangible assets arising on consolidation, restructuring costs and other exceptional items. Exceptional items are those items that, in the Directors' view, are required to be separately disclosed by virtue of their nature or incidence to enable a full understanding of the Group's financial performance.

Variances between actual and expected investment returns due to economic and market changes are also disclosed outside adjusted operating profit.

Segmental analysis

The Insurance segment writes insurance products for the retirement market – which include Guaranteed Income for Life Solutions and Defined Benefit De-risking Solutions, Care Plans, Flexible Pension Plan and Protection – and invests the premiums received from these contracts in debt securities, gilts, liquidity funds and lifetime mortgage advances. From a management reporting perspective, these are managed together, with LTM being an integral part of the insurance business model.

The professional services business is included with other corporate companies in the Other segment. This business is not currently sufficiently significant to separate from other companies' results and the CODM does not separately consider its results at present. The Other segment also includes the Group's corporate activities that are primarily involved in managing the Group's liquidity, capital and investment activities.

The Group operates in one material geographical segment which is the United Kingdom.

Segmental reporting and reconciliation to financial information

18 months ended 31 December 2016	Insurance £m	Other £m	Total £m
New business operating profit	**171.7**	**–**	**171.7**
In-force operating profit	**88.2**	**1.1**	**89.3**
Underlying operating profit	**259.9**	**1.1**	**261.0**
Operating experience and assumption changes	**2.5**	**–**	**2.5**
Other Group companies' operating results	**–**	**(18.4)**	**(18.4)**
Reinsurance and financing costs	**(52.0)**	**22.6**	**(29.4)**
Adjusted operating profit before tax	**210.4**	**5.3**	**215.7**
Non-recurring and project expenditure	**(18.4)**	**(2.7)**	**(21.1)**
Investment and economic profits/(losses)	**95.7**	**(2.6)**	**93.1**
Profit/(loss) before acquisition transaction and amortisation costs, before tax	**287.7**	**–**	**287.7**
Acquisition integration costs	**–**	**(40.7)**	**(40.7)**
Acquisition transaction costs	**–**	**(23.4)**	**(23.4)**
Impairment of intangible assets	**–**	**(3.8)**	**(3.8)**
Amortisation costs	**–**	**(21.0)**	**(21.0)**
Profit/(loss) before tax	**287.7**	**(88.9)**	**198.8**

Year ended 30 June 2015	Insurance £m	Other £m	Total £m
New business operating profit	36.8	–	36.8
In-force operating profit	48.8	0.8	49.6
Underlying operating profit	85.6	0.8	86.4
Operating experience and assumption changes	2.4	–	2.4
Other Group companies' operating result	–	(8.7)	(8.7)
Reinsurance and financing costs	(28.7)	16.2	(12.5)
Adjusted operating profit before tax	59.3	8.3	67.6
Non-recurring and project expenditure	(16.8)	(2.6)	(19.4)
Investment and economic (losses)/profits	(74.2)	0.1	(74.1)
(Loss)/profit before amortisation costs and before tax	(31.7)	5.8	(25.9)
Amortisation costs	–	(3.7)	(3.7)
(Loss)/profit before tax	(31.7)	2.1	(29.6)

Product information analysis

Additional analysis relating to the Group's products is presented below. The Group's products are from one material geographical segment which is the UK. The Group's gross premiums written, as shown in the Consolidated statement of comprehensive income, is analysed by product below:

	18 months ended 31 December 2016 £m	Year ended 30 June 2015 £m
Defined Benefit De-risking Solutions ("DB")	**1,644.6**	608.9
Guaranteed Income for Life contracts ("GIfL")	**949.2**	478.0
Care Plans ("CP")	**97.1**	12.1
Protection	**2.6**	–
Gross premiums written	**2,693.5**	1,099.0

Drawdown and LTM products are accounted for as investment contracts and financial investments respectively in the statement of financial position. An analysis of the amounts advanced during the period for these products is shown below:

	18 months ended 31 December 2016 £m	Year ended 30 June 2015 £m
Drawdown	**32.4**	48.7
LTM loans advanced	**729.8**	308.1
New business sales not included in gross premiums written	**762.2**	356.8

Reconciliation of gross premiums written to new business sales

	18 months ended 31 December 2016 £m	Year ended 30 June 2015 £m
Gross premiums written	**2,693.5**	1,099.0
Change in premiums receivable not included in new business sales*	**24.9**	–
Drawdown and LTM new business sales not included in gross premiums written	**762.2**	356.8
New business sales	**3,480.6**	1,455.8

* Premiums on insurance contracts are recognised when the contract becomes effective in accordance with the terms of the contract. For certain contracts written by Partnership Assurance Company Limited ("PLACL"), this is when the contract is issued and completion may be later if the timing of payment differs. PLACL contracts where payment has not been received in the reporting period are excluded from new business sales.

8 Income tax

	18 months ended 31 December 2016 £m	Year ended 30 June 2015 £m
Current taxation		
Current year	**54.0**	(13.1)
Adjustments in respect of prior periods	**14.0**	0.1
Total current tax	**68.0**	(13.0)
Deferred taxation		
Origination and reversal of temporary differences	**(3.0)**	8.2
Adjustments in respect of prior periods	**(12.1)**	–
Rate change	**(1.6)**	–
Total deferred tax	**(16.7)**	8.2
Total income tax	**51.3**	(4.8)

The current taxation adjustment in respect of prior period of £14.0m relates to losses previously treated as available for group relief in 2015 which have been utilised against 2016 taxable profits instead when calculating the £54.0m charge for the period. Similarly the deferred tax adjustment in respect of prior period reflects the recognition of the tax loss carried forward into the current reporting period.

Reconciliation of total income tax to the applicable tax rate:

	18 months ended 31 December 2016 £m	Year ended 30 June 2015 £m
Profit/(loss) on ordinary activities before tax	**198.8**	(29.6)
Income tax at 20.00% (2015: 20.75%)	**39.8**	(6.1)
Effects of:		
Expenses not deductible for tax purposes	**11.8**	1.7
Rate change	**(1.6)**	-
Higher rate for overseas income	**-**	(0.1)
Unrecognised deferred tax asset	**0.4**	0.3
Losses utilised	**0.7**	**-**
Adjustments in respect of prior periods	**1.9**	0.1
Other	**(1.7)**	(0.7)
Total income tax	**51.3**	(4.8)

Reductions in the corporation tax rate from 20% to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020) were substantively enacted on 26 March 2016. In the Budget on 16 March 2016, the Chancellor announced a further reduction to the corporation tax rate to 17% (effective from 1 April 2020) which was substantively enacted on 15 September 2016. This will reduce the Group's future current tax charge accordingly, although there will be no material effect.

The deferred tax assets and liabilities at 31 December 2016 have been calculated based on the rate at which they are expected to reverse.

Taxation of life insurance companies was fundamentally changed following the publication of the Finance Act 2012. Since 1 January 2013, life insurance tax has been 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 ten year period from 1 January 2013.

Similarly, the resulting cumulative transitional adjustments for tax purposes in adoption of IFRS will be amortised on a straight-line basis over a ten year period from 1 January 2016.

The tax charge for the period to 31 December 2016 includes profits chargeable to corporation tax arising from amortisation of transitional balances of £10.1m (2015: £(3.0)m).

9 Remuneration of Directors

Information concerning individual Directors' emoluments, interests and transactions is given in the Directors' Remuneration Report. For the purposes of the disclosure required by Schedule 5 to the Companies Act 2006, the total aggregate emoluments of the Directors in respect of the 18 months ended 31 December 2016 was £6.7m (2015: £3.4m). Employer contributions to pensions for Executive Directors for qualifying periods were £nil (2015: £nil). The aggregate net value of share awards granted to the Directors in the period was £5.6m (2015: £2.6m). The net value has been calculated by reference to the closing middle-market price of an ordinary share at the date of grant. No Directors exercised share options during the period whilst a Director of the Company.

10 Staff numbers and costs

The average number of persons employed by the Group (including Directors) during the financial period, analysed by category, was as follows:

	18 months ended 31 December 2016 Number	Year ended 30 June 2015 Number
Directors	**13**	9
Senior management	**136**	68
Staff	**1,041**	692
Average number of staff	**1,190**	769

The aggregate personnel costs were as follows:

	18 months ended 31 December 2016 £m	Year ended 30 June 2015 £m
Wages and salaries	**106.3**	46.7
Social security costs	**11.6**	5.0
Other pension costs	**5.2**	1.6
Share-based payment expense	**14.9**	3.3
Total personnel costs	**138.0**	56.6

The Company does not have any employees.

11 Employee benefits

Defined contribution pension scheme

The Group operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable to the fund and amounted to £5.2m (2015: £1.6m).

Employee share plans

The Group operates a number of employee share option and share award plans. Details of those plans are as follows:

Share Options

Just Retirement Group plc 2013 Long Term Incentive Plan ("LTIP")

The Group has made awards under the LTIP to Executive Directors and other senior managers. Awards are made in the form of nil-cost options which become exercisable on the third anniversary of the grant date, subject to the satisfaction of service and performance conditions set out in the Directors' Remuneration Report. Options are exercisable until the tenth anniversary of the grant date.

The options are accounted for as equity-settled schemes.

The number and weighted-average remaining contractual life of outstanding options under the LTIP are as follows:

	18 months ended 31 December 2016 Number of options	Year ended 30 June 2015 Number of options
Outstanding at start of period	**7,708,723**	2,994,265
On acquisition of Partnership Assurance Group plc (PAG)	**6,312,856**	–
Granted	**10,179,879**	4,816,871
Forfeited	**(1,628,885)**	(102,413)
Exercised	**(592,801)**	–
Expired	**(4,822,608)**	–
Outstanding at end of period	**17,157,164**	7,708,723
Exercisable at the end of period	**1,173,184**	–
Weighted-average share price at exercise (£)	**1.38**	–
Weighted-average remaining contractual life (years)	**1.68**	1.91

Options arising on the acquisition of PAG relate to options awarded to PAG employees in 2014 and 2015 which the Group has replaced with options over shares in JRP Group plc in the same ratio as the share exchange which achieved the acquisition of PAG. The replacement options for the 2014 PAG options were subject to achieving a Total Shareholder Return of JRP relative to the constituents of a relevant comparator

index or peer group, but to vest on 31 December 2016. The performance conditions were not achieved and all options lapsed in the period. Of the replacement options for the 2015 PAG options, 20% are free awards which vested on 31 December 2016, 40% are subject to an adjusted operating profit growth measure which are due to vest on 11 August 2018, and 40% are subject to the Total Shareholder Return performance which are also due to vest on 11 August 2018.

Options granted in the period include 83,596 additional options in respect of modifications to options awarded in 2013 and 2014 to ensure option holders were not adversely affected by the Group's placing and open offer to shareholders in October 2015. There is no change to the fair value of the options as a result of these modifications

The exercise price for options granted under the LTIP is nil.

During the period to 31 December 2016, awards of LTIPs were made on 6 November 2015, 21 April 2016, 16 May 2016 and 28 September 2016. The weighted-average fair value and assumptions used to determine the fair value of options granted during the period under the LTIP are as follows:

Fair value at grant date	**£1.17**
Option pricing model used – adjusted operating profit performance	**Black-Scholes**
Option pricing model used – TSR performance	**Stochastic**
Share price at grant date	**£1.37**
Exercise price	**Nil**
Expected volatility[1]	**40%**
Option life	**3 years**
Dividends	**Nil**
Risk-free interest rate	**0.58%**

[1] For the November 2015 awards, a proxy volatility based on the average volatility of ten UK listed insurance companies, measured over the historic period commensurate with the performance period, has been used. For the 2016 awards actual historic volatility has been used.

Deferred share bonus plan ("DSBP")

The DSBP is operated in conjunction with the Group's short-term incentive plan for Executive Directors and other senior managers of the Company or any of its subsidiaries, as explained in the Directors' remuneration report. Awards are made in the form of nil-cost options which become exercisable on the third anniversary, and until the tenth anniversary, of the grant date.

The options are accounted for as equity-settled schemes.

The number and weighted-average remaining contractual life of outstanding options under the DSBP are as follows:

	18 months ended 31 December 2016 Number of options	Year ended 30 June 2015 Number of options
Outstanding at start of period	**447,916**	–
On acquisition of Partnership Assurance Group plc (PAG)	**1,288,376**	–
Granted	**2,115,578**	447,916
Forfeited	–	–
Exercised	**(1,594,326)**	–
Expired	–	–
Outstanding at end of period	**2,257,544**	447,916
Exercisable at end of period	**-**	–
Weighted-average share price at exercise (£)	**1.48**	–
Weighted-average remaining contractual life (years)	**1.85**	2.24

Options arising on the acquisition of PAG relate to options made to PAG employees in 2014 and 2015 which the Group has replaced with options over shares in JRP Group plc in the same ratio as the share exchange which achieved the acquisition of PAG. All options vested in full on completion of the acquisition and all options were exercised in the period.

Options granted in the period include 4,894 additional options in respect of a modification to options awarded in 2014 to ensure option holders were not adversely affected by the Group's placing and open offer to shareholders in October 2015. There is no change to the fair value of the options as a result of this modification.

The exercise price for options granted under the DSBP is nil.

