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NEWS RELEASE

15 March 2018

JUST GROUP PLC
RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017
DISCIPLINED GROWTH, HIGHER MARGINS

Just Group plc[1] (the "Group", "Just") announces its results for the year ended 31 December 2017[2].

Highlights

- The Group's focus on profit over volume has delivered a 35% pro forma[2] increase in adjusted operating profit[3]. Statutory net profit in the 12 months to December 2017 was £155m, up from £148m in the 18 months to December 2016
- New business profit[3] increased to £170m, up 37% compared to pro forma 2016[2]. New business margin rose to 9.0% from 6.8% pro forma[2], reflecting our pricing discipline and the merger synergies. Retirement Income sales rose by 4% compared to the pro forma[2] 2016 level
- We achieved a cost synergy run rate of £52m, one year ahead of schedule and 30% above our initial target. The merger is now substantially complete
- After the year end the Group issued a £230m 7 year 3.5% Tier 3 bond. If it had been in place at 31 December it would have increased our reported solvency coverage ratio from 141% to 156%. We also arranged a new banking facility and achieved an inaugural credit rating during the year
- Our Embedded Value[3] per share rose to 228p, with IFRS Tangible Net Asset Value at 165p per share. The Board proposes a final dividend up 6% to 2.55p, making 3.72p of total dividends for the year, also up 6%.

Rodney Cook, Group Chief Executive Officer, said:

"I am hugely proud of all that we have achieved during 2017. We helped more customers than ever before to achieve a fair, secure and fulfilling retirement. The Group also delivered on the promise of the merger for shareholders. We increased operating profit by 35%, driven by our focus on profit over volume and by our relentless pursuit of merger synergies.

Our capital structure and financial flexibility also improved during the year. We recently put our new investment grade credit rating to work and issued a £230m Tier 3 bond on attractive terms, adding to our capital strength.

This increased financial flexibility positions us well to take advantage of the opportunities in our growth markets. The defined benefit de-risking market outlook is particularly exciting, as corporate Britain seeks to complete the move to defined contribution pensions, and as trustees re-assess the reliance on sponsors' covenants. We expect substantial growth in the defined benefit market over the next decade. The proportion of individual customers shopping around to buy a retirement income continues to grow, which increases our addressable market more quickly than the overall guaranteed income for life market. The lifetime mortgage market is growing particularly strongly as more and more homeowners choose this route to improve their quality of later life without having to sell their family home.

With the building blocks of our strategy firmly in place we can face the future with renewed confidence. Our medically underwritten pricing model works particularly effectively when we have more risks to choose from, and the outlook in our three key markets is supportive. Our focus is shifting back from integration to innovation, and we are investing in our business to grow in new areas and to diversify our sources of revenue. The results in 2017 reinforce our belief that we have a sustainable business model in growing markets which will deliver well into the future. The 6% increase in the dividend for the year reflects our confidence for 2018. All that remains is for me to thank the Just team for their contribution to an outstanding first full year of operation."

Notes

1. Following the merger with Partnership Assurance Group plc in April 2016, Just Retirement Group plc changed its name first to JRP Group plc and then following the 2017 Annual General Meeting to Just Group plc.
2. Just Group plc changed its accounting reference date from 30 June to 31 December during 2016. The statutory comparative period therefore covered the 18 months to 31 December 2016, including Partnership Assurance Group's results for the nine months from April to December 2016. The Directors have reported pro forma comparative financial information on a calendar year basis as if the two businesses were merged from 1 January 2016 in order to better explain the operating and financial performance of the Group.
3. Alternative performance measure ("APM") – In addition to statutory IFRS performance measures, the Group has presented a number of non-statutory alternative performance measures. The Board believes that the APM used give a more representative view of the underlying performance of the Group. APM are identified in the glossary at the end of this announcement.

FINANCIAL CALENDAR	DATE
Business update for the period ending 31 March 2018	17 May 2018
Annual General Meeting	17 May 2018
Record date for proposed final dividend	4 May 2018
Payment of final dividend, subject to shareholder approval	25 May 2018
Expected announcement of interim results for the six months ending 30 June 2018	6 September 2018

Enquiries

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A presentation for analysts will take place at 10.00am today at Nomura, One Angel Lane, London, EC4R 3AB. A live webcast will also be available on www.justgroupplc.co.uk at 10:00am.

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

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

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Forward-looking statements disclaimer:

This announcement in relation to Just 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; 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.

Chief Executive Officer's Statement

FOCUSED ON GROWING PROFITS

We are focused on growing profits and in 2017 have delivered increasing new business margins and profits

INTRODUCTION

I am pleased to present my CEO Statement for 2017. This year marks the first full year's results post-merger (for the combined two predecessor businesses, now reporting as Just Group plc), and I am immensely proud of all we have achieved. We have demonstrated that we can adapt and respond to the changing retirement and regulatory landscapes to meet the needs of our customers, deliver improved margins, sustainable growth in profits and have created value for our shareholders.

PERFORMANCE REVIEW

We compete in attractive growth markets and our strategy is focused on growing profits not headline sales. Expanding markets enable us to achieve profitable growth as selecting the most attractive risks is easier when there is more business to choose from. During 2017 we have improved margins and delivered significant growth in new business operating profit and adjusted operating profit. New business operating profit was £169.8m for 2017, an increase of 37% compared to the prior year, and adjusted operating profit before tax grew in the same period by 35% and was £220.6m. IFRS profit before tax for 2017 was £181.3m, an increase of 5% compared to 2016.

In addition, we have delivered synergy benefits of £52m on a run rate basis from the merger which is in excess of both our original target of £40m and our revised target of £45m. This has contributed materially to the Group's new business profitability.

Our product range across Retirement Income, Drawdown and Lifetime Mortgages is well established and presents a comprehensive offering to at-retirement and in-retirement customers. During the year, Retirement Income sales rose by 4% to £1,889.9m. Lifetime Mortgages advances were £510.0m.

Once again we are proud to have been awarded Financial Adviser 5 Star service awards in both the Life & Pensions and Mortgages categories, for the 13th and 10th consecutive years respectively. This is a great achievement and a well-deserved reflection of the Just customer experience that we have been working so hard to deliver each and every day.

CAPITAL AND DIVIDENDS

During the year the Group's primary insurance subsidiary, Just Retirement Limited ("JRL"), achieved an inaugural Insurer Financial Strength credit rating of A+, and in addition JRL and Just Group plc achieved Issuer Default Ratings of single A.

Furthermore, the Group improved its liquidity options by agreeing a £200m revolving credit facility with three banks which remains undrawn.

The Group's Solvency Capital Requirement coverage ratio was estimated at 141% at 31 December 2017 (31 December 2016: 151%), as expected due to the transitional measures for technical provisions ("TMTP") recalculation and strong new business volumes written during the year, with the majority of our own funds comprised of Tier 1 capital. Our economic capital ratio at 31 December 2017 was 238% (31 December 2016: 216%).

Since year end our capital position has been strengthened further by our successful issue of £230m 7 year Tier 3 capital at a 3.5% coupon in February 2018.

The PRA continues to publish industry wide consultation papers and supervisory statements setting out its expectations for certain aspects of prudential regulation. There is a possibility that the implementation of one or

more of these could result in a change to the regulatory capital position of the Group. We maintain frequent dialogue with regulators to ensure we implement the emerging policies appropriately.

The Board has proposed a final dividend of 2.55p per share, a total of 3.72p per share for 2017. This is an increase of 6% from 2016.

COLLEAGUES

In each of our markets we have teams focused on delivering for our customers. It is the hard work, creativity and determination of these teams that enable Just to succeed. Our colleagues ensure we continue to respond effectively to the changing external environment and their resilience and enthusiasm were critical to the Group achieving the excellent set of results we have reported. My thanks go to all our colleagues across the Group for their hard work and support throughout the year and for their determination to make a positive difference to our customers' lives.

AND FINALLY...

We have delivered what we set out to achieve during the year, including the implementation of our new brand, Just. The rollout of the new brand has provided the opportunity to bring together the best of our predecessor companies and has encouraged our talented colleagues across the Group to create new ways of achieving our mission to deliver a fair, fulfilling and secure retirement for our customers. The outlook remains favourable for each of our key businesses. We have demonstrated our ability to grow profits and position the Group to select the most attractive risks so that we may grow sustainably and deliver value to our shareholders, outstanding service to our customers and opportunities for our people.

RODNEY COOK

Group Chief Executive Officer

Note

Except where stated, commentary in the CEO's Statement relates to the period 1 January 2017 to 31 December 2017 and comparisons to the pro forma period 1 January 2016 to 31 December 2016.

STRONG PERFORMANCE

Strong performance reflecting the Group's continued focus on margin and the benefits of synergies achieved post-merger

The Financial Review presents the results of the Group on both statutory and pro forma reporting bases.

Just Retirement merged with Partnership to form Just Group at the beginning of April 2016, and the accounting reference date was subsequently changed from 30 June to 31 December. On a statutory basis, the prior period comparative results are therefore the 18 month period ended 31 December 2016, and include the results of Partnership Assurance Group plc ("Partnership") only for the nine months following the merger.

In order to present information that enables a clearer comparison of results for 2017, the Group has chosen to present additional pro forma financial information for the 12 months ended 31 December 2016 prepared on the basis that the merger between Just Retirement and Partnership had already taken place as at 1 January 2016. Pro forma information is unaudited. A reconciliation of pro forma financial information to financial information for the 18 months to 31 December 2016 is given at the end of this section.

Within the Financial Review, the Group has presented a number of alternative performance measures ("APMs"), used in addition to IFRS statutory performance measures. The Board believes that the use of APMs gives a more representative view of the underlying performance of the Group. The APMs used by the Group are: new business operating profit, in-force operating profit, underlying operating profit, adjusted operating profit, new business sales, adjusted earnings per share, Group European embedded value and economic capital coverage ratio. Further information on APMs can be found in the glossary together with a reference to where the APM has been reconciled to the nearest statutory equivalent.

ADJUSTED OPERATING PROFIT

Adjusted operating profit is presented in the table below with comparative information on a pro forma basis representing the operating profit for the year ended 31 December 2016 for both Just Retirement and Partnership as if they had been merged throughout that period. The underlying assumptions have been aligned to be consistent across both Group companies.

Adjusted operating profit before tax

The increase in adjusted operating profit before tax of 35%, from £163.7m on a pro forma basis for the year ended 31 December 2016, to £220.6m for the year to 31 December 2017, is mainly a reflection of the Group's continued focus on margin over volume, as well as the benefits of the merger synergies. There has also been a net positive contribution in the current year from the review of the assumptions underlying the calculation of the Group's insurance liabilities. These have partly been offset by a small increase to the losses and expenses incurred by the Group's non-insurance entities and holding companies, and increased reinsurance and finance costs.

New business operating profit

New business operating profit has increased by 37% on a pro forma basis. This mainly reflected the increased margin achieved which has risen from 6.8% to 9.0%. The volume of Retirement Income sales rose by 4% compared to the prior period, demonstrating our prioritisation of margin rather than volume. The margin improvement was achieved through risk selection, pricing discipline, lower unit costs from synergy savings, and more efficient asset-liability management. In addition, the investment returns within our new business margin assumptions benefited from sustained attractive lifetime mortgage spreads.

In-force operating profit

The in-force operating profit was slightly lower than in the prior period, mainly as a result of tightening corporate bond spreads.

Underlying operating profit

The increase in underlying operating profit reflects movements in new business operating profit and in-force operating profit as explained above.

Operating experience and assumption changes

The favourable operating experience variances and assumption changes were as a result of number of changes.

In relation to expense reserves, the delivery of integration synergies has reduced the running per-policy costs, which has led to the release of c.£90m of maintenance expense reserves.

The operating experience variances actually experienced in the year amounted to a negative variance of £15m, being mainly driven by early mortgage mortality.

In relation to mortality, a review has been completed on the mortality basis of our mortgage and non-medically underwritten defined benefit books to reflect the slower rate of longevity improvement in the general population. The strain arising from our mortgage mortality assumption changes was partly offset by mortality releases from our non-medically underwritten DB reserves and leading to a net charge of £30m.

These items, when combined with some other smaller negative items of less than £10m, resulted in a net income statement benefit of £35m in Operating experience and assumption changes.

Other Group companies' operating results

The operating result for other Group companies changed from a loss of £12.4m on a pro forma basis for the year to 31 December 2016 to a loss of £15.1m for the year to 31 December 2017. During the year the Group brought the JRS and TOMAS businesses together as HUB Financial Solutions, which is expected to improve the efficiency of these business activities. This line item also includes expenses relating to the Group's holding companies.

Reinsurance and finance costs

The increase in reinsurance and finance costs in 2017 mainly reflects the inclusion of a full year's worth of interest costs relating to the £250m Tier 2 debt issued in October 2016.

ADJUSTED OPERATING PROFIT – PRO FORMA BASIS COMPARATIVES

	Year ended 31 December 2017 £m	Pro forma year ended 31 December 2016 Unaudited £m	Change %
New business operating profit	**169.8**	123.9	37
In-force operating profit	**71.3**	75.3	(5)
Underlying operating profit	**241.1**	**199.2**	**21**
Operating experience and assumption changes	**34.6**	2.6	1,231
Other Group companies' operating results	**(15.1)**	(12.4)	22
Reinsurance and finance costs	**(40.0)**	(25.7)	56
Adjusted operating profit before tax[1]	**220.6**	**163.7**	**35**

1 see reconciliation to IFRS profit before tax at the end of this Financial Review.

NEW BUSINESS SALES

New business sales for the year to 31 December 2017 are presented in the table below together with comparative sales on a pro forma basis representing sales for the year to 31 December 2016 for both Just Retirement and Partnership.

Retirement Income sales increased by 4% on a pro forma basis. Total new business sales increased by 2%, from £2,407.9m on a pro forma basis for the year ended 31 December 2016, to £2,457.1m for the year ended 31 December 2017. The main reasons for these increases are explained below.

DB sales were £997.8m for 2017 (2016 pro forma DB sales: £943.4m), increasing by 6% year on year. The momentum in DB continues to be strong and it is expected to grow substantially over the next decade. We have made a strong start in 2018 and are quoting on a healthy pipeline of new Buy-in and Buy-out business.

