

**NEWS RELEASE**

**15 September 2016**

**JRP GROUP PLC  
INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016  
DELIVERING SUSTAINABLE GROWTH**

JRP Group plc (“the Group”) announces its interim results for the six months ended 30 June 2016.

**Highlights**

**Merger delivering  
benefits ahead of  
schedule**

- Annual run-rate synergy target increased by 13% to £45m by end of 2018
- £15m of run-rate synergies achieved to date since the beginning of April

**New business  
sales momentum**

- Guaranteed Income for Life (GifL) sales increased by 52% to £321m, or a pro-forma increase of 17% to £397m, making JRP the largest provider of GifL solutions in the Open Market
- Defined Benefit De-risking (DB) sales of £164m were lower than in 2015 as expected. Since the end of June over £330m of DB sales have been transacted
- Lifetime Mortgage (LTM) advances of £255m up 71%, or a pro-forma increase of 57% to £322m, making JRP the largest funder of LTMs in the period

**Profit and margin  
improvement**

- Improved IFRS new business margins up from 4% to 6%, or pro-forma margins up from 2% to 5%, before the benefit of merger synergies
- IFRS operating profit up 55% to £51m, or a pro-forma increase of 12%, to £48m
- IFRS profit before tax of £226m

**Strong balance  
sheet and resilient  
capital position**

- IFRS Tangible Net Asset Value of £1,424m, or 153p per share
- Embedded value of £2,116m, or 227p per share
- Solvency II SCR coverage ratio of 134%
- Economic capital ratio of 185%
- Interim dividend of 1.1p on expanded shareholder base

**Rodney Cook, Group Chief Executive, said:**

"We were delighted to have completed the merger of Just Retirement and Partnership at the beginning of April and I am pleased to announce we are ahead of schedule in delivering synergy benefits. In addition we have raised our synergy target from £40m and now expect to achieve annualised savings of at least £45m by the end of 2018. Our new business margin is starting to demonstrate the opportunity we have for potential further improvement as we deliver the cost synergies.

We have seen a considerable increase in Guaranteed Income for Life sales, which demonstrates the capability of the combined organisation and our competitive positioning in the open market. Our progress in DB is also strong, with sales of over £330m since the end of June, more than double the amount we completed in the whole of the first half. We continue to see a large and increasing pipeline of DB opportunities. Mortgage advances have also performed strongly, which positions the Group well for a strong second half in retirement product sales.

We are successfully adapting our business model to the new capital environment. The combination of increased margins, synergy delivery and a current coverage ratio of 134%, together with low gearing, gives us confidence in the long term growth prospects of the Group.

We look forward to giving you more detail on JRP, the attractiveness of our growing markets, competitive strengths and capital model at our capital markets day planned on 5th October."

## Notes

The merger of Just Retirement and Partnership is required for accounting purposes to be treated as an acquisition by Just Retirement of Partnership with an effective date of the beginning of April 2016. Accordingly the statutory information only includes the results of Partnership for the three months from April 2016. As a consequence pro-forma financial performance measures as though the merger took place at the beginning of January 2015 have been presented to give the market an understanding of the business of the merged group.

These interim results comprise the second set of interim results for the period from 1 July 2015 to 30 June 2016. The commentary above focuses on the half year from 1 January 2016 to 30 June 2016.

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A presentation for analysts will take place at 9.30am today at Numis Securities Limited, The London Stock Exchange Building, 10 Paternoster Square, London EC4M 7LT

UK FreeCall: 08006940257  
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Conference ID: 69388382

A copy of this announcement, the presentation slides and a transcript of the conference call will be available on the Group's website [www.jrpgroup.com](http://www.jrpgroup.com)

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## FINANCIAL CALENDAR:

	Date
Record date for second interim dividend	23 September 2016
Capital Markets Day	5 October 2016
Payment of second interim dividend	28 October 2016
Business update for the period ending 30 September 2016	3 November 2016

## Chief Executive Officer's Report

### Introduction

I am pleased to present the inaugural half year report for the new JRP Group plc, which was formed at the beginning of April 2016 following the completion of the merger between Just Retirement Group plc ("Just Retirement") and Partnership Assurance Group plc ("Partnership").

The completion of the merger represents the culmination of a significant amount of hard work over the last year and I would like to thank those people who contributed to bringing the two groups together successfully. On behalf of the Chairman I would like to welcome the new members of the Board and to thank those directors who have stepped down from both the Just Retirement and Partnership Boards.