During the period to 31 December 2016, awards of DSBPs were made on 6 November 2015 and 21 April 2016. The weighted-average fair value and assumptions used to determine the fair value of options granted during the period under the DSBP are as follows:

Fair value at grant date	**£1.48**
Option pricing model used	**Black-Scholes**
Share price at grant date	**£1.48**
Exercise price	**Nil**
Expected volatility	**Nil**
Option life	**3 years**
Dividends	**Nil**
Risk-free interest rate	**Nil**

Save As You Earn ("SAYE") scheme

The Group operates SAYE plans for all employees, allowing a monthly amount to be saved from salaries over either a three year or five year period which can be used to purchase shares in the Company at a predetermined price. The employee must remain in employment for the duration of the saving period and satisfy the monthly savings requirement (except in "good leaver" circumstances). Options are exercisable for up to six months after the saving period. There were no options granted under the SAYE in the period to 31 December 2016.

The options are accounted for as equity-settled schemes.

The number, weighted-average exercise price, weighted-average share price at exercise, and weighted-average remaining contractual life of outstanding options under the SAYE are as follows:

	18 months ended 31 December 2016		Year ended 30 June 2015	
	Number of options	**Weighted-average exercise price (£)**	Number of options	Weighted-average exercise price (£)
Outstanding at start of period	**4,390,881**	**1.22**	4,192,332	1.21
On acquisition of Partnership Assurance Group plc (PAG)	**1,321,179**	**1.21**	–	–
Granted	**46,875**	**1.21**	792,683	1.28
Forfeited	**(692,407)**	**1.22**	(346,340)	1.21
Cancelled	**(104,190)**	**1.26**	(193,468)	1.21
Exercised	**(139,623)**	**1.15**	(33,636)	1.21
Expired	**(18,568)**	**1.22**	(20,690)	1.21
Outstanding at end of period	**4,804,147**	**1.21**	4,390,881	1.22
Exercisable at end of period	**150,717**	**1.23**	4,545	1.21
Weighted-average share price at exercise		**1.43**		1.44
Weighted-average remaining contractual life (years)		**1.42**		2.56

Options arising on the acquisition of PAG relate to options made to PAG employees in 2014 and 2015, which the Group has replaced with options over shares in JRP Group plc in the same ratio as the share exchange which achieved the acquisition of PAG. The exercise price of the original options were also adjusted from £0.94 to £1.13 for the 2014 options and from £1.23 to £1.47 for the 2015 options.

Options granted in the period include 46,875 additional options in respect of modifications to options awarded in 2014 and 2015 to ensure option holders were not adversely affected by the Group's placing and open offer to shareholders in October 2015. The exercise prices were also adjusted by the same ratio, from £1.21 to £1.20 for the 2014 options and from £1.28 to £1.27 for the 2015 options. There is no change to the fair value of the options as a result of these modifications.

The range of exercise prices of options outstanding at the end of the period are as follows:

	2016 Number of options outstanding	2015 Number of options outstanding
£1.13	**667,993**	–
£1.20	**3,260,855**	3,598,198
£1.27	**683,202**	792,683
£1.47	**192,097**	–
Total	**4,804,147**	4,390,881

Share Awards

Share incentive plan ("SIP")

The SIP is an "all-employee" share ownership plan. The Group made an award of 831,070 free shares immediately after admission to all eligible employees. The shares are held in trust on behalf of the employees. The shares are forfeited if the employees cease employment (except in "good leaver" circumstances) within the first three years from the date of the award. The awards vested on 11 November 2016.

On the acquisition of PAG, shares held in trust in respect of SIP awards were converted to JRP shares in the same ratio as the share exchange which achieved the acquisition of PAG. The awards vested on 12 June 2016.

Awards made in the period are in respect of additional shares to existing scheme participants on payment of dividends by the Group. The weighted-average fair value of awards made in the year was £26,748 measured by reference to the quoted share price of the Company at grant date.

Share-based payment expense

The share-based payment expense recognised in the Consolidated statement of comprehensive income for employee services receivable during the period is as follows:

	18 months ended 31 December 2016 £m	Year ended 30 June 2015 £m
Equity-settled schemes	**14.9**	3.3
Total expense	**14.9**	3.3

12 Earnings per share

The calculation of basic and diluted earnings per share is based on dividing the profit or loss attributable to equity holders of the Company by the weighted-average number of ordinary shares outstanding and by the diluted weighted-average number of ordinary shares potentially outstanding at the end of the period, calculated as follows:

	18 months ended 31 December 2016			Year ended 30 June 2015		
	Earnings £m	**Weighted average number of shares million**	**Earnings per share pence**	Earnings £m	Weighted average number of shares million	Earnings per share pence
Basic	**147.5**	**731.6**	**20.16**	(24.8)	499.7	(4.96)
Effect of dilutive potential ordinary shares:						
Share options	**–**	**5.3**	**(0.14)**	–	–	–
Diluted	**147.5**	**736.9**	**20.02**	(24.8)	499.7	(4.96)

13 Dividends

Dividends paid in the year were as follows:

	18 Months ended 31 December 2016 £m	Year ended 30 June 2015 £m
Final dividend:		
– in respect of the year ended 30 June 2015 – 2.2 pence per share, paid on 7 December 2015	**12.4**	–
– in respect of the year ended 30 June 2014 – 2.2 pence per share, paid on 8 December 2014	**–**	11.0
Interim dividend:		
– first interim dividend in respect of the 18 month period ended 31 December 2016 – 1.1 pence per share, paid on 20 May 2016	**10.2**	–
– second interim dividend in respect of the 18 month period ended 31 December 2016 – 1.1 pence per share, paid on 28 October 2016	**10.3**	–
– in respect of the year ended 30 June 2015 – 1.1 pence per share, paid on 14 May 2015	**–**	5.5
Total dividends paid	**32.9**	16.5

Subsequent to 31 December 2016, the Directors proposed a final dividend for 2016 of 2.4 pence per ordinary share (2015: 2.2p), amounting to £22.4 million (2015: £12.4m) in total. Subject to approval by shareholders at the AGM, the dividend will be paid on 26 May 2017 and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2017.

14 Intangible assets

31 December 2016	**Goodwill £m**	**Present value of in-force business £m**	**Distribution network £m**	**Brand £m**	**PrognoSys™ and other intellectual property £m**	**Software £m**	**Leases £m**	**Total £m**
Cost								
Balance at 1 July 2015	**33.6**	**57.3**	**16.6**	**1.6**	**5.4**	**14.8**	**–**	**129.3**
Additions arising on acquisition of Partnership Assurance Group plc	**0.3**	**142.7**	**10.0**	**4.0**	**2.0**	**8.9**	**2.0**	**169.9**
At 31 December 2016	**33.9**	**200.0**	**26.6**	**5.6**	**7.4**	**23.7**	**2.0**	**299.2**
Amortisation and impairment								
Balance at 1 July 2015	**(0.8)**	**(20.0)**	**(16.6)**	**(1.6)**	**(0.5)**	**(14.6)**	**–**	**(54.1)**
Charge for the year	**–**	**(16.1)**	**(2.5)**	**(1.5)**	**(0.7)**	**(2.8)**	**(0.7)**	**(24.3)**
Impairment	**–**	**–**	**–**	**(2.5)**	**–**	**–**	**(1.3)**	**(3.8)**
At 31 December 2016	**(0.8)**	**(36.1)**	**(19.1)**	**(5.6)**	**(1.2)**	**(17.4)**	**(2.0)**	**(82.2)**
Net book value at 31 December 2016	**33.1**	**163.9**	**7.5**	**–**	**6.2**	**6.3**	**–**	**217.0**
Net book value at 30 June 2015	**32.8**	**37.3**	**–**	**–**	**4.9**	**0.2**	**–**	**75.2**

30 June 2015	Goodwill £m	Present value of in-force business £m	Distribution network £m	Brand £m	PrognoSys™ £m	Software £m	Leases £m	Total £m
Cost								
Balance at 1 Jul 2014	33.6	57.3	16.6	1.6	3.6	14.8	–	127.5
Additions arising from internal development	–	–	–	–	1.8	–	–	1.8
At 30 June 2015	33.6	57.3	16.6	1.6	5.4	14.8	–	129.3
Amortisation and impairment								
Balance at 1 Jul 2014	(0.8)	(16.4)	(16.6)	(1.5)	(0.4)	(14.2)	–	(49.9)
Charge for the year	–	(3.6)	–	(0.1)	(0.1)	(0.4)	–	(4.2)
At 30 June 2015	(0.8)	(20.0)	(16.6)	(1.6)	(0.5)	(14.6)	–	(54.1)
Net book value at 30 June 2015	32.8	37.3	–	–	4.9	0.2	–	75.2
Net book value at 30 June 2014	32.8	40.9	–	0.1	3.2	0.6	–	77.6

Amortisation and impairment charge

The amortisation and impairment charge is recognised in other operating expenses in profit or loss. The fair value attributed to the Partnership brand has been impaired following the adoption of the Just brand. The lease intangible asset has been impaired as a result of the rationalisation of office space.

Impairment testing

Goodwill is tested for impairment in accordance with IAS 36, Impairment of assets, at least annually.

The Group's goodwill of £33.1m at 31 December 2016 represents £0.3m recognised in the period on the acquisition of the Partnership Assurance Group and £32.8m on the 2009 acquisition by Just Retirement Group Holdings Limited of Just Retirement (Holdings) Limited, the holding company of Just Retirement Limited (JRL).

The existing goodwill has been allocated to the insurance segment as the cash generating unit. The recoverable amounts of goodwill have been determined from value-in-use. The key assumptions of this calculation are noted below:

	2016	2015
Period on which management approved forecasts are based	**5 years**	5 years
Discount rate (pre-tax)	**12.0%**	12.0%

The value-in-use of the insurance operating segment is considered by reference to latest business plans over the next five years, and a stressed scenario that assumes no growth in sales for the next five years and discount rate of 20%. The outcome of the impairment assessment under both scenarios is that the goodwill in respect of the insurance operating segment is not impaired and that the value-in-use is higher than the carrying value of goodwill.

Any reasonably possible changes in assumption will not cause the carrying value of the goodwill to exceed the recoverable amounts.

15 Property, plant and equipment

31 December 2016	Freehold land and buildings £m	Computer equipment £m	Furniture and fittings £m	Total £m
Cost				
Balance at 1 July 2015	**–**	**3.9**	**2.8**	**6.7**
Acquired during the year	**9.7**	**0.5**	**0.1**	**10.3**
Additions arising on acquisition of Partnership Assurance Group plc	**–**	**1.1**	**7.6**	**8.7**
At 31 December 2016	**9.7**	**5.5**	**10.5**	**25.7**
Depreciation				
Balance at 1 July 2015	**–**	**(3.2)**	**(2.8)**	**(6.0)**
Charge for the year	**(0.3)**	**(1.4)**	**(0.9)**	**(2.6)**
At 31 December 2016	**(0.3)**	**(4.6)**	**(3.7)**	**(8.6)**
Net book value at 31 December 2016	**9.4**	**0.9**	**6.8**	**17.1**
Net book value at 30 June 2015	**–**	**0.7**	**–**	**0.7**

30 June 2015	Computer equipment £m	Furniture and fittings £m	Total £m
Cost			
Balance at 1 July 2014	3.7	2.8	6.5
Acquired during the year	0.2	–	0.2
At 30 June 2015	3.9	2.8	6.7
Depreciation			
Balance at 1 July 2014	(2.7)	(2.8)	(5.5)
Charge for the year	(0.5)	–	(0.5)
At 30 June 2015	(3.2)	(2.8)	(6.0)
Net book value at 30 June 2015	0.7	–	0.7
Net book value at 30 June 2014	1.0	–	1.0

Included in Freehold land and buildings is land of value £3.6m (2015: £nil).

16 Financial investments

This note explains the methodology for valuing the Group's financial assets and liabilities measured at fair value, including financial investments, and provides disclosures in accordance with IFRS 13, Fair value measurement, including an analysis of such assets and liabilities categorised in a fair value hierarchy based on market observability of valuation inputs.

All of the Group's financial investments are measured at fair value through profit or loss, and are either designated as such on initial recognition or, in the case of derivative financial assets, classified as held for trading.

The fair value of debt securities includes accrued interest previously classified as prepayments and accrued income on the statement of financial position. As a result of this change in presentation, £83.0m of accrued interest has been reclassified from prepayments and accrued income at 30 June 2015.

	31 December 2016 £m	30 June 2015 £m
Fair value		
Units in liquidity funds	**572.3**	280.2
Debt securities and other fixed income securities	**9,751.9**	4,756.8
Deposits with credit institutions	**73.2**	18.0
Derivative financial assets	**107.0**	50.9
Loans secured by residential mortgages	**6,430.4**	3,471.8
Loans secured by commercial mortgages	**163.8**	–
Other loans	**192.5**	–
Amounts recoverable from reinsurers on investment contracts	**28.5**	–
Total fair value	**17,319.6**	8,577.7

	31 December 2016 £m	30 June 2015 £m
Cost		
Units in liquidity funds	**572.3**	279.9
Debt securities and other fixed income securities	**8,907.6**	4,536.2
Deposits with credit institutions	**73.2**	18.0
Derivative financial assets	**-**	8.2
Loans secured by residential mortgages	**3,927.5**	2,073.3
Loans secured by commercial mortgages	**159.0**	–
Other loans	**160.9**	–
Amounts recoverable from reinsurers on investment contracts	**29.1**	–
Total cost	**13,829.6**	6,915.6

The majority of investments included in debt securities and other fixed income securities are listed investments.

Units in liquidity funds comprise wholly of units in funds which invest in cash and cash equivalents.

Deposits with credit institutions with a carrying value of £71.0m (30 June 2015: £17.2m) have been pledged as collateral in respect of the Group's derivative financial instruments. Amounts pledged as collateral are deposited with the derivative counterparty.

