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NEWS RELEASE

13 September 2017

JUST GROUP PLC[1]
INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017
DISCIPLINED GROWTH, EXPANDING MARGINS

Just Group plc ("the Group", "Just") announces its interim results for the six months ended 30 June 2017[2].

Highlights

- **Adjusted[3] operating profit grew 39% in H1 2017 compared to pro forma H1 2016**. We continued to focus on profit growth in H1 2017, achieving a 106% increase in new business profit. **IFRS statutory profit before tax for the 6 months to June 2017 was £66m**
- **New business profit more than doubled**. Retirement Income sales grew by 16%, and IFRS new business margins increased from 5.0% (pro forma) to 8.9%. This was achieved through pricing discipline, lower unit costs mainly driven by synergy savings, and more efficient asset-liability management
- **Increased balance sheet flexibility.** We have increased financial flexibility by agreeing a new £200m revolving credit facility on attractive terms. In addition, we recently achieved inaugural investment grade credit ratings for key companies of the Group
- **Dividend growth continues**. The Board has declared an increased interim dividend of 1.17p
- **Resilient capital and EV.** Embedded value was 221p per share (31 December 2016: 219p per share). The Group's Solvency Coverage Ratio was stable at 150% (31 December 2016: 151%)

Rodney Cook, Group Chief Executive, said:

"We have had a good start to the year and are executing our strategy to grow profits. Our careful risk selection is delivering margin expansion and demonstrating the value of our IP-led pricing approach. This together with volume growth is delivering greater profits.

Shareholder returns have improved, and we are also working to reduce our cost of capital. We have reduced our future cost of debt following our inaugural credit rating and have access to lower cost liquidity through our new revolving credit facility. As previously stated, we are currently in a period where new business capital consumption exceeds releases, but remain on plan to be capital generative after 2019.

Prospects remain favourable for our markets, with continued growth in shopping around for individual GIfLs, and a strong DB de-risking outlook. We expect demand for lifetime mortgages to continue to grow as increasing numbers reach retirement with greater wealth invested in housing rather than pension assets. Although the first half margin may normalise somewhat in the remainder of the year, a 2017 full year margin above 8% seems increasingly likely, given over £260m of DB already transacted in Q3. We therefore look forward to the second half of the year with confidence."

Notes

1. Formerly JRP Group plc.
2. The period to 30 June 2016 included the merger of Just Retirement Group with Partnership Assurance Group, accounted for as an acquisition in April 2016. As a result, the Directors have reported pro forma comparative financial information as if the two businesses were merged from 1 January 2016 in order to better explain the operating and financial performance of the Group. Following the transaction, Just changed its accounting reference date from 30 June to 31 December.
3. Adjusted operating profit is defined at the beginning of the Business review.

FINANCIAL CALENDAR	DATE
Business update for the period ending 30 September 2017	1 November 2017
Shares marked ex-dividend	2 November 2017
Record date for interim dividend	3 November 2017
Payment of interim dividend	24 November 2017

Enquiries

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

Group Chief Executive Officer's Report

Introduction

I am pleased to present the 2017 half year report for Just Group plc. Our strategy of selective growth has delivered strong operating profit momentum, driven by a significant increase in new business profit.

Performance review

Adjusted operating profit before tax for the six months ended 30 June 2017 was £67.2m, up 39% on the pro forma comparative result, mainly driven by a significant increase in new business operating profit. Our vibrant new brand has strengthened our market presence, and we have maintained our focus on careful risk selection.

The more than doubling of new business profit from £31.0m in H1 2016 (pro forma) to £64.0m in H1 2017 was driven by a 16% increase in retirement income sales, together with margin expansion from 5.0% to 8.9%. The increase in volume was driven by a stronger start to the year for Defined Benefit De-risking Solutions ("DB") than in H1 2016, when volumes were affected by the introduction of Solvency II. We have benefitted from improving unit costs due to these higher volumes and the impact of substantial merger synergies. Our disciplined approach to pricing in a growing market has also benefitted the margin. Mortgage spreads continued to be favourable and further contributed to the margin on DB business through more efficient asset liability management ("ALM") which utilised a higher proportion of lifetime mortgages ("LTMs").

We have already achieved our original £40m cost synergy target and continue to work to exceed the £45m of savings targeted. The benefits of the lower cost base are already evident in our H1 2017 new business profitability.

The Group's total equity at 30 June 2017 was £1,648.1m (31 December 2016: £1,610.6m). The increase reflected a profit before tax of £66.0m for the six months ended 30 June 2017 (H1 2016: £158.1m), less the 2016 final dividend. Group European Embedded Value amounted to £2,064.9m at 30 June 2017, or 221p per share (31 December 2016: 219p per share). The increase mainly related to the new business contribution in the period of £62.0m.

The Group's Solvency Capital Ratio was 150% at 30 June 2017 (31 December 2016: 151%). Gearing remains moderate compared to our peers and the majority of own funds is comprised of Tier 1 capital. The Group's economic capital ratio at 30 June 2017 was 214% (31 December 2016: 216%).

Our capital structure and unique business model were recognised by our recent investment grade credit rating from Fitch. Our principal insurance subsidiary Just Retirement Limited ("JRL") has been given an Insurer Financial Strength rating of A+. In addition, both JRL and Just Group plc have achieved Issuer Default Ratings of single A. The Group recently improved its liquidity options by agreeing a £200m Revolving Credit Facility with a panel of three banks. Our Board has declared an interim dividend of 1.17p, up 6% compared to H1 2016, and representing one third of our calendar year 2016 total payment of 3.5p.

We are very proud to have received continuing recognition from the industry for the quality of our service, receiving 5 star ratings again at the 2016 Financial Adviser Service Awards. This continued success means that we have held 5 star ratings for an impressive 12 consecutive years for Life & Pensions and 9 years for Mortgage Lenders and Packagers.

In July we formed HUB Financial Solutions ("HUB") by bringing together Just Retirement Solutions (equity release and retirement income distribution) and TOMAS (open market software solutions to employers and pension schemes). JRS and TOMAS will be stronger together as HUB, and can now better serve our partners and their customers.

I want to thank our Group colleagues once again, not only for achieving these strong results, but also for maintaining high quality customer service through a period of significant change.

Outlook

The outlook remains favourable for each of our key businesses. We expect the Guaranteed Income for Life ("GIfL") market to continue to grow, driven by demographics, individual customer defined benefit pension scheme transfers, and continued growth in shopping around. The defined benefit de-risking market is set for more rapid expansion as trustees seek to assure the benefits of their members. LTM prospects remain positive as a property rich, but pension poor, generation prepares to retire.

Our pricing discipline has been rewarded by the strong margins we have reported today. Although there is uncertainty as to second half DB volumes, a full year margin in excess of 8% is looking increasingly likely.

I am excited about the prospects for growth in our markets and the opportunities for Just Group plc. Our results in the first half of the year demonstrate our ability to deliver increasing profits, and we look forward to delivering further growth and value for our shareholders.

Rodney Cook
Group Chief Executive Officer

Business review

Overview of reporting basis

The merger between Just Retirement Group plc ("Just Retirement") and Partnership Assurance Group plc ("Partnership", "PAG") completed at the beginning of April 2016. The comparative statutory results explained later in this review represent the results of Just Retirement for the entire prior period, plus three months' results of Partnership from the date of acquisition to 30 June 2016.

The transaction was achieved through an all-share merger by way of an acquisition by Just Retirement of PAG. Just Retirement changed its name to JRP Group plc on 4 April 2016 and subsequently to Just Group plc ("Just") on 18 May 2017. Following the transaction, Just changed its accounting reference date from 30 June to 31 December.

Illustrative pro forma financial information for Just Group plc

The following pro forma financial information is provided for illustrative purposes and is presented on the basis that the merger between Just Retirement and Partnership had already taken place as at 1 January 2016. Pro forma information is unreviewed and unaudited. A reconciliation of pro forma financial information to statutory financial information for the period to 30 June 2016 is given at the end of this section.

Adjusted operating profit – pro forma basis comparatives

Adjusted operating profit is presented in the table below with comparative information on a pro forma basis representing the operating profit for the six months ended 30 June 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.

Unreviewed and unaudited	**6 months ended 30 June 2017 £m**	Pro forma 6 months ended 30 June 2016 £m	Change %
New business operating profit	**64.0**	31.0	106
In-force operating profit	**36.6**	36.6	–
Underlying operating profit	**100.6**	67.6	49
Operating experience and assumption changes	**(6.4)**	(3.4)	88
Other Group companies' operating results	**(7.5)**	(4.8)	56
Reinsurance and finance costs	**(19.5)**	(11.0)	77
Adjusted operating profit before tax	**67.2**	48.4	39

Adjusted operating profit before tax
Adjusted operating profit before tax represents the operating results of the Group, before taking into account non-recurring and project expenditure, investment and economic profits/(losses), and amortisation costs of intangible assets including the acquired in-force business asset.

The 39% increase in adjusted operating profit was the result of a significant increase in new business profitability, partly offset by increased reinsurance and finance costs.

New business operating profit
New business operating profit represents the profit generated from new business written in the period after allowing for the setting up of prudent reserves and for acquisition expenses.