I am excited about the opportunities that the merger opens up for our larger and stronger business as we begin to demonstrate our combined strength and expertise in our chosen markets.

We have made a good start to integrating the two businesses, with progress helped by the significant similarities between the two and by the strong management team that we have appointed to help deliver the opportunities before us.

It will take time to complete the integration with some significant complexities to overcome, but we have managed to deliver £15m of annualised savings in the first five months following completion of the merger. As we have been able to review the potential for the integration in greater detail, we are upgrading our target savings to at least £45m pa with the full run-rate being achieved by 2018.

I am pleased to be able to report continued progress in 2016 in our key GfL and DB markets. This has been achieved after allowing for changes in pricing driven by the Solvency II capital requirements which became effective at the beginning of the period.

Our distribution franchise across our retail and wholesale markets is well developed and continues to strengthen. Our corporate solutions business has deepened its penetration to reach over 20 per cent of FTSE 100 companies through our innovative worksite offering of retirement focused member services. Additionally we have extended the services we provide to a range of existing corporate clients and secured new mandates to provide a range of outsourced product, software and administration solutions to banks, life insurance companies and affinity partners.

### Performance review

The merger of Just Retirement and Partnership is required for accounting purposes to be treated as an acquisition by Just Retirement of Partnership with an effective date of the beginning of April 2016. As a consequence pro-forma financial performance measures, as though the merger took place at the beginning of January 2015, have been presented to give the market an understanding of the business of the merged group. Pro-forma financial information is shown in the commentary below and at the front of the Business review section.

DB sales stand at £164m on a pro-forma basis for the six months to 30 June 2016 (2015 pro-forma DB sales: £322m). In the current period, the pattern of DB sales has been influenced by expected pricing disruption following the introduction of the Solvency II regime and increased capital requirements. However the DB pipeline remains strong and since the period end the Group has written over £330m of further DB business.

We have seen a good return to growth in the GfL market, with pro-forma sales up 17% compared to the same period in 2015 (pro-forma GfL sales: £397m vs £340m). This demonstrates a continued improving trend in the GfL market now that the pensions reforms announced in the 2014 budget have taken place, and advisers and consumers have had a chance to adjust to the new pensions landscape.

We have seen impressive growth in Care Plan sales of 42%, based on pro-forma sales of £58m (pro-forma 2015 Care Plan sales, £41m).

Lifetime mortgages ("LTM") of £322m on a pro-forma basis (pro-forma 2015, £205m) were advanced for the six months. Our longer term target of advances as a proportion of Retirement Income sales remains at around 25%, and the sales in the first half provide us with capacity to write profitable DB and GfL business in the second half of the year.

The pro-forma new business operating profit margin, which is measured as the ratio of new business operating profit to Retirement Income sales (comprising DB, GfL and Care), was 5.0%. The pro-forma margin is higher than the margin achieved in the six months to June 2015 and the increase reflects higher margins achieved on GfL business after pricing changes following the implementation of Solvency II capital requirements, together with higher backing asset yields, partially offset by lower sales of DB business.

Overall, operating profit before tax, on a pro-forma basis for the six months ended 30 June 2016, was £48.4m, up 12% on the comparative period, mainly driven by the increase in new business operating profit.

The Group's financial investments increased by £2.8bn from 30 June 2015 to £16.2bn at 30 June 2016, on a pro-forma basis. This is as a result of the new business premiums written during the period and asset value appreciation as a result of lower risk free interest rates.

The Group's total equity on a statutory basis at 30 June 2016 was £1,676.4m (30 June 2015: £814.0m), and the profit before tax for the year ended 30 June 2016 on a statutory basis was £252.5m (2015: loss of £29.6m), reflecting the merger with Partnership, increase in new business volumes and margins, and a positive overall impact in this period from investment and economic profits, compared to significant economic losses in the prior period (investment and economic profits 2016: £147.0m; 2015 loss of £74.1m).

Group European Embedded Value amounted to £2,116.1m at 30 June 2016 or £2.27 per share (30 June 2015: £1,019.3m). The primary drivers for this increase relate to the merger with Partnership (£685.0m), economic variances of £190.3m, new business written in the period of £115.3m and basis harmonisation following the merger (£47.6m).