(a) Determination of fair value and fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy described as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

Level 1

Inputs to Level 1 fair values are unadjusted quoted prices in active markets for identical assets and liabilities that the entity can access at the measurement date.

Level 2

Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the instrument. Level 2 inputs include the following:

- Quoted prices for similar assets and liabilities in active markets;
- Quoted prices for identical assets or similar assets in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which very little information is released publicly;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Market-corroborated inputs.

Where the Group uses broker/asset manager quotes and no information as to observability of inputs is provided by the broker/asset manager, the investments are classified as follows:

- Where the broker/asset manager price is validated by using internal models with market-observable inputs and the values are similar, the investment is classified as Level 2; and
- In circumstances where internal models are not used to validate broker/asset manager prices, or the observability of inputs used by brokers/asset managers is unavailable, the investment is classified as Level 3.

The majority of the Group's debt securities held at fair value and financial derivatives are valued using independent pricing services or third party broker quotes, and therefore classified as Level 2.

Level 3

Inputs to Level 3 fair values are unobservable inputs for the asset or liability. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Unobservable inputs reflect the same assumptions as those that the market participant would use in pricing the asset or liability.

The Group's assets and liabilities held at fair value which are valued using valuation techniques for which significant observable market data is not available and classified as Level 3 include loans secured by mortgages, asset-backed securities, and investment contract liabilities.

The valuation of loans secured by mortgages is determined using internal models which project future cash flows expected to arise from each loan. Future cash flows allow for assumptions relating to future expenses, future mortality experience, costs arising from no-negative equity guarantees and voluntary redemptions. The fair value is calculated by discounting the future cash flows at a swap rate plus a liquidity premium.

During the prior year the internal model used to value the loans secured by residential mortgages was recalibrated in respect of the liquidity premium added to the swap rate. Previously the liquidity premium was considered to be unobservable and was therefore set at zero. This gave rise to a day-one gain which was deferred and recognised over the expected life of the loan.

The recalibration process reassessed the level of the liquidity premium and this is now considered to be an observable input to the internal model. As a result of the recalibration, a day- one gain no longer arises, and profit is recognised over the term of the contract. There is no longer any aggregate difference yet to be recognised in profit or loss between the fair value of the mortgages at initial recognition and the amount that would have been determined at that date using the valuation technique.

The Level 3 bonds are mainly infrastructure private placement bonds or asset-backed securities. Such securities are valued using discounted cash flow analyses using prudent assumptions based on the repayment of the underlying bond.

The level 3 Other loans are infrastructure-related loans, and are valued using discounted cash flow analyses using prudent assumptions based on the repayment of the underlying loan.

Investment contract liabilities are calculated on a policy-by- policy basis using a prospective valuation of future retirement income benefits and expense cash flows, but with an adjustment to amortise any day-one gain over the life of the contract.

There are no non-recurring fair value measurements as at 31 December 2016 (30 June 2015: nil).

(b) Analysis of assets and liabilities held at fair value according to fair value hierarchy

31 December 2016	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Assets held at fair value				
Units in liquidity funds	**572.3**	**–**	**–**	**572.3**
Debt securities and other fixed income securities	**645.2**	**8,927.7**	**179.0**	**9,751.9**
Deposits with credit institutions	**71.0**	**2.2**	**–**	**73.2**
Derivative financial assets	**–**	**107.0**	**–**	**107.0**
Loans secured by residential mortgages	**–**	**–**	**6,430.4**	**6,430.4**
Loans secured by commercial mortgages	**–**	**–**	**163.8**	**163.8**
Other loans	**–**	**3.8**	**188.7**	**192.5**
Recoveries from reinsurers on investment contracts	**–**	**–**	**28.5**	**28.5**
Total assets held at fair value	**1,288.5**	**9,040.7**	**6,990.4**	**17,319.6**
Liabilities held at fair value				
Investment contract liabilities	**–**	**–**	**222.3**	**222.3**
Derivative financial liabilities	**–**	**189.3**	**–**	**189.3**
Obligations for repayment of cash collateral received	**21.6**	**30.5**	**–**	**52.1**
Deposits received from reinsurers	**–**	**–**	**2,741.1**	**2,741.1**
Total liabilities held at fair value	**21.6**	**219.8**	**2,963.4**	**3,204.8**

30 June 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets held at fair value				
Units in liquidity funds	280.2	–	–	280.2
Debt securities and other fixed income securities	717.0	4,021.0	18.8	4,756.8
Deposits with credit institutions	17.2	0.8	–	18.0
Derivative financial assets	–	50.9	–	50.9
Loans secured by residential mortgages	–	–	3,471.8	3,471.8
Total assets held at fair value	1,014.4	4,072.7	3,490.6	8,577.7
Liabilities held at fair value				
Investment contract liabilities	–	–	228.3	228.3
Derivative financial liabilities	–	74.3	–	74.3
Obligations for repayment of cash collateral received	18.6	–	–	18.6
Total liabilities held at fair value	18.6	74.3	228.3	321.2

(c) Transfers between levels

The Group's policy is to assess pricing source changes and determine transfers between levels as of the end of each half-yearly reporting period. During the period there were no transfers between Level 1 and Level 2. The transfer from Level 2 to Level 3 followed a change in the availability of market prices for specific bonds.

(d) Level 3 assets and liabilities measured at fair value

Reconciliation of the opening and closing recorded amount of Level 3 assets and liabilities held at fair value.

18 months ended 31 December 2016	**Debt securities and other fixed income securities £m**	**Loans secured by residential mortgages £m**	**Loans secured by commercial mortgages £m**	**Other loans £m**	**Recoveries from reinsurers on investment contracts £m**	**Investment contract liabilities £m**	**Deposits received from reinsurers £m**
At start of period	**18.8**	**3,471.8**	**–**	**–**	**–**	**(228.3)**	**–**
On acquisition of Partnership Assurance Group plc	**0.1**	**1,623.6**	**117.2**	**–**	**–**	**–**	**(2,659.6)**
Purchases/Advances/Deposits	**135.0**	**744.9**	**44.6**	**157.1**	**29.1**	**(32.4)**	**(54.5)**
Transfers from Level 2	**20.5**	**–**	**–**	**–**	**–**	**–**	**–**
Sales/Redemptions/Payments	**(6.8)**	**(254.3)**	**0.1**	**–**	**(1.9)**	**53.9**	**173.5**
Gains and losses recognised in profit or loss within net investment income	**11.6**	**572.5**	**1.5**	**31.6**	**1.3**	**–**	**(128.8)**
Amortisation	**(0.2)**	**271.9**	**0.4**	**–**	**–**	**–**	**(71.7)**
Change in fair value of liabilities recognised in profit or loss	**–**	**–**	**–**	**–**	**–**	**(15.5)**	**–**
At end of period	**179.0**	**6,430.4**	**163.8**	**188.7**	**28.5**	**(222.3)**	**(2,741.1)**

Year ended 30 June 2015	Debt securities and other fixed income securities £m	Loans secured by residential mortgages £m	Loans secured by commercial mortgages £m	Other loans £m	Recoveries from reinsurers on investment contracts £m	Investment contract liabilities £m	Deposits received from reinsurers £m
At start of period	15.5	2,749.4	–	–	–	(197.4)	–
Purchases/Advances/Deposits	–	308.1	–	–	–	(49.1)	–
Transfers from Level 2	3.5	–	–	–	–	–	–
Sales/Redemptions/Payments	–	(109.6)	–	–	–	21.7	–
Gains and losses recognised in profit or loss within net investment income	0.2	523.9	–	–	–	–	–
Amortisation	(0.4)	–	–	–	–	–	–
Change in fair value of liabilities recognised in profit or loss	–	–	–	–	–	(3.5)	–
At end of period	18.8	3,471.8	–	–	–	(228.3)	–

Debt securities and other fixed income securities

Debt securities classified as Level 3 are either infrastructure private placement bonds or asset-backed securities.

Principal assumptions underlying the calculation of the debt securities and other fixed income securities classified as Level 3.

Redemption and defaults

The redemption and default assumptions used in the valuation of infrastructure private placement bonds are similar to the rest of the Group's bond portfolio.

For asset-backed securities, the assumptions are that the underlying loans supporting the securities are redeemed in the future in a similar profile to the existing redemptions on an average rate of 3% per annum, and that default levels on the underlying basis remain at the current level of the Group's bond portfolio.

Sensitivity analysis

Changes to unobservable inputs used in the valuation technique could give rise to significant changes in the fair value of the assets. The Group has estimated the impact on profit for the period in changes to these inputs as follows:

	Debt securities and other fixed income securities
Net increase/(decrease) in profit before tax (£m)	**Default assumption +100bps**
31 December 2016	**(1.7)**
30 June 2015	(0.2)

Loans secured by residential mortgages

Principal assumptions underlying the calculation of loans secured by residential mortgages

All gains and losses arising from loans secured by mortgages are largely dependent on the term of the mortgage, which in turn is determined by the longevity of the customer. Principal assumptions underlying the calculation of loans secured by mortgages include the following:

Maintenance expenses

Assumptions for future policy expense levels are based on the Group's recent expense analyses. The assumed future expense levels incorporate an annual inflation rate allowance of 4.3% for loans written by Just Retirement (30 June 2015: 3.8%) and 4.3% for loans written by Partnership.

Mortality

Mortality assumptions have been derived by reference to appropriate standard mortality tables. These tables have been adjusted to reflect the expected future mortality experience of mortgage contract holders, taking into account the medical and lifestyle evidence collected during the sales process and the Group's assessment of how this experience will develop in the future. This assessment takes into consideration relevant industry and population studies, published research materials, input from the Group's lead reinsurer and management's own experience.

Property prices
The value of a property at the date of valuation is calculated by taking the latest valuation for that property and indexing this value using the Office for National Statistics monthly index for the property's location.

Voluntary redemptions

Assumptions for future voluntary redemption levels are based on the Group's recent analyses and external benchmarking, and the assumed redemption rate for policies in their first year is 0.7% for loans written by Just Retirement (30 June 2015: 0.6%) and 1.8% for loans written by Partnership.

Sensitivity analysis

Changes to unobservable inputs used in the valuation technique could give rise to significant changes in the fair value of the assets. The Group has estimated the impact on profit for the period in changes to these inputs as follows:

	Loans secured by residential mortgages valuation assumptions			
Net increase/(decrease) in profit before tax (£m)	**Maintenance expenses +10%**	**Mortality -5%**	**Property prices -20%**	**Voluntary redemptions +10%**
31 December 2016	**(5.9)**	**36.8**	**(79.8)***	**(30.7)**
30 June 2015	(4.1)	15.3	(52.2)	(14.3)

*This sensitivity assumes an additional 10% reduction to property prices over and above the 10% fall assumed in the base position.

The sensitivity factors are determined via actuarial models. The analysis has been prepared for a change in each variable with other assumptions remaining constant. In reality such an occurrence is unlikely due to the 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 Group's assets and liabilities are actively managed and may vary at the time that any actual market movement occurs.

Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represents the 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.

Loans secured by commercial mortgages

Principal assumption(s) underlying the calculation of loans secured by commercial mortgages

The discount rate is the most significant assumption applied in calculating the fair value of the loans secured by commercial mortgages. The discount rate used 0.9% plus a spread % of between 1.3% and 2.8% depending on the individual loan.

Sensitivity analysis
Changes to unobservable inputs used in the valuation technique could give rise to significant changes in the fair value of the assets. The Group has estimated the impact on profit for the period in changes to these inputs as follows.

	Loans secured by commercial mortgages valuation assumptions
Net increase/(decrease) in profit before tax (£m)	**Interest rates +100bps**
31 December 2016	**(9.5)**

Other loans

Other loans classified as Level 3 are infrastructure loans.

Principal assumptions underlying the calculation of other loans classified as Level 3

Redemption and defaults

The redemption and default assumptions used in the valuation of infrastructure loans are similar to the Group's bond portfolio. They have additional covenants which provide greater security but these are not quantified in the valuation.

Sensitivity analysis

The sensitivity of profit before tax to changes in default assumptions and redemption profiles in respect of Level 3 infrastructure loans is not material.

Recoveries from reinsurers on investment contracts

Recoveries from reinsurers on investment contracts represent fully reinsured funds invested under the Flexible Pension Plan. The linked liabilities are included in Level 3 investment contract liabilities.

Principal assumptions and sensitivity of profit before tax

Recoveries from reinsurers on investment contracts are valued based on the price of the reinsured underlying funds determined by the asset managers. The assets are classified as Level 3 because the prices are not validated by internal models or the observable inputs used by the asset managers are not available. Therefore, there are no principal assumptions used in the valuation of these Level 3 assets.

Investment contract liabilities

Principal assumptions underlying the calculation of investment contract liabilities

Maintenance expenses

Assumptions for future policy expense levels are based on the Group's recent expense analyses. The assumed future expense levels incorporate an annual inflation rate allowance of 4.5% (30 June 2015: 4.1%).

Sensitivity analysis

The sensitivity of profit before tax to changes in maintenance expense assumptions in respect of investment contract liabilities is not material.

Deposits received from reinsurers

Principal assumption(s) underlying the calculation of deposits received from reinsurers

Discount rate

The valuation model discounts the expected future cash flows using a contractual discount rate derived from the assets hypothecated to back the liabilities at a product level. The discount rates used as at 31 December 2016 for Individual retirement and Individual care annuities were 3.24% and 1.17% respectively (30 June 2015: not applicable).

Credit spreads

The valuation of deposits received from reinsurers includes a credit spread applied by individual reinsurers. A credit spread of 166bps was applied in respect of the most significant reinsurance contract.