New business operating profit has increased by 106% on a pro forma basis, reflecting the 16% increase in Retirement Income new business volumes (discussed below), coupled with the increase in margin from 5.0% to 8.9%. The margin improvement was achieved through pricing discipline, lower unit costs mainly driven by synergy savings, and more efficient asset-liability management.

In-force operating profit
In-force operating profit captures the margin expected to emerge from the in-force book of business and free surplus, and results from the gradual release of product reserving margins over the lifetime of the policies.

In-force operating profit was unchanged compared to the prior period. This was as a result of the increase in the size of the opening book, offset by the effect of lower margins from narrower spreads and lower returns on surplus assets.

Underlying operating profit
Underlying operating profit is 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.

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

Operating experience and assumption changes
Operating experience and assumption changes capture 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.

The main factor in the period was adverse experience on mortgage mortality. Mortgage, expense and other assumptions will be reviewed ahead of the year end; there were no changes to assumptions in the period.

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

The change in the result year on year reflected greater retention of regular development capability costs in the Group centre. The integration of JRS and TOMAS to form HUB Financial Solutions is expected to improve the efficiency of these businesses further.

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

The increased costs mainly reflect the issuance of £250m of Tier 2 debt in October 2016.

New business sales – comparatives on pro forma basis

New business sales are presented in the table below with comparative sales on a pro forma basis representing sales for the six months ended 30 June 2016 for both Just Retirement and Partnership.

Unreviewed and unaudited	**6 months ended 30 June 2017 £m**	Pro forma 6 months ended 30 June 2016 £m	Change %
Defined Benefit De-risking Solutions ("DB")	**295.6**	164.4	80
Guaranteed Income for Life Solutions ("GIfL")	**389.9**	397.1	(2)
Care Plans ("CP")	**34.1**	57.7	(41)
Retirement Income sales	**719.6**	619.2	16
Drawdown	**22.4**	5.4	315
Total Retirement sales	**742.0**	624.6	19
Protection	**2.8**	2.3	22
Lifetime Mortgage ("LTM") loans advanced	**230.2**	321.8	(28)
Total new business sales	**975.0**	948.7	3

Retirement Income sales were up 16% on a pro forma basis. Total new business sales for the Group on a pro forma basis increased by 3%, from £948.7m for the six months to 30 June 2016, to £975.0m for the six months to 30 June 2017. The drivers for this increase are explained below.

DB sales were £295.6m for the six months to 30 June 2017 (H1 2016 pro forma DB sales: £164.4m), an increase of 80%. In the prior period, sales were affected by the pricing disruption following the introduction of the Solvency II regime and increased capital requirements. We were well placed going into the seasonally busy second half of 2017 with a strong pipeline. Since 30 June 2017, the Group has transacted over £260m of further DB business.

Our GIfL sales were stable at £389.9m compared to pro forma H1 2016 sales of £397.1m. The second quarter of 2017 saw an increase in our sales momentum, 24% higher than in the first quarter, helped by individual customers transferring from a defined benefit pension scheme into a pensions drawdown and GIfL mix.

Care Plan sales of £34.1m were down from pro forma H1 2016 sales of £57.7m, reflecting renewed emphasis on risk selection, and uncertainty regarding government policy around the time of the general election. The Group maintains its pre-eminence in this sector.

Drawdown sales were £22.4m for the six months ended 30 June 2017 (H1 2016: pro forma £5.4m) and mainly represent Flexible Pension Plan ("FPP") sales. The FPP allows consumers to take advantage of pensions freedoms and we are pleased that this business is growing. Protection sales increased modestly from a pro forma £2.3m in H1 2016 to £2.8m in H1 2017.

Lifetime mortgages of £230.2m were advanced in the six months (pro forma H1 2016: £321.8m) slightly ahead of our optimal GIfL and DB backing ratio. Particularly for DB, and on a case-by-case basis, we can increase the backing ratio to better match the liabilities. LTM volumes are being managed with near-term DB and GIfL origination in mind, which enables us to warehouse any excess mortgages for use in the second half of the year.

Capital management

Summary of Just Group plc 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.

The Group's Solvency II position was as follows:

Unreviewed and unaudited	**30 June 2017 £m**	31 December 2016[1] £m
Capital resources		
Own Funds	**2,146**	2,100
Solvency capital requirement	**(1,435)**	(1,394)
Excess Own Funds	**711**	706
Solvency coverage ratio	**150%**	151%

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

Our capital position has again proved resilient during the period helped by our focus on new business pricing discipline and prudent management of the balance sheet. Our underlying Group Solvency Capital Requirement ("SCR") coverage ratio of 150% was in line with the 151% reported at 31 December 2016, and included six months' amortisation of transitional relief.

TMTP provides a bridge between the previous capital regime and Solvency II for business written prior to 1 January 2016. If the Group had recalculated the TMTP using economic parameters as at 30 June 2017, the impact would be a reduction in the Group solvency coverage ratio of 5%.

The table below analyses the movement in excess capital resources of £5m in the six months to 30 June 2017. The 'Other' movement of £43m mainly reflects economic movements.

Movement in excess capital resources[1]

Unreviewed and unaudited	£m
Excess Own Funds at 31 December 2016	**706**
In-force surplus (including impact of TMTP amortisation)	**58**
New business strain and expenses	**(29)**
Cost vs expected 2018 cost base	**(15)**
Integration costs	**(13)**
Dividends and interest	**(39)**
Other	**43**
Excess Own Funds at 30 June 2017	**711**

[1] All figures are net of tax.

Estimated Group Solvency II sensitivities:

Unreviewed and unaudited	%	£m
Solvency coverage ratio / Excess Own Funds at 30 June 2017	150%	711
-50 bps fall in interest rates (no TMTP recalculation)	-12%	(136)
-50 bps fall in interest rates (with TMTP recalculation)	0%	50
+100 bps credit spreads	+1%	17
+10% LTM early redemption	+2%	12
-10% property values	-12%	(156)
-5% longevity	-12%	(170)

Summary of Just Group plc Economic capital position

The table below shows the Economic capital position as at 30 June 2017. The capital coverage ratio remained broadly unchanged in the six months to 30 June 2017 at 214% (31 December 2016: 216%), with the increase in Available and Required capital in the period mainly reflecting new business written. Surplus generation on the in-force book including return on surplus assets was offset by integration expenses, interest costs and dividends.

Unreviewed and unaudited	**30 June 2017 £m**	31 December 2016 £m
Available capital	**2,716**	2,670
Required capital	**(1,269)**	(1,234)
Economic capital	**1,447**	1,436
Solvency ratio	**214%**	216%

European Embedded Value ("EEV") – pro forma basis

The Embedded Value result for Just Group plc for the six months ended 30 June 2017 is summarised in the table below. Comparative data is provided on a pro forma basis as if the merger had taken place on 1 January 2016. The underlying assumptions in the comparative period were aligned to be consistent across both companies.

Operating EEV earnings include £62.0m from new business written in the period (H1 2016 pro forma: £45.7m) representing a net of tax margin of 8.6% of Retirement Income sales (H1 2016 pro forma: 7.4%). Non-operating earnings include integration costs and the impact of revaluation of the Group's own debt. The Group paid a dividend of £22.3m in the period representing the final 2016 dividend.

Statement of change in European Embedded Value

Unreviewed and unaudited	6 months ended 30 June 2017 £m	Restated Pro forma[1] 6 months ended 30 June 2016 £m
Opening Group EEV	**2,047.0**	1,772.6
Operating EEV earnings	**58.3**	45.7
Non-operating EEV earnings	**(19.3)**	212.1
Total EEV earnings	**39.0**	257.8
Other movements in IFRS net equity	**1.2**	4.8
Dividend	**(22.3)**	(10.2)
Closing Group EEV	**2,064.9**	2,025.0

[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

Unreviewed and unaudited	30 June 2017 £m	31 December 2016 £m
Shareholders' net equity on IFRS basis	**1,648.1**	1,610.6
Goodwill	**(33.1)**	(33.1)
Intangibles	**(171.3)**	(183.9)
Adjustments to IFRS	**30.9**	58.4
EEV net worth	**1,474.6**	1,452.0
Value of in-force business	**590.3**	595.0
Group EEV	**2,064.9**	2,047.0

Reconciliation of pro forma comparative information to IFRS results

The comparative financial performance figures in the Business review are based on pro forma financial results for the six months to 30 June 2016 assuming that the merger of Just Retirement and Partnership had taken place prior to the start of that period. This information is presented as, in the opinion of the Directors, it provides a more meaningful view of the performance of the Just Group in 2017 compared to 2016.

Below are reconciliations between comparative pro forma adjusted operating profits and comparative pro forma sales to the adjusted operating profit and sales KPIs. 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 3 to the financial statements. The Board believes that adjusted operating profit, which excludes effects of short-term economic and investment changes, provides a better view of the longer-term performance and development of the business and aligns with the longer-term nature of the products.

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

Unreviewed and unaudited	6 months ended 30 June 2016 £m
Pro forma new business sales (unaudited)	948.7
New business sales relating to Partnership Assurance Group plc between 1 January 2016 and 31 March 2016	(160.5)
New business sales	788.2

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

Unreviewed and unaudited	6 months ended 30 June 2016 £m
Pro forma adjusted operating profit before tax (unaudited)	48.4
Operating loss relating to Partnership Assurance Group plc between 1 January 2016 and 31 March 2016	2.2
Adjusted operating profit	50.6

Statutory financial information and Key Performance Indicators

The comparative financial information presented below includes the results of Partnership Assurance Group from the date of its acquisition at the beginning of April 2016. The results for the six months ended 30 June 2016 reflect six months of Just Retirement and three months of Partnership (Q2 2016).