GIfL sales increased by 5% year on year to £820.5m, compared to pro forma 2016 sales of £778.1m. During 2017 GIfL sales benefited from individual customers transferring from their defined benefit pension schemes into a pensions drawdown and GIfL mix. The GIfL outlook remains positive for the Group, especially as the trend for retirees to shop around the market gathers momentum.

Care Plan sales for 2017 were £71.6m, down from pro forma 2016 sales of £97.2m, reflecting renewed emphasis on risk selection, and political uncertainty in relation to Care provision around the time of the general election. The Group remains one of the market leaders in this sector.

Drawdown sales were £51.2m for the year ended 31 December 2017 (pro forma 2016: £25.2m) and mainly represent Flexible Pension Plan ("FPP") sales. The FPP allows consumers to take advantage of Pensions Freedoms and this product continues to grow in popularity. During the year we closed our sub-scale Protection product to new business. Protection sales for 2017 were £6.0m (2016 pro forma sales: £4.7m).

Lifetime mortgage advances were £510.0m in the year (pro forma 2016: £559.3m). We take a risk based approach towards our mortgage appetite and use the longer duration characteristics of these assets to provide an optimum backing ratio relative to the shape of the liabilities we write during a particular period.

NEW BUSINESS SALES – PRO FORMA BASIS COMPARATIVES

	Year ended 31 December 2017 £m	Pro forma year ended 31 December 2016 Unaudited £m	Change %
Defined Benefit De-risking Solutions ("DB")	**997.8**	943.4	6
Guaranteed Income for Life Solutions ("GIfL")	**820.5**	778.1	5
Care Plans ("CP")	**71.6**	97.2	(26)
Retirement Income sales	**1,889.9**	1,818.7	4
Drawdown	**51.2**	25.2	103
Total Retirement sales	**1,941.1**	1,843.9	5
Protection	**6.0**	4.7	28
Lifetime Mortgage ("LTM") loans advanced	**510.0**	559.3	(9)
Total new business sales	**2,457.1**	2,407.9	2

EARNINGS PER SHARE

Adjusted earnings per share ("EPS") for the Group is shown in the table below, with comparatives on a pro forma basis. Adjusted EPS (based on adjusted operating profit after attributed tax) shows a 36% increase compared to the pro forma comparative figure. This increase reflects the trends in operating profit described above, together with a reduction in the tax rate attributed to operating profit from 20.00% to 19.25%, in line with effective tax rates.

Adjusted earnings per share – pro forma basis comparatives

	Year ended 31 December 2017			Pro forma unaudited Year ended 31 December 2016		
	Earnings £m	**Weighted average number of shares**	**Earnings per share pence**	Earnings £m	Weighted average number of shares	Earnings per share pence
Adjusted	**178.1**	**930.0**	**19.15**	131.0	930.8	14.07

CAPITAL MANAGEMENT

The Group continues to manage its business on both regulatory and economic capital bases.

Just Group plc estimated Solvency II capital position

The Solvency II regime came into effect on 1 January 2016. The Group has approval to apply the matching adjustment ("MA") and transitional measures for technical provisions ("TMTP") 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 ("SCR").

The Group's Solvency II position was as follows:

Unaudited	**31 December 2017 (estimated) £m**	31 December 2016[1] £m
Capital resources		
Own funds	**2,269**	2,100
Solvency Capital Requirement	**(1,606)**	(1,394)
Excess own funds	**663**	706
Solvency coverage ratio	**141%**	151%

1 Just Group plc Solvency Financial Condition Report published 30 June 2017.

Movement in excess capital resources[1]

Unaudited	£m
Excess own funds at 31 December 2016	706
Notional TMTP recalculation at 31 December 2016	(40)
In-force surplus (including impact of TMTP amortisation)	128
New business strain and expenses	(105)
Cost vs expected 2018 cost base	(22)
Integration costs	(21)
Dividends and interest	(59)
Other, including economic and investment fluctuations	76
Excess own funds at 31 December 2017	**663**

1 All figures are net of tax.

Estimated Group Solvency II sensitivities:

Unaudited	%	£m
Solvency coverage ratio/excess own funds at 31 December 2017	141	663
-50 bps fall in interest rates (no TMTP recalculation)	-18	(257)
-50 bps fall in interest rates (with TMTP recalculation)	-6	(38)
+100 bps credit spreads	-4	(66)
+10% LTM early redemption	1	9
-10% property values[1]	-12	(174)
-5% mortality	-13	(192)

1 Represents a 10% permanent fall below the assumed long-term trend for property prices.

The Group's capital position has benefited from our continued focus on margin and pricing discipline together with careful asset liability management. The Group's Solvency Capital Requirement coverage ratio was estimated at 141% at 31 December 2017 after the effect of the required TMTP recalculation at year end. This has fallen from the 151% reported at 31 December 2016 but this figure did not assume any TMTP recalculation. If we had anticipated the TMTP recalculation within the 31 December 2016 figure the comparative SCR coverage ratio

would have been 148% on a comparable basis. Additionally, as expected, the SCR coverage ratio was impacted by new business strain from the strong new business volumes written during the year.

Since the year end, the Group's capital position has been further strengthened by the successful issue of £230m 7 year Tier 3 capital in February 2018. If this Tier 3 capital had been in issue at the year end, the SCR coverage ratio would have benefitted by circa 15 percentage points, increasing to an estimated 156% at 31 December 2017. The increase in risk-free rates since 31 December 2017 has also had a beneficial effect on the Group's capital position.

The table above analyses the movement in excess own funds in the 12 months to 31 December 2017.

Summary of Just Group plc economic capital position

The table below shows the Group's economic capital position as at 31 December 2017. The capital coverage ratio at 31 December 2017 remains strong at 238%, a 22 percentage point increase on the prior year (31 December 2016: 216%). The increase in economic capital mainly reflects the impact of new business written over the period and the impact of expense synergies from the merger.

Unaudited	**31 December 2017 £m**	31 December 2016 £m
Available capital	**2,835**	2,670
Required capital	**(1,191)**	(1,234)
Surplus Economic capital	**1,644**	1,436
Capital Solvency ratio	**238%**	216%

EUROPEAN EMBEDDED VALUE ("EEV")

The Embedded Value result for Just Group plc for the year ended 31 December 2017 is summarised in the table below. EEV reporting is not a statutory requirement, but supplementary disclosure intended to facilitate users' understanding of the Group. The Directors have therefore chosen not to include comparative figures including Partnership for just nine months of an 18 month comparative period. Comparative data for the year ended 31 December 2016 is instead provided on a pro forma basis only as if the merger had taken place on 1 January 2016. The underlying assumptions in the comparative period were aligned across both companies.

Operating EEV earnings of £152.6m mainly relate to £160.8m from new business written in the period and a positive contribution of £33m from in-force business, offset by interest costs and operating expenses. Non-operating earnings include integration costs and the impact of revaluation of the Group's own debt. The Group paid a dividend of £33.2m in the period representing the final 2016 dividend and interim 2017 dividend.

EEV earnings for the 12 month period ended 31 December 2017 have reduced by £161.9m compared to the prior year. This reduction is primarily due to the EEV earnings for 2016 including large positive economic variances from the fall in risk-free rates over 2016.

Statement of change in European embedded value

Unaudited	**Year ended 31 December 2017 £m**	Pro forma[1] Year ended 31 December 2016 £m
Opening Group EEV	**2,047.0**	1,772.6
Operating EEV earnings	**152.6**	175.3
Non-operating EEV earnings	**(31.9)**	107.2
Total EEV earnings	**120.7**	**282.5**
Other movements in IFRS net equity	**8.0**	12.4
Dividend	**(33.2)**	(20.5)
Closing Group EEV	**2,142.5**	**2,047.0**

1 The opening Group EEV at 1 January 2016 has been stated on harmonised assumptions, and after methodology changes made following the introduction of the Solvency II regulatory regime at 1 January 2016.

Reconciliation of IFRS shareholders' net equity to EEV

Unaudited	31 December 2017 £m	31 December 2016 £m
Shareholders' net equity on IFRS basis	**1,740.5**	1,610.6
Goodwill	**(33.1)**	(33.1)
Intangibles	**(160.4)**	(183.9)
Adjustments to IFRS	**20.3**	58.4
EEV net worth	**1,567.3**	1,452.0
Value of in-force business	**575.2**	595.0
Group EEV	**2,142.5**	2,047.0

STATUTORY FINANCIAL INFORMATION AND KEY PERFORMANCE INDICATORS

The current year statutory financial information is for the year ended 31 December 2017, and the comparative period statutory financial information is for the 18 month period ended 31 December 2016. The comparative period statutory financial information includes the results of Partnership Assurance Group from the date of its acquisition at the beginning of April 2016. The Group's accounting reference date was changed from 30 June to 31 December during 2016, resulting in an 18 month accounting period.

Key Performance Indicators ("KPIs")

The Board has adopted the following metrics, which are considered to give an understanding of the Group's underlying performance drivers. These measures are referred to as key performance indicators. The Board regularly reviews the KPIs against our strategic objectives to ensure that we continue to have the appropriate set of measures in place to assess and report on our progress.

	Year ended 31 December 2017 £m	18 months ended 31 December 2016 £m
New business sales	**2,457.1**	3,480.6
New business operating profit	**169.8**	171.7
In-force operating profit	**71.3**	89.3
Adjusted operating profit	**220.6**	215.7
IFRS profit before tax	**181.3**	198.8

	31 December 2017 £m	31 December 2016 £m
IFRS net assets	**1,740.5**	1,610.6
European embedded value	**2,142.5**	2,047.0
Solvency II capital coverage ratio[1]	**141%**	151%
Economic capital coverage ratio	**238%**	216%

1 Estimated at 31 December 2017.

New business sales

£2,457.1m (18 months ended 31 December 2016: £3,480.6m)

The decrease between the two periods reflects the longer period of account in the comparative accounting period. The section at the beginning of the Financial Review shows our new business sales for 2017 on a pro forma basis 12 months basis.

New business operating profit
£169.8m (18 months ended 31 December 2016: £171.7m)

New business was written on a higher margin during 2017 than in the comparative period for the 18 months to 31 December 2016. However, due to the longer period of account in 2016, the absolute value of this KPI has decreased from the prior period to the current period. A comparison of the year to 31 December 2017 to the year to 31 December 2016 on a pro forma basis is given at the beginning of the Financial Review section.

In-force operating profit
£71.3m (18 months ended 31 December 2016: £89.3m)

The movement in in-force operating profit is due to the longer period of account in the comparative period. A comparison of the year to 31 December 2017 to the year to 31 December 2016 on a pro forma basis, is given at the beginning of the Financial Review section.

Adjusted operating profit
£220.6m (18 months ended 31 December 2016: £215.7m)

The movement in adjusted operating profit mainly reflects the movements in new business and in-force operating profits explained above, as well as the positive contribution from changes in operating experience and assumption changes during the year, offset by lower finance and reinsurance costs in the year to 31 December 2017 compared to the longer period of account in the comparative period. A comparison of the year to 31 December 2017 to the year to 31 December 2016 on a pro forma basis is given at the beginning of the Financial Review section.

IFRS profit before tax
£181.3m (18 months ended 31 December 2016: £198.8m)

The IFRS profit before tax mainly comprised the operating profit of £220.6m and favourable investment and economic profits of £22.6m, partly offset by integration costs of £25.6m and £24.7m of amortisation of intangible assets.

IFRS net assets
£1,740.5m (31 December 2016: £1,610.6m)

The Group's total equity at 31 December 2017 was £1,740.5m, £129.9m higher than at 31 December 2016. The growth in net assets mainly reflects the profit after tax of £155.1m for the period less the 2016 final dividend and 2017 interim dividend.

European embedded value ("EEV")
£2,142.5m (31 December 2016: £2,047.0m)

EEV at 31 December 2017 was £2,142.5m, an increase of £95.5m compared to the closing value at 31 December 2016. The increase principally reflects the value of new business written in the period less the 2016 final dividend and 2017 interim dividend.

Solvency II capital coverage ratio
Estimated 141% (31 December 2016: 151%)

Solvency II has been the Group's regulatory capital basis since 1 January 2016. The Group's Solvency II capital coverage ratio at 31 December 2017 was estimated as 141% (31 December 2016: 151%). As expected, this ratio reduced due to TMTP recalculation and strong new business volumes written during the year. Since the year end, the Group's capital position has been further strengthened by the issue of £230m 7 year Tier 3 capital, in February 2018.

Economic capital coverage ratio
238% (31 December 2016: 216%)

Economic capital is a key risk-based capital measure. Economic capital remained strong during the year. The increase in economic capital mainly reflects the impact of new business written over the period and the impact of expense synergies from the merger.

IFRS RESULTS

The current year statutory financial information is for the year ended 31 December 2017, and the comparative period statutory financial information is for the 18 month period ended 31 December 2016. The comparative period statutory financial information includes the results of Partnership Assurance Group from the date of its acquisition at the beginning of April 2016.

Adjusted operating profit before tax

The underlying trends in the profit components are explained in the KPI section above.

Non-recurring and project expenditure

Non-recurring and project expenditure decreased from £21.1m for the 18 month period ended 31 December 2016 to £11.6m for the year ended 31 December 2017 and relates to a number of projects across the Group including Solvency II and the reorganisation of our corporate solutions and distribution businesses to form HUB Financial Solutions. In the prior period the Group incurred significant one-off costs relating to preparation for the Solvency II regulatory reporting regime, which commenced on 1 January 2016.

Investment and economic profits

Investment and economic profits were £22.6m (18 month period ended 31 December 2016: £93.1m), mainly reflecting the impact of narrowing credit spreads, and positive corporate bond default experience. There were no bond defaults during the period within our portfolio during the year. These gains were partly offset by changes to economic property assumptions. The prior period figure benefited from a significant fall in risk-free rates.

Acquisition integration costs

Integration costs of £25.6m (18 month period ended 31 December 2016: £40.7m) related to the costs arising from the post-merger integration of Just Retirement and Partnership. The restructuring has delivered £52m of synergies on a run rate basis.

Acquisition transaction costs

Transaction costs of £23.4m in the prior period reflected the one-off costs incurred in relation to the acquisition of Partnership Assurance Group plc. This included advisory fees, legal fees and stamp duty.