Sensitivity analysis

Changes to unobservable inputs used in the valuation technique could give rise to significant changes in the fair value of the assets (see note 25 (b)). The Group has estimated the impact on profit for the period in changes to these inputs as follows:

	Deposits received from reinsurers	
Net increase/(decrease) in fair value (£m)	**Credit spreads +100bps**	**Interest rates +100bps**
31 December 2016	(32.5)	(54.6)

17 Deferred tax

31 December 2016	**Asset £m**	**Liability £m**	**Total £m**
Transitional tax	–	(12.6)	(12.6)
Intangible assets	–	(33.8)	(33.8)
Other provisions	10.3	–	10.3
Total deferred tax	10.3	(46.4)	(36.1)

30 June 2015	Asset £m	Liability £m	Total £m
Transitional tax	–	(22.1)	(22.1)
Intangible assets	–	(7.5)	(7.5)
Other provisions	4.2	(3.3)	0.9
Total deferred tax	4.2	(32.9)	(28.7)

The transitional tax liability of £12.6m (30 June 2015: £22.1m) represents the adjustment arising from the change in the tax rules for life insurance companies which is amortised over ten years from 1 January 2013 and the transitional adjustments for tax purposes in adopting IFRS which is amortised over 10 years from 1 January 2016. Included in the movement in the period were net asset balances amounting to £6.6m which were recognised in full in year one.

Other provisions principally relate to temporary differences between the IFRS financial statements and tax deductions for statutory insurance liabilities.

The movement in the net deferred tax balance was as follows:

	18 months ended 31 December 2016 £m	Year ended 30 June 2015 £m
Net balance at start of period	(28.7)	(20.5)
Arising on acquisition of Partnership Assurance Group plc	(24.1)	–
Amounts credited/(charged) to the Consolidated statement of comprehensive income	16.7	(8.2)
Net balance at end of period	(36.1)	(28.7)

The Group has unrecognised deferred tax assets of £5.4m (30 June 2015: £6.4m) arising from unrelieved tax losses.

18 Prepayments and accrued income

Included in prepayments and accrued income are capitalised bank borrowing issue costs of £nil (30 June 2015: £0.8m).

Prepayments and accrued income for the Group includes £0.1m (30 June 2015: £0.7m) that is expected to be recovered more than one year after the Consolidated statement of financial position date.

19 Insurance and other receivables

	31 December 2016 £m	30 June 2015 £m
Receivables arising from insurance and reinsurance contracts	**126.7**	28.6
Other receivables	**10.6**	5.5
Total insurance and other receivables	**137.3**	34.1

Of the above insurance and other receivables, £99.4m (30 June 2015: £0.6m) is expected to be recovered more than one year after the Consolidated statement of financial position date.

20 Cash and cash equivalents

	31 December 2016 £m	30 June 2015 £m
Cash available on demand	**71.4**	58.8
Units in liquidity funds	**572.3**	254.9
Cash and cash equivalents in the Consolidated statement of cash flows	**643.7**	313.7

21 Share capital

The allotted and issued ordinary share capital of JRP Group plc at 31 December 2016 is detailed below:

	Number of £0.10 ordinary shares	**Share capital £m**	**Share premium £m**	**Merger reserve £m**	**Total £m**
At 1 July 2015	**500,864,706**	**50.1**	**1.2**	**–**	**51.3**
Shares issued under capital placing and open offer	**63,525,672**	**6.4**	**90.5**	**–**	**96.9**
Shares issued in exchange for shares in PAG	**368,376,421**	**36.8**	**–**	**532.7**	**569.5**
In respect of employee share schemes	**117,234**	**–**	**–**	**–**	**–**
At 31 December 2016	**932,884,033**	**93.3**	**91.7**	**532.7**	**717.7**

Consideration for the acquisition of 100% of the equity shares of Partnership Assurance Group plc consisted of a new issue of shares in the Company. Accordingly merger relief under section 612 of the Companies Act 2006 applies, and share premium has not been recognised in respect of this issue of shares. A merger reserve has been recognised representing the difference between the nominal value of the shares issued and the net assets of Partnership Assurance Group plc acquired.

	Number of £0.10 ordinary shares	Share capital £m	Share premium £m	Total £m
At 1 July 2014	500,831,070	50.1	1.2	51.3
In respect of employee share schemes	33,636	–	–	–
At 30 June 2015	500,864,706	50.1	1.2	51.3

22 Insurance contracts and related reinsurance

Insurance liabilities

31 December 2016	**Gross £m**	**Reinsurance £m**	**Net £m**
Insurance liabilities	**15,748.0**	**6,057.1**	**9,690.9**

30 June 2015	Gross £m	Reinsurance £m	Net £m
Insurance liabilities	7,440.3	2,477.1	4,963.2

(a) Terms and conditions of insurance contracts

The Group's long-term insurance contracts include annuities to fund Retirement Income, Guaranteed Income for Life ("GIfL") and Defined Benefit ("DB"), annuities to fund care fees (immediate needs and deferred), long-term care insurance and whole of life and term protection insurance.
The insurance liabilities are determined by the Board on the advice of the Group's Actuarial Reporting Function using recognised actuarial methods. In particular, a prospective gross premium valuation method has been adopted for major classes of business.

Although the process for the establishment of insurance liabilities follows specified rules and guidelines, the provisions that result from the process remain uncertain. As a consequence of this uncertainty, the eventual value of claims could vary from the amounts provided to cover future claims. The Group seeks to provide for appropriate levels of contract liabilities taking known facts and experiences into account but nevertheless such provisions remain uncertain.

The estimation process used in determining insurance liabilities involves projecting future annuity payments and the cost of maintaining the contracts. For non-annuity contracts, the liability is determined as the sum of the discounted value of future benefit payments and future administration expenses less the expected value of premiums payable under the contract. The key sensitivities are the assumed level of interest rates and the mortality experience.

(b) Principal assumptions underlying the calculation of insurance contracts

The principal assumptions underlying the calculation of insurance contracts are as follows:

Mortality assumptions

Mortality assumptions have been set by reference to appropriate standard mortality tables. These tables have been adjusted to reflect the future mortality experience of the policyholders, taking into account the medical and lifestyle evidence collected during the underwriting process, premium size, gender and the 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 Group's lead reinsurer and management's own industry experience.

The standard tables which underpin the mortality assumptions are summarised in the table below.

	31 December 2016	30 June 2015
Individually underwritten Guaranteed Income for Life Solutions (JRL)	**PCMA/PCFA00, with CMI model mortality improvements**	PCMA/PCFA00 , with CMI model mortality improvements
Individually underwritten Guaranteed Income for Life Solutions (PLACL)	**Modified E&W Population mortality, with CMI model mortality improvements**	Not applicable
Defined Benefit (JRL)	**Reinsurer supplied tables underpinned by the Self-Administered Pension Scheme ("SAPS") S1 tables, with CMI model mortality improvements**	Reinsurer supplied tables underpinned by the Self-Administered Pension Scheme ("SAPS") S1 tables, with CMI model mortality improvements
Defined Benefit (PLACL)	**Modified E&W Population mortality, with CMI model mortality improvements**	Not applicable
Other annuity products (PLACL)	**Modified PCMA/PCFA bespoke improvements**	Not applicable
Term and whole of life products (PLACL)	**TM/TF00 Select**	Not applicable

Valuation discount rates

Valuation discount rate assumptions 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.

Valuation discount rates – gross liabilities	**31 December 2016 %**	30 June 2015 %
Individually underwritten Guaranteed Income for Life Solutions (JRL)	**3.18**	3.96
Individually underwritten Guaranteed Income for Life Solutions (PLACL)	**3.24**	Not applicable
Defined Benefit (JRL)	**3.18**	3.96
Defined Benefit (PLACL)	**3.24**	Not applicable
Other annuity products (PLACL)	**1.17**	Not applicable
Term and whole of life products (PLACL)	**1.63**	Not applicable

Future expenses

Assumptions for future policy expense levels are determined from the Group's recent expense analyses. The assumed future policy expense levels incorporate an annual inflation rate allowance of 4.5% (30 June 2015: 4.1%) 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 Retirement Income products during the period.

	Gross £m	**Reinsurance £m**	**Net £m**
Carrying amount			
At 1 July 2015	**7,440.3**	**2,477.1**	**4,963.2**
On acquisition of Partnership Assurance Group plc	**5,619.8**	**3,299.5**	**2,320.3**
Increase in liability from premiums	**2,395.9**	**87.2**	**2,308.7**
Release of liability due to recorded claims	**(1,023.8)**	**(384.1)**	**(639.7)**
Unwinding of discount	**391.1**	**113.5**	**277.6**
Changes in economic assumptions	**917.7**	**259.5**	**658.2**
Changes in non-economic assumptions	**11.9**	**5.3**	**6.6**
Other movements[1]	**(4.9)**	**199.1**	**(204.0)**
At 31 December 2016	**15,748.0**	**6,057.1**	**9,690.9**

	Gross £m	Reinsurance £m	Net £m
Carrying amount			
At 1 July 2014	6,483.6	3,616.3	2,867.3
Increase in liability from premiums	1,079.5	148.5	931.0
Release of liability due to recorded claims	(510.9)	(252.2)	(258.7)
Unwinding of discount	269.0	110.6	158.4
Changes in economic assumptions	116.6	(172.7)	289.3
Changes in non-economic assumptions	(1.5)	(8.6)	7.1
Other movements*	4.0	(964.8)	968.8
At 30 June 2015	7,440.3	2,477.1	4,963.2

* Includes the impact of reinsurance recapture

Effect of changes in assumptions and estimates during the period

Economic assumption changes

Discount rates

The JRL valuation interest rate over the period has decreased by 0.78% from 3.96% at 30 June 2015 to 3.18% at 31 December 2016. A decrease in the valuation interest rate increases the carrying value of insurance liabilities. The PLACL valuation interest rate at 31 December 2016 was 3.24%.

Expense inflation

The maintenance expense inflation assumption used at 31 December 2016 was 4.5% p.a. (30 June 2015: 4.1% p.a.).

Non-economic assumption change

Expense assumption

The JRL GIfL maintenance expense assumption used at 31 December 2016 was £46.68 per plan, an increase from £43.97 per plan at 30 June 2015, whilst the JRL DB maintenance assumption used at 31 December 2016 was £56.61 per plan (30 June 2015: £ 53.32 per plan). An increase in the maintenance expense assumption increases the carrying value of insurance liabilities. The PLACL GIfL and DB maintenance assumption used at 31 December 2016 was £22.99 per plan.

(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 Retirement Income payments in proportion to the policy cash flows estimated to arise during that period.

	Expected cash flows (undiscounted)					
31 December 2016	**Within 1 year £m**	**1–5 years £m**	**5–10 years £m**	**Over 10 years £m**	**Total £m**	**Carrying value (discounted) £m**
Gross	**1,096.5**	**4,182.7**	**4,675.3**	**13,226.0**	**23,180.5**	**15,748.0**
Reinsurance	**(454.1)**	**(1,713.6)**	**(1,867.8)**	**(4,583.6)**	**(8,619.1)**	**(6,057.1)**
Net	**642.4**	**2,469.1**	**2,807.5**	**8,642.4**	**14,561.4**	**9,690.9**

	Expected cash flows (undiscounted)					
30 June 2015	Within 1 year £m	1–5 years £m	5–10 years £m	Over 10 years £m	Total £m	Carrying value (discounted) £m
Gross	538.0	2,076.3	2,377.3	6,386.6	11,378.2	7,440.3
Reinsurance	(175.5)	(685.2)	(790.2)	(2,071.3)	(3,722.2)	(2,477.1)
Net	362.5	1,391.1	1,587.1	4,315.3	7,656.0	4,963.2

(e) Sensitivity analysis

The 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.

Sensitivity factor	Description of sensitivity factor applied
Interest rate and investment return	The impact of a change in the market interest rates by +/- 1% (e.g. if a current interest rate is 5%, the impact of an immediate change to 4 and 6% respectively. The test consistently allows for similar changes to investment returns and movements in the market by backing fixed interest securities
Expenses	The impact of an increase in maintenance expenses by 10%
Mortality rates	The impact of a decrease in mortality rates by 5% applied to both Retirement Income liabilities and mortgage assets
Property prices	The impact of an immediate decrease in the value of properties by 20%. The test allows for the impact on the Retirement Income liabilities arising from any change in yield on the loans secured by residential mortgages and loans secured by commercial mortgages used to back the liabilities
Voluntary redemptions	The impact of an increase in voluntary redemption rates on loans secured by residential and commercial mortgages by 10%. The test allows for the impact on the annuity liabilities arising from any change in yield on the loans secured by residential mortgages and loans secured by commercial mortgages used to back the liabilities

Impact on profit before tax (£m)

Net increase/(decrease) in profit before tax (£m)	**Interest Rates +1%**	**Interest Rates -1%**	**Maintenance Expenses +10%**	**Mortality -5%**	**Property Prices -20%**	**Voluntary redemptions +10%**
31 December 2016	**(177.5)**	**225.1**	**(49.2)**	**(131.3)**	**(106.3)***	**(67.9)**
30 June 2015	(25.9)	83.7	(19.9)	(48.9)	(52.2)	(14.3)

*This sensitivity assumes an additional 10% reduction to property prices over and above the 10% fall assumed in the base position.