The Group remains comfortably capitalised under Solvency II with a Solvency Capital ratio of 134% at 30 June 2016. The Group has low gearing and the significant majority of current own funds is comprised of Tier 1 capital. The Group's economic capital ratio at 30 June 2016 was 185%. 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.

As we announced in March we are very proud to have received recognition from the industry for the quality of our service, receiving 5 star ratings at the 2015 Financial Adviser Service Awards. This continued success means that we have held 5 star ratings for an impressive 11 years for Life & Pensions and eight years for Mortgage Lenders and Packagers, demonstrating our excellent quality of support and customer focus. In addition I am delighted that Just Retirement in 2016 was placed first in the Quality Service Provider award by the Institute of Customer Service.

I am also pleased to report that as Just Retirement Group plc we were for the 6<sup>th</sup> time ranked within "The Sunday Times 100 Best Companies to Work For" list for 2016, achieving a rating of "Outstanding" and the ranking of 92.

### **Outlook**

JRP Group plc has had a very successful start to the year. We have continued to deliver growth at the same time as we integrate our businesses and our focus remains on delivering simple to understand, good value products and services to our Retail and Wholesale customers.

I also want to thank our colleagues once again, not just for achieving these strong results, but also for coping with a significant period of uncertainty and for maintaining high quality customer service.

I am excited about the opportunities that the merger of Just Retirement and Partnership will open up for the new enlarged and stronger JRP Group plc. We are already demonstrating our combined strength and expertise in our chosen markets, and we look to the future with confidence that we can continue to deliver growth and value for our shareholders.

### **Rodney Cook**

Group Chief Executive

## Business review

### Overview

The merger between Just Retirement Group plc ("Just Retirement") and Partnership Assurance Group plc ("Partnership") completed at the beginning of April 2016, creating JRP Group plc ("JRP"). This is JRP's first interim report following the merger, and the statutory results explained below represent the results of Just Retirement for the entire current 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 Group plc of Partnership Assurance Group plc and Just Retirement Group plc changed its name to JRP Group plc on 4 April 2016. Post-merger, Just Retirement shareholders own approximately 60% of the Combined Group and Partnership Assurance shareholders own approximately 40% of the Combined Group.

The Board of JRP Group plc is made up of 13 directors, comprising directors from both Just Retirement Group plc's and Partnership Assurance Group plc's previous Boards, with suitable individuals selected to create a balanced Board with appropriate skills and relevant experience:

#### **Executive directors:**

Rodney Cook, Group Chief Executive Officer  
David Richardson, Deputy Group Chief Executive Officer (appointed 4 April 2016)  
Simon Thomas, Group Chief Financial Officer

#### **Non-executive directors:**

Chris Gibson-Smith, Chairman (appointed 4 April 2016)  
Tom Cross Brown, Deputy Chairman  
Keith Nicholson, Senior Independent Director  
Paul Bishop (appointed 4 April 2016)  
Peter Catterall (appointed 4 April 2016)  
Ian Cormack (appointed 4 April 2016)  
Michael Deakin  
James Fraser  
Steve Melcher  
Clare Spottiswoode (appointed 4 April 2016)

Shayne Deighton and Kate Avery resigned from the Just Retirement Board on 4 April 2016.

Following the completion of the transaction the new Board remains confident of delivering the significant strategic and financial benefits to attain even better returns for policyholders and shareholders.

Following the transaction, JRP changed its accounting reference date from 30 June to 31 December. JRP's next full audited statutory results will be for the 18 month period ending 31 December 2016.

In addition to the statutory financial information, illustrative financial information prepared on the basis that the transaction had taken place at 1 January 2015 has been provided on an unreviewed and unaudited pro-forma basis, and is shown below, followed by the statutory view of the results.

## Illustrative pro-forma financial information for JRP 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 taken place as at 1 January 2015. Pro-forma information is unreviewed and unaudited. A reconciliation of pro-forma financial information to statutory financial information is given in Note 3 to the Condensed consolidated financial statements.

### New business sales – pro-forma basis

New business sales on a pro-forma basis represent sales for the six months ended 30 June 2016 for both Just Retirement and Partnership, together with comparative information on a pro-forma basis representing sales for the six months ended 30 June 2015 for both Just Retirement and Partnership.