IFRS results

	Year ended 31 December 2017 £m	18 months ended 31 December 2016 £m
New business operating profit	**169.8**	171.7
In-force operating profit	**71.3**	89.3
Underlying operating profit	**241.1**	261.0
Operating experience and assumption changes	**34.6**	2.5
Other Group companies' operating results	**(15.1)**	(18.4)
Reinsurance and bank finance costs	**(40.0)**	(29.4)
Adjusted operating profit before tax	**220.6**	215.7
Non-recurring and project expenditure	**(11.6)**	(21.1)
Investment and economic profits	**22.6**	93.1
Acquisition integration costs	**(25.6)**	(40.7)
Acquisition transaction costs	**–**	(23.4)
Amortisation and impairment of intangible assets	**(24.7)**	(24.8)
IFRS profit before tax	**181.3**	198.8

Amortisation and impairment of intangible assets

Amortisation mainly relates to the value of the acquired in-force business asset of £142.7m, which is being amortised over 10 years in line with the expected run-off of the in-force business. Amortisation of the acquired in-force business relating to Partnership Assurance Group plc during the year to 31 December 2017 was £14.3m

(18 month period ended 31 December 2016: £10.7m). Additionally in the prior period there were charges of £3.8m relating to the impairment of brand and property lease intangible assets.

HIGHLIGHTS FROM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The table below presents the Condensed consolidated statement of comprehensive income for the Group, with key line item explanations. The information is extracted from the statutory consolidated statement of comprehensive income and is for the year ended 31 December 2017 compared to the 18 month period ended 31 December 2016. The 18 month period ended 31 December 2016 includes nine months of Partnership results.

	Year ended 31 December 2017 £m	18 months ended 31 December 2016 £m
Gross premiums written	**1,893.4**	2,693.5
Reinsurance premiums ceded	**(17.1)**	(1,553.4)
Reinsurance recapture	**467.5**	1,166.9
Net premium revenue	**2,343.8**	2,307.0
Net investment income	**621.1**	1,616.8
Fee and commission income	**5.8**	17.1
Total revenue	**2,970.7**	3,940.9
Net claims paid	**(638.1)**	(692.1)
Change in insurance liabilities	**(1,656.5)**	(2,406.7)
Change in investment contract liabilities	**(6.3)**	(15.5)
Acquisition costs	**(43.1)**	(53.6)
Other operating expenses	**(238.4)**	(341.5)
Finance costs	**(207.0)**	(232.7)
Total claims and expenses	**(2,789.4)**	(3,742.1)
Profit before tax	**181.3**	198.8
Income tax	**(26.2)**	(51.3)
Profit after tax	**155.1**	147.5

Gross premiums written

Gross premiums written for the year ended 31 December 2017 were £1,893.4m (18 month period ended 31 December 2016: £2,693.5m). The decrease between the two periods reflects the longer comparative accounting period.

Net premium revenue

Net premium revenue increased slightly from £2,307.0m for the 18 months ended 31 December 2016 to £2,343.8m for the year ended 31 December 2017. The prior period included the impact of reinsurance recaptures following the restructuring of a number of reinsurance arrangements ahead of the commencement of Solvency II. The current period reflects a fall in reinsurance premiums ceded following the adoption of a strategy of use of longevity swaps rather than quota share reinsurance.

Net investment income

Net investment income decreased from £1,616.8m for the 18 months ended 31 December 2016, to £621.1m for the year ended 31 December 2017. The main components of investment income are interest earned and changes in fair value of the Group's corporate bond, mortgage and other fixed income assets. The result for the comparative period reflected the impact of the falling long-term investment rate over the period, as well as the acquisition of Partnership and a longer accounting period.

Net claims paid
Net claims paid decreased by £54.0m from £692.1m for the 18 month period ended 31 December 2016 to £638.1m for the year ended 31 December 2017. The decrease from the prior period is as a result of the longer accounting period to 31 December 2016, the underlying trend year on year is an increase in net claims paid, reflecting the growth of the in-force book.

Change in insurance liabilities
Change in insurance liabilities decreased from a £2,406.7m cost for the 18 months ended 31 December 2016 to a £1,656.5m cost for the year ended 31 December 2017. The reduced cost compared to the prior period partly reflects the longer accounting period to 31 December 2016, and also reflects the impact of reinsurance recaptures during the prior period as noted in net premium revenue above.

Acquisition costs
Acquisition costs have decreased by £10.5m from £53.6m for the 18 months ended 31 December 2016 to £43.1m for the year ended 31 December 2017 reflecting mainly the longer accounting period in the prior period, but also taking into account increased commission paid on LTM sales compared to the previous period.

Other operating expenses
Other operating expenses decreased by £103.1m from £341.5m for the 18 months ended 31 December 2016 to £238.4m for the year ended 31 December 2017. The decrease mainly reflects the longer accounting period in the prior period, together with costs of integration during 2016. The current period also benefits from post-merger synergy savings.

Finance costs
Finance costs decreased by £25.7m from £232.7m for the 18 months ended 31 December 2016 to £207.0m for the year ended 31 December 2017. The current year includes a full year's interest on the Just Group plc subordinated debt, issued in October 2016, although overall finance costs have decreased compared to the prior period due to the longer accounting period in 2016.

Income tax
The income tax charge for the year ended 31 December 2017 was £26.2m, an effective tax rate of 14.5% (18 months ended 31 December 2016: income tax charge of £51.3m and an effective tax rate of 25.8%). The effective tax rate for the current year has been driven by one-off adjustments to tax recognised on prior year profits.

HIGHLIGHTS FROM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The table presents selected items from the Condensed consolidated statement of financial position, with key line item explanations below. The information below is extracted from the statutory consolidated statement of financial position.

	31 December 2017 £m	31 December 2016 £m
Assets		
Financial investments	**18,287.1**	17,319.6
Reinsurance assets	**5,285.3**	6,057.1
Other assets	**592.5**	517.8
Total assets	**24,164.9**	23,894.5
Share capital and share premium	**188.0**	185.0
Other reserves	**881.1**	881.1
Accumulated profit and other adjustments	**671.4**	544.5
Total equity	**1,740.5**	1,610.6
Liabilities		
Insurance liabilities	**16,633.0**	15,748.0
Other financial liabilities	**5,045.4**	5,740.8
Insurance and other payables	**85.5**	113.1
Other liabilities	**660.5**	682.0
Total liabilities	**22,424.4**	22,283.9
Total equity and liabilities	**24,164.9**	23,894.5

Financial investments

Financial investments increased by £1.0bn from £17.3bn at 31 December 2016 to £18.3bn at 31 December 2017; the increase being mainly a result of the continued investment of new business premiums into corporate bonds, gilts, loans secured by mortgages, and other fixed income investments. The quality of the corporate bond portfolio remains high, with 61% of the Group's corporate bond and gilts portfolio rated A or above (31 December 2016: 62%) and is well balanced across a range of industry sectors. The loan-to-value ratio of the mortgage portfolio at 31 December 2017 was approximately 29% (31 December 2016: 28%).

The sector analysis of the Group's financial investments portfolio at 31 December 2017 is shown below and is well balanced across a variety of industry sectors.

The following table provides a breakdown by credit rating of financial investments.

	31 December 2017 £m	**31 December 2017 %**	31 December 2016 £m	31 December 2016 %
AAA[1]	**1,751.1**	**9.6**	1,359.9	7.9
AA and gilts	**1,523.0**	**8.3**	1,603.2	9.2
A	**3,397.2**	**18.6**	3,471.0	20.0
BBB	**3,944.8**	**21.6**	3,759.0	21.7
BB or below	**151.0**	**0.8**	150.7	0.9
Unrated[1]	**471.3**	**2.6**	381.6	2.2
Loans secured by mortgages	**7,048.7**	**38.5**	6,594.2	38.1
Total	**18,287.1**	**100.0**	17,319.6	100.0

1 Includes units held in liquidity funds.

Sector analysis

	31 December 2017 £m	31 December 2017 %	31 December 2016 £m	31 December 2016 %
Basic materials	256.8	1.4	239.2	1.4
Communications	817.3	4.5	871.3	5.0
Auto manufacturers	291.9	1.6	273.7	1.6
Consumer	846.3	4.6	896.1	5.2
Energy	290.3	1.6	281.6	1.6
Banks	2,227.3	12.2	2,355.6	13.6
Insurance	819.3	4.5	841.6	4.8
Financial – other	912.2	5.0	1,187.5	6.9
Government	1,264.9	6.9	927.5	5.4
Industrial	705.2	3.8	472.6	2.7
Utilities	1,806.7	9.9	1,625.8	9.4
Liquidity funds	897.9	4.9	645.5	3.7
Lifetime Mortgages	6,833.3	37.4	6,430.4	37.1
Other	317.7	1.7	271.2	1.6
Total	**18,287.1**	**100.0**	17,319.6	100.0

Reinsurance assets
Reinsurance assets decreased from £6.1bn at 31 December 2016 to £5.3bn at 31 December 2017. This reduction in the reinsurance assets was as a result of reinsurance recapture, and increased use of reinsurance swaps rather than quota share treaties following the introduction of Solvency II.

Other assets
Other assets mainly comprise cash and cash equivalents, and intangible assets.

Insurance liabilities
Insurance liabilities increased from £15.7bn at 31 December 2016 to £16.6bn at 31 December 2017. The increase in liabilities arose as a result of new insurance business written less claims paid, and some reduction due to the effect of rising long-term interest rates.

Other financial liabilities
Other financial liabilities decreased from £5.7bn at 31 December 2016 to £5.0bn at 31 December 2017. These liabilities are mainly reinsurance-related and include deposits received from reinsurers, reinsurance financing and other reinsurance-related balances. The change in the financial liability reflects the liabilities arising on new business written during the period, offset by claims paid, reinsurance recapture and the effect of rising long-term interest rates in the period.

Insurance and other payables
Insurance and other payables decreased by £27.6m from £113.1m at 31 December 2016 to £85.5m at 31 December 2017. This change was mainly due to timing differences in the settlement of investment transactions.

Other liabilities
Other liability balances decreased by £21.5m from £682.0m at 31 December 2016 to £660.5m at 31 December 2017. These balances relate to a number of areas including investment contract liabilities, subordinated debt, provisions, which have decreased following the completion of merger integration work, and corporation tax.

Total equity
Total equity increased by £129.9m from £1,610.6m at 31 December 2016 to £1,740.5m at 31 December 2017, reflecting profit after tax for the period of £155.1m, dividends paid of £33.2m and shares issued in respect of incentive schemes.

DIVIDENDS

The Group paid an interim dividend of 1.17 pence per share in respect of the year ended 31 December 2017. The Board has recommended a final dividend of 2.55 pence per share, bringing the total dividend for the year ended 31 December 2017 to 3.72 pence per share (18 month period ended 31 December 2016: 4.4 pence per share).

RECONCILIATION OF PRO FORMA FINANCIAL INFORMATION TO FINANCIAL INFORMATION FOR THE 18 MONTHS TO 31 DECEMBER 2016

The comparative figures discussed in the Financial Review are the pro forma financial results for the calendar year to 31 December 2016 assuming that the merger of Just Retirement and Partnership had taken place before the beginning of the year to 31 December 2016. The statutory comparative figures show the Group's results for the eighteen months ended December 2016, including Partnership since its acquisition at the beginning of April 2016. In the opinion of the Directors, the pro forma information provides a more meaningful comparison for evaluating the performance of the Just Group in 2017.

Below are reconciliations between comparative pro forma adjusted operating profits and comparative pro forma sales to the equivalent comparative KPIs computed on a statutory basis. Reconciliation 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 comparative financial information new business sales to new business sales KPI

Unaudited	£m
Pro forma new business sales (unaudited), year to 31 December 2016	2,407.9
New business sales relating to Partnership Assurance Group plc between 1 January 2016 and 31 March 2016	(160.5)
Post-acquisition new business sales	2,247.4
Effect of change in reporting date, for 6 months to 31 December 2015	1,233.2
New business sales 18 months to 31 December 2016	**3,480.6**

Reconciliation of pro forma comparative financial information adjusted operating profit to adjusted operating profit KPI

Unaudited	£m
Pro forma adjusted operating profit before tax (unaudited), year to 31 December 2016	163.7
Operating loss relating to Partnership Assurance Group plc between 1 January 2016 and 31 March 2016	2.2
Post-acquisition adjusted operating profit, year to 31 December 2016	165.9
Effect of change in reporting date, for 6 months to 31 December 2015	49.8
Adjusted operating profit, 18 months to 31 December 2016	**215.7**

SIMON THOMAS

Group Chief Financial Officer

STRONG RISK CULTURE

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

PRINCIPAL RISKS AND UNCERTAINTIES

RISK MANAGEMENT

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 reviews its risks and produces reports to provide assurance that material risks in the business are being mitigated. The Risk function, led by the Group Chief Risk Officer ("GCRO"), challenges the management team on the effectiveness of its risk evaluation and mitigation. The GCRO 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

Description and impact	Mitigation and management action

Risks from our chosen market environment

Strategic objective

1 2 3 4 5

Change in the period – No change

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 Group has developed propositions to enable customers to have more flexible retirement solutions. Customers' need for a secure income in retirement continues and the Group expects that demand for guaranteed income for life solutions will continue.

Risk outlook – Stable

Our approach to legislative change is to participate actively and engage with policymakers, and this will not change.

The Group offers a 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 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.

Risks from our pricing assumptions

Strategic objective

1 2 3 4 5

Change in the period – No change

Writing long-term DB de-risking, GIfL 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.

Risk outlook – Stable

To manage the risk of our longevity assumptions being incorrect, the Group has the benefit of extensive underwritten mortality data 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 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 specific property types or regions, and monitoring of the exposure to adverse house price movements.

Risks from regulatory changes

Strategic objective

1 2 3 4 5

Change in the period – No change

The financial services industry continues to see a high level of regulatory activity and intense regulatory supervision. This reflects in part an increasing concern about the effect of the economic environment on the ability of insurers to continue to be able to meet policyholder obligations. The regulatory agenda for the coming year covers many areas directly relevant to the Group.