The sensitivity factors are applied via actuarial models. The analysis has been prepared for a change in each 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. Property growth assumptions in the base balance sheet at 31 December 2016 allow for a -10% year-on-year fall in property prices between June 2016 and June 2017. This sensitivity allows for the change in lifetime mortgage and commercial mortgage asset value arising from an immediate fall of 20% in property prices. For lifetime mortgages, from 30 June 2017 onwards, the sensitivity assumes an additional 10% reduction to property prices over and above the 10% fall assumed in the base position. The sensitivity also allows for the corresponding change in liabilities as a result of the yield change.

The sensitivity factors take into consideration that the 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 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.

23 Investment contract liabilities

	Year ended 31 December 2016 £m	Year ended 30 June 2015 £m
Balance at start of period	**228.3**	197.4
Deposits received from policyholders	**32.4**	49.1
Payments made to policyholders	**(53.9)**	(21.7)
Change in contract liabilities recognised in profit or loss	**15.5**	3.5
Balance at end of period	**222.3**	228.3

Recoveries from reinsurers on investment contracts were £28.5m (2015: £nil) as shown in note 16.

(a) Terms and conditions of investment contracts

The Group writes Flexible Pension Plan products for the at- retirement market. Policyholder premiums are invested in selected unit-linked funds, with the policyholder able to drawdown on funds, the return on which will be based on actual investment returns.

The Group has written Capped Drawdown products for the at-retirement market. These products are no longer available to new customers. 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 dependant until the death of that dependant.

(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	**31 December 2016 %**	30 June 2015 %
Investment contracts	**3.18**	3.96

24 Loans and borrowings

	31 December 2016 £m	30 June 2015 £m
Bank borrowings	**–**	46.9
Subordinated debt	**343.1**	–
Total loans and borrowings	**343.1**	46.9

Bank borrowings

On 25 September 2012, Just Retirement (Holdings) Limited entered into a £35m five-year term loan agreement provided by Royal Bank of Scotland plc. 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 £10m to Just Retirement (Holdings) Limited. On 7 August 2015, Just Retirement (Holdings) Limited entered into an amendment to the original loan agreement and on 10 August 2015 drew down a further £30m from each of Royal Bank of Scotland plc and Barclays Bank plc. £3.6m of the loan was repaid on 11 October 2013, £4.5m was repaid on 11 October 2014, and £8.8m was repaid on 11 October 2015. The outstanding balance was repaid in full in October 2016.

The fair value of the bank borrowings is the same as the carrying value.

Subordinated debt

In March 2015, the Partnership Group issued a £100m Solvency II Tier 2 qualifying instrument at par with a maturity date of March 2025 and a coupon of 9.5%. Net of issuance fees the amount received was £99.9m. The fair value of the debt at the date of acquisition of PAG was £94.1m, and the difference to the nominal value is being amortised over the period to maturity. The carrying value at 31 December 2016 of £94.6m compares with a fair value of £105.5m.

On 26 October 2016, JRP issued a £250m Solvency II Tier 2 qualifying instrument at par with a maturity date of October 2026 and a coupon of 9%. Subordinated guarantee has been provided by Just Retirement Limited. Net of issuance fees the amount received was £248.8m and the difference to the nominal value is being amortised over the period to maturity. The carrying value at 31 December 2016 of £248.5m was similar to fair value.

25 Other financial liabilities

The Group has other financial liabilities which are measured at either amortised cost, fair value through profit or loss, or in accordance with relevant underlying contracts ("insurance rules"), summarised as follows.

	Note	**31 December 2016 £m**	30 June 2015 £m
Fair value through profit or loss			
Derivative financial liabilities	(a)	**189.3**	74.3
Obligations for repayment of cash collateral received	(a)	**52.2**	18.6
Deposits received from reinsurers	(b)	**2,741.1**	–
Liabilities measured using insurance rules under IFRS4			
Deposits received from reinsurers	(b)	**2,490.3**	2,473.6
Reinsurance finance	(c)	**65.9**	76.7
Reinsurance funds withheld	(d)	**202.0**	–
Total other liabilities		**5,740.8**	2,643.2

The amount of deposits received from reinsurers that is expected to be settled more than one year after the Consolidated statement of financial position date is £5,021.1m (30 June 2015: £2,292.5m).

(a) Derivative financial liabilities and obligations for repayment of cash collateral received

The derivative financial liabilities 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 or, in the case of derivative financial liabilities, are classified as held for trading.

(b) Deposits received from reinsurers

Deposits received from reinsurers are measured in accordance with the reinsurance contract and taking into account an appropriate discount rate for the timing of expected cash flows of the liabilities.

(c) Reinsurance finance

The reinsurance finance has been established in recognition of the loan obligation to the reinsurers under the Group's reinsurance financing arrangements, the repayment of which remain contingent upon the emergence of surplus under the old Solvency I valuation rules.

(d) Reinsurance funds withheld

Reinsurance funds withheld 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.

26 Derivative financial instruments

The Group uses various derivative financial instruments to manage its exposure to interest rates, counterparty credit risk, inflation and foreign exchange risk, including interest rate swaps, interest rate swaptions, inflation swaps, credit default swaps, and foreign currency asset swaps.

Derivatives	**Asset fair value £m**	**Liability fair value £m**	**Notional amount £m**
Foreign currency swaps	**0.8**	**113.5**	**764.8**
Interest rate swaps	**67.8**	**55.4**	**1,182.8**
Interest rate swaptions	**–**	**–**	**1,140.0**
Inflation swaps	**33.1**	**18.8**	**1,220.0**
Forward swap	**3.8**	**1.6**	**343.8**
Credit default swaps	**1.5**	**–**	**43.4**
Total at 31 December 2016	**107.0**	**189.3**	**4,694.8**

Derivatives	Asset fair value £m	Liability fair value £m	Notional amount £m
Foreign currency swaps	29.7	4.0	368.4
Interest rate swaps	15.1	70.3	314.0
Interest rate swaptions	6.1	–	1,140.0
Inflation swap	–	–	6.5
Total at 30 June 2015	50.9	74.3	1,828.9

The Group's derivative financial instruments are not designated as hedging instruments and changes in their fair value are included in profit or loss. Derivatives are used to manage the 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 International Swaps and Derivatives Association Inc. ("ISDA") master agreements, and the Group has collateral agreements between the individual Group entities and relevant counterparties in place under each of these market master agreements.

As at 31 December 2016, the Company had pledged collateral of £176.6m (30 June 2015: £55.6m) of which £105.6m were gilts and European Investment Bank bonds (30 June 2015: £38.4m) and had received cash collateral of £52.2m (30 June 2015: £18.6m).

Amounts recognised in profit or loss in respect of derivative financial instruments are as follows:

	18 months ended 31 December 2016 £m	Year ended 30 June 2015 £m
Movement in fair value of derivative instruments	**3.3**	15.7
Realised losses on interest rate swaps closed	**(68.5)**	(145.0)
Total amounts recognised in profit or loss	**(65.2)**	(129.3)

27 Reinsurance

The Group uses reinsurance as an integral part of its risk and capital management activities. New business was reinsured via longevity swap arrangements as follows:

- DB is 55% reinsured for underwritten schemes, and 75% for non-underwritten schemes (55% prior to 1 January 2016)
- GIfL is 75% reinsured (45% prior to 1 January 2016)
- Care is 42.5% reinsured (90% prior to 1 April 2016)
- Protection is 65% reinsured

In-force business is reinsured under longevity swap and quota share treaties. The quota share treaties have deposit back or premium withheld arrangements to remove the majority of the reinsurer credit risk.

The quota share treaties entered into by the Group's subsidiary, Just Retirement Limited ("JRL"), include financing arrangements (see note 25c), the repayment of which is contingent upon the emergence of surplus under the old Solvency I valuation rules. The Group retains a capital benefit under Solvency II from the financing arrangements as these form part of the transitional calculations.

These treaties also allow JRL to recapture business once the financing has been repaid. During the period the Group recaptured business in respect of certain underwriting years that resulted in a decrease of ceded liabilities of £1,166.9m and a reduction of equal amount in the deposit received.

In addition to the deposits received from reinsurers recognised within other financial liabilities (see note 25b), certain reinsurance arrangements within the Group's subsidiary, Partnership Life Assurance Company Limited, give rise to deposits from reinsurers that are not included in the Consolidated statement of financial position of the Group as described below:-

- The Group has an agreement with two reinsurers (30 June 2015: nil) whereby financial assets arising from the payment of reinsurance premiums, less the repayment of claims, in relation to specific treaties, are legally and physically deposited back with the Group. Although the funds are managed by the Group (as the Group controls the investment of the asset), no future benefits accrue to the Group as any returns on the deposits are paid to reinsurers. Consequently the deposits are not recognised as assets of the Group and the investment income they produce does not accrue to the Group.
- The Group has an agreement with one reinsurer (30 June 2015: nil) whereby assets equal to the reinsurer's full obligation under the treaty are deposited into a ringfenced collateral account. The Group has first claim over these assets should the reinsurer default, but as the Group has no control over these funds and does not accrue any future benefit, this fund is not recognised as an asset of the Group.

	31 December 2016 £m	30 June 2015 £m
Deposits managed by the Group	**235.6**	–
Deposits held in trust	**296.9**	–
Total deposits not included in the Consolidated statement of financial position	**532.5**	–

28 Other provisions

	18 months ended 31 December 2016 £m	Year ended 30 June 2015 £m
Balance at start of period	**1.5**	4.8
Amounts charged to Consolidated statement of comprehensive income	**11.9**	0.2
Amounts utilised	**(3.7)**	(2.2)
Amounts released	**(1.2)**	(1.3)
Balance at end of period	**8.5**	1.5

Of the amount charged to Consolidated statement of comprehensive income in the period, £5.3m was in respect of the cost of staff redundancies.

Other provisions at 31 December 2016 include onerous leases and ancillary expense provisions.

The amount of provisions that is expected to be settled more than 12 months after the Consolidated statement of financial position date is £2.3m (30 June 2015: £0.5m).

29 Current tax

Current tax assets/liabilities receivable/payable in more than one year are £nil (30 June 2015: £nil).

30 Accruals and deferred income

Accruals and deferred income payable in more than one year are £1.5m (30 June 2015: £0.7m).

31 Insurance and other payables

	31 December 2016 £m	30 June 2015 £m
Payables arising from insurance and reinsurance contracts	**28.1**	15.6
Other payables	**85.0**	7.1
Total insurance and other payables	**113.1**	22.7

Insurance and other payables due in more than one year are £nil (30 June 2015: £2.0m).

32 Commitments

Operating leases

The 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:

	31 December 2016 £m	30 June 2015 £m
Less than one year	**4.4**	1.5
Between one and five years	**12.7**	6.0
More than five years	**5.6**	0.3
Total future minimum lease payments	**22.7**	7.8

Capital commitments

The Group had no capital commitments as at 31 December 2016 (30 June 2015: £nil).

33 Contingent liabilities

The Group had no contingent liabilities as at 31 December 2016 (30 June 2015: £nil).

34 Financial and insurance risk management

This note presents information about the major financial and insurance risks to which the 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

The writing of long-term insurance contracts requires a range of assumptions to be made and risk arises from these assumptions being materially inaccurate.

The Group's main insurance risk arises from adverse experience compared with the assumptions used in pricing products and valuing insurance liabilities, and in addition its reinsurance treaties may be terminated, not renewed, or renewed on terms less favourable than those under existing treaties.

Insurance risk arises through exposure to longevity, mortality and morbidity and exposure to factors such as withdrawal levels and management and administration expenses.

Individually underwritten GIfL 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.

Loans secured by mortgages are used to match some of the liabilities arising from the sale of GIfL and DB business. In the event that 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 cash flows 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 LTV ratio and could increase the risk of failing to be repaid in full as a consequence of the no-negative equity guarantee. There is also morbidity risk exposure as the contract ends when the customer moves into long-term care.

Underpinning the management of insurance risk are:

- The development and use of medical information including PrognoSys™ for both pricing and reserving to provide detailed insight into longevity risk;
- Adherence to approved underwriting requirements;
- Controls around the development of suitable products and their pricing;
- Review and approval of assumptions used by the Board;
- Regular monitoring and analysis of actual experience;
- Use of reinsurance to minimise volatility of capital requirement and profit; and
- Monitoring of expense levels.

Concentrations of insurance risk

Concentration of insurance risk comes from 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.

(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, together with the impact of changes in interest rates.

Significant market risk is implicit in the insurance business and arises from exposure to interest rate risk, property risk, inflation risk and currency risk. The Group is not exposed to any equity risk or material currency risk.

Market risk represents both upside and downside impacts but the 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 Retirement Income products and changes in interest rates can affect the relative attractiveness of Retirement Income products. Changes in the value of the Group's investment portfolio will also affect the Group's financial position.

In mitigation, Retirement Income product 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 risk appetite and management processes governing how each risk should be measured, managed, monitored and reported.

(i) Interest rate risk

The 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 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 value of insurance liabilities. The 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 repricing or maturity dates for the Group's significant financial assets.

31 December 2016	**Less than one year £m**	**One to five years £m**	**Five to ten years £m**	**Over ten years £m**	**No fixed term £m**	**Total £m**
Units in liquidity funds	572.3	–	–	–	–	572.3
Debt securities and other fixed income securities	949.1	2,492.7	2,651.2	3,658.9	–	9,751.9
Deposits with credit institutions	73.2	–	–	–	–	73.2
Derivative financial assets	4.4	11.7	12.9	78.0	–	107.0
Loans secured by residential mortgages	–	–	–	–	6,430.4	6,430.4
Loans secured by commercial mortgages	–	64.0	99.8	–	–	163.8
Other loans	3.8	–	–	188.7	–	192.5
Amounts recoverable from reinsurers on investment contracts	28.5	–	–	–	–	28.5
Total	1,631.3	2,568.4	2,763.9	3,925.6	6,430.4	17,319.6

A sensitivity analysis of the impact of interest rate movements on profit before tax is included in note 22(e).