Pro-forma (unreviewed and unaudited)	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m
Defined Benefit De-risking Solutions (“DB”)	164.4	322.1
Guaranteed Income for Life Solutions (“GfL”)	397.1	339.6
Care Plans (“CP”)	57.7	40.6
<b>Retirement Income sales</b>	<b>619.2</b>	<b>702.3</b>
Drawdown	5.4	13.4
<b>Total Retirement sales</b>	<b>624.6</b>	<b>715.7</b>
Protection	2.3	2.1
LTM loans advanced	321.8	204.8
<b>Total new business sales</b>	<b>948.7</b>	<b>922.6</b>

Total new business sales for the Group on a pro-forma basis increased by 3%, from £922.6m for the six months to 30 June 2015, to £948.7m for the six months to 30 June 2016. The drivers for this increase are explained below.

DB sales on a pro-forma basis for the six months to 30 June 2016 were down 49% compared to the same period in the prior year, falling from £322.1m to £164.4m. In the current period, the pattern of DB sales has been influenced by expected pricing disruption following the introduction of the Solvency II regime and increased capital requirements. However the DB pipeline remains strong and since the period end the Group has written over £330m of further DB business.

GfL sales on a pro-forma basis for the six months to 30 June 2016 have increased by 17% compared to the same period in the prior year (H1 2016: £397.1m; H1 2015: £339.6m). This demonstrates a continuing improving trend in the GfL market now that the pensions reforms announced in the 2014 budget have taken place, and advisers and consumers have had a chance to adjust to the new pensions landscape.

Sales of Care Plans were up 42% on a pro-forma basis, from £40.6m in H1 2015 to £57.7m in H1 2016. The Group benefits from strong performance in this sector, reflecting our increased competitiveness and scale.

Drawdown sales, which include Capped Drawdown (“CD”) and Flexible Pension Plan (“FPP”) sales, decreased on a pro-forma basis from £13.4m in H1 2015 to £5.4m in H1 2016. This is in line with expectation and reflects the closure of the CD product to new business, and the launch of the FPP product which allows customers to take advantage of the new pensions freedoms.

Protection sales increased slightly from £2.1m in H1 2015 to £2.3m in H2 2016 on a pro-forma basis.

LTM sales have increased by 57% on a pro-forma basis, from £204.8m in H1 2015 to £321.8m in H1 2016. The Group has performed strongly in this sector. On a pro-forma basis, these sales are ahead of our longer-term target of c. 25% of Retirement Income sales; the proportion is expected to reduce towards the longer-term target as these sales will be used to match DB pipeline business and the Group's second half sales.

## Operating profit – pro-forma basis

Operating profit on a pro-forma basis represents the operating profit for the six months ended 30 June 2016 for both Just Retirement and Partnership, together with comparative information on a pro-forma basis representing the operating profit for the six months ended 30 June 2015 for both Just Retirement and Partnership. The underlying assumptions have been aligned to be consistent across both Group companies in the current and prior year pro-forma periods.

Pro-forma (unreviewed and unaudited)	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m
New business operating profit	31.0	14.0
In-force operating profit	36.6	34.3
<b>Underlying operating profit</b>	<b>67.6</b>	<b>48.3</b>
Operating experience and assumption changes	(3.4)	8.2
Other Group companies' operating results	(4.8)	(4.5)
Reinsurance and finance costs	(11.0)	(8.6)
<b>Operating profit before tax</b>	<b>48.4</b>	<b>43.4</b>

### Operating profit before tax

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

### 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 compared to the prior period, reflecting changes in pricing following the implementation of Solvency II, particularly for GI/L pricing. The result also benefitted from higher effective yields on backing assets.

### In-force operating profit

In-force operating profit captures the expected margin 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 has increased compared to the prior period. This is as a result of growth in the overall size of the in-force book of business.

### 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 and position.

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

### Other Group companies' operating results

Other Group companies' operating results include the results of Group companies which provide regulated advice and intermediary services, and professional services to corporates, as well as corporate costs incurred by Group holding companies.

### Reinsurance and finance costs

Reinsurance and finance costs includes the interest charge on bank loans and reinsurance financing, together with reinsurance fees incurred in the period, and also includes interest costs in relation to the Tier 2 Notes issued by Partnership Life Assurance Company Limited.

## Embedded Value – pro-forma basis

Embedded Value on a pro-forma basis represents the Embedded Value result for the six months ended 30 June 2016 for both Just Retirement and Partnership, as if the merger had taken place on 1 January 2016. Accordingly, pro-forma comparative Embedded Value information has not been presented. The underlying assumptions have been aligned to be consistent across both Group companies.