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.

	6 months ended 30 June 2017 £m	6 months ended 30 June 2016 £m
New business sales	**975.0**	788.2
New business operating profit	**64.0**	32.8
In-force operating profit	**36.6**	31.4
Adjusted operating profit	**67.2**	50.6
IFRS profit before tax	**66.0**	158.1
	As at 30 June 2017 £m	As at 31 December 2016 £m
IFRS net assets	**1,648.1**	1,610.6
European embedded value	**2,064.9**	2,047.0
Solvency II capital coverage ratio	**150%**	151%
Economic capital coverage ratio	**214%**	216%

New business sales

£975.0m (H1 2016: £788.2m)

New business sales are a key indicator of the Group's growth and realisation of its strategic objectives. New business sales comprise Retirement Income sales, Drawdown sales, Protection sales and LTM advances in the reporting period. The table below presents new business sales prepared using the statutory accounts basis of consolidation. The underlying trends are as noted above in the pro forma results section.

	6 months ended 30 June 2017 £m	6 months ended 30 June 2016 £m
Defined Benefit De-risking Solutions ("DB")	**295.6**	164.4
Guaranteed Income for Life Solutions ("GIfL")	**389.9**	320.7
Care Plans ("CP")	**34.1**	41.4
Retirement Income sales	**719.6**	526.5
Drawdown	**22.4**	5.4
Total Retirement sales	**742.0**	531.9
Protection	**2.8**	1.0
Lifetime Mortgage ("LTM") loans advanced	**230.2**	255.3
Total new business sales	**975.0**	788.2

New business operating profit

£64.0m (H1 2016: £32.8m)

New business operating profit increased compared to the prior period, reflecting growth in new business written in the period and the higher margin which was driven by the same factors as noted for the pro forma result.

In-force operating profit

£36.6m (H1 2016: £31.4m)

In-force operating profit has increased, reflecting inclusion of Partnership Life Assurance Company Limited ("PLACL") for the full six months compared with three months in the same period of 2016.

Adjusted operating profit

£67.2m (H1 2016: £50.6m)

The increase in adjusted operating profit reflects the increase in new business and in-force operating profits explained above, partly offset by higher financing costs following Just Group plc's issuance of £250m of Tier 2 subordinated debt in October 2016, the inclusion of interest on PLACL's £100m Tier 2 debt for the full six months (three months in 2016), and adverse experience variances attributed to higher mortgage redemptions.

IFRS profit before tax

£66.0m (H1 2016: £158.1m)

The IFRS profit before tax mainly comprised the operating profit of £67.2m and favourable investment and economic profits of £31.0m, partly offset by integration costs of £16.4m and £12.4m of amortisation of intangible assets. The prior year comparative included £144.6m of favourable investment and economic profits.

IFRS net assets

£1,648.1m (31 December 2016: £1,610.6m)

The Group's total equity at 30 June 2017 was £1,648.1m, £37.5m higher than at 31 December 2016. The increase reflected the profit before tax of £66.0m for the period less the 2016 final dividend.

European embedded value ("EEV")

£2,064.9m (31 December 2016: £2,047.0m)

EEV represents the sum of the 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 existing book of business which have not yet been recognised under IFRS accounting.

EEV at 30 June 2017 was £2,064.9m, an increase of £17.9m 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.

Solvency II capital coverage ratio

150% (31 December 2016: 151%)

Solvency II is the Group's regulatory capital basis, and came into force on 1 January 2016. The figure was broadly unchanged during the first six months of 2017, with surplus emerging from the in force book and economic variances broadly offset by investment of capital in new business, integration costs, interest and dividends.

Economic capital coverage ratio

214% (31 December 2016: 216%)

Economic capital is a key risk-based capital measure. The figure was broadly unchanged during the first six months of 2017, with increases in both available and required capital reflecting new business written.

The Group continues to explore, on an ongoing basis, a range of balance sheet options, including accessing the debt capital markets, with a view to providing further financial strength and growth potential.

IFRS results

The analysis of the IFRS results for the six months ended 30 June 2017 and 30 June 2016 is presented on a statutory basis below. The Group acquired Partnership Assurance Group plc on 1 April 2016, and accordingly the prior period results include the results of Partnership Assurance Group plc from the date of acquisition until 30 June 2016.

	6 months ended 30 June 2017 £m	Restated[1] 6 months ended 30 June 2016 £m
New business operating profit	**64.0**	32.8
In-force operating profit	**36.6**	31.4
Underlying operating profit	**100.6**	64.2
Operating experience and assumption changes	**(6.4)**	0.1
Other Group companies' operating results	**(7.5)**	(5.0)
Reinsurance and bank finance costs	**(19.5)**	(8.7)
Adjusted operating profit before tax	**67.2**	50.6
Non-recurring and project expenditure	**(3.4)**	(5.5)
Investment and economic profits	**31.0**	144.6
Profit before acquisition and amortisation costs, before tax	**94.8**	189.7
Acquisition integration costs	**(16.4)**	(15.9)
Acquisition transaction costs	**–**	(7.9)
Amortisation and impairment of intangible assets	**(12.4)**	(7.8)
Profit before tax	**66.0**	158.1

[1] The valuation of intangible assets arising on the acquisition of Partnership was reassessed for the 31 December 2016 financial statements as permitted by IFRS3 – Business Combinations, and the gain on acquisition of Partnership and amortisation of intangible assets have been restated accordingly. See note 2 to the financial statements.

Adjusted operating profit before tax

The adjusted operating profit in the table above is prepared using the statutory accounts basis of consolidation, notably providing six months to 30 June 2016 comparisons with Partnership consolidated from April 2016.

The underlying trends in the profit components are explained on a 'like-for-like' basis above in the pro forma results section.

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.

Non-recurring and project expenditure decreased to £3.4m for the six months to 30 June 2017, from £5.5m for the six months to 30 June 2016 and mainly comprised HUB integration and other one-off project costs.

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.

For the six months to 30 June 2017, investment and economic profits were £31.0m (H1 2016: £144.6m), mainly reflecting the impact of narrowing credit spreads in the period. The prior year figure benefited from a significant fall in risk-free rates.

Acquisition integration costs

Acquisition integration costs of £16.4m (H1 2016: £15.9m) related to the costs arising from the post-merger integration of the Just Retirement and Partnership operations. The restructuring changes made to date have already delivered £40m of synergies on an annualised basis.

Acquisition transaction costs
Acquisition transaction costs of £7.9m in the prior period reflect the one-off costs incurred in relation to the acquisition of Partnership Assurance Group plc. These costs included advisory, legal and stamp duty costs.

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.

The value of the acquired in-force business asset of £142.7m is being amortised over 10 years in line with the run-off of the in-force business. Amortisation of the acquired in-force business relating to Partnership Assurance Group plc during the six month period to 30 June 2017 was £7.1m (H1 2016: £3.6m).

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 below is extracted from the statutory consolidated statement of comprehensive income, and includes three months of PAG in the H1 2016 comparative figures.

	6 months ended 30 June 2017 £m	Restated[1] 6 months ended 30 June 2016 £m
Gross premiums written	**721.5**	505.1
Reinsurance premiums ceded	**(6.2)**	(124.9)
Reinsurance recapture	**270.5**	–
Net premium revenue	**985.8**	380.2
Net investment income	**229.2**	971.1
Fee and commission income	**5.4**	3.3
Total revenue	**1,220.4**	1,354.6
Net claims paid	**(311.6)**	(242.9)
Change in insurance liabilities	**(594.7)**	(747.1)
Change in investment contract liabilities	**(2.1)**	(8.3)
Acquisition costs	**(22.3)**	(9.9)
Other operating expenses	**(120.7)**	(114.5)
Finance costs	**(103.0)**	(73.8)
Total claims and expenses	**(1,154.4)**	(1,196.5)
Profit before tax	**66.0**	158.1
Income tax	**(7.4)**	(38.4)
Profit after tax	**58.6**	119.7

[1] The valuation of intangible assets arising on the acquisition of Partnership was reassessed for the 31 December 2016 financial statements as permitted by IFRS3 – Business Combinations, and the gain on acquisition of Partnership and amortisation of intangible assets has been restated accordingly. See note 2 to the financial statements.

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.

Gross premiums written for the six months ended 30 June 2017 were £721.5m, compared to £505.1m for the six months ended 30 June 2016. Overall Retirement Income sales have increased in the current period compared to the prior period, representing the effect of the PAG acquisition in April 2016 as well as underlying growth in both DB and GIfL business.

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

Net premium revenue increased from £380.2m for the six months ended 30 June 2016 to £985.8m for the six months ended 30 June 2017. The current period includes the effect of recapturing £270.5m of reinsurance premiums transacted in previous years in accordance with the treaties' provisions and a fall in reinsurance premiums ceded following the adoption of a strategy of use of reinsurance swaps rather than quota share financial reinsurance.

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

Net investment income was £229.2m for the six months ended 30 June 2017, with net unrealised losses on revaluation of residential mortgages due to the increase in swap rates of around 15bps in the period. This contrasted with net investment income of £971.1m for the six months ended 30 June 2016, a period in which swap rates fell by around 100bps.