30 June 2015	Less than one year £m	One to five years £m	Five to ten years £m	Over ten years £m	No fixed term £m	Total £m
Units in liquidity funds	280.2	–	–	–	–	280.2
Debt securities and other fixed income securities	274.6	1,248.9	1,405.4	1,827.9	–	4,756.8
Deposits with credit institutions	18.0	–	–	–	–	18.0
Derivative financial assets	–	6.3	29.5	15.1	–	50.9
Loans secured by mortgages	–	–	–	–	3,471.8	3,471.8
Total	572.8	1,255.2	1,434.9	1,843.0	3,471.8	8,577.7

(ii) Property risk

The Group's exposure to 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 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.

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.

A sensitivity analysis of the impact of property price movements on profit before tax is included in note 22(e).

(iii) Inflation risk

Inflation risk is the risk 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 Group's own management expenses and its matching of index-linked Retirement Income products. 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 Retirement Income products.

(iv) Currency risk

Currency risk arises from fluctuations in the value of, or income from, assets denominated in foreign currencies, from relative or absolute changes in foreign exchange rates or in the volatility of exchange rates.

Exposure to currency risk could arise from the Group's investment in non-sterling denominated assets. From time to time, the Group acquires fixed income securities denominated in US dollars or other foreign currencies for its financial asset portfolio. All material Group liabilities are in sterling. As the 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 arises if another party fails to perform its financial obligations to the Group, including failing to perform them in a timely manner.

Credit risk exposures arise from:

- Holding fixed income investments where the main risks are default and market 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. Market risk is the risk of bond prices falling as a result of concerns over the counterparty, or over the market or economy in which the issuing company operates. This leads to wider spreads (the difference between redemption yields and a risk-free return), the impact of which is mitigated through the use of a "hold to maturity" strategy. Concentration of credit risk exposures is managed by placing limits on exposures to individual counterparties and limits on exposures to credit rating levels.
- The Group also manages credit risk on its corporate bond 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.
- Counterparties in derivative contracts – the 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 26).
- Reinsurance – reinsurance is used to manage longevity risk but, as a consequence, credit risk exposure arises should a reinsurer fail to meet its claim repayment obligations. Credit risk on reinsurance balances is mitigated by the reinsurer depositing back more than 100% of premiums ceded under the reinsurance agreement.
- Cash balances – credit risk on cash assets is managed by imposing restrictions over the credit ratings of third parties with whom cash is deposited.
- Credit risk – credit risks for loans secured by mortgages has been considered within "property risk" above.

The following table provides information regarding the credit risk exposure for financial assets of the Group, which are neither past due nor impaired at 31 December 2016 and 30 June 2015:

31 December 2016	**UK gilts £m**	**AAA £m**	**AA £m**	**A £m**	**BBB[1] £m**	**Unrated £m**	**Total £m**
Units in liquidity funds	–	569.3	3.0	–	–	–	572.3
Debt securities and other fixed income securities	645.7	790.6	919.0	3,432.4	3,582.6	381.6	9,751.9
Deposits with credit institutions	–	–	2.2	13.1	57.9	–	73.2
Derivative financial assets	–	–	1.0	25.5	80.5	–	107.0
Other loans	–	–	3.8	–	188.7	–	192.5
Loans secured by mortgages	–	–	–	–	–	6,594.2	6,594.2
Reinsurance	–	–	309.4	342.8	–	–	652.2
Insurance and other receivables	–	–	–	–	–	137.3	137.3
Total	645.7	1,359.9	1,238.4	3,813.8	3,909.7	7,113.1	18,080.6

30 June 2015	UK gilts £m	AAA £m	AA £m	A £m	BBB[1] £m	Unrated £m	Total £m
Units in liquidity funds		254.9	–	–	–	25.3	280.2
Debt securities and other fixed income securities	749.3	49.6	246.0	1,713.4	1,814.2	184.3	4,756.8
Deposits with credit institutions	–	–	–	0.9	17.1	–	18.0
Derivative financial assets	–	–	–	17.5	33.4	–	50.9
Loans secured by mortgages	–	–	–	–	–	3,471.8	3,471.8
Reinsurance	–	–	2.6	0.9	–	–	3.5
Insurance and other receivables	–	–	–	0.6	–	33.5	34.1
Total	749.3	304.5	248.6	1,733.3	1,864.7	3,714.9	8,615.3

[1] Includes BB and below of £150.7m (30 June 2015: £123.6m).

The carrying amount of those assets subject to credit risk represents the maximum credit risk exposure.

(d) Liquidity risk

The investment of Retirement Income cash in corporate bonds, gilts and lifetime mortgages, and commitments to pay policyholders and other obligations, requires liquidity risks to be taken.

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.

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 Group; and
- Maintaining and servicing collateral requirements arising from the changes in market value of financial derivatives used by the 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 Group's short-term liquidity requirements are predominantly funded by advance Retirement Income premium payments, investment coupon receipts, and bond principal repayments 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 Group in the form of premiums. Cash outflows associated with Retirement Income 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 Retirement Income products, 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 over the short, medium and long terms are regularly prepared to predict and monitor liquidity levels in line with limits set on the minimum amount of liquid assets required.

The table below summarises the maturity profile of the financial liabilities, including both principal and interest payments, of the Group based on remaining undiscounted contractual obligations:

31 December 2016	**Within one year or payable on demand £m**	**One to five years £m**	**More than five years £m**	**No fixed term £m**
Subordinated debt	–	259.9	362.5	–
Derivative financial liabilities	34.6	35.5	149.6	–
Obligations for repayment of cash collateral received	52.1	–	–	–
Deposits received from reinsurers	400.3	1,506.8	5,342.7	–
Reinsurance finance	–	–	–	65.9
Reinsurance funds withheld	17.5	64.8	179.1	–

30 June 2015	Within one year or payable on demand £m	One to five years £m	More than five years £m	No fixed term £m
Bank borrowings	6.2	44.3	–	–
Derivative financial liabilities	1.0	4.0	454.7	–
Obligations for repayment of cash collateral received	18.6	–	–	–
Deposits received from reinsurers	183.9	715.0	2,743.4	–
Reinsurance finance	–	–	–	76.7

35 Capital

Since 1 January 2016, the Group has been required to measure and monitor its capital resources on a new regulatory basis and to comply with the requirements established by the Solvency II Framework Directive, as adopted by the Prudential Regulation Authority (PRA) in the UK. The Group and its regulated subsidiaries are required to maintain eligible capital, or 'Own Funds' in excess of the value of their Solvency Capital Requirements (SCR). The SCR represents the risk capital required to be set aside to absorb 1 in 200 year stress tests of each risk type that the JRP Group is exposed to, including longevity risk, property risk, credit risk, and interest rate risk. These risks are all aggregated with appropriate allowance for diversification benefits.

In December 2015, Just Retirement Group plc and Just Retirement Limited received approval to calculate their Solvency II capital requirements using a full internal model which continued to be used for those parts of the Group at December 2016. The capital requirement for the ex-Partnership business is assessed using the standard formula.

The surplus of Own Funds over the SCR is called "Excess Own Funds" and this effectively acts as working capital for the Group. The overriding objective of the Solvency II capital framework is to ensure there is sufficient capital within the insurance company to protect policyholders and meet their payments when due.

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 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 Group operates. The Group's policy is to manage its capital in line with its risk appetite and in accordance with regulatory requirements;
- 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.

Group entities that are under supervisory regulation and are required to maintain a minimum levels of regulatory capital include:
- Just Retirement Limited and Partnership Life Assurance Company Limited - authorised by the PRA, and regulated by the PRA and FCA.
- Just Retirement Solutions Limited, Just Retirement Money Limited, and Partnership Home Loans Limited - authorised and regulated by the FCA.

The Group and its regulated subsidiaries complied with their regulatory capital requirements throughout the year.

Group capital position

The Group's estimated capital surplus position at 31 December 2016, which is unaudited, and is stated after including 12 months' amortisation of transitional relief was as follows:

31 December 2016	JRP Group (unaudited) £m
Eligible Own Funds	2,192.5
Solvency Capital Requirement	1,449.0
Excess Own Funds	743.5
Solvency ratio	151%

36 Related parties

The Group has related party relationships with its key management personnel and associated undertakings. All transactions with related parties are carried out on an arm's length basis.

Key management personnel comprise the Directors of the Company.

There were no material transactions between the Group and its key management personnel other than those disclosed below.

Key management compensation is as follows:

	18 months ended 31 December 2016 £m	Year ended 30 June 2015 £m
Short-term employee benefits	6.3	7.0
Share-based payments	3.5	1.2
Total key management compensation	**9.8**	8.2
Loans owed by Directors	0.3	–
Loans advanced to associate and fees on loans	0.2	–

The loan advances to Directors accrue interest fixed at 4% p.a. and are repayable in whole or in part at any time.

Loans are regularly advanced to the Group's associate, Eldercare, to provide short-term prefunding for policy holder annuity purchases.

37 Ultimate Parent Company and ultimate controlling party

Prior to 1 April 2016 the ultimate Parent undertaking of the Group was Avallux S.à.r.l., a Company incorporated in Luxembourg. Following the share exchange to acquire the entire share capital of Partnership Assurance Group plc on this date, the Company did not have a controlling party.

38 Post balance sheet events

Subject to approval by shareholders at the AGM, the final dividend for 2016 of 2.4 pence per ordinary share, amounting to £22.4 million, will be paid on 26 May 2017 and accounted for as an appropriation of retained earnings in the year ending 31 December 2017.

There are no other post balance sheet events that have taken place between 31 December 2016 and the date of this report.

European embedded value ("EEV")

Statement of Directors' responsibilities in respect of the European Embedded Value ("EEV") basis supplementary financial statements

The Directors of JRP Group plc have chosen to prepare supplementary financial statements in accordance with the CFO Forum's Principles and Guidance on EEV reporting dated April 2016 ("EEV Principles").

When compliance with the EEV Principles is stated, those Principles require the Directors to prepare supplementary financial statements in accordance with the methodology contained in the EEV Principles and to disclose and explain any non-compliance with the EEV Guidance included in the EEV Principles.

In preparing the EEV supplementary financial statements, the Directors have:

- Prepared the supplementary financial statements in accordance with the EEV Principles;
- Identified and described the business covered by the EEV Principles;
- Applied the EEV Principles consistently to the covered business;
- Determined assumptions on a realistic basis, having regard to past, current and expected future experience and to any relevant external data, and then applied them consistently; and
- Made estimates that are reasonable and consistent.

The supplementary financial statements were approved by the Board of Directors on 9 March 2017 and were signed on its behalf by:

Rodney Cook
Group Chief Executive Officer
9 March 2017

Simon Thomas
Group Chief Finance Officer

Supplementary financial statements

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 Group's opinion, fully reflect the value of future cash flows. Under EEV, the total profit recognised over the lifetime of a policy is the same as that recognised under IFRS but the timing of recognition is different. The Group considers that embedded value reporting provides investors with a measure of the future profit streams of the Group's in-force long-term business and is a valuable supplement to statutory accounts.

Following the change in solvency regime to Solvency II from 1 January 2016, the Group has prepared its EEV with the covered business being valued consistently with IFRS. This has resulted in the difference in the adjustments to IFRS relative to prior periods. Extracted from the unaudited interim results for the period ending 30 June 2016.

Reconciliation of IFRS shareholders' net equity to EEV

	31 December 2016 £m	31 December 2015[1] £m	30 June 2015 £m
Shareholders' net equity on IFRS basis	**1,610.6**	921.5	814.0
Goodwill	**(33.1)**	(32.8)	(32.8)
Intangibles	**(183.9)**	(35.5)	(37.3)
Adjustments to IFRS	**58.4**	(263.8)	(142.5)
EEV net worth	**1,452.0**	589.4	601.4
Value of in-force business			
Present value of future profits	**674.7**	624.4	525.8
Cost of residual non-hedgeable risks	**(56.3)**	(13.4)	(11.9)
Frictional cost of capital	**(23.4)**	(31.2)	(28.6)
Deferred Tax Asset	**–**	31.1	8.7
Time Value of Options and Guarantees	**–**	(56.5)	(76.1)
EEV (net of taxation)	**2,047.0**	1,143.8	1,019.3

[1] Extracted from the unaudited interim results for the period ending 30 June 2016

- The EEV as at 30th June 2015 and 31 December 2015 was calculated on the previous methodology based on Solvency I, which included a deferred tax asset within the VIF. The changes to deferred tax assets as at 31 December 2016 have now been included within the adjustments to IFRS line.
- The Time Value of Options and Guarantees ("TVOG") included within the VIF at 30 June 2015 and 31 December 2015 included an amount reflecting a quantification of the reduction in the yield of lifetime mortgages and the impact this has on the liquidity premium (primarily arising from assumption differences between the IFRS valuation and the Solvency I valuation of TVOG). With the alignment to IFRS, this is no longer required.

Statement of change in Group embedded value and analysis of movement in the value of covered business

For the 18 months ended 31 December 2016

The statement of change in embedded value and analysis of movement in the value of the covered business represents the change for the 18 months ended 31 December 2016 for the JRP Group, together with the comparative figures for the 12 month period ended 30 June 2015.