Group EEV			
Pro-forma (unreviewed and unaudited)	Covered business £m	Non-covered business £m	Total for six months ended 30 June 2016 £m
<b>Opening Group EEV (Pro-forma)<sup>1</sup></b>	<b>1,523.1</b>	<b>340.6</b>	<b>1,863.7</b>
Operating EEV earnings	43.1	(7.5)	35.6
Non-operating EEV earnings	238.4	(18.1)	220.3
<b>Total EEV earnings</b>	<b>281.5</b>	<b>(25.6)</b>	<b>255.9</b>
Other movements in IFRS net equity	–	6.7	6.7
Dividend and capital flows	10.0	(20.2)	(10.2)
<b>Closing Group EEV</b>	<b>1,814.6</b>	<b>301.5</b>	<b>2,116.1</b>

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

Covered business EEV			
Pro-forma (unreviewed and unaudited)	Net worth £m	VIF £m	Total for six months ended 30 June 2016 EEV £m
<b>Restated opening EEV (Pro-forma)</b>	<b>1,020.5</b>	<b>502.6</b>	<b>1,523.1</b>
New business value	25.2	20.5	45.7
Expected existing business contribution (reference rate and in excess of reference rate)	4.7	11.1	15.8
Transfers from VIF and required capital to free surplus	13.2	(13.2)	–
Experience variances	(3.5)	(1.1)	(4.6)
Assumption changes	(0.6)	(0.3)	(0.9)
Other operating variances	(13.3)	0.4	(12.9)
<b>Operating EEV earnings</b>	<b>25.7</b>	<b>17.4</b>	<b>43.1</b>
Economic variances	146.4	91.6	238.0
Other non-operating variances	(1.4)	1.8	0.4
<b>Total EEV earnings</b>	<b>170.7</b>	<b>110.8</b>	<b>281.5</b>
Dividend and capital flows	10.0	–	10.0
<b>Closing EEV</b>	<b>1,201.2</b>	<b>613.4</b>	<b>1,814.6</b>

Operating EEV earnings include £45.7m from new business written in the period. The other material positive item included in operating EEV earnings is the expected contribution from existing business which has been offset by the impact of the negative experience on lifetime mortgage redemptions and interest paid on subordinated debt.

The key driver for the large increase in embedded value from the non-operating earnings is the impact of the large fall in risk-free interest rates over the period. The non-operating earnings also include transaction and integration costs with regards to the merger (£23.9m pre-tax).

Share based payments was the main driver for the increase in EEV included in the "Other movements in IFRS net equity" line. The JRP Group paid dividends in the period of £10.2m which led to a corresponding reduction in EEV.

## Capital management

### Summary of JRP Group plc economic capital position

	As at 30 June 2016 £m
Total available capital	2,118
Capital required	1,145
<b>Excess available capital resources</b>	<b>973</b>
<b>Coverage ratio</b>	<b>185%</b>

### Summary of JRP 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 and transitionals 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 has received approval to recalculate the transitional relief as at 30 June 2016 in light of the significant interest rate falls that have been experienced in the period.

	As at 30 June 2016 £m
<b>Capital resources</b>	
Total eligible own funds to meet the consolidated Group solvency capital requirement	1,944
Solvency capital requirement	1,453
<b>Excess capital resources</b>	<b>491</b>
<b>Capital ratio</b>	<b>134%</b>

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

## Statutory financial information and Key Performance Indicators

The financial information presented below includes the results of Partnership Assurance Group from the date of acquisition on 1 April 2016. The results for the six months ended 30 June 2016 reflect six months of Just Retirement and three months of Partnership (1 April 2016 to 30 June 2016) and the results for the twelve months ended 30 June 2016 reflect twelve months of Just Retirement and three months of Partnership (1 April 2016 to 30 June 2016). Comparative information for the six and twelve months ended 30 June 2015 reflects the results of Just Retirement only.

### Key Performance Indicators (“KPI’s”)

The Board has adopted the following metrics, which are considered to give an understanding of the Group’s underlying performance. These measures are referred to as key performance indicators.