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

Net claims paid increased by £68.7m in the six months to 30 June 2017 compared to the six months to 30 June 2016, reflecting the effect of consolidation of an additional quarter of PAG in H1 2017 and the underlying growth of the in-force book.

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.

Change in insurance liabilities decreased from £(747.1)m for the six months ended 30 June 2016 to £(594.7)m for the six months ended 30 June 2017. The three components in the six months to 30 June 2017 were a gross change in insurance liabilities of £(174.0)m driven primarily by the new business written net of claims paid, a reduction in the reinsurers' share of liabilities of £(150.2)m reflecting the change in the reinsurance programme towards use of reinsurance swaps for current underwriting, and the reinsurance recapture of £(270.5)m, as noted in the premiums comment above.

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

Acquisition costs have increased by £12.4m from £9.9m for the six months ended 30 June 2016 to £22.3m for the six months ended 30 June 2017 reflecting increased commission paid on LTM sales compared to the previous period, inclusion of an additional quarter's costs for PAG, and absence of deferral of costs in the current year.

Acquisition integration costs and acquisition transaction costs
These costs are explained within the IFRS Operating Profit analysis above.

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. Acquisition-related costs are analysed separately from other operating expenses as explained above.

Other operating expenses increased by £6.2m from £114.5m in the six months ended 30 June 2016 to £120.7m in the six months ended 30 June 2017. The increase mainly reflected inclusion of an additional three months of PAG costs in 2017, partly offset by merger savings.

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.

Finance costs increased by £29.2m from £73.8m for the six months ended 30 June 2016 to £103.0m for the six months ended 30 June 2017. The increase mainly relates to an additional three months of interest on the Partnership reinsurance and debt costs, and the interest cost on the £250m Tier 2 Notes issued by Just Group plc in October 2016.

Income tax
There is an income tax charge of £7.4m for the six months ended 30 June 2017 (H1 2016: £38.4m). The effective tax rate was 11.4% (H1 2016: 24.3%), with the rate driven by one-off adjustments to tax recognised on prior year profits.

Highlights from Condensed consolidated statement of financial position

The following 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.

	As at 30 June 2017 £m	As at 31 December 2016 £m
Assets		
Financial investments	**17,490.3**	17,319.6
Reinsurance assets	**5,636.4**	6,057.1
Other assets	**490.6**	517.8
Total assets	**23,617.3**	23,894.5
Share capital and share premium	**186.4**	185.0
Other reserves	**881.1**	881.1
Accumulated profit and other adjustments	**580.6**	544.5
Total equity	**1,648.1**	1,610.6
Liabilities		
Insurance liabilities	**15,922.0**	15,748.0
Other financial liabilities	**5,355.4**	5,740.8
Insurance and other payables	**58.1**	113.1
Other liabilities	**633.7**	682.0
Total liabilities	**21,969.2**	22,283.9
Total equity and liabilities	**23,617.3**	23,894.5

Financial investments

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

	As at 30 June 2017 £m	As at 30 June 2017 %	As at 31 December 2016 £m	As at 31 December 2016 %
AAA*	**1,211.1**	6.9	1,359.9	7.9
AA and gilts	**1,616.7**	9.3	1,603.2	9.2
A	**3,558.0**	20.4	3,471.0	20.0
BBB	**3,884.1**	22.2	3,759.0	21.7
BB or below	**144.9**	0.8	150.7	0.9
Unrated*	**368.6**	2.1	381.6	2.2
Loans secured by mortgages	**6,706.9**	38.3	6,594.2	38.1
Total	**17,490.3**	100.0	17,319.6	100.0

* Includes units held in liquidity funds.

Financial investments increased by £0.2bn from £17.3bn at 31 December 2016 to £17.5bn at 30 June 2017, the increase being mainly a result of the continued investment of new business premiums, partly offset by the impact on bond and mortgage values of rising interest rates. The quality of the corporate bond portfolio remains high and is well balanced across a range of industry sectors. The loan to value ratio of the mortgage portfolio was approximately 28% (31 December 2016: 28%).

The sector analysis of the Group's financial investments portfolio at 30 June 2017 is well balanced across a variety of industry sectors. The decrease in liquidity funds followed investment of the substantial Defined Benefit premiums received late in December 2016 into industrial and other financial sectors.

Sector analysis

	As at 30 June 2017 £m	As at 30 June 2017 %	**As at 31 December 2016 £m**	As at 31 December 2016 %
Basic materials	**258.0**	1.5	239.2	1.4
Communications	**851.5**	4.9	871.3	5.0
Auto manufacturers	**266.9**	1.5	273.7	1.6
Consumer	**910.8**	5.2	896.1	5.2
Energy	**299.0**	1.7	281.6	1.6
Banks	**2,430.5**	13.9	2,355.6	13.6
Insurance	**857.2**	4.9	841.6	4.8
Financial – other	**1,321.6**	7.6	1,187.5	6.9
Government	**759.0**	4.3	927.5	5.4
Industrial	**670.9**	3.8	472.6	2.7
Utilities	**1,678.6**	9.6	1,625.8	9.4
Liquidity funds	**400.0**	2.3	645.5	3.7
Lifetime Mortgages	**6,519.4**	37.3	6,430.4	37.1
Other	**266.9**	1.5	271.2	1.6
Total	**17,490.3**	100.0	17,319.6	100.0

Reinsurance assets
Reinsurance assets decreased from £6.1bn at 31 December 2016 to £5.6bn at 30 June 2017. This change in the reinsurance assets was as a result of the reinsurance recapture and the increase in interest rates in the period.

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 £15.9bn at 30 June 2017. The increase in liabilities arose on new insurance business written less claims paid, partially offset by the impact of rising interest rates.

Other financial liabilities
Other financial liabilities decreased from £5.7bn at 31 December 2016 to £5.4bn at 30 June 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 reinsurance recapture of £270.5m and the increase in interest rates in the period.

Insurance and other payables
Insurance and other payables decreased by £55.0m from £113.1m at 31 December 2016 to £58.1m at 30 June 2017; this change was mainly due to the timing of the settlement of an investment creditor outstanding at 31 December 2016.

Other liabilities
Other liability balances decreased by £48.3m from £682.0m at 31 December 2016 to £633.7m at 30 June 2017 reflecting settlement of tax creditor balances and seasonal variations.

Total equity
Total equity increased by £37.5m from £1,610.6m at 31 December 2016 to £1,648.1m at 30 June 2017, reflecting profit after tax for the period of £58.6m, dividends paid of £22.3m, and small adjustments for foreign exchange differences and shares issued in respect of incentive schemes.

Dividends

An interim dividend for the period of 1.17p per share (30 June 2016: 1.1p per share) will be paid in November 2017.

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 review their risks and produce 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

Risk description and impact	Mitigation and management action
Risks from our chosen market environment	
Change in the period: Stable	**Risk Outlook**: Stable
The Group operates in a market where changes in pensions legislation can have a considerable effect on our strategy and could reduce our sales and profitability or require us to hold more capital. The Pension Reforms introduced in 2015 have had a fundamental impact on the retirement income market, which will continue to evolve. Customers have reacted to Pension Freedoms by looking for more flexible retirement solutions and some customers are deferring their retirement decisions. Customer needs for a secure income in retirement have, however, not changed and the Group expects that demand for guaranteed income for life solutions will continue to grow.	Our approach to legislative change is to participate actively and engage with policymakers in the UK, and this will not change. The Group offers a wide range of retirement options, allowing it to remain agile in this changing environment, and has flexed its offerings in response to market dynamics. We believe we are well-placed to adapt to the changing customer demand, supported by our brand promise, innovation credentials and financial strength. The most influential factors in the successful delivery of the Group's plans are closely monitored to help inform the business. The factors include market forecasts and market share, supported by insights into customer and competitor behaviour.

Risk description and impact	Mitigation and management action
Risks from regulatory changes	
Change in the period: Stable	**Risk Outlook**: Stable
The financial services industry continues to see a high level of regulatory change and intense regulatory supervision. The regulatory agenda for the coming year covers many areas directly relevant to the Group. Further to its commencement of an industry-wide review during 2016, the Prudential Regulation Authority ("PRA") recently published a Supervisory Statement (SS3/17) setting out its expectations for the valuation of restructured equity release mortgages and other unrated, illiquid assets in matching adjustment portfolios. The Group is currently assessing the impacts of the PRA's Supervisory Statement and whether it prompts any change in its current approach in this respect. The Solvency II risk margin is particularly sensitive to movements in interest rates, which can cause volatility. The introduction of the matching adjustment to meet Solvency II requirements has made management of liquidity within the Group more complex. The 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. In addition, the FCA and PRA recently issued coordinated proposals to extend the requirements of the Senior Managers & Certification Regime ("SM&CR") to all insurers, updating the existing Senior Insurance Managers Regime requirements to the equivalent regime already in place for the banking industry. 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 for them to enforce. 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.	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 SCR, and is progressing an internal model major change application for Partnership Life Assurance Company Ltd to use the Group Internal Model. We will continue to work closely with the PRA to understand and seek to influence its developing views on solvency capital. Where possible, we seek to actively participate in all regulatory initiatives which may affect or provide future opportunities for the Group. We aim to champion outcomes that are positive for consumers by ensuring their retirement needs are understood. We develop our strategy by giving consideration to planned political and regulatory developments and allow for contingencies should outcomes differ from our expectations. We manage sensitive personal data in accordance with existing DPA requirements but are reviewing our existing practices and processes to ensure they remain compliant as the new regime comes into force.
Risks from our pricing assumptions	
Change in the period: Decreasing risk	**Risk Outlook**: Decreasing risk
Writing long-term retirement income and equity release business requires a range of assumptions to be made based on market data and historical experience, including customers' longevity, corporate bond yields, interest rates, property values and expenses. These assumptions are applied to the calculation of the reserves needed for future liabilities and solvency margins using recognised actuarial approaches. The Group's assumptions on these risk factors may be materially inaccurate, requiring them to be recalibrated. This could affect the level of reserves needed with an impact on profitability and the Group's solvency position.	To manage the risk of our longevity assumptions being incorrect, the Group now has the benefit of the combined experience of its legacy businesses to provide insights and enhanced understanding of the longevity risks that the Group chooses to take. Longevity and other decrement experience is analysed to identify any outcomes materially different from our assumptions and is used for the regular review of the reserving assumptions for all products. Some longevity risk exposure is shared with reinsurance partners, who perform due diligence on the Group's approach to risk selection. There is a related counterparty risk of a reinsurer not meeting its repayment obligations.