Following the change in solvency regime to Solvency II from 1 January 2016, the Group has prepared its EEV, with the covered business liabilities being valued consistently with IFRS. In the tables below, the results up to 31 December 2015 have been prepared with the covered business liabilities being valued under the previous Solvency I regime and the following 12 month results reflect the current EEV basis. The change in methodology as at December 2015 in the table below captures the impact of these changes. The EEV earnings in the twelve months following 31 December 2015 include nine months of post-acquisition PAG EEV earnings as well as twelve months of JRG EEV earnings.

	18 months ended 31 December 2016			12 months
	Covered business	Non-covered business	Total	ended 30 June 2015
	£m	£m	£m	£m
Opening Group EEV	**782.8**	**236.5**	**1,019.3**	959.1
Operating EEV earnings	87.8	2.7	90.5	53.6
Non-operating EEV earnings	(33.9)	(18.1)	(52.0)	25.5
Total EEV earnings	**53.9**	**(15.4)**	**38.5**	79.1
Other movements in IFRS net equity	-	1.5	1.5	0.9
Dividend and capital flows	30.0	54.5	84.5	(11.0)
Closing Group EEV at December	**866.7**	**277.1**	**1,143.8**	1,028.1
Methodology change as at December 2015	6.5	-	6.5	-
Restated 2015 EEV	**873.2**	**277.1**	**1,150.3**	1,028.1
Acquisition of Partnership Assurance Group	571.8	63.8	635.6	-
Operating EEV earnings	186.8	(9.6)	177.2	36.5
Non-operating EEV earnings	143.5	(51.0)	92.5	(41.6)
Total EEV earnings	**330.3**	**(60.6)**	**269.7**	(5.1)
Other movements in IFRS net equity	-	11.9	11.9	1.8
Dividend and capital flows	10.0	(30.5)	(20.5)	(5.5)
Closing Group EEV	**1,785.3**	**261.7**	**2,047.0**	1,019.3

Other movements in IFRS net equity mainly consist of the impact of share-based payments on the EEV. During the period the Group raised £96.9m of capital, net of issue costs, which increased EEV, and paid dividends of £32.9m which reduced EEV. A total of £40.0m of capital was injected into the covered business from the non-covered business.

To better demonstrate the movement in embedded value, the composition of the embedded value profit for the current year is shown separately between the movement in shareholders' net worth and the value of in-force business, for covered business only.

	18 months ended 31 December 2016			12 months ended 30 June 2015
	Shareholders' net worth	Value of in-force business	Total	
	£m	£m	£m	£m
Opening EEV	**364.9**	**417.9**	**782.8**	**699.1**
New business value	(34.8)	105.8	71.0	48.6
Expected existing business contribution (reference rate and in excess of reference rate)	1.7	15.6	17.3	13.8
Transfers from VIF and required capital to free surplus	25.4	(25.4)	–	–
Experience variances	(52.6)	49.1	(3.5)	(10.1)
Assumption changes	(26.8)	37.8	11.0	6.9
Other operating variances	(8.0)	-	(8.0)	(6.9)
Operating EEV earnings	**(95.1)**	**182.9**	**87.8**	**52.3**
Economic variances	12.5	(46.4)	(33.9)	27.2
Total EEV earnings	(82.6)	136.5	53.9	79.5
Dividend and capital flows	30.0	-	30.0	10.0
Closing EEV at December	**312.3**	**554.4**	**866.7**	**788.6**
Methodology change as at December 2015	269.5	(263.0)	6.5	–
Restated 2015 EEV	**581.8**	**291.4**	**873.2**	**788.6**
Acquisition of Partnership Assurance Group	401.5	170.3	571.8	–
New business value	100.6	40.9	141.5	49.5
Expected existing business contribution (reference rate and in excess of reference rate)	–	25.2	25.2	16.3
Transfers from VIF and required capital to free surplus	22.7	(22.7)	-	–
Experience variances	(19.1)	3.9	(15.2)	(13.0)
Assumption changes	21.9	7.1	29.0	(7.4)
Other operating variances	7.2	(0.9)	6.3	(7.6)
Operating EEV earnings	**133.3**	**53.5**	**186.8**	**37.8**
Economic variances	72.2	71.4	143.6	(43.6)
Other non-operating variances	(8.0)	7.9	(0.1)	-
Total EEV earnings	**197.5**	**132.8**	**330.3**	**(5.8)**
Dividend and capital flows	10.0	–	10.0	–
Closing EEV	**1,190.8**	**594.5**	**1,785.3**	**782.8**

The movement in EEV of the covered business is discussed in more detail below.

The acquisition of PAG has increased EEV for covered business by £571.8m. This figure has been revised from the figure disclosed at June 2016 in line with the revisions to the acquisition balance sheet in the primary financial statements.

Following the change in solvency regime to Solvency II from 1 January 2016, the Group has prepared its EEV with the covered business liabilities being valued consistently with IFRS instead of the previous Solvency I regime. The impact of this methodology change has been reflected as at 31 December 2015 and has resulted in an increase in EEV of £6.5m. Whilst the impact on total EEV has been small, there was a large increase in the shareholders' net worth that was offset by a reduction in the value of in-force business to reflect the lower provisions for adverse deviations held in the IFRS reserves relative to the Solvency I Pillar 1 reserves. The figures for the impact of the methodology change have been revised from the figures disclosed at June 2016 to reflect refinements to harmonise the implementation of the revised methodology across the Group.

Operating EEV earnings increased embedded value by £274.6m in the period, primarily from the value of new business written in the period of £212.5m. Operating EEV earnings also include £42.5m in respect of the expected contribution from existing business. The remaining £18.5m of operating EEV earnings arises from operating assumption changes which have partly been offset by experience variances, interest payable on the subordinated debt, and expenses in the non-covered business.

Non-operating EEV earnings increased embedded value by £109.6m, primarily due to positive economic variance from the fall in risk-free rates over 2016. Transaction and integration costs with regards to the merger of £64.1m (pre-tax) reduced the non-operating EEV earnings.

Notes to the European Embedded Value results

Supplementary financial statements

1) Basis of presentation

The Group's primary financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The Group has prepared these supplementary financial statements in accordance with the European Embedded Value Principles and associated guidance issued in April 2016 by the European Insurance CFO Forum ("CFO Forum").

These principles permit, but do not require, the use of projection methods and assumptions applied for market-consistent solvency regimes. JRP has not aligned its EEV methodology and assumptions with Solvency II. The valuation of covered (long-term business) business liabilities underlying the EEV is consistent with the methods and assumptions used for the primary financial statements which are prepared under IFRS.

The Group uses EEV methodology to value all lines of insurance business within Just Retirement Limited ("JRL") and Partnership Life Assurance Company Limited ("PLACL"), representing the covered business of the Group. No other Group companies contain material amounts of covered business. For other Group companies, the net worth is the IFRS net asset value less the value of goodwill and intangibles. The Group EEV includes the value of subordinated debt at fair value.

The acquisition of Partnership Assurance Group plc ("PAG") by Just Retirement Group plc ("JRG") took place on 1 April 2016, at which point Just Retirement Group plc was renamed JRP Group plc ("JRP"). These supplementary statements of JRP report on JRP's EEV for the 18 month period to 31 December 2016 following the change in JRP's reporting date to 31 December. The transaction has been accounted for as a business combination in which JRG acquired PAG on 1 April 2016. As such, the result for JRP has included PAG's embedded value as an acquisition at 1 April 2016 and includes the impact of changes in PAG's EEV for the nine months from 1 April 2016 to 31 December 2016.

The Directors of the Group are responsible for the preparation of these supplementary financial statements.

2) Methodology

The following methodology applies to the covered business of the Group.

Following the change in solvency regime to Solvency II from 1 January 2016, the Group has prepared its EEV with the covered business liabilities being valued consistently with IFRS. As part of the acquisition of PAG, the methodologies for calculating the EEV and material economic assumptions were harmonised across the two groups. The notes that follow generally apply to the calculation of the embedded values for both JRL and PLACL. Any differences are commented on as appropriate.

A. Embedded value overview

In reporting under the EEV Principles, the 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 and lifetime mortgages in determining the embedded value.

The embedded value is the sum of the net worth of the Group companies, plus the value of in-force covered business. The embedded value is calculated net of the impacts of reinsurance and allows for taxation based on current legislation and enacted future changes.

The net worth is the market value of the shareholders' net assets. The shareholders' net assets in respect of the life companies are taken from the IFRS consolidated statement of the financial position with adjustment to value subordinated debt at fair value. The net worth represents the market value of the assets of the life company in excess of the insurance and non-insurance liabilities of the life company as assessed on an IFRS basis.

The net worth in the covered business can be split into the free surplus and required capital. The free surplus is the market value of assets attributed to, but not required to support, the in -force covered business. The required capital is assessed as the market value of assets attributed to the covered business in excess of assets required to back liabilities and for which distribution to shareholders is restricted. The level of required capital is set with regards to the regulatory capital requirements (i.e Solvency II) such that the free surplus is equal to Solvency II Excess Own Funds. This methodology reflects the level of capital considered by the Directors to be required to support the business.

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 and an allowance for non-hedgeable risks. 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 and an allowance for non-hedgeable risks. The figures shown also include the 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 JRL and PLACL. In particular, it includes the long-term insurance business for UK regulatory purposes and principally comprising:

- Pension Guaranteed Income for Life Solutions ("GIfL");
- Defined Benefit De-risking contracts ("DB");
- Drawdown pension business contracts;
- Care Plans; and
- Protection

Some purchased life annuity business has been written, but this has not been written in significant volumes. Although it has been allowed for in the calculations, it has not been explicitly modelled. The impact of this approximate treatment is not material.

C. New business

All annuity business is written on a single premium basis. Premium increments received following policy issue are excluded from the value of new business. Single and regular premium protection business is included in new business. No allowance is made in the embedded value for the value of new business written after the reporting date.

Point-of sale economic assumptions and opening period non-economic assumptions are used to value the new business. Any variances or changes in assumptions after the point-of-sale are recorded within the analysis of EEV earnings as operating experience variances or operating assumption changes.

Any changes to non-economic assumptions 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.

D. Components of value

The values of in-force business and new business each comprise four components:

(i) Certainty equivalent value; less
(ii) Time value of financial options and guarantees; less
(iii) Allowance for non-hedgeable risk; less
(iv) 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 reference rate is defined in section E "Valuation of cash flows" below.

The future cash flows are those arising from the assets backing the liabilities as assessed on an IFRS basis and from the liabilities themselves. The calculation of the IFRS liabilities at future dates in the projection assumes the continuation of the bases used to calculate the liabilities at the valuation date.

(ii) Time value of financial options and guarantees ("TVOG")

The certainty equivalent value calculation above is based on a single (base) deterministic economic scenario; however, a single scenario cannot appropriately allow for the effect of certain features of options and guarantees. If an option or guarantee affects shareholder cash flows in the base scenario, the impact is included in the certainty equivalent value and is referred to as the intrinsic value of the option or guarantee; however, as future investment returns are uncertain, the actual impact on shareholder profits may be higher or lower and hence allowance will have to be made for the TVOG.

The covered business does not contain any significant policyholder options or guarantees and therefore there is no explicit TVOG.

The assets backing the covered business include mortgages secured against individual domestic properties (lifetime mortgages). These mortgages contain a "no negative equity" guarantee. Under this guarantee, the amount recoverable by the Group on termination of the mortgage is generally capped at the net sale proceeds of the property. This guarantee does not apply 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. The time value of this option and guarantee is allowed for in the asset valuation using closed form calculations, based on a variant of the Black-Scholes option pricing formula. The formula incorporates a number of assumptions, including those for risk-free interest rates, future property growth and future property price volatility. The value of this guarantee is allowed for through a reduction in the liquidity premium included in the VIF for covered business, and hence is not explicitly valued.

(iii) Allowance for non-hedgeable risks

The key non-hedgeable risks faced by the Group are mortality (including longevity), early redemptions of lifetime mortgages, and operational risks.

No allowance has been made within the cost of non-hedgeable risks for symmetrical risks as the assumptions made regarding future experience are set so as to give the mean of the expected outcome (including allowing for the tails of the distribution). Mortality risk and the

risk of early redemptions of lifetime mortgages are symmetrical and hence 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 and other asymmetric risk and the Group has made an explicit allowance for these risks.

In the valuation approach used, the market risks faced by the Group are allowed for directly in the valuation of the cash flows.

(iv) Frictional cost of capital

The additional costs to a shareholder of holding the assets backing the required capital within an insurance company rather than directly in the market are called frictional costs. These are deducted from the certainty equivalent value. The additional costs allowed for are the taxation costs on the investment return and any additional investment expenses on the assets backing the required capital.

Frictional costs are calculated by projecting the level of required capital. The projection of the required capital is based on an approximate method that assumes the required capital is a constant proportion of the projected IFRS liabilities. Tax on investment returns and investment expenses are payable on the assets backing required capital, up to the point that the required capital is released to shareholders.

E. Valuation of cash flows

Reference rates are calculated by adding the liquidity premiums derived from assets backing liabilities (mainly corporate bond and lifetime mortgages) to the swap curve. The liquidity premium on corporate bond assets is calculated by deducting an allowance for credit default, individually assessed for each bond based on credit rating, from the spread on each bond and comparing the resulting risk-adjusted internal rate of return on the portfolio to the swap curve. The lifetime mortgage assets are valued using a mark to model approach that allows for expected future expenses for the mortgages and the cost of the no-negative equity guarantee, where relevant, with the liquidity premium calculated on a consistent basis with corporate bonds.

For protection business, there is no allowance for a liquidity premium in the reference rate used to value the business.

(i) In-force business

For the in-force business, the liquidity premium has been derived using the method described above.