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m	Twelve months ended 30 June 2016 £m	Twelve months ended 30 June 2015 £m
New business sales	788.2	635.6	2,021.4	1,455.8
New business operating profit	32.8	18.6	78.8	36.8
In-force operating profit	31.4	25.2	50.6	49.6
Underlying operating profit	64.2	43.8	129.4	86.4
European embedded value	2,116.1	1,019.3	2,116.1	1,019.3
Solvency II capital coverage ratio	134%	n/a	134%	n/a
Economic capital coverage ratio	185%	176%	185%	176%

### New business sales

**£2,021.4m** (2014/15: £1,455.8m)

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 sets out a breakdown of new business sales for the six months ended 30 June 2016, the six months 30 June 2015, the twelve months ended 30 June 2016 and the twelve months ended 30 June 2015. New business sales for the six months to 30 June 2016 and for the twelve months to 30 June 2016 benefit from three months of Partnership Assurance Group plc sales arising post-merger.

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m	Twelve months ended 30 June 2016 £m	Twelve months ended 30 June 2015 £m
Defined Benefit De-risking Solutions (“DB”)	164.4	254.2	865.6	608.9
Guaranteed Income for Life Solutions (“GifL”)	320.7	211.6	591.9	478.0
Care Plans (“CP”)	41.4	7.3	58.0	12.1
<b>Retirement Income sales</b>	<b>526.5</b>	<b>473.1</b>	<b>1,515.5</b>	<b>1,099.0</b>
Drawdown	5.4	13.4	12.6	48.7
<b>Total Retirement sales</b>	<b>531.9</b>	<b>486.5</b>	<b>1,528.1</b>	<b>1,147.7</b>
Protection	1.0	–	1.0	–
Lifetime mortgage (“LTM”) loans advanced	255.3	149.1	492.3	308.1
<b>Total new business sales</b>	<b>788.2</b>	<b>635.6</b>	<b>2,021.4</b>	<b>1,455.8</b>

New business sales totalled £2,021.4m for the twelve months ended 30 June 2016, an increase of 39% compared to the same period last year (2014/15: £1,455.8m). The increase is attributable to a combination of new business sales written by Just Retirement, which show an increase of 28%, from £1,456m to £1,858m, plus new business sales written by Partnership which are included in the Group result post-merger, of £163m.

DB sales for the twelve months to 30 June 2016 were £865.6m, compared to £608.9m for the same period last year, an increase of 42%. These sales experienced disruption in the run into and following the introduction of the Solvency II regime which changed the timing pattern of sales. The increase in sales was a result of growth in the overall DB market together with continued growth in the medically underwritten segment. Our DB sales pipeline remains strong and our proposition is differentiated by using our expertise in medically underwriting schemes. Since the end of June 2016, we have written over £330m of further DB business.

The GifL market has continued to improve over the last twelve months, with 2015/16 sales increasing by 24% compared to the prior period (GifL sales 2015/16: £591.9m; 2014/15: £478.0m). The current period GifL sales include the benefit of £63m sales written through Partnership; GifL sales written through Just Retirement in the period increased by 11% from £478m to £529m. This demonstrates a continuing improving trend in the GifL market now that the pensions reforms announced in the 2014 budget have taken place, and advisers and consumers have had a chance to adjust to the new pensions landscape.

Sales of Care Plans increased from £12.1m for the twelve months to 30 June 2015 to £58.0m for the twelve months to 30 June 2016. The result for the current period includes £16m of sales attributable to Partnership post-merger, and the overall significant increase from the prior period reflects our increased competitiveness and scale in this sector.

Drawdown sales include Capped Drawdown ("CD") and Flexible Pension Plan ("FPP") sales. Our CD product is now closed to new customers and has been replaced with the Flexible Pension Plan, which allows consumers to take advantage of the new pensions freedoms (CD and FPP sales 2015/16: £12.6m; 2014/15: £48.7m).

Protection sales of £1.0m relate to Protection business written through Partnership since the merger; Just Retirement did not previously write protection business and the acquisition of Partnership brings this new product into the Group.

LTM sales have increased from £308.1m for the twelve months to 30 June 2015 to £492.3m for the same period to 30 June 2016. Of the increase of £184m, £83m relates to LTMs written through Partnership post-merger. LTM sales are managed in line with our overall Retirement Income sales; and although over the twelve month period to 30 June 2016 LTM sales are ahead of our longer-term target of c. 25% of Retirement Income sales, the proportion will reduce towards the longer-term target as these sales will be used to match DB pipeline business and second half sales.

#### **New business operating profit**

**£78.8m** (2014/15: £36.8m)

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 compared to the prior period, reflecting the growth in new business written in the period, positive changes to GifL pricing following the implementation of Solvency II, and the contribution from DB sales which have a closer durational