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

Risk description and impact	Mitigation and management action
	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 to the Group's brands and reputation	
Change in the period: Increasing risk	**Risk Outlook**: Stable
We believe everyone deserves a fair, fulfilling and secure retirement. Our aim is to help people to rethink retirement to achieve this. Our new Just brand reflects the way we intend to conduct our business and treat our customer and wider stakeholder groups. There is a risk that the Group's brands and reputation could be damaged if the Group is found to be acting, even unintentionally, below the standards we set for ourselves. Damage to our brand or reputation may adversely affect our underlying profitability, through reducing sales volumes, restricting access to distribution channels and attracting increased regulatory scrutiny. Additionally, the Group's brands and reputation could be threatened by external risks such as regulatory intervention or enforcement action, either directly or as a result of contagion from other companies in the sectors in which we operate.	The Group is actively seeking to differentiate its business from competitors by investing in the Group's brand-enhancing activities. Fairness to customers and high service standards are at the heart of the Just brand and were a shared ethos of the Group's legacy Just Retirement and Partnership Assurance businesses, and we encourage our staff to take pride in the quality of service they provide to our customers. Engaging our employees in the Just brand and its associated values has been, and remains, a critical part of our post-merger integration activity. The Group's system of internal control, and associated policies and operational procedures, has been updated following the merger and defines the standards we expect of all employees.
Risks arising from operational processes and IT systems	
Change in the period: Increasing risk	**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 maintaining customer service and accurate records. There is a risk that these processes and systems may not operate as expected, may not fulfil their intended purpose or may be damaged or interrupted by increases in usage, human error, unauthorised access, natural disaster or similarly disruptive events. Any failure of the Group's IT and communications systems and/or third party infrastructure on which the Group relies could lead to costs and disruptions that could adversely affect the Group's business as well as harm the Group's reputation. As witnessed in H1 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.	The Group maintains a suite of risk management tools to help identify, measure, monitor, manage and report its operational risks including, but not limited to, those arising from operational processes and IT systems. These include a risk management system, risk and control assessments, risk event management, loss reporting, scenario analysis and risk reporting through the ORSA. The Group maintains newly modified plans and controls to minimise the risk of business disruption and information security related events, commensurate to that of our peers. Detailed incident and crisis management plans also exist to ensure effective responses. These are supported by specialist third parties for our mass notification (call cascade) system, and our workplace recovery centre. Our approach to information security is under constant review as the cyber-threat landscape evolves. Due diligence is performed on all partners to ensure that they work to the same high security standards as the Group. We remain vigilant to the range of cyber-risks but recognise the speed of change in cyber-threats means that a risk exposure remains. The Group's Information & Resilience Risk team, reporting to the Group Chief Risk Officer, oversees the Group's strategy and controls in this area.

Risk description and impact	Mitigation and management action
Risks arising from the post-merger integration process	
Change in the period: Decreasing risk	**Risk Outlook**: Decreasing risk
On 4 April 2016 the merger of Just Retirement and Partnership Assurance completed to form JRP Group plc. The purpose of the merger is to deliver significant strategic and financial benefits for the combined Group. Progress to date has been strong and we have materially delivered against our stated synergy targets and benefits. However, our integration activity remains ongoing and there is therefore a remaining residual level of risk that this may take longer or cost more than intended.	Given the complementary business models of the two organisations, business as usual activity has been maintained and strategic development moved forward at the same time as integrating the businesses. The integration process, which remains ahead of schedule, reflects this approach and is being carefully managed and overseen by senior management and the Board. Our integration philosophy is “best of both” and this is being applied as key decisions are made for the future of the business; this also sets the tone for the culture of the organisation going forward and is a key focus for the management team.

Statement of Directors' responsibilities

Each of the Directors of the Company confirms that to the best of their knowledge:

- the Condensed consolidated financial statements have been prepared in accordance with IAS 34: Interim financial reporting as adopted by the European Union;

- the interim results statement includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7, namely important events that have occurred during the period and their impact on the Condensed consolidated financial statements, as well as a description of the principal risks and uncertainties faced by the Company and the undertakings included in the Condensed consolidated financial statements taken as a whole for the remaining six months of the financial period; and

- the interim results statement includes a fair review of material related party transactions and any material changes in the related party transactions described in the last annual report as required by Disclosure and Transparency Rule 4.2.8.

By order of the Board:

Simon Thomas
Group Chief Financial Officer
12 September 2017

Independent review report to Just Group plc

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated statement of financial position, the condensed consolidated cash flow statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with IAS 34: Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410: Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Daniel Cazeaux
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL
United Kingdom
12 September 2017

Condensed consolidated statement of comprehensive income
For the period ended 30 June 2017

	Note	**6 months ended 30 June 2017 £m**	6 months ended 30 June 2016 (Restated*) £m	18 months ended 31 December 2016 £m
Gross premiums written		**721.5**	505.1	2,693.5
Reinsurance premiums ceded		**(6.2)**	(124.9)	(1,553.4)
Reinsurance recapture		**270.5**	–	1,166.9
Net premium revenue		**985.8**	380.2	2,307.0
Net investment income		**229.2**	971.1	1,616.8
Fee and commission income		**5.4**	3.3	17.1
Total revenue		**1,220.4**	1,354.6	3,940.9
Gross claims paid		**(542.1)**	(405.2)	(1,204.5)
Reinsurers' share of claims paid		**230.5**	162.3	512.4
Net claims paid		**(311.6)**	(242.9)	(692.1)
Change in insurance liabilities:				
Gross amount		**(174.0)**	(1,058.2)	(2,687.1)
Reinsurers' share		**(150.2)**	311.1	1,447.3
Reinsurance recapture		**(270.5)**	–	(1,166.9)
		(594.7)	(747.1)	(2,406.7)
Change in investment contract liabilities		**(2.1)**	(8.3)	(15.5)
Acquisition costs		**(22.3)**	(9.9)	(53.6)
Other operating expenses		**(120.7)**	(114.5)	(341.5)
Finance costs		**(103.0)**	(73.8)	(232.7)
Total claims and expenses		**(1,154.4)**	(1,196.5)	(3,742.1)
Profit before tax		**66.0**	158.1	198.8
Income tax		**(7.4)**	(38.4)	(51.3)
Profit for the period		**58.6**	119.7	147.5
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations		**(0.2)**	0.2	0.4
Total comprehensive income for the period		**58.4**	119.9	147.9
Profit attributable to:				
Equity holders of Just Group plc		**58.6**	119.7	147.5
Profit for the period		**58.6**	119.7	147.5
Total comprehensive income attributable to:				
Equity holders of Just Group plc		**58.4**	119.9	147.9
Total comprehensive income for the period		**58.4**	119.9	147.9
Basic earnings per share (pence)	4	**6.30**	18.41	20.16
Diluted earnings per share (pence)	4	**6.25**	18.31	20.02

*see note 2 to the financial statements.

The notes are an integral part of these financial statements.