Further to the implementation of Solvency II, the PRA has published and continues to publish supervisory statements that set out its expectations for certain aspects of prudential regulation. This includes to date statements relating to illiquid assets, matching adjustments and transitional provisions. There is a risk that the implementation of one or more of these statements could result in a negative impact on the regulatory capital position of the Group.

The Financial Conduct Authority ("FCA") is developing a strategy to address the challenges for financial services of the ageing UK population and is pursuing 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 consumers are clearer and easier to enforce.

The Solvency II risk margin is particularly sensitive to movements in interest rates, which can increase its volatility. The matching adjustment to meet Solvency II requirements makes management of liquidity within the Group more complex.

The ultimate terms of the UK's exit from the EU could have significant consequences for the regulation and legislation that apply to Just's operations.

Risk outlook – Stable

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.

Just has an approved partial internal model to calculate a Group Solvency Capital Requirement, and intends to progress an internal model major change application for Partnership Life Assurance Company Limited to use the Group internal model.

The Group has recalculated its transitional measure on technical provisions ("TMTP") in accordance with the Solvency II directive which allows for a recalculation of the TMTP every 24 months.

We will continue to engage with the PRA to understand and seek to influence its developing views on prudential regulation. The Group is also engaging with industry bodies to ensure an appropriate implementation of supervisory statements.

We actively seek to 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.

We manage sensitive personal data in accordance with existing DPA requirements and are adjusting our existing practices and processes to meet the requirements of the new regime.

Risks from the economic environment

Strategic objective

1 2 3 4 5

Change in the period – No change

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 economic environment could increase the risk of credit downgrades and defaults in our corporate bond portfolio.

Risk outlook – Increasing

Economic conditions are actively monitored and alternative scenarios modelled to better understand the potential impacts of significant economic changes on the amount of capital required to be held to cover risks, 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 predominantly UK-based with no services provided into

The lack of clarity regarding the UK's future trading arrangements with the EU has introduced material uncertainty for the UK's macro-economic outlook in the medium and long-term. It is too early to be clear on the long-term implications of departure from the EU for the UK economy and indeed the wider economic impacts on the rest of Europe and the world. Market conditions may become more volatile.

In an environment of 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 DB de-risking and GIfL 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 possible shortfall in the redemption of equity release mortgages also increases if property values drop. Uncertainty following the UK's withdrawal from the EU 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 an earlier receipt of anticipated cash flows and reinvestment risk.

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.

other countries of the EEA, and its customers and policyholders are predominantly UK-based. However, the Group remains exposed to the indirect impact that the UK's withdrawal may have on the UK economy as a whole, including its residential housing market. Any changes to the regulatory environment as a result of the UK's withdrawal are being monitored.

The Group's strategy is to buy and hold high-quality, lower-risk assets in its investment portfolio to ensure that it has sufficient income to meet outgoings as they fall due. Portfolio credit risk is managed by specialist fund managers executing a diversified investment strategy in investment grade assets within 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 hedges.

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.

Risks arising from operational processes and IT systems

Strategic objective

1 2 3 4 5

Change in the period – No change

Risk outlook – Stable

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 delivering customer service and maintaining accurate records. These processes and systems may not operate

The Group maintains a suite of risk management tools to help identify, measure, monitor, manage and report its operational risks including those arising from operational processes and IT systems. These include a risk management system, risk and control assessments, risk event management, loss reporting,

as expected, may not fulfil their intended purpose or may be damaged or interrupted by 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 it relies could lead to costs and disruptions that could adversely affect its business **as** well as harm its reputation.

As witnessed in 2017, large organisations 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, or lead to financial losses.

scenario analysis and risk reporting through the ORSA.

The Group maintains plans and controls to minimise the risk of business disruption and information security related events. Detailed incident and crisis management plans also exist to ensure effective responses. These are supported by specialist third parties for 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. The Group continues to invest in its information security control environment but we recognise that the speed of change in cyber-threats means that a risk exposure remains.

Risks to the Group's brands and reputation

Strategic objective

1 2 3 4 5

Change in the period – No change

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 perceived 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.

Risk outlook – Stable

The Group actively seeks to differentiate its business from competitors by investing in brand-enhancing activities. Fairness to customers and high service standards are at the heart of the Just brand, and we encourage our colleagues to take pride in the quality of service they provide to our customers. Engaging our colleagues in the Just brand and its associated values has been, and remains, a critical part of our internal activity. The Group maintains a system of internal control, and associated policies and operational procedures, that defines the standards we expect of all colleagues.

Strategic objectives

1 Grow our markets and broaden our distribution reach

2 Give customers a distinctly 'Just' experience every time

3 Make smart risk choices

4 Focus on strong financial management

5 Diversify our business away from any single business line or market

Consolidated statement of comprehensive income
for the year ended 31 December 2017

	Note	Year ended 31 December 2017 £m	18 months ended 31 December 2016 £m
Gross premiums written		**1,893.4**	2,693.5
Reinsurance premiums ceded		**(17.1)**	(1,553.4)
Reinsurance recapture		**467.5**	1,166.9
Net premium revenue		**2,343.8**	2,307.0
Net investment income	3	**621.1**	1,616.8
Fee and commission income		**5.8**	17.1
Total revenue		**2,970.7**	3,940.9
Gross claims paid		**(1,098.8)**	(1,204.5)
Reinsurers' share of claims paid		**460.7**	512.4
Net claims paid		**(638.1)**	(692.1)
Change in insurance liabilities:			
Gross amount		**(884.7)**	(2,687.1)
Reinsurers' share		**(304.3)**	1,447.3
Reinsurance recapture		**(467.5)**	(1,166.9)
Net change in insurance liabilities		**(1,656.5)**	(2,406.7)
Change in investment contract liabilities	23	**(6.3)**	(15.5)
Acquisition costs	4	**(43.1)**	(53.6)
Other operating expenses	5	**(238.4)**	(341.5)
Finance costs	6	**(207.0)**	(232.7)
Total claims and expenses		**(2,789.4)**	(3,742.1)
Profit before tax	7	**181.3**	198.8
Income tax	8	**(26.2)**	(51.3)
Profit for the period		**155.1**	147.5
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**–**	0.4
Total comprehensive income for the period		**155.1**	147.9
Profit attributable to:			
Equity holders of Just Group plc		**155.1**	147.5
Profit for the period		**155.1**	147.5
Total comprehensive income attributable to:			
Equity holders of Just Group plc		**155.1**	147.9
Total comprehensive income for the period		**155.1**	147.9
Basic earnings per share (pence)	12	**16.68**	20.16
Diluted earnings per share (pence)	12	**16.54**	20.02

The notes are an integral part of these financial statements.

Consolidated statement of changes in equity
for the year ended 31 December 2017

Year ended 31 December 2017	Note	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 January 2017		93.3	91.7	348.4	532.7	(1.6)	546.1	1,610.6
Profit for the year		–	–	–	–	–	155.1	155.1
Other comprehensive income for the year		–	–	–	–	–	–	–
Total comprehensive income for the year		–	–	–	–	–	155.1	155.1
Contributions and distributions								
Shares issued	21	0.5	2.5	–	–	–	–	3.0
Dividends	13	–	–	–	–	–	(33.2)	(33.2)
Share-based payments		–	–	–	–	(3.4)	8.4	5.0
Total contributions and distributions		0.5	2.5	–	–	(3.4)	(24.8)	(25.2)
Balance at 31 December 2017		93.8	94.2	348.4	532.7	(5.0)	676.4	1,740.5

18 months ended 31 December 2016	Note	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]	21	43.2	90.5	–	532.7	–	–	666.4
Dividends	13	–	–	–	–	–	(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.

The notes are an integral part of these financial statements.

Consolidated statement of financial position
as at 31 December 2017

	Note	2017 £m	2016 £m
Assets			
Intangible assets	14	**193.5**	217.0
Property, plant and equipment	15	**19.6**	17.1
Financial investments	16	**18,287.1**	17,319.6
Investment in joint ventures and associates		**0.3**	0.3
Reinsurance assets	22	**5,285.3**	6,057.1
Deferred tax assets	17	**13.0**	10.3
Current tax assets	29	**3.7**	11.1
Prepayments and accrued income	18	**56.5**	53.3
Insurance and other receivables	19	**44.5**	137.3
Cash and cash equivalents	20	**261.4**	71.4
Total assets		**24,164.9**	23,894.5
Equity			
Share capital	21	**93.8**	93.3
Share premium	21	**94.2**	91.7
Reorganisation reserve		**348.4**	348.4
Merger reserve	21	**532.7**	532.7
Shares held by trusts		**(5.0)**	(1.6)
Accumulated profit		**676.4**	546.1
Total equity attributable to owners of Just Group plc		**1,740.5**	1,610.6
Liabilities			
Insurance liabilities	22	**16,633.0**	15,748.0
Investment contract liabilities	23	**220.7**	222.3
Loans and borrowings	24	**343.9**	343.1
Other financial liabilities	25	**5,045.4**	5,740.8
Deferred tax liabilities	17	**39.2**	46.4
Other provisions	28	**2.1**	8.5
Current tax liabilities	29	**9.2**	27.3
Accruals and deferred income	30	**45.4**	34.4
Insurance and other payables	31	**85.5**	113.1
Total liabilities		**22,424.4**	22,283.9
Total equity and liabilities		**24,164.9**	23,894.5

The notes are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 14 March 2018 and were signed on its behalf by:

SIMON THOMAS
Director

Consolidated statement of cash flows
for the year ended 31 December 2017

	Note	Year ended 31 December 2017 £m	18 months ended 31 December 2016 £m
Cash flows from operating activities			
Profit before tax		**181.3**	198.8
Depreciation of equipment		**1.8**	2.6
Loss on disposal of equipment		**3.1**	–
Amortisation of intangible assets		**25.2**	24.3
Impairment of intangible assets		**–**	3.8
Share-based payments		**5.0**	15.2
Interest income		**(636.4)**	(683.1)
Interest expense		**207.0**	232.7
Increase in financial investments		**(410.3)**	(2,794.5)
Decrease/(increase) in reinsurance assets		**771.8**	(280.5)
Increase in prepayments and accrued income		**(3.2)**	(47.0)
Decrease/(increase) in insurance and other receivables		**92.5**	(61.7)
Increase in insurance liabilities		**885.0**	2,687.9
Decrease in investment contract liabilities		**(1.6)**	(6.0)
(Decrease)/increase in deposits received from reinsurers		**(675.9)**	98.2
Increase in accruals and deferred income		**11.0**	4.3
(Decrease)/increase in insurance and other payables		**(27.6)**	53.6
(Decrease)/increase in other creditors		**(22.6)**	219.4
Interest received		**399.0**	388.1
Interest paid		**(170.8)**	(208.6)
Taxation paid		**(46.8)**	(35.9)
Net cash inflow/(outflow) from operating activities		**587.5**	(188.4)
Cash flows from investing activities			
Cash acquired on the acquisition of Partnership Assurance Group plc	2	**–**	268.6
Additions to internally generated intangible assets		**(1.7)**	–
Acquisition of property and equipment		**(7.4)**	(10.3)
Net cash (Outflow)/inflow from investing activities		**(9.1)**	258.3
Cash flows from financing activities			
Increase in borrowings		**–**	202.1
Interest paid		**(32.6)**	(6.0)
Dividends paid		**(33.2)**	(32.9)
Issue of ordinary share capital (net of costs)		**3.0**	96.9
Net cash (outflow)/inflow from financing activities		**(62.8)**	260.1
Net increase in cash and cash equivalents		**515.6**	330.0
Cash and cash equivalents at start of period		**643.7**	313.7
Cash and cash equivalents at end of period		**1,159.3**	643.7
Cash available on demand		**261.4**	71.4
Units in liquidity funds		**897.9**	572.3
Cash and cash equivalents at end of period	20	**1,159.3**	643.7

The notes are an integral part of these financial statements.

Notes to the Consolidated financial statements

1. SIGNIFICANT ACCOUNTING POLICIES

General information

Just Group plc (formerly 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.

1.1. Basis of preparation

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 January 2017 and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial information set out above does not constitute statutory accounts for the year ended 31 December 2017 or the period ended 31 December 2016 but is derived from those accounts. Statutory accounts for 2016 have been delivered to the registrar of companies, and those for 2017 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The financial statements of Just Group plc have been prepared on a going concern basis. The directors of the Company have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. In accordance with the requirements of IAS 1 the financial statements' assets and liabilities have been presented based on order of liquidity which provides information that is more reliable and relevant for a financial institution.

The following new accounting standards, interpretations and amendments to existing accounting standards in issue, but not yet effective, 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:

- Amendments to IFRS 4, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective 1 January 2018).

The amendments to IFRS 4 allow the deferral of the application of IFRS 9 until accounting periods commencing on 1 January 2021. This is intended to align with the effective date of IFRS 17, the replacement insurance contracts standard. This option, which the Group intends to adopt, is subject to meeting criteria relating to the predominance of insurance activity. At 31 December 2017, the Group's insurance liabilities in relation to its total liabilities were 96% and deferral of IFRS 9 was applicable.

The impact of adopting the amendments to IFRS 4 from 1 January 2018 is that additional disclosures will be required to allow comparison with those entities which have adopted IFRS 9 from 1 January 2018. On application of IFRS 9 there is potential for certain financial assets that are currently classified as fair value through profit or loss to be reclassified as fair value through other comprehensive income. However, the Group anticipates that it will continue to designate these assets as fair value through profit or loss under IFRS 9 under the option to do so when it eliminates or significantly reduces an accounting mismatch which would otherwise occur. Therefore the Group believes the impact of adopting the amendments to IFRS 4 is not significant.

- IFRS 15, Revenue from contracts with customers (effective 1 January 2018).

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. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In the year to 31 December 2017 the main source of non-insurance contract income was fee and commission income, which amounted to £5.8m. Under the Group's existing accounting policies, fee and commission income is recognised when the service is rendered. Therefore, the application of IFRS 15 will not result in a material difference to when revenue is recognised by the Group based on the current recognition policy of non-insurance contract income.

- IFRS 16, Leases (effective 1 January 2019).

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 at 31 December 2017 would be to recognise operating lease assets and lease payment liabilities on the balance sheet with an approximate value of £11.9m.

- IFRS 17, Insurance Contracts (effective 1 January 2021, not yet endorsed by the EU).