(ii) New business

For new business written during the period, the liquidity premium varies by the month of policy inception. The liquidity premium adjustment applied to each month's new Retirement Income business is consistent with the method used to value the in-force business described above. For corporate bonds assumed to back the new business, the liquidity premium is calculated by deducting an allowance for credit default risk from the estimated spread for new bond purchases in the period. For lifetime mortgages the liquidity premium is calculated by equating the present value of all the matching cash flows for new lifetime mortgages discounted at the swap rate plus the liquidity premium to the point-of-sale IFRS asset value of the new matching mortgages.

F. Reinsurance

The Group has a number of reinsurance arrangements in place in respect of the GIfL business, whereby part of the mortality risk is transferred to the reinsurers. The Group received 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 Group expects to recapture the business once remaining financing has been repaid.

The Group also has in place quota share, quota share with deposit back and mortality swap reinsurance arrangements for the GIfL DB and Care business where part of the mortality risk on each contract is transferred to the reinsurers. The risk transfer for these contracts is reflected in the EEV.

G. Taxation

The projected cash flows take into account all tax which the Group expects to pay. The calculations are undertaken assuming rates based on current and expected future tax rates.

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 Retirement Income policies or the date each mortgage advance was completed as appropriate.

Sample mid-market swap rates at 30 June 2016, 31 December 2015 and 30 June 2015 are shown in the following table.

	Term (years)				
Swap rates (at sample terms, %)	1	5	10	20	30
31 December 2016	**0.6**	**0.9**	**1.2**	**1.5**	**1.4**
31 December 2015	0.8	1.6	2.0	2.2	2.2
30 June 2015	0.8	1.7	2.2	2.4	2.4

The liquidity premiums used to value the annuity in-force business are as follows:

Liquidity premium, bps	JRG	PAG
31 December 2016	**189**	**228**
31 December 2015	192	n/a
30 June 2015	178	n/a

The liquidity premium for each month's new business has varied over the period but the effect is equivalent to an average adjustment as follows:

Liquidity premium, bps	JRG	PAG
31 December 2016	**262**	**282**
31 December 2015	228	n/a
30 June 2015	61	n/a

The liquidity premium methodology in JRL changed from 30 June 2015 and the value quoted above is therefore calculated under the previous methodology.

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. These assumptions were harmonised across the Group following the acquisition of PAG.

The market, against which these assumptions have been assessed, and the cost of the no-negative equity guarantee has been calibrated, is neither deep nor liquid. The Group has therefore set these assumptions taking into account historic, published, UK residential property price movements. The risk-free rate used in the variant of the Black-Scholes formula is the mid-market swap rate.

In the absence of a reliable long-term forward curve for UK residential property price inflation, the Group has made an assumption about future residential property price inflation. This has been derived by reference to the long-term expectation of the UK retail price inflation, "RPI", (consistent with the Bank of England inflation target) plus an allowance for the expectation of house price growth above RPI (property risk premium) less a margin for a combination of risks including property dilapidation and basis risk. This results in a single rate of future house price growth of 4.25%.

In June 2016, the Group took a view that due to external factors there may be potential disruption in the property market in the short term but these factors would not affect the long term view and hence adopted an assumption that house prices will fall by 10% (from levels as at 30 June 2016) by 30 June 2017 and would grow thereafter at a rate of 5.0% p.a. The Group has retained this assumption for the current valuation. The impact of this assumptions is broadly equivalent to using a flat 4.25% p.a. assumption. The methodology at 30 June 2015 had assumed that future house price growth was derived by adding a house price inflation spread (derived from historic UK retail price inflation rates) to a term structure of future inflation rates.

In deriving an assessment of long-term UK residential property price volatility, the Group has used house price data published by the Nationwide Building Society. The Group has adjusted the derived value to allow for the additional volatility expected to be observed in the Group's portfolios compared with the market as a whole, the idiosyncratic risk. The volatility assumption used at 31 December 2016 was 12% p.a. (30 Jun 2015: 9.7% p.a.).

Expense inflation

The Group has harmonised this assumption across the life companies and products. The best estimate expense inflation assumption for 31 December 2016 is 4.3%. (As at 30 Jun 2015 the assumptions varied by products and ranged from 3.6% p.a. to 4.5% p.a.)

Taxation

The current and future tax rates used are the corporation tax rates as published by HM Treasury and take into account proposed changes to future tax rates. For the purposes of modelling tax on future profits, a calendar year assumption is set using a pro rata method based on the number of months at each effective rate. The blended corporation tax rates used were as follows:

Calendar year	Effective tax rate 31 December 2016
2016	20.00%
2017	19.25%
2018	19.00%
2019	19.00%
2020	17.50%
2021	17.00%

The rate of corporation tax assumed by JRG at 30 June 2015 was 20% for all future periods (being the effective tax rate at the valuation date). The above approach was adopted by the Group when harmonising assumptions as at 31 December 2015.

B. Operating assumptions

Operating assumptions have been reviewed as part of the reporting process.

Mortality

The mortality assumptions have been set by the Group taking into account the Group'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 reinsurers and management's own industry experience.

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 Group has taken into account its own experience together with other relevant available information. The JRL assumptions for mortality have been updated from those used at 30 June 2015 to reflect the emerging experience on this business.

The decrement for moving into long -term care is expressed as a proportion of the underlying mortality assumption for the relevant lives. This assumption is unchanged from that used at 30 June 2015 for JRL.

The decrements for voluntary repayments are expressed as annual percentages of the portfolio in force and exhibit a term structure based on duration in-force. The JRL assumptions for rates of voluntary redemption have been updated from those used at 30 June 2015 to reflect the emerging experience on this business.

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.

The Group has set long-term maintenance expense allowances for each product at a level which it considers to be realistic. Investment expenses have been set by reference to the expenses payable under the investment management arrangements.

Some of the expenses incurred in the financial period to 30 June 2016 have been considered exceptional and one-off in nature. These non-recurring 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 and have been charged to the non-operating earnings in the year incurred. Total non-recurring expenses for the 18 months ended 30 June 2016 were £18.4m for the Group's covered business (12 month period ended 30 Jun 2015: £16.8m).

The look-through principle has not been applied to the losses in the distribution company arising from the sale of products arising from the covered business, 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 covered business. The recognised loss in the distribution company has been accounted for on an IFRS basis, separately to the results of the covered business.

The remaining expenses are included within operating results of the distribution and other Group companies and have been accounted for on an IFRS basis.

Non-hedgeable risk

At 31 December 2016 the provision for non-hedgeable risk has been established as 0.35% of the best estimate reserves in respect of Retirement Income business for the combined Group (30 June 2015: 0.18% for JRG). The increase in this assumption is due to changes to the assessment of operational and expense risks. The implementation of the methodology has not yet been fully aligned between JRG and PAG. This assumption applies to new business from 1 January 2016. New business in the six months to 31 December 2015 uses the 30 June 2015 assumption of 0.18% of best estimate reserves at point-of-sale.

Required capital

At 31 December 2016, the amount of required capital has been assessed with reference to the Solvency II regulatory requirements.

This assumption is changed from that used as at 30 June 2015, which was based on 175% of JRL's capital resource requirement as set out in the Solvency I Pillar 1 regulations in force at that time.

4) Sensitivities

The Group embedded value at 31 December 2016 and the value of new business for the year to 31 December 2016 have been recalculated to show the sensitivity of the results to changes in certain of the assumptions discussed above.

No future management actions are modelled following the change to the assumptions. The results are shown net of tax.

For each of the sensitivities, all of the other assumptions remain unchanged, unless otherwise stated. Except where explicitly noted, the IFRS reserving basis is changed to reflect the revised assumptions in each sensitivity.

The sensitivities of the embedded value and the value of new business to changes in economic and non-economic assumptions are as follows:

Sensitivity of values to changes in assumptions

	Embedded value at 31 December 2016 £m	Value of new business for 12 months ended 31 December 2016 £m	Value of new business for 12 months ended 30 June2015 £m
Central value	1,785.3	141.5	95.7
Impact of:			
• 1% reduction in yield curves	349.6	n/a	n/a
• 1% increase in yield curves	(285.5)	n/a	n/a
• 20% reduction in property values	(88.3)	(6.4)	(5.3)
• 125% of implied property volatilities	(162.3)	(15.3)	(10.5)
• 5% reduction in retirement income customer base mortality	(137.2)	(8.8)	(10.4)
• 10% increase in lifetime mortgage voluntary redemptions	(49.3)	(8.8)	n/a
• 10% increase in maintenance expenses	(28.7)	(1.3)	n/a
• 0.25% increase in mortality improvements for Retirement Income business	(74.6)	(9.2)	n/a

Notes to the sensitivities:

- Interest rate environment +/-100 bps: this sensitivity is modelled as a 100bp change to the yield on each asset. The sensitivity allows for the resulting change in asset value and the change in liability value that follows from the change in risk-adjusted internal rate of return on the portfolio. In the -100bp sensitivity the reference rate has a floor of 0%.
- 20% fall in property values: this sensitivity allows for the change in lifetime mortgage and commercial mortgage asset value arising from an immediate fall of 20% in property prices. For lifetime mortgages, from 30 June 2017 onwards, the sensitivity assumes an additional 10% reduction in property prices over and above the 10% fall assumed in the base position. The sensitivity also allows for the corresponding change in liabilities as a result of the yield change.
- 25% increase in property volatility: this sensitivity allows for the change in lifetime mortgage asset values as a result of the change in the cost of the no-negative equity guarantee, and for the change in commercial mortgage asset value. The sensitivity also allows for the corresponding change in liabilities as a result of the yield change.
- 5% decrease in base mortality: this sensitivity is modelled for the annuity business only. This is modelled as a change in the best estimate mortality level and the prudent margins remain unchanged.
- 10% proportionate change in lapses: this sensitivity is modelled as a change assumption for both covered business lapse rates and lifetime mortgage voluntary repayment rates. The sensitivity is applied as a proportionate reduction in the rate of withdrawal (e.g. a withdrawal rate of 5.5% becomes 4.95% under the sensitivity). The IFRS reserves are also changed in this scenario as a result of changing yields on the lifetime mortgages.
- 10% increase in maintenance expenses: this sensitivity is modelled as a 10% change in the expense reserve. There is no change to expense inflation and no change to valuation interest rates.
- Mortality improvements +0.25%: this sensitivity is modelled as an additional 0.25% improvement in each future year within the best estimate basis for annuity business only. The IFRS reserving basis remains unchanged.

Interest rate sensitivities are not modelled for new business as the Group actively reviews its pricing, and in the event of a sudden movement in asset values the pricing of new business would be changed.

For the twelve months to 30 June 2015, sensitivities on new business for voluntary redemptions and maintenance expenses were calculated as reductions to the base assumption, and have not been restated as increases to the base assumption. The mortality improvement sensitivity was not performed on the new business in the twelve months to June 2015.

Pro forma statement of change in Group embedded value and analysis of movement in the value of covered business
For the 12 months ended 31 December 2016

The following pro forma financial information is provided for illustrative purposes and is presented on the basis that the merger between Just Retirement and Partnership had taken place as at 1 January 2016. Pro forma information is unaudited.

	12 months ended 31 December 2016		
	Covered business £m	Non-covered business £m	Total £m
Opening Group EEV (Pro forma)[1]	1,432.5	340.1	1,772.6
Operating EEV earnings	184.9	(9.6)	175.3
Non-operating EEV earnings	157.9	(50.7)	107.2
Total EEV earnings	342.8	(60.3)	282.5
Other movements in IFRS net equity	–	12.4	12.4
Dividend and capital flows	10.0	(30.5)	(20.5)
Closing Group EEV	1,785.3	261.7	2,047.0

1. The opening Group EEV has been stated on harmonised assumptions, and after methodology changes made following the introduction of the Solvency II regulatory regime at 31 December 2015.

Other movements in IFRS net equity mainly consisted of the impact of share-based payments on the EEV. In the year, the Group paid dividends of £20.5m which reduced EEV, and £10.0m of capital was injected into the covered business from the non-covered business.

The composition of the embedded value profit is shown separately between the movement in shareholders' net worth and the value of in-force business below, for covered business only:

	12 months ended 31 December 2016		
	Net worth £m	VIF £m	EEV £m
Restated opening EEV (Pro forma)	**983.1**	**449.4**	**1,432.5**
New business value	99.3	42.4	141.7
Expected existing business contribution (reference rate and in excess of reference rate)	-	28.0	28.0
Transfers from VIF and required capital to free surplus	26.7	(26.7)	-
Experience variances	(18.2)	3.4	(14.8)
Assumption changes	21.9	7.0	28.9
Other operating variances	1.6	(0.5)	1.1
Operating EEV earnings	**131.3**	**53.6**	**184.9**
Economic variances	74.8	82.7	157.5
Other non-operating variances	(8.4)	8.8	0.4
Total EEV earnings	**197.7**	**145.1**	**342.8**
Dividend and capital flows	10.0	-	10.0
Closing EEV	**1,190.8**	**594.5**	**1,785.3**

Operating EEV earnings increased embedded value by £184.9m in the period, primarily from the value of new business written in the period of £141.7m. Operating EEV earnings also included £28.0m in respect of the expected contribution from existing business. The remaining £15.2m of operating EEV earnings arises from operating assumption changes which has partly been offset by experience variance, interest payable on the subordinated debt and expenses in the non-covered business.

Non-operating EEV earnings increased embedded value by £107.2m, primarily due to positive economic variances from the fall in risk free rates over 2016. Transaction and integration costs with regards to the merger of £48.6m (pre-tax) reduced the non-operating EEV earnings.