Condensed consolidated statement of changes in equity

For the period ended 30 June 2017

6 months ended 30 June 2017	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 period	–	–	–	–	–	58.6	**58.6**
Other comprehensive income for the period	–	–	–	–	–	(0.2)	**(0.2)**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**58.4**	**58.4**
Contributions and distributions:							
Shares issued (net of issue costs)	0.1	1.3	–	–	–	–	**1.4**
Dividends	–	–	–	–	–	(22.3)	**(22.3)**
Share-based payments	–	–	–	–	(4.2)	4.2	**–**
Total contributions and distributions	**0.1**	**1.3**	**–**	**–**	**(4.2)**	**(18.1)**	**(20.9)**
Balance at 30 June 2017	**93.4**	**93.0**	**348.4**	**532.7**	**(5.8)**	**586.4**	**1,648.1**

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

6 months ended 30 June 2016	Share capital £m	Share premium £m	Reorganisation reserve £m	Merger reserve £m	Shares held by trusts £m	Accumulated profit[2] £m	Total shareholders' equity £m
Balance at 1 January 2016	56.4	91.7	348.4	–	(1.8)	426.8	921.5
Profit for the period	–	–	–	–	–	119.7	119.7
Other comprehensive income for the period	–	–	–	–	–	0.2	0.2
Total comprehensive income for the period	–	–	–	–	–	119.9	119.9
Contributions and distributions:							
Shares issued	36.9	–	–	532.7	–	–	569.6
Dividends	–	–	–	–	–	(10.2)	(10.2)
Share-based payments	–	–	–	–	(0.1)	6.6	6.5
Total contributions and distributions	36.9	–	–	532.7	(0.1)	(3.6)	565.9
Balance at 30 June 2016	93.3	91.7	348.4	532.7	(1.9)	543.1	1,607.3

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

Condensed consolidated statement of financial position
As at 30 June 2017

	Note	**30 June 2017 £m**	31 December 2016 £m	30 June 2016 (Restated*) £m
Assets				
Intangible assets		**204.4**	217.0	234.9
Property, plant and equipment		**13.5**	17.1	18.2
Financial investments	6	**17,490.3**	17,319.6	16,199.8
Investment in joint ventures and associates		**0.3**	0.3	0.3
Reinsurance assets		**5,636.4**	6,057.1	6,157.3
Deferred tax assets		**12.9**	10.3	11.2
Current tax assets		**13.9**	11.1	1.7
Prepayments and accrued income		**53.1**	53.3	12.9
Insurance and other receivables		**37.5**	137.3	28.6
Cash and cash equivalents		**155.0**	71.4	339.9
Total assets		**23,617.3**	23,894.5	23,004.8
Equity				
Share capital	7	**93.4**	93.3	93.3
Share premium	7	**93.0**	91.7	91.7
Reorganisation reserve		**348.4**	348.4	348.4
Merger reserve		**532.7**	532.7	532.7
Shares held by trusts		**(5.8)**	(1.6)	(1.9)
Accumulated profit		**586.4**	546.1	543.1
Total equity attributable to owners of Just Group plc		**1,648.1**	1,610.6	1,607.3
Liabilities				
Insurance liabilities		**15,922.0**	15,748.0	14,892.8
Investment contract liabilities		**214.1**	222.3	213.0
Loans and borrowings	8	**343.5**	343.1	192.2
Other financial liabilities	9	**5,355.4**	5,740.8	5,882.9
Deferred tax liabilities		**42.5**	46.4	51.1
Other provisions		**6.9**	8.5	4.0
Current tax liabilities		**0.8**	27.3	31.5
Accruals and deferred income		**25.9**	34.4	20.8
Insurance and other payables		**58.1**	113.1	109.2
Total liabilities		**21,969.2**	22,283.9	21,397.5
Total equity and liabilities		**23,617.3**	23,894.5	23,004.8

*see note 2 to the financial statements.

The notes are an integral part of these financial statements.

Condensed consolidated statement of cash flows
For the period ended 30 June 2017

	6 months ended 30 June 2017 £m	6 months ended 30 June 2016 £m	18 months ended 31 December 2016 £m
Cash flows from operating activities			
Profit before tax	**66.0**	158.1	198.8
Depreciation of equipment	**3.6**	0.9	2.6
Amortisation of intangible assets	**12.6**	8.2	24.3
Impairment of intangible assets	**–**	–	3.8
Share-based payments	**–**	6.7	15.2
Interest income	**(284.7)**	(301.7)	(683.1)
Interest expense	**102.9**	49.7	232.7
Increase in financial investments	**(207.2)**	(1,469.7)	(2,794.5)
Decrease/(increase) in reinsurance assets	**420.7**	(311.0)	(280.5)
(Increase)/decrease in prepayments and accrued income	**(82.8)**	117.8	(47.0)
Decrease/(increase) in insurance and other receivables	**99.8**	19.0	(61.7)
Increase in insurance liabilities	**174.0**	1,058.4	2,687.9
(Decrease)/increase in investment contract liabilities	**(8.2)**	1.1	(6.0)
(Decrease)/increase in deposits received from reinsurers	**(411.0)**	205.0	98.2
(Decrease)/increase in accruals and deferred income	**(3.7)**	(4.4)	4.3
(Decrease)/increase in insurance and other payables	**(55.0)**	(55.2)	53.6
Increase in other creditors	**52.2**	179.9	219.4
Interest received	**202.3**	238.1	388.1
Interest paid	**(85.3)**	(43.3)	(208.6)
Taxation paid	**(43.2)**	(9.6)	(35.9)
Net cash outflow from operating activities	**(47.0)**	(152.0)	(188.4)
Cash flows from investing activities			
Cash acquired on the acquisition of Partnership Assurance Group plc	**–**	268.6	268.6
Acquisition of property and equipment	**–**	(0.3)	(10.3)
Net cash inflow from investing activities	**–**	268.3	258.3
Cash flows from financing activities			
Increase in borrowings	**–**	–	202.1
Interest paid	**(20.7)**	(1.8)	(6.0)
Dividends paid	**(22.3)**	(10.2)	(32.9)
Issue of ordinary share capital (net of costs)	**1.4**	–	96.9
Net cash (outflow)/inflow from financing activities	**(41.6)**	(12.0)	260.1
Net (decrease)/increase in cash and cash equivalents	**(88.6)**	104.3	330.0
Cash and cash equivalents at start of period	**643.7**	708.1	313.7
Cash and cash equivalents at end of period	**555.1**	812.4	643.7
Cash available on demand	**155.0**	339.9	71.4
Units in liquidity funds	**400.1**	472.5	572.3
Cash and cash equivalents at end of period	**555.1**	812.4	643.7

Notes to the Condensed consolidated financial statements

1 Basis of preparation
These Condensed interim financial statements comprise the Condensed consolidated financial statements of Just Group plc (formerly JRP Group plc) ("the Company") and its subsidiaries, together referred to as "the Group", as at, and for the period ended, 30 June 2017.

These Condensed interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34: Interim Financial Reporting, as adopted by the European Union.

These Condensed interim financial statements do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. The results for the 18 month period ended 31 December 2016 have been taken from the Group's 2016 Annual Report and Accounts, which was approved by the Board of Directors on 9 March 2017 and delivered to the Registrar of Companies. The report of the auditor on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006. The results for the six month period ended 30 June 2016 have been taken from the Group's Interim Results for the six months to 30 June 2016.

The Directors have undertaken a going concern assessment and, as a result of this assessment, are satisfied that the Group and the Company have adequate resources to continue to operate as a going concern for a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the Condensed interim financial statements.

The accounting policies applied are the same as those applied in the Group's 2016 Annual Report and Accounts. The Group has not early-adopted any standard, interpretation or amendment that has been issued but is not yet effective.

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.

Restatement of results for the six months ended and financial position at 30 June 2016
In accordance with the accounting standard on Business Combinations (IFRS 3), valuations used in acquisition balance sheets may be refined within one year following the acquisition date. The fair value of PAG identifiable assets and liabilities acquired were determined to have a net value of £571.6m (including £169.6m of acquired intangibles other than goodwill) in the 31 December 2016 financial statements, compared with the initial value of £644.7m (including £192.0m of acquired intangibles other than goodwill) disclosed in the 30 June 2016 Interim report.

As a consequence, the results for the six months ended 30 June 2016 have been restated for the decrease in goodwill arising on the acquisition of £73.1m and the decrease in amortisation of acquired intangible assets in the period from acquisition to 30 June 2016. The impact on profit before tax was a decrease of £68.3m, being the release of £72.8m of negative goodwill previously recognised through profit and loss, offset by £4.5m reduction in post-acquisition amortisation. The impact on net assets at 31 December 2016 was a decrease of £69.1m, being the decrease in profit before tax after a tax credit of £0.8m in respect of the release of post-acquisition amortisation of acquired intangibles.

When compared with consideration of £571.9m, revised goodwill of £0.3m arose on acquisition, as follows:

	Fair value reported at 31 December 2016 £m	Provisional fair value reported at 30 June 2016 £m
Assets		
Acquired value of in-force business and intangible assets – before goodwill	169.6	192.0
Property, plant and equipment	8.7	8.7
Financial investments	5,293.9	5,298.9
Investment in joint ventures and associates	0.2	0.2
Reinsurance assets	3,299.5	3,265.3
Deferred tax assets	8.3	8.3
Current tax assets	–	5.6
Prepayments and accrued income	3.1	3.1
Insurance and other receivables	41.5	45.6
Cash and cash equivalents	268.6	268.6
Total assets	**9,093.4**	**9,096.3**
Liabilities		
Insurance liabilities	5,619.8	5,554.7
Loans and borrowings	94.3	94.1
Financial liabilities	2,737.2	2,725.4
Deferred tax liabilities	32.5	36.5
Current tax liabilities	1.3	–
Insurance and other payables	36.7	40.9
Total liabilities	**8,521.8**	**8,451.6**
Net assets	**571.6**	**644.7**
Goodwill arising on acquisition	**0.3**	**(72.8)**
Total net assets acquired	**571.9**	**571.9**
Fair value of shares exchanged	569.5	569.5
Fair value cost of exchanging employee share schemes	2.4	2.4
Total consideration	**571.9**	**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. The merger reserve represents a distributable reserve.

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 will be amortised in accordance with the Group's accounting policies.