IFRS 17 provides a comprehensive approach for accounting for insurance contracts including their valuation, income statement presentation and disclosure. The Group has initiated a project to assess the financial and operational implications of the standard and to prepare for adoption.

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.
1.18	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.
1.19, 22, 25	Measurement of reinsurance assets and deposits received from reinsurers 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. Deposits received from reinsurers are measured in accordance with the reinsurance contract and taking account of an appropriate

		discount rate for the timing of the expected cash flows of the 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/investment 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.
1.16, 2, 14	Assessment of carrying value of intangible assets recognised on acquisition of Partnership Assurance Group ("PAG")	Intangible assets recognised on the acquisition of PAG in 2016, including the value of the acquired in-force business are reviewed for indicators of impairment and if such indicators exist, are tested for impairment. The key impairment testing assumptions include the choice of discount rate used, which 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 (this is referred to as the insurance segment in note 7, Segmental reporting);
- The arranging of guaranteed income for life contracts and lifetime mortgages through 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 in-force 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 two 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 which 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 which 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 held 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.

When compared with total consideration of £571.9m, goodwill of £0.3m arose 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 attracted merger relief under section 612 of the Companies Act 2006. Of the £569.5m, £36.8m was credited to share capital (representing 10 pence per ordinary share) and the remaining £532.7m was 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 were reviewed across the Group. Following this review, consistent economic and other assumptions were 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 were 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 was recognised at fair value on acquisition. The fair value represented 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 was also reviewed and a Group accounting basis 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 at 1 April 2016. Future profit streams were discounted using a weighted-average cost of capital of 11.1%, which was determined using a capital asset pricing model ("CAPM") approach. This is being 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 are being 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. For the period from 1 April 2016 to 31 December 2016, £363.3m was recognised within the Group's revenue and £24.0m was 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 were recognised within other operating expenses in the statement of comprehensive income, during the 18 month period ended 31 December 2016.

3. NET INVESTMENT INCOME

	Year ended 31 December 2017 £m	18 months ended 31 December 2016 £m
Interest income:		
Assets at fair value through profit or loss	**636.4**	683.1
Movement in fair value:		
Financial assets and liabilities designated on initial recognition at fair value through profit and loss	**(44.0)**	998.7
Derivative financial instruments (note 26)	**28.7**	(65.2)
Other income	**–**	0.2
Total net investment income	**621.1**	1,616.8

4. ACQUISITION COSTS

	Year ended 31 December 2017 £m	18 months ended 31 December 2016 £m
Commission	**15.8**	25.9
Other acquisition expenses	**27.3**	27.7
Total acquisition costs	**43.1**	53.6

5. OTHER OPERATING EXPENSES

	Year ended 31 December 2017 £m	18 months ended 31 December 2016 £m
Personnel expenses (note 10)	**113.8**	138.0
Investment expenses and charges	**11.2**	9.8
Depreciation of equipment	**1.8**	2.6
Operating lease rentals: land and buildings	**4.2**	4.6
Acquisition integration costs	**25.6**	40.7
Acquisition transaction costs	**–**	23.4
Impairment of intangible assets	**–**	3.8
Amortisation of intangible assets	**25.2**	24.3
Other costs	**56.6**	94.3
Total other operating expenses	**238.4**	341.5

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

	Year ended 31 December 2017 £'000	18 months ended 31 December 2016 £'000
Fees payable for the audit of the Parent Company and consolidated accounts	**41**	50
Fees payable for other services:		
The audit of the Company's subsidiaries pursuant to legislation	**835**	468
Corporate finance services	**175**	2,425
Audit-related assurance services	**639**	705
Tax compliance services	**–**	2
Tax advisory services	**–**	85
Other assurance services	**234**	15
Auditor remuneration	**1,924**	3,750
Audit-related assurance services provided by other firms	**–**	77

Audit-related assurance services mainly include fees relating to the audit of the Group's Solvency II regulatory returns. Other assurance services mainly include fees relating to review procedures in relation to the Group's interim results. Corporate finance services relate to due diligence and reporting accountant services. Details of the process for safeguarding the objectivity independence of the Group's external auditor are given in the Audit Committee Report.

6. FINANCE COSTS

	Year ended 31 December 2017 £m	18 months ended 31 December 2016 £m
Interest payable on deposits received from reinsurers	**170.8**	208.6
Interest payable on subordinated debt	**32.0**	11.3
Other interest payable	**4.2**	12.8
Total finance costs	**207.0**	232.7

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 is used 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 profit generated from new business written in the period and profit 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, and restructuring costs since these items arise outside the normal course of business in the year. Adjusted operating profit also excludes 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, 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.

The professional services business, HUB, 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 Chief Operating Decision Maker (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

	Year ended 31 December 2017			18 months ended 31 December 2016		
	Insurance £m	Other £m	Total £m	Insurance £m	Other £m	Total £m
New business operating profit	**169.8**	**–**	**169.8**	171.7	–	171.7
In-force operating profit	**71.0**	**0.3**	**71.3**	88.2	1.1	89.3
Underlying operating profit	**240.8**	**0.3**	**241.1**	259.9	1.1	261.0
Operating experience and assumption changes	**34.6**	**–**	**34.6**	2.5	–	2.5
Other Group companies' operating results	**–**	**(15.1)**	**(15.1)**	–	(18.4)	(18.4)
Reinsurance and financing costs	**(43.4)**	**3.4**	**(40.0)**	(52.0)	22.6	(29.4)
Adjusted operating profit before tax	**232.0**	**(11.4)**	**220.6**	210.4	5.3	215.7
Non-recurring and project expenditure	**(10.9)**	**(0.7)**	**(11.6)**	(18.4)	(2.7)	(21.1)
Investment and economic profits/(losses)	**22.6**	**–**	**22.6**	95.7	(2.6)	93.1
Profit/(loss) before acquisition transaction and amortisation costs, before tax	**243.7**	**(12.1)**	**231.6**	287.7	–	287.7
Acquisition integration costs			**(25.6)**			(40.7)
Acquisition transaction costs			**–**			(23.4)
Impairment of intangible assets			**–**			(3.8)
Amortisation costs			**(24.7)**			(21.0)
Profit before tax			**181.3**			198.8

Segmental revenue

All net premium revenue arises from the Group's insurance segment. Net investment income of £621.0m arose from the insurance segment and £0.1m arose from other segments (2016: £1,613.0m and £3.8m respectively). Fee and commission income of £1.6m arose from the insurance segment and £4.2m arose from other segments (2016: £3.5m and £13.6m respectively).

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 United Kingdom. The Group's gross premiums written, as shown in the Consolidated statement of comprehensive income, is analysed by product below:

	Year ended 31 December 2017 £m	18 months ended 31 December 2016 £m
Defined Benefit De-risking Solutions ("DB")	**997.8**	1,644.6
Guaranteed Income for Life contracts ("GIfL")	**820.5**	949.2
Care Plans ("CP")	**71.6**	97.1
Protection	**3.5**	2.6
Gross premiums written	**1,893.4**	2,693.5

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:

	Year ended 31 December 2017 £m	18 months ended 31 December 2016 £m
Drawdown	**51.2**	32.4
LTM loans advanced	**510.0**	729.8

Reconciliation of gross premiums written to new business sales

	Year ended 31 December 2017 £m	18 months ended 31 December 2016 £m
Gross premiums written	**1,893.4**	2,693.5
Change in premiums receivable not included in new business sales[1]	**2.5**	24.9
Drawdown and LTM new business sales not included in gross premiums written	**561.2**	762.2
New business sales	**2,457.1**	3,480.6

1 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 Life 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

	Year ended 31 December 2017 £m	18 months ended 31 December 2016 £m
Current taxation		
Current year	**44.2**	54.0
Adjustments in respect of prior periods	**(8.1)**	14.0
Total current tax	**36.1**	68.0
Deferred taxation		
Origination and reversal of temporary differences	**(7.3)**	(3.0)
Adjustments in respect of prior periods	**(2.5)**	(12.1)
Rate change	**(0.1)**	(1.6)
Total deferred tax	**(9.9)**	(16.7)
Total income tax	**26.2**	51.3

The current taxation adjustment in respect of prior period of £(8.1)m relates to losses previously treated as available for group relief in 2015 and carried forward to be utilised against 2016 taxable profits instead have been carried back to be utilised against 2014 taxable profits and revised provision in respect of 2016 taxable profits following submission of the 2016 corporation taxation computations. The deferred tax adjustment in respect of prior period reflects the recognition of share based payments into the current reporting period.

Reconciliation of total income tax to the applicable tax rate:

	Year ended 31 December 2017 £m	18 months ended 31 December 2016 £m
Profit on ordinary activities before tax	**181.3**	198.8
Income tax at 19.25% (2016: 20.00%)	**34.9**	39.8
Effects of:		
Expenses not deductible for tax purposes	**0.4**	11.8
Rate change	**0.4**	(1.6)
Higher rate for overseas income	**–**	–
Unrecognised deferred tax asset	**0.5**	0.4
Losses utilised	**0.6**	0.7
Adjustments in respect of prior periods	**(10.6)**	1.9
Other	**–**	(1.7)
Total income tax	**26.2**	51.3

The tax rate for the current year is lower than the prior year, due to changes in the UK corporation tax rate, which decreased from 20% to 19% from 1 April 2017. Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

The deferred tax assets and liabilities at 31 December 2017 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 2017 includes profits chargeable to corporation tax arising from amortisation of transitional balances of £2.5m (2016: £(10.1)m).

Tax balances included within these financial statements include the use of estimates and assumptions which are based on management's best knowledge of current circumstances and future events and actions. This includes the determination of tax liabilities and recoverables for uncertain tax positions. The actual outcome may differ from the estimated position.

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 the period was £5.7m (2016: £6.7m). Employer contributions to pensions for Executive Directors for qualifying periods were £nil (2016: £nil). The aggregate net value of share awards granted to the Directors in the period was £2.3m (2016: £5.6m). The net value has been calculated by reference to the closing middle-market price of an ordinary share at the date of grant. Two Directors exercised share options during the period whilst a Director of the Company (2016: nil).

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:

	Year ended 31 December 2017 Number	18 months ended 31 December 2016 Number
Directors	**12**	13
Senior management	**116**	136
Staff	**963**	1,041
Average number of staff	**1,091**	1,190

The aggregate personnel costs were as follows:

	Year ended 31 December 2017 £m	18 months ended 31 December 2016 £m
Wages and salaries	**90.3**	106.3
Social security costs	**8.9**	11.6
Other pension costs	**4.3**	5.2
Share-based payment expense	**10.3**	14.9
Total personnel costs	**113.8**	138.0

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 £4.3m (2016: £5.2m).

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. Options granted in 2017 are subject to a two-year holding period after the options have been exercised.

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:

	Year ended 31 December 2017 Number of options	18 months ended 31 December 2016 Number of options
Outstanding at start of period	**17,157,164**	7,708,723
On acquisition of Partnership Assurance Group plc ("PAG")	**–**	6,312,856
Granted	**4,718,136**	10,179,879
Forfeited	**(1,450,989)**	(1,628,885)
Exercised	**(2,439,772)**	(592,801)
Expired	**(2,247,765)**	(4,822,608)
Outstanding at end of period	**15,736,774**	17,157,164
Exercisable at the end of period	**1,117,994**	1,173,184
Weighted-average share price at exercise (£)	**1.57**	1.38
Weighted-average remaining contractual life (years)	**1.45**	1.68

Options arising on the acquisition of PAG relate to options awarded to PAG employees in 2014 and 2015 which the Group 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. 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 prior 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 year to 31 December 2017, awards of LTIPs were made on 17 May 2017 and 3 July 2017. The weighted-average fair value and assumptions used to determine the fair value of options granted during the year under the LTIP are as follows:

Fair value at grant date	**£0.91**
Option pricing model used – Earnings per share performance	**Black-Scholes**
Option pricing model used – TSR performance	**Stochastic**
Option pricing model used – holding period	**Finnerty**
Share price at grant date	**£1.29**
Exercise price	**Nil**
Expected volatility – TSR performance	**40.34%**
Expected volatility – holding period	**40.77%**
Option life	**3 years + 2 year holding period**
Dividends	**Nil**
Risk-free interest rate – TSR performance	**0.10%**
Risk-free interest rate – holding period	**0.34%**

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:

	Year ended 31 December 2017 Number of options	18 months ended 31 December 2016 Number of options
Outstanding at start of period	2,257,544	447,916
On acquisition of Partnership Assurance Group plc ("PAG")	–	1,288,376
Granted	1,493,790	2,115,578
Exercised	(791,618)	(1,594,326)
Outstanding at end of period	2,959,716	2,257,544
Exercisable at end of period	796,252	–
Weighted-average share price at exercise (£)	1.58	1.48
Weighted-average remaining contractual life (years)	1.57	1.85

Options arising on the acquisition of PAG relate to options made to PAG employees in 2014 and 2015 which the Group 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 prior 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 year to 31 December 2017, awards of DSBPs were made on 17 March 2017 and 10 April 2017. 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	**£1.41**
Option pricing model used	**Black-Scholes**
Share price at grant date	**£1.41**
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 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.