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

Goodwill arising on acquisition

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

In addition, £24.1m has been restated from net investment income to finance costs within the 30 June 2016 comparative to bring the classification of interest on reinsurance deposits in line with the Group's treatment and align it with treatment at 31 December 2016.

3 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, restructuring costs and other exceptional items. Exceptional items are those items that, in the Directors' view, are required to be separately disclosed by virtue of their nature or incidence to enable a full understanding of the Group's financial performance.

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

Segmental analysis

The Insurance segment writes insurance products for the retirement market – which include Guaranteed Income for Life Solutions, 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

6 months ended 30 June 2017	**Insurance £m**	**Other £m**	**Total £m**
New business operating profit	64.0	–	64.0
In-force operating profit	36.2	0.4	36.6
Underlying operating profit	**100.2**	**0.4**	**100.6**
Operating experience and assumption changes	(6.4)	–	(6.4)
Other Group companies' operating result	–	(7.5)	(7.5)
Reinsurance and financing costs	(21.6)	2.1	(19.5)
Adjusted operating profit/(loss) before tax	**72.2**	**(5.0)**	**67.2**
Non-recurring and project expenditure	(2.6)	(0.8)	(3.4)
Investment and economic profits	30.9	0.1	31.0
Profit/(loss) before acquisition and amortisation costs, before tax	**100.5**	**(5.7)**	**94.8**
Acquisition integration costs			(16.4)
Amortisation costs			(12.4)
Profit before tax			**66.0**

6 months ended 30 June 2016 (Restated*)	Insurance £m	Other £m	Total £m
New business operating profit	32.8	–	32.8
In-force operating profit	31.2	0.2	31.4
Underlying operating profit	64.0	0.2	64.2
Operating experience and assumption changes	0.1	–	0.1
Other Group companies' operating result	–	(5.0)	(5.0)
Reinsurance and financing costs	(17.0)	8.3	(8.7)
Adjusted operating profit before tax	47.1	3.5	50.6
Non-recurring and project expenditure	(4.3)	(1.2)	(5.5)
Investment and economic profits/(losses)	147.1	(2.5)	144.6
Profit/(loss) before acquisition and amortisation costs, before tax	189.9	(0.2)	189.7
Acquisition integration costs			(15.9)
Acquisition transaction costs			(7.9)
Amortisation costs			(7.8)
Profit before tax			158.1

*see note 2.

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

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 Condensed consolidated statement of comprehensive income, is analysed by product below.

	6 months ended 30 June 2017 £m	6 months ended 30 June 2016 £m	18 months ended 31 December 2016 £m
Defined Benefit De-risking Solutions ("DB")	**295.6**	164.4	1,644.6
Guaranteed Income for Life contracts ("GIfL")	**389.9**	298.6	949.2
Care Plans ("CP")	**34.1**	41.3	97.1
Protection	**1.9**	0.8	2.6
Gross premiums written	**721.5**	505.1	2,693.5

New business sales not included in gross premiums written

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.

	6 months ended 30 June 2017 £m	6 months ended 30 June 2016 £m	18 months ended 31 December 2016 £m
Drawdown	**22.4**	5.4	32.4
LTM loans advanced	**230.2**	255.3	729.8

Reconciliation of gross premiums written to new business sales

	6 months ended 30 June 2017 £m	6 months ended 30 June 2016 £m	18 months ended 31 December 2016 £m
Gross premiums written	**721.5**	505.1	2,693.5
Change in premiums receivable not included in new business sales*	**0.9**	22.4	24.9
Drawdown and LTM new business sales not included in gross premiums written	**252.6**	260.7	762.2
New business sales	**975.0**	788.2	3,480.6

* 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.

4 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.

	6 months ended 30 June 2017			6 months ended 30 June 2016			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	Earnings £m	Weighted average number of shares million	Earnings per share pence
Basic	**58.6**	**930.6**	**6.30**	119.7	650.2	18.41	147.5	731.6	20.16
Effect of dilutive potential ordinary shares:									
Share options	**–**	**6.8**	**(0.05)**	–	3.4	(0.10)	–	5.3	(0.14)
Diluted	**58.6**	**937.4**	**6.25**	119.7	653.6	18.31	147.5	736.9	20.02

5 Dividends

Dividends paid were as follows.

	6 months ended 30 June 2017 £m	6 months ended 30 June 2016 £m	18 months ended 31 December 2016 £m
Final dividend:			
- in respect of the 18 month period 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:			
- 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	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	**22.3**	10.2	32.9

The Directors have declared an interim dividend of 1.17 pence per share in respect of the current period.

6 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.

	30 June 2017 £m	31 December 2016 £m	30 June 2016 £m
Fair value			
Units in liquidity funds	**430.1**	572.3	473.1
Debt securities and other fixed income securities	**9,877.8**	9,751.9	8,858.4
Deposits with credit institutions	**106.6**	73.2	77.2
Derivative financial assets	**77.5**	107.0	90.1
Loans secured by residential mortgages	**6,519.4**	6,430.4	6,374.0
Loans secured by commercial mortgages	**187.5**	163.8	134.3
Other loans	**245.8**	192.5	183.0
Amounts recoverable from reinsurers on investment contracts	**45.6**	28.5	9.7
Total fair value	**17,490.3**	17,319.6	16,199.8
Cost			
Units in liquidity funds	**430.1**	572.3	473.1
Debt securities and other fixed income securities	**9,004.7**	8,907.6	8,133.5
Deposits with credit institutions	**106.6**	73.2	77.2
Derivative financial assets	**–**	–	8.2
Loans secured by residential mortgages	**4,172.4**	3,927.5	3,678.4
Loans secured by commercial mortgages	**183.9**	159.0	127.1
Other loans	**214.3**	160.9	158.5
Amounts recoverable from reinsurers on investment contracts	**43.2**	29.1	4.1
Total cost	**14,155.2**	13,829.6	12,660.1

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 £104.4m (31 December 2016: £71.0m, 30 June 2016: £76.0m) 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, and investment contract liabilities.

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

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

The Level 3 Other loans are infrastructure-related loans, and are valued using discounted cash flow 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 30 June 2017 (31 December 2016: nil; 30 June 2016: nil).

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

30 June 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets held at fair value				
Units in liquidity funds	424.0	6.1	–	**430.1**
Debt securities and other fixed income securities	567.5	9,124.0	186.3	**9,877.8**
Deposits with credit institutions	105.1	1.5	–	**106.6**
Derivative financial assets	–	77.5	–	**77.5**
Loans secured by residential mortgages	–	–	6,519.4	**6,519.4**
Loans secured by commercial mortgages	–	–	187.5	**187.5**
Other loans	-	7.2	238.6	**245.8**
Recoveries from reinsurers on investment contracts	–	–	45.6	**45.6**
Total assets held at fair value	**1,096.6**	**9,216.3**	**7,177.4**	**17,490.3**
Liabilities held at fair value				
Investment contract liabilities	–	–	214.1	**214.1**
Derivative financial liabilities	–	180.9	–	**180.9**
Obligations for repayment of cash collateral received	3.4	100.6	–	**104.0**
Deposits received from reinsurers	–	–	2,686.3	**2,686.3**
Total liabilities held at fair value	**3.4**	**281.5**	**2,900.4**	**3,185.3**

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

30 June 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets held at fair value				
Units in liquidity funds	473.1	–	–	473.1
Debt securities and other fixed income securities [1]	556.4	8,221.1	80.9	8,858.4
Deposits with credit institutions	76.0	1.2	–	77.2
Derivative financial assets	–	90.1	–	90.1
Loans secured by residential mortgages	–	–	6,374.0	6,374.0
Loans secured by commercial mortgages	–	–	134.3	134.3
Other loans	–	1.4	181.6	183.0
Recoveries from reinsurers on investment contracts	–	–	9.7	9.7
Total assets held at fair value[1]	1,105.5	8,313.8	6,780.5	16,199.8
Liabilities held at fair value				
Investment contract liabilities	–	–	213.0	213.0
Derivative financial liabilities	–	268.6	–	268.6
Obligations for repayment of cash collateral received	–	30.2	–	30.2
Deposits received from reinsurers	–	–	2,733.7	2,733.7
Total liabilities held at fair value	–	298.8	2,946.7	3,245.5

[1] After restatement of Partnership assets in order to present consistently with classification as at 31 December 2016.

(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.