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:

	Year ended 31 December 2017		18 months ended 31 December 2016	
	Number of Options	**Weighted-average exercise price (£)**	Number of options	Weighted-average exercise price (£)
Outstanding at start of period	**4,804,147**	**1.21**	4,390,881	1.22
On acquisition of Partnership Assurance Group plc ("PAG")	**–**	**–**	1,321,179	1.21
Granted	**3,302,135**	**1.07**	46,875	1.21
Forfeited	**(423,430)**	**1.21**	(692,407)	1.22
Cancelled	**(621,001)**	**1.20**	(104,190)	1.26
Exercised	**(2,539,617)**	**1.19**	(139,623)	1.15
Expired	**(120,853)**	**1.20**	(18,568)	1.22
Outstanding at end of period	**4,401,381**	**1.12**	4,804,147	1.21
Exercisable at end of period	**234,759**	**1.14**	150,717	1.23
Weighted-average share price at exercise		**1.42**		1.43
Weighted-average remaining contractual life (years)		**2.39**		1.42

Options arising on the acquisition of PAG relate to options made to PAG employees in 2014 and 2015, which the Group 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 prior 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:

	2017 Number of options outstanding	2016 Number of options outstanding
£1.07	**3,157,377**	–
£1.13	**194,057**	667,993
£1.20	**521,114**	3,260,855
£1.27	**426,917**	683,202
£1.47	**101,916**	192,097
Total	**4,401,381**	4,804,147

During the year to 31 December 2017, awards of SAYEs were made on 21 June 2017. The weighted-average fair value and assumptions used to determine the fair value of options granted during the year under the SAYE are as follows:

Fair value at grant date	£0.46
Option pricing model used	**Black-Scholes**
Share price at grant date	**£1.30**
Exercise price	**£1.07**
Expected volatility - 3 year scheme	**50.73%**
Expected volatility - 5 year scheme	**51.45%**
Option life	**3-5 years**
Dividends	**Nil**
Risk-free interest rate - 3 year scheme	**0.21%**
Risk-free interest rate - 5 year scheme	**0.41%**
Saving forfeit discounts	**5%**

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 £15,857 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:

	Year ended 31 December 2017 £m	18 months ended 31 December 2016 £m
Equity-settled schemes	10.3	14.9
Total expense	10.3	14.9

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:

	Year ended 31 December 2017			18 months ended 31 December 2016		
	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	**155.1**	**930.0**	**16.68**	147.5	731.6	20.16
Effect of dilutive potential ordinary shares:						
Share options	**–**	**7.5**	**(0.14)**	–	5.3	(0.14)
Diluted	**155.1**	**937.5**	**16.54**	147.5	736.9	20.02

13. DIVIDENDS

Dividends paid in the year were as follows:

	Year ended 31 December 2017 £m	18 months ended 31 December 2016 £m
Final dividend:		
– in respect of the 18 months ended 31 December 2016 (2.4 pence per share, paid on 26 May 2017)	**22.3**	–
– in respect of the year ended 30 June 2015 (2.2 pence per share, paid on 7 December 2015)	**–**	12.4
Interim dividend:		
– in respect of the year ended 31 December 2017 (1.17 pence per share, paid on 24 November 2017)	**10.9**	–
– 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
Total dividends paid	**33.2**	32.9

The Group's policy is to pay a progressive dividend subject to sufficient distributable reserves, available funds, and available capital to meet minimum solvency requirements. The Group has sufficient distributable reserves, available funds and a resilient capital position to be able to maintain its current dividend policy for the foreseeable future.

Subsequent to 31 December 2017, the Directors proposed a final dividend for 2017 of 2.55 pence per ordinary share (2016: 2.4 pence), amounting to £23.9m (2016: £22.4m) in total. Subject to approval by shareholders at the AGM, the dividend will be paid on 25 May 2018 and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2018.

14. INTANGIBLE ASSETS

Year ended 31 December 2017	**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 January 2017	**33.9**	**200.0**	**26.6**	**5.6**	**7.4**	**23.7**	**2.0**	**299.2**
Additions	**–**	**–**	**–**	**–**	**–**	**1.7**	**–**	**1.7**
At 31 December 2017	**33.9**	**200.0**	**26.6**	**5.6**	**7.4**	**25.4**	**2.0**	**300.9**
Amortisation and impairment								
Balance at 1 January 2017	**(0.8)**	**(36.1)**	**(19.1)**	**(5.6)**	**(1.2)**	**(17.4)**	**(2.0)**	**(82.2)**
Charge for the year	**–**	**(17.9)**	**(3.3)**	**–**	**(0.2)**	**(3.8)**	**–**	**(25.2)**
At 31 December 2017	**(0.8)**	**(54.0)**	**(22.4)**	**(5.6)**	**(1.4)**	**(21.2)**	**(2.0)**	**(107.4)**
Net book value at 31 December 2017	**33.1**	**146.0**	**4.2**	**–**	**6.0**	**4.2**	**–**	**193.5**
Net book value at 31 December 2016	**33.1**	**163.9**	**7.5**	**–**	**6.2**	**6.3**	**–**	**217.0**

18 months ended 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 period	–	(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

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 2017 represents £0.3m recognised on the 2016 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:

	2017	2016
Period on which management approved forecasts are based	**5 years**	5 years
Discount rate (pre-tax)	**10.0%**	12.0%

The value-in-use of the insurance operating segment is considered by reference to latest business plans over the next five years, which reflect management's best estimate of future profits based on historical experience, expected growth rates and assumptions around market share, customer numbers, expense inflation and mortality rates. A stressed scenario that assumes no growth in sales for the next five years and discount rate of 20% is also considered. 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

Year ended 31 December 2017	Freehold land and buildings £m	Computer equipment £m	Furniture and fittings £m	Total £m
Cost				
Balance at 1 January 2017	**9.7**	**5.5**	**10.5**	**25.7**
Acquired during the year	**6.9**	**0.5**	**–**	**7.4**
Disposed during the year	**–**	**–**	**(4.8)**	**(4.8)**
At 31 December 2017	**16.6**	**6.0**	**5.7**	**28.3**
Depreciation				
Balance at 1 January 2017	**(0.3)**	**(4.6)**	**(3.7)**	**(8.6)**
Charge of the year	**(0.4)**	**(0.5)**	**(0.9)**	**(1.8)**
Disposed during the year	**–**	**–**	**1.7**	**1.7**
At 31 December 2017	**(0.7)**	**(5.1)**	**(2.9)**	**(8.7)**
Net book value at 31 December 2017	**15.9**	**0.9**	**2.8**	**19.6**
Net book value at 31 December 2016	**9.4**	**0.9**	**6.8**	**17.1**

18 months ended 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 period	9.7	0.5	0.1	10.3
Additions arising on the 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 period	(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

Included in Freehold land and buildings is land of value £3.6m (2016: £3.6m).

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 the 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.

	Fair value		Cost	
	2017 **£m**	2016 £m	**2017** **£m**	2016 £m
Units in liquidity funds	**897.9**	572.3	**897.9**	572.3
Investment funds	**46.3**	–	**45.6**	–
Debt securities and other fixed income securities	**9,589.5**	9,751.9	**8,745.8**	8,907.6
Deposits with credit institutions	**87.9**	73.2	**87.9**	73.2
Derivative financial assets	**100.2**	107.0	**2.6**	–
Loans secured by residential mortgages	**6,833.3**	6,430.4	**4,127.0**	3,927.5
Loans secured by commercial mortgages	**215.4**	163.8	**211.7**	159.0
Other loans	**444.3**	192.5	**408.0**	160.9
Amounts recoverable from reinsurers on investment contracts	**72.3**	28.5	**67.6**	29.1
Total	**18,287.1**	17,319.6	**14,594.1**	13,829.6

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 £87.1m (2016: £71.0m) 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, investment contract liabilities, and deposits received from reinsurers.

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, voluntary redemptions and repayment shortfalls on redemption of the mortgages due to the no-negative equity guarantee. The fair value is calculated by discounting the future cash flows at a swap rate plus a liquidity premium.

Under the "no-negative equity" guarantee, the amount recoverable by the Group on termination of mortgages 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 Level 3 bonds are either 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 analysis 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 2017 (2016: nil).

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

	2017				2016			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets held at fair value								
Units in liquidity funds	**894.3**	**3.6**	**–**	**897.9**	572.3	–	–	572.3
Investment funds	**–**	**46.3**	**–**	**46.3**	–	–	–	–
Debt securities and other fixed income securities	**553.5**	**8,295.5**	**740.5**	**9,589.5**	645.2	8,927.7	179.0	9,751.9
Deposits with credit institutions	**87.0**	**0.9**	**–**	**87.9**	71.0	2.2	–	73.2
Derivative financial assets	**–**	**100.2**	**–**	**100.2**	–	107.0	–	107.0
Loans secured by residential mortgages	**–**	**–**	**6,833.3**	**6,833.3**	–	–	6,430.4	6,430.4
Loans secured by commercial mortgages	**–**	**–**	**215.4**	**215.4**	–	–	163.8	163.8
Other loans	**–**	**11.0**	**433.3**	**444.3**	–	3.8	188.7	192.5
Recoveries from reinsurers on investment contracts	**–**	**–**	**72.3**	**72.3**	–	–	28.5	28.5
Total assets held at fair value	**1,534.8**	**8,457.5**	**8,294.8**	**18,287.1**	1,288.5	9,040.7	6,990.4	17,319.6
Liabilities held at fair value								
Investment contract liabilities	**–**	**–**	**220.7**	**220.7**	–	–	222.3	222.3
Derivative financial liabilities	**–**	**236.3**	**–**	**236.3**	–	189.3	–	189.3
Obligations for repayment of cash collateral received	**16.3**	**–**	**–**	**16.3**	21.6	30.5	–	52.1
Deposits received from reinsurers	**–**	**–**	**2,654.1**	**2,654.1**	–	–	2,741.1	2,741.1
Total liabilities held at fair value	**16.3**	**236.3**	**2,874.8**	**3,127.4**	21.6	219.8	2,963.4	3,204.8

(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.

Year ended 31 December 2017	**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 year	**179.0**	**6,430.4**	**163.8**	**188.7**	**28.5**	**(222.3)**	**(2,741.1)**
Purchases/Advances/Deposits	**27.0**	**510.0**	**60.5**	**240.2**	**49.4**	**(51.2)**	**(31.1)**
Transfers from Level 2	**534.3**	**–**	**–**	**–**	**–**	**–**	**–**
Sales/Redemptions/Payments	**(11.5)**	**(360.3)**	**(7.8)**	**–**	**(8.9)**	**59.1**	**191.7**
Realised gains and losses recognised in profit or loss within net investment income	**0.1**	**167.5**	**(0.1)**	**0.4**	**–**	**–**	**–**
Unrealised gains and losses recognised in profit or loss within net investment income	**11.6**	**(164.6)**	**(1.5)**	**4.0**	**3.3**	**–**	**19.7**
Interest accrued	**–**	**250.3**	**0.5**	**–**	**–**	**–**	**(93.3)**
Change in fair value of liabilities recognised in profit or loss	**–**	**–**	**–**	**–**	**–**	**(6.3)**	**–**
At end of year	**740.5**	**6,833.3**	**215.4**	**433.3**	**72.3**	**(220.7)**	**(2,654.1)**

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
Realised gains and losses recognised in profit or loss within net investment income	12.4	5.3	–	31.6	–	–	–
Unrealised gains and losses recognised in profit or loss within net investment income	(0.8)	567.2	1.5	–	1.3	–	(128.8)
Interest accrued	(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)

Debt securities and other fixed income securities

Debt securities classified as Level 3 are either 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

Reasonable possible alternative assumptions for unobservable inputs used in the valuation technique could give rise to significant changes in the fair value of the assets. The sensitivity of the valuation of bonds to the default assumption is determined by reference to movement in credit spreads. The Group has estimated the impact on fair value to changes to these inputs as follows:

	Debt securities and other fixed income securities
Net increase/(decrease) in fair value (£m)	Credit spreads +100bps
2017	**(44.8)**
2016	(17.0)

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 4.2% for loans written by JRL (2016: 4.3%) and PLACL (2016: 4.3%).

Mortality

Mortality assumptions have been derived with reference to CMI 2016 mortality tables for both base table rates and mortality improvements (2016: ELT17 for base table rates, CMI 2015 for mortality improvements). 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 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. The appropriateness of this valuation basis is regularly tested on the event of redemption of mortgages.

Future property price growth

In the absence of a reliable long-term forward curve for UK residential property price inflation, the Group has made assumptions about future residential property prices based upon available market and industry data. These assumptions have been derived with 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. An additional allowance is made for the volatility of future property prices. This results in a single rate of future house price growth of 4.25%, with a volatility assumption of 12% p.a.

Voluntary redemptions

Assumptions for future voluntary redemption levels are based on the Group's recent analyses and external benchmarking. The assumed redemption rate varies by duration and product line between 0.7% and 3.0% for loans written by JRL (2016: 0.7% and 2.3%) and between 0.9% and 2.8% for loans written by PLACL (2016: 1.8% and 4.5%).

Sensitivity analysis

Reasonable possible alternative assumptions for 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 fair value to changes to these inputs as follows:

	Loans secured by residential mortgages valuation assumptions				
Net increase/(decrease) in fair value (£m)	Maintenance expenses +10%	Base mortality - 5%	Immediate property price fall - 10%	Future property price growth -0.5%	Voluntary redemptions +10%
2017	**(7.2)**	**30.3**	**(72.4)**	**(62.3)**	**(24.1)**
2016	(5.9)	36.8	(79.8)	(46.4)	(30.7)

The sensitivity factors are determined via financial 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.

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.

Loans secured by commercial mortgages

Principal assumption 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 is 0.9% (2016: 0.9%) plus a spread % of between 1.3% (2016: 1.3%) and 2.8% (2016: 2.8%) depending on the individual loan.

Sensitivity analysis

Reasonable possible alternative assumptions for 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 fair value to changes to these inputs as follows.

	Loans secured by commercial mortgages valuation assumptions
Net increase/(decrease) in fair value (£m)	Interest rates +100bps
2017	**(11.1)**
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
Reasonable possible alternative assumptions for unobservable inputs used in the valuation technique could give rise to significant changes in the fair value of the assets. The sensitivity of the valuation of infrastructure loans to the default assumption is determined by reference to the movement in credit spreads.

The Group has estimated the impact on fair value to changes to these inputs as follows:

Net increase/(decrease) in fair value (£m)	Other loans Credit spreads +100bps
2017	**(37.1)**
2016	(19.5)

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 fair value
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 4.4% (2016: 4.5%).

Sensitivity analysis
The sensitivity of fair value to changes in maintenance expense assumptions in respect of investment contract liabilities is not material.

Deposits received from reinsurers
Principal assumptions 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 for Individual retirement and Individual care annuities were 3.11% and 0.95% respectively (2016: 3.24% and 1.17% respectively).

Credit spreads

The valuation of deposits received from reinsurers includes a credit spread applied by the individual reinsurer. A credit spread of 102bps (2016: 166bps) was applied in respect of the most significant reinsurance contract.

Sensitivity analysis
Reasonable possible alternative assumptions for unobservable inputs used in the valuation technique could give rise to significant changes in the fair value of the liabilities (see note 25 (b)). The Group has estimated the impact on fair value to changes to these inputs as follows:

	Deposits received from reinsurers	
Net increase/(decrease) in fair value (£m)	Credit spreads +100bps	Interest rates +100bps
2017	**(88.5)**	**(217.1)**
2016	(106.5)	(223.5)

17. DEFERRED TAX

	2017			2016		
	Asset £m	**Liability £m**	**Total £m**	Asset £m	Liability £m	Total £m
Transitional tax	**–**	**(11.1)**	**(11.1)**	–	(12.6)	(12.6)
Intangible assets	**–**	**(27.3)**	**(27.3)**	–	(33.8)	(33.8)
Other provisions	**13.0**	**(0.8)**	**12.2**	10.3	–	10.3
Total deferred tax	**13.0**	**(39.2)**	**(26.2)**	10.3	(46.4)	(36.1)

The transitional tax liability of £11.1m (2016: £12.6m) 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.

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:

	Year ended 31 December 2017 £m	18 months ended 31 December 2016 £m
Net balance at start of period	**(36.1)**	(28.7)
Arising on acquisition of Partnership Assurance Group plc	**–**	(24.1)
Amounts credited to the Consolidated statement of comprehensive income	**9.9**	16.7
Net balance at end of period	**(26.2)**	(36.1)

The Group has unrecognised deferred tax assets of £5.4m (2016: £5.4m).

18. PREPAYMENTS AND ACCRUED INCOME

Included in prepayments and accrued income are capitalised bank borrowing costs of £1.8m (2016: £nil).

Prepayments and accrued income for the Group includes £0.2m (2016: £0.1m) that is expected to be recovered more than one year after the Consolidated statement of financial position date.

19. INSURANCE AND OTHER RECEIVABLES

	2017 £m	2016 £m
Receivables arising from insurance and reinsurance contracts	**40.3**	126.7
Other receivables	**4.2**	10.6
Total insurance and other receivables	**44.5**	137.3

Of the above insurance and other receivables, £nil (2016: £99.4m) is expected to be recovered more than one year after the Consolidated statement of financial position date.

20. CASH AND CASH EQUIVALENTS

	2017 £m	2016 £m
Cash available on demand	**261.4**	71.4
Units in liquidity funds	**897.9**	572.3
Cash and cash equivalents in the Consolidated statement of cash flows	**1,159.3**	643.7

21. SHARE CAPITAL

The allotted and issued ordinary share capital of Just Group plc at 31 December 2017 is detailed below:

	Number of £0.10 ordinary shares	Share capital £m	Share premium £m	Merger reserve £m	Total £m
At 1 January 2017	**932,884,033**	**93.3**	**91.7**	**532.7**	**717.7**
In respect of employee share schemes	**5,424,307**	**0.5**	**2.5**	**–**	**3.0**
At 31 December 2017	**938,308,340**	**93.8**	**94.2**	**532.7**	**720.7**
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.

22 INSURANCE CONTRACTS AND RELATED REINSURANCE

Insurance liabilities

	2017 £m	2016 £m
Gross insurance liabilities	**16,633.0**	15,748.0
Reinsurance	**(5,285.3)**	(6,057.1)
Net insurance liabilities	**11,347.7**	9,690.9

(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 agreed by the Board using recognised actuarial valuation methods proposed by the Group's Actuarial Reporting Function. 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.

	2017	2016
Individually underwritten Guaranteed Income for Life Solutions (JRL)	**PCMA/PCFA00, with CMI 2014 model mortality improvements for both Merica & PrognoSys™ underwritten business**	PCMA/PCFA00 , with CMI 2014 model mortality improvements for Merica business and CMI 2012 model mortality improvements for PrognoSys™ business
Individually underwritten Guaranteed Income for Life Solutions (PLACL)	**Modified E&W Population mortality, with CMI 2014 model mortality improvements**	Modified E&W Population mortality, with CMI 2014 model mortality improvements
Defined Benefit (JRL)	**Modified E&W Population mortality, with CMI 2016 model mortality improvements (standard underwritten business) Reinsurer supplied tables underpinned by the Self-Administered Pension Scheme ("SAPS") S1 tables, with CMI 2009 model mortality improvements (medically underwritten business)**	Reinsurer supplied tables underpinned by the Self-Administered Pension Scheme ("SAPS") S1 tables, with CMI 2009 model mortality improvements (for both standard underwritten and medically underwritten business)
Defined Benefit (PLACL)	**Modified E&W Population mortality, with CMI 2015 model mortality improvements**	Modified E&W Population mortality, with CMI 2015 model mortality improvements
Other annuity products (PLACL)	**Modified PCMA/PCFA bespoke improvements**	Modified PCMA/PCFA bespoke improvements
Term and whole of life products (PLACL)	**TM/TF00 Select**	TM/TF00 Select

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	**2017 %**	2016 %
Individually underwritten Guaranteed Income for Life Solutions (JRL)	**3.23**	3.18
Individually underwritten Guaranteed Income for Life Solutions (PLACL)	**3.11**	3.24
Defined Benefit (JRL)	**3.23**	3.18
Defined Benefit (PLACL)	**3.11**	3.24
Other annuity products (PLACL)	**0.95**	1.17
Term and whole of life products (PLACL)	**1.39**	1.63

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 4.4% (2016: 4.5%)

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 January 2017	**15,748.0**	**(6,057.1)**	**9,690.9**
Increase in liability from premiums	**1,526.5**	**(25.1)**	**1,501.4**
Release of liability due to recorded claims	**(1,133.6)**	**457.6**	**(676.0)**
Unwinding of discount	**503.2**	**(180.2)**	**323.0**
Changes in economic assumptions	**210.7**	**(43.6)**	**167.1**
Changes in non-economic assumptions	**(193.8)**	**79.2**	**(114.6)**
Other movements*	**(28.0)**	**483.9**	**455.9**
At 31 December 2017	**16,633.0**	**(5,285.3)**	**11,347.7**

	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

1 Includes the impact of reinsurance recapture

Effect of changes in assumptions and estimates during the period

Economic assumption changes

The principal economic assumption change impacting the movement in insurance liabilities during the period relates to discount rates for both JRL and PLACL.

Discount rates

The movement in the valuation interest rate captures the impact of underlying changes in risk-free curves and spreads on backing assets. Both existing in-force assets and new assets purchased during the period contribute to the movement in the discount rate. Differences between the discount rates recognised on new business written during the period and the prevailing discount rates on the entire portfolio of business also contribute to the movement in insurance liabilities.

Non-economic assumption changes

The principal non-economic assumption changes impacting the movement in insurance liabilities during the period relate to maintenance expenses for both JRL and PLACL, and DB mortality for JRL.

Expense assumption

Cost synergies arising within the Group following the merger have been recognised through an overall reduction in maintenance expense assumptions. This has resulted in a decrease in the carrying value of insurance liabilities.

The JRL GIfL maintenance expense assumption used at 31 December 2017 was £30.68 per plan (2016: £46.68), whilst the JRL DB maintenance assumption used at 31 December 2017 was £113.53 per scheme member (2016: £56.61). The PLACL GIfL maintenance expense assumption used at 31 December 2017 was £23.69 per plan (2016: £32.30), whilst the PLACL DB maintenance assumption used at 31 December 2017 was £128.02 per scheme member (2016: £32.85). Relative to the 2016 assumptions, there has been a re-allocation of expenses between GIfL and DB reflecting improvements made to the method of apportionment of expenses to specific products in the Group's expense allocation process.

Mortality assumptions

The JRL DB mortality basis for standard underwritten business at 31 December 2017 has been set with reference to modified E&W Population mortality tables, calibrated from Club Vita experience, with CMI 2016 model mortality improvements (2016: Reinsurer supplied tables, with CMI 2009 model mortality improvements). This has resulted in a decrease in the carrying value of insurance liabilities.

(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)					
	Within 1 year £m	**1-5 years £m**	**5-10 years £m**	**Over 10 years £m**	**Total £m**	**Carrying value (discounted) £m**
2017						
Gross	**1,158.9**	**4,395.2**	**4,948.2**	**13,934.2**	**24,436.5**	**16,633.0**
Reinsurance	**(413.3)**	**(1,542.1)**	**(1,652.6)**	**(3,798.7)**	**(7,406.7)**	**(5,285.3)**
Net	**745.6**	**2,853.1**	**3,295.6**	**10,135.5**	**17,029.8**	**11,347.7**

	Expected cash flows (undiscounted)					
	Within 1 year £m	1-5 years £m	5-10 years £m	Over 10 years £m	Total £m	Carrying value (discounted) £m
2016						
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

(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 both assets and liabilities
Expenses	The impact of an increase in maintenance expenses by 10%
Base mortality rates	The impact of a decrease in base table mortality rates by 5% applied to both Retirement Income liabilities and mortgage assets
Immediate property price fall	The impact of an immediate decrease in the value of properties by 10%. 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
Future property price growth	The impact of a reduction in future property price growth by 0.5%
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%	Base mortality - 5%	Immediate property price fall - 10%	Future property price growth - 0.5%	Voluntary redemptions +10%
2017	**(123.3)**	**127.1**	**(52.1)**	**(125.9)**	**(122.7)**	**(124.8)**	**(98.7)**
2016	(177.5)	225.1	(49.2)	(131.3)	(106.3)	(104.8)	(67.9)

The sensitivity factors are applied via financial 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.

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

	2017 £m	2016 £m
Balance at start of period	**222.3**	228.3
Deposits received from policyholders	**51.2**	32.4
Payments made to policyholders	**(59.1)**	(53.9)
Change in contract liabilities recognised in profit or loss	**6.3**	15.5
Balance at end of period	**220.7**	222.3

Recoveries from reinsurers on investment contracts were £72.3m (2016: £28.5m) 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.

Valuation discount rates	**2017 %**	2016 %
Investment contracts	**3.23**	3.18

24. LOANS AND BORROWINGS

	Carrying value		Fair Value	
	2017 £m	2016 £m	**2017 £m**	2016 £m
£100m 9.5% 10 year subordinated debt 2025 non-callable 5 years (Tier 2) issued by Partnership Life Assurance Company Limited	**95.3**	94.6	**105.4**	105.5
£250m 9.0% 10 year subordinated debt 2026 (Tier 2) issued by Just Group plc	**248.6**	248.5	**278.2**	248.5
Total loans and borrowings	**343.9**	343.1	**383.6**	354.0

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	**2017 £m**	2016 £m
Fair value through profit or loss			
Derivative financial liabilities	(a)	**236.3**	189.3
Obligations for repayment of cash collateral received	(a)	**16.3**	52.2
Deposits received from reinsurers	(b)	**2,654.1**	2,741.1
Liabilities measured using insurance rules under IFRS 4			
Deposits received from reinsurers	(b)	**1,901.4**	2,490.3
Reinsurance finance	(c)	**49.3**	65.9
Reinsurance funds withheld	(d)	**188.0**	202.0
Total other liabilities		**5,045.4**	5,740.8

The amount of deposits received from reinsurers and reinsurance funds withheld that is expected to be settled more than one year after the Consolidated statement of financial position date is £4,363.3m (2016: £5,021.1m).

(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 are 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.

	2017			2016		
Derivatives	**Asset fair value £m**	**Liability fair value £m**	**Notional amount £m**	Asset Fair value £m	Liability fair value £m	Notional Amount £m
Foreign currency swaps	**7.7**	**71.1**	**866.2**	0.8	113.5	764.8
Interest rate swaps	**63.7**	**48.8**	**1,527.5**	67.8	55.4	1,182.8
Interest rate swaptions	**–**	**–**	**–**	–	–	1,140.0
Inflation swaps	**25.6**	**31.1**	**1,689.1**	33.1	18.8	1,220.0
Forward swap	**1.8**	**1.0**	**385.8**	3.8	1.6	343.8
Credit default swaps	**–**	**0.5**	**43.4**	–	–	–
Interest rate futures	**1.4**	**83.8**	**186.0**	1.5	–	43.4
Total	**100.2**	**236.3**	**4,698.0**	107.0	189.3	4,694.8

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 2017, the Company had pledged collateral of £119.3m (2016: £176.6m) of which £5.8m were gilts and European Investment Bank bonds (2016: £105.6m) and had received cash collateral of £16.3m (2016: £52.2m).

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

	Year ended 31 December 2017 £m	18 months ended 31 December 2016 £m
Movement in fair value of derivative instruments	**30.1**	3.3
Realised losses on interest rate swaps closed	**(1.4)**	(68.5)
Total amounts recognised in profit or loss	**28.7**	(65.2)

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, 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 £467.5m 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, PLACL, 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 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 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.

	2017 £m	2016 £m
Deposits managed by the Group	**221.3**	235.6
Deposits held in trust	**295.4**	296.9
Total deposits not included in the Consolidated statement of financial position	**516.7**	532.5

28. OTHER PROVISIONS

	Year ended 31 December 2017 £m	18 months ended 31 December 2016 £m
Balance at start of period	**8.5**	1.5
Amounts charged to Consolidated statement of comprehensive income	**–**	11.9
Amounts utilised	**(6.4)**	(3.7)
Amounts released	**–**	(1.2)
Balance at end of period	**2.1**	8.5

Of the amount charged to Consolidated statement of comprehensive income in 2016, £5.3m was in respect of the cost of staff redundancies.

The amount of provisions that is expected to be settled more than 12 months after the Consolidated statement of financial position date is £0.5m (2016: £2.3m).

29. CURRENT TAX

Current tax assets/liabilities receivable/payable in more than one year are £nil (2016: £nil).

30. ACCRUALS AND DEFERRED INCOME

Accruals and deferred income payable in more than one year are £1.1m (2016: £1.5m).

31. INSURANCE AND OTHER PAYABLES

	2017 £m	2016 £m
Payables arising from insurance and reinsurance contracts	**34.0**	28.1
Other payables	**51.5**	85.0
Total insurance and other payables	**85.5**	113.1

Insurance and other payables due in more than one year are £nil (2016: £nil).

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:

	2017 £m	2016 £m
Less than one year	**2.1**	4.4
Between one and five years	**6.4**	12.7
More than five years	**3.4**	5.6
Total future minimum lease payments	**11.9**	22.7

Capital commitments

The Group had no capital commitments as at 31 December 2017 (2016: £nil).

33. CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 31 December 2017 (2016: £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.