(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

6 months ended 30 June 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 period	**179.0**	**6,430.4**	**163.8**	**188.7**	**28.5**	**(222.3)**	**(2,741.1)**
Purchases/Advances/Deposits	**–**	**230.2**	**26.5**	**50.0**	**20.9**	**(22.4)**	**(15.0)**
Transfers from Level 2	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Sales/Redemptions/Payments	**(0.1)**	**(125.5)**	**–**	**–**	**(5.5)**	**32.6**	**115.7**
Gains and losses recognised in profit or loss within net investment income	**7.4**	**(137.8)**	**(2.9)**	**(0.1)**	**1.7**	**–**	**1.1**
Interest accrued	**–**	**122.1**	**0.1**	**–**	**–**	**–**	**(47.0)**
Change in fair value of liabilities recognised in profit or loss	**–**	**–**	**–**	**–**	**–**	**(2.0)**	**–**
At end of period	**186.3**	**6,519.4**	**187.5**	**238.6**	**45.6**	**(214.1)**	**(2,686.3)**

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

6 months ended 30 June 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	65.0	3,802.4	–	101.6	4.8	(211.9)	–
On acquisition of Partnership Assurance Group plc	0.1	1,624.2	117.2	–	–	–	(2,659.6)
Purchases/Advances/Deposits	–	260.4	13.9	57.1	–	(5.4)	(35.9)
Transfers from Level 2	12.6	–	–	–	–	–	–
Sales/Redemptions/Payments	(3.2)	(77.0)	(0.4)	–	–	12.6	57.6
Gains and losses recognised in profit or loss within net investment income	6.6	600.8	2.5	22.9	4.9	–	(71.7)
Interest accrued	(0.2)	163.2	1.1	–	–	–	(24.1)
Change in fair value of liabilities recognised in profit or loss	–	–	–	–	–	(8.3)	–
At end of period	80.9	6,374.0	134.3	181.6	9.7	(213.0)	(2,733.7)

Debt securities and other fixed income securities

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

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

Redemption and defaults

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

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

Sensitivity analysis

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:

Increase/(decrease) in fair value (£m)	Debt securities and other fixed income securities Credit spreads +100bps
30 June 2017	**(17.8)**
30 June 2016	(11.1)
31 December 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 Just Retirement (30 June 2016: 3.6%; 31 December 2016: 4.3%) and 4.2% for loans written by Partnership (30 June 2016: 4.6%; 31 December 2016: 4.3%). The expense assumptions will be reviewed ahead of the reporting of full year 2017 results.

Mortality

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

Property prices

The value of a property at the date of valuation is calculated by taking the latest valuation for that property and indexing this value using the Office for National Statistics monthly index for the property's location. The appropriateness of this valuation basis is regularly tested on the event of redemption of mortgages.

Voluntary redemptions

Assumptions for future voluntary redemption levels are based on the Group's recent analyses and external benchmarking, and the assumed redemption rate for policies in their first year is 0.7% for loans written by Just Retirement (30 June 2016: 0.7%; 31 December 2016: 0.7%) and 1.8% for loans written by Partnership (30 June 2016: 1.5%; 31 December 2016: 1.8%).

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			
Increase/(decrease) in fair value (£m)	Maintenance expenses +10%	Mortality -5%	Property prices -10%	Voluntary redemptions +10%
30 June 2017	**(5.8)**	**29.7**	**(74.1)**	**(25.0)**
30 June 2016	(5.6)	38.5	(87.0)	(35.0)
31 December 2016	(5.9)	36.8	(79.8)	(30.7)

The sensitivity factors are determined via actuarial models. The analysis has been prepared for a change in each variable with other assumptions remaining constant. In reality such an occurrence is unlikely due to 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 assumptions 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 1.0% (30 June 2016: 0.9%; 31 December 2016: 0.9%) plus a spread of between 1.3% (30 June 2016: 1.3%; 31 December 2016: 1.3%) and 2.8% (30 June 2016: 2.8%; 31 December 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
Increase/(decrease) in fair value (£m)	**Interest rates +100bps**
30 June 2017	**(10.4)**
30 June 2016	(8.5)
31 December 2016	(9.5)

Other loans

Other loans classified as Level 3 are infrastructure loans.

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

Redemption and defaults

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

Sensitivity analysis

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:

	Other loans
Increase/(decrease) in fair value (£m)	**Credit spreads +100bps**
30 June 2017	**(25.1)**
30 June 2016	(19.4)
31 December 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 profit before tax

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

Investment contract liabilities

Principal assumptions underlying the calculation of investment contract liabilities

Maintenance expenses

Assumptions for future policy expense levels are based on the Group's recent expense analyses. The assumed future expense levels incorporate an annual inflation rate allowance of 4.4% (30 June 2016: 4.0%; 31 December 2016: 4.5%).

Sensitivity analysis

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

Deposits received from reinsurers

Principal 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 were 3.22% (30 June 2016: 3.51%; 31 December 2016: 3.24%) and for Individual care annuities were 1.05% (30 June 2016: 1.26%; 31 December 2016: 1.17%).

Credit spreads

The valuation of deposits received from reinsurers includes a credit spread applied by individual reinsurer. A credit spread of 133bps was applied in respect of the most significant reinsurance contract (30 June 2016: 135bps; 31 December 2016: 166bps).

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. 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**
30 June 2017	**(103.2)**	**(212.4)**
30 June 2016	(127.7)	(217.7)
31 December 2016	(106.5)	(223.5)

7 Share capital

The allotted and issued ordinary share capital of Just Group plc at 30 June 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	**1,140,779**	**0.1**	**1.3**	**–**	**1.4**
At 30 June 2017	**934,024,812**	**93.4**	**93.0**	**532.7**	**719.1**

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

	Number of £0.10 ordinary shares	Share capital £m	Share premium £m	Merger reserve £m	Total £m
At 1 January 2016	564,397,402	56.5	91.7	–	148.2
Shares issued in exchange for shares in PAG	368,376,421	36.8	–	532.7	569.5
At 30 June 2016	932,773,823	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, and represents a distributable reserve.

8 Loans and borrowings

	30 June 2017 £m	31 December 2016 £m	30 June 2016 £m
Bank borrowings	–	–	98.1
Subordinated debt	**343.5**	343.1	94.1
Total loans and borrowings	**343.5**	343.1	192.2

Bank borrowings
The outstanding bank loan balance was repaid in full in October 2016. The fair value of the bank borrowings was the same as the carrying value.

Subordinated debt
In March 2015, the Partnership Group issued a £100m Solvency II Tier 2 qualifying instrument at par with a five year call date, a maturity date of March 2025 and a coupon of 9.5%. Net of issuance fees the amount received was £99.9m. The fair value of the debt at the date of acquisition of PAG was £94.1m, and the difference to the nominal value is being amortised over the period to maturity. The carrying value at 30 June 2017 of £94.9m compared with a fair value of £105.4m.

On 26 October 2016, Just Group issued a £250m Solvency II Tier 2 qualifying instrument at par with a maturity date of October 2026 and a coupon of 9.0%. A subordinated guarantee has been provided by Just Retirement Limited. Net of issuance fees the amount received was £248.8m and the difference to the nominal value is being amortised over the period to maturity. The carrying value at 30 June 2017 of £248.6m compared with a fair value of £273.7m.

9 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	**30 June 2017 £m**	31 December 2016 £m	30 June 2016 £m
Fair value through profit or loss				
Derivative financial liabilities	(a)	**180.9**	189.3	268.6
Obligations for repayment of cash collateral received	(a)	**104.0**	52.2	30.2
Deposits received from reinsurers	(b)	**2,686.3**	2,741.1	2,733.7
Liabilities measured using insurance rules under IFRS4				
Deposits received from reinsurers	(b)	**2,134.1**	2,490.3	2,566.2
Reinsurance finance	(c)	**56.9**	65.9	74.2
Reinsurance funds withheld	(d)	**193.2**	202.0	210.0
Total other liabilities		**5,355.4**	5,740.8	5,882.9

(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.

10 Derivative financial instruments

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

Derivatives	**Asset fair value £m**	**Liability fair value £m**	**Notional amount £m**
Foreign currency swaps	**2.4**	**95.7**	**844.4**
Interest rate swaps	**47.3**	**51.3**	**1,103.7**
Inflation swaps	**24.4**	**31.2**	**1,383.0**
Forward swap	**2.8**	**2.7**	**359.1**
Credit default swaps	**0.6**	–	**43.4**
Interest rate futures	–	–	**0.1**
Total at 30 June 2017	**77.5**	**180.9**	**3,733.7**

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

Derivatives	Asset fair value £m	Liability fair value £m	Notional amount £m
Foreign currency swaps	0.3	114.7	1,031.4
Interest rate swaps	87.0	66.0	995.3
Interest rate swaptions	–	–	1,140.0
Inflation swaps	–	87.9	805.2
Credit default swaps	2.8	–	21.2
Total at 30 June 2016	90.1	268.6	3,993.1

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 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 30 June 2017, the Company had pledged collateral of £160.7m (31 December 2016: £176.6m; 30 June 2016: £197.4m) of which £53.5m were gilts and European Investment Bank bonds (31 December 2016: £105.6m; 30 June 2016: £36.5m) and had received cash collateral of £104.0m (31 December 2016: £52.2m; 30 June 2016: £30.2m).

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

	6 months ended 30 June 2017 £m	6 months ended 30 June 2016 £m	18 months ended 31 December 2016 £m
Movement in fair value of swaps	**(21.1)**	(61.1)	3.3
Realised losses on interest rate swaps closed	**2.2**	(26.3)	(68.5)
Total amounts recognised in profit or loss	**(18.9)**	(87.4)	(65.2)

11 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.

	6 months ended 30 June 2017 £m	6 months ended 30 June 2016 £m	18 months ended 31 December 2016 £m
Short-term employee benefits	**1.3**	1.5	6.3
Share-based payments	**0.9**	0.2	3.5
Total key management compensation	**2.2**	1.7	9.8
Loans owed by Directors	**0.3**	0.3	0.3
Loans advanced to associate and fees on loans	**0.2**	0.2	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.

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

12 Post balance sheet events

There have been no material events between 30 June 2017 and the date of this report that are required to be brought to the attention of shareholders.