	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
2017						
Units in liquidity funds	**897.9**	**–**	**–**	**–**	**–**	**897.9**
Investment funds	**46.3**	**–**	**–**	**–**	**–**	**46.3**
Debt securities and other fixed income securities	**994.1**	**2,570.0**	**2,408.6**	**3,616.8**	**–**	**9,589.5**
Deposits with credit institutions	**87.9**	**–**	**–**	**–**	**–**	**87.9**
Derivative financial assets	**3.3**	**13.7**	**8.6**	**74.6**	**–**	**100.2**
Loans secured by residential mortgages	**–**	**–**	**–**	**–**	**6,833.3**	**6,833.3**
Loans secured by commercial mortgages	**–**	**103.4**	**89.8**	**22.2**	**–**	**215.4**
Other loans	**0.8**	**3.1**	**3.0**	**437.4**	**–**	**444.3**
Amounts recoverable from reinsurers on investment contracts	**72.3**	**–**	**–**	**–**	**–**	**72.3**
Total	**2,102.6**	**2,690.2**	**2,510.0**	**4,151.0**	**6,833.3**	**18,287.1**

	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
2016						
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).

(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:

	UK gilts £m	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Unrated £m	Total £m
2017								
Units in liquidity funds	**–**	**894.3**	**3.6**	**–**	**–**	**–**	**–**	**897.9**
Investment funds	**–**	**–**	**7.2**	**–**	**–**	**–**	**39.1**	**46.3**
Debt securities and other fixed income securities	**552.9**	**792.6**	**886.2**	**3,298.3**	**3,488.2**	**151.0**	**420.3**	**9,589.5**
Deposits with credit institutions	**–**	**–**	**–**	**29.8**	**57.2**	**–**	**0.9**	**87.9**
Derivative financial assets	**–**	**–**	**0.8**	**18.8**	**80.6**	**–**	**–**	**100.2**
Other loans	**–**	**64.2**	**–**	**50.3**	**318.8**	**–**	**11.0**	**444.3**
Loans secured by mortgages	**–**	**–**	**–**	**–**	**–**	**–**	**7,048.7**	**7,048.7**
Reinsurance	**–**	**–**	**294.7**	**347.8**	**5.2**	**–**	**0.4**	**648.1**
Insurance and other receivables	**–**	**–**	**–**	**–**	**–**	**–**	**44.5**	**44.5**
Total	**552.9**	**1,751.1**	**1,192.5**	**3,745.0**	**3,950.0**	**151.0**	**7,564.9**	**18,907.4**

	UK gilts £m	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Unrated £m	Total £m
2016								
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	3,431.9	150.7	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	3,759.0	150.7	7,113.1	18,080.6

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:

	Within one year or payable on demand £m	**One to five years £m**	**More than five years £m**	**No fixed term £m**
2017				
Subordinated debt	**32.0**	**160.0**	**478.0**	**–**
Derivative financial liabilities	**107.9**	**114.7**	**999.7**	**–**
Obligations for repayment of cash collateral received	**16.3**	**–**	**–**	**–**
Deposits received from reinsurers	**365.4**	**1,354.6**	**4,508.8**	**–**
Reinsurance finance	**–**	**–**	**–**	**49.3**
Reinsurance funds withheld	**16.9**	**62.5**	**163.7**	**–**

	Within one Year or payable on demand £m	One to five years £m	More than five years £m	No fixed term £m
2016				
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	–

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 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 JRL 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 level of regulatory capital include:

- Just Retirement Limited and Partnership Life Assurance Company Limited – authorised by the PRA, and regulated by the PRA and FCA.
- HUB Financial 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 2017, which is unaudited, and is stated after including 12 months' amortisation of transitional relief was as follows:

	Solvency Capital Requirement		**Minimum Group Solvency Capital Requirement**	
	2017 (unaudited) £m	2016 £m	**2017 (unaudited) £m**	2016 £m
Eligible Own Funds	**2,269.0**	2,100.1	**1,952.4**	1,806.6
Capital Requirement	**1,606.4**	1,393.8	**399.0**	347.7
Excess Own Funds	**662.6**	706.3	**1,553.4**	1,458.9
Coverage ratio	**141%**	151%	**489%**	520%

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:

	Year ended 31 December 2017 £m	18 months ended 31 December 2016 £m
Short-term employee benefits	**4.8**	6.3
Share-based payments	**2.3**	3.5
Total key management compensation	**7.1**	9.8
Loans owed by Directors	**0.3**	0.3
Loans advanced to associate and fees on loans	**–**	0.2

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

37. ULTIMATE PARENT COMPANY AND ULTIMATE CONTROLLING PARTY

The Company is the ultimate Parent Company of the Group and has no controlling interest.

38. POST BALANCE SHEET EVENTS

Subject to approval by shareholders at the AGM, the final dividend for 2017 of 2.55 pence per ordinary share, amounting to £23.9m, will be paid on 25 May 2018 and accounted for as an appropriation of retained earnings in the year ending 31 December 2018.

On 7 February 2018, Just Group plc issued a £230m BBB rated Solvency II Tier 3 qualifying instrument at par with a maturity date of February 2025 and a coupon of 3.5%.

There are no other post balance sheet events that have taken place between 31 December 2017 and the date of this report.

GLOSSARY AND DEFINITIONS

Acquisition costs – acquisition costs comprise the direct costs (such as commissions) of obtaining new business.

Adjusted earnings per share – an APM, this measures earnings per share based on adjusted operating profit after attributed tax, rather than IFRS profit before tax. This measure is calculated by taking the adjusted operating profit APM, reduced for the effective tax rate (19.25% for 2017), and dividing this result by the weighted average number of shares in issue by the Group for the period.

Adjusted operating profit – an APM and one of the Group's KPIs, this is the sum of the new business operating profit and in-force operating profit together with the impact of one-off assumption changes, experience variances, results of the other Group companies and financing costs. Adjusted operating profit is reconciled to IFRS profit before tax in the Financial Review.

Alternative performance measure ("APM") – In addition to statutory IFRS performance measures, the Group has presented a number of non-statutory alternative performance measures (APMs) within the Annual Report & Accounts. The Board believes that the APMs used give a more representative view of the underlying performance of the Group. APMs are identified in this glossary together with a reference to where the APM has been reconciled to its nearest statutory equivalent. APMs which are also KPIs are indicated as such.

Amortisation and impairment of intangible assets – amortisation costs relate to the amortisation of the Group's intangible assets, including the amortisation of intangible assets recognised in relation to the acquisition of Partnership Assurance Group plc by Just Retirement Group plc.

Auto-enrolment – new legal duties being phased in that require employers to automatically enrol workers into a workplace pension.

Buy-in – an exercise enabling a pension scheme to obtain an insurance contract that pays a guaranteed stream of income sufficient to cover the liabilities of a group of the scheme's members.

Buy-out – an exercise that wholly transfers the liability for paying member benefits from the pension scheme to an insurer which then becomes responsible for paying the members directly.

Capped Drawdown – a non-marketed product from Just Group previously described as Fixed Term Annuity. Capped Drawdown products ceased to be available to new customers when the tax legislation changed for pensions in April 2015.

Care Plan – a specialist insurance contract contributing to the costs of long-term care by paying a guaranteed income to a registered care provider for the remainder of a person's life.

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 including the effect of the impact of reinsurance recaptures.

Combined Group/Just Group – following completion of the merger with Partnership Assurance Group plc, Just Group plc and each of its consolidated subsidiaries and subsidiary undertakings comprising the Just Retirement Group and the Partnership Assurance Group.

Defined benefit pension scheme – a pension scheme, usually backed or 'sponsored' by an employer, that pays members a guaranteed level of retirement income based on length of membership and earnings.

Defined contribution ("DC") pension scheme – a work-based or personal pension scheme in which contributions are invested to build up a fund that can be used by the individual member to provide retirement benefits.

De-risk/de-risking – an action carried out by the trustees of a pension scheme with the aim of transferring investment, inflation and longevity risk from the sponsoring employer and scheme to a third party such as an insurer.

Drawdown – (in reference to Just Group sales or products) collective term for Flexible Pension Plan and capped drawdown.

Economic capital coverage ratio – an APM and one of the Group's KPIs, economic capital is a key risk-based capital measure and expresses the Board's view of the available capital as a percentage of the required capital.

Employee benefit consultant ("EBC") – an adviser offering specialist knowledge to employers on the legal, regulatory and practical issues of rewarding staff including non-wage compensation such as pensions, health and life insurance and profit sharing.

Equity release – products and services enabling homeowners to generate income or lump sums by accessing some of the value of the home while continuing to live in it.

European embedded value ("EEV") – an APM and one of the Group's KPIs. EEV represents the sum of shareholders' net assets and the value of in-force business, and is a key measure in assessing the future profit streams of the Group's long-term business. It also recognises the additional value of profits in the business that has been written but not yet recognised under IFRS accounting. European embedded value is reconciled to IFRS net equity in the Financial Review.

Finance costs – finance costs represent interest payable on reinsurance deposits and financing, the interest on the Group's Tier 2 Notes, and, in the prior year, bank finance costs.

Flexi-access drawdown – the option introduced in April 2015 for DC pension savers who have taken tax-free cash to take a taxable income directly from their remaining pension with no limit on withdrawals.

Gross premiums written – Gross premiums written are the total premiums received by the Group in relation to its Retirement Income and Protection sales in the period, gross of commission paid.

Guaranteed income for life ("GIfL") – retirement income products which transfer the investment and longevity risk to the company and provide the retiree a guarantee to pay an agreed level of income for as long as a retiree lives. On a "joint-life" basis, continues to pay a guaranteed income to a surviving spouse/partner. Just provides modern individually underwritten GIfL solutions.

Guaranteed Guidance – see Pensions Wise.

Guaranteed income for life ("GIfL") – retirement income products which transfer the investment and longevity risk to the company and provide the retiree a guarantee to pay an agreed level of income for as long as a retiree lives. On a "joint-life" basis, continues to pay a guaranteed income to a surviving spouse/partner. Just provides modern individually underwritten GIfL solutions.

IFRS net assets – one of the Group's KPIs, representing the assets attributable to equity holders.

IFRS profit before tax – one of the Group's KPIs, representing the profit before tax attributable to equity holders.

In-force operating profit – an APM and one of the Group's KPIs, capturing the expected margin to emerge from the in-force book of business and free surplus, and results from the gradual release of prudent reserving margins over the lifetime of the policies. In-force operating profit is reconciled to IFRS profit before tax in the Financial Review.

Investment and economic profits – investment and economic profits reflect the difference in the period between expected investment returns, based on investment and economic assumptions at the start of the period, and the actual returns earned. Investment and economic profits also reflect the impact of assumption changes in future expected risk-free rates, corporate bond defaults and house price inflation and volatility.

Key Performance Indicators ("KPIs") – KPIs are metrics adopted by the Board which are which are considered to give an understanding of the Group's underlying performance drivers. The Group's KPIs are New business sales, New business operating profit, In-force operating profit, Adjusted operating profit, IFRS profit before tax, IFRS net assets, European embedded value, Solvency II capital coverage ratio and Economic capital coverage ratio.

Lifetime mortgages – an equity release product that allows homeowners to take out a loan secured on the value of their home, typically with the loan plus interest repaid when the home is no longer needed.

Medical underwriting – the process of evaluating an individual's current health, medical history and lifestyle factors such as smoking when pricing an insurance contract.

New business operating profit – an APM and one of the Group's KPIs, representing the profit generated from new business written in the year after allowing for the establishment of prudent reserves and for acquisition expenses. New business operating profit is reconciled to IFRS profit before tax in the Financial Review.

New business sales – an APM and one of the Group's KPIs and a key indicator of the Group's growth and realisation of its strategic objectives. New business sales include DB, GIfL, Care, FPP and protection premiums written combined with LTM advances in the year. New business sales are reconciled to IFRS Gross premiums in note 7 to the consolidated financial statements.

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

Non-recurring and project expenditure – non-recurring and project expenditure 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.

Operating experience and assumption changes – captures the impact of the actual operating experience differing from that assumed at the start of the period, plus the impact of changes to future operating assumptions applied during the period. It also includes the impact of any expense reserve movements, and other sundry operating items.

Other Group companies' operating results – the results of Group companies including HUB, which provides regulated advice and intermediary services, and professional services to corporates, and corporate costs incurred by Group holding companies and the overseas start-ups.

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.

Pension Freedoms/Pension Freedom and Choice/Pension Reforms – the UK Government's pension reforms, implemented in April 2015.

Pensions Wise – the free and impartial service introduced in April 2015 to provide "Guaranteed Guidance" to defined contribution pension savers considering taking money from their pensions.

PrognoSys™ – a next generation underwriting system, which is based on individual mortality curves derived from Just Group's own data collected since its launch in 2004.

Retirement Income sales (in reference to Just Group sales or products) – collective term for GIfL, DB and Care Plan.

Retirement sales (in reference to Just Group sales or products) – collective term for Retirement Income sales and Drawdown.

Regulated financial advice – personalised financial advice for retail customers by qualified advisers who are regulated by the Financial Conduct Authority.

Reinsurance and finance costs – the interest on subordinated debt, bank loans and reinsurance financing, together with reinsurance fees incurred.

Simplified advice – regulated financial advice offering a limited service on a limited or specialist area of financial need, such as retirement, to retail customers taking into account information relevant to that need.

Solvency II – an EU Directive that codifies and harmonises the EU insurance regulation. Primarily this concerns the amount of capital that EU insurance companies must hold to reduce the risk of insolvency.

Solvency II capital coverage ratio – one of the Group's KPIs. Solvency II capital is the regulatory capital measure and is focused on by the Board in capital planning and business planning alongside the economic capital measure. It expresses the regulatory view of the available capital as a percentage of the required capital.

Trustees – individuals with the legal powers to hold, control and administer the property of a trust such as a pension scheme for the purposes specified in the trust deed. Pension scheme trustees are obliged to act in the best interests of the scheme's members.

Underlying operating profit – an APM and the sum of the new business operating profit and in-force operating profit. As this measure excludes the impact of one-off assumption changes and investment variances, the Board considers it to be a key indicator of the progress of the business and a useful measure for investors and analysts when assessing the Group's financial performance. Underlying operating profit is reconciled to IFRS profit before tax in the Financial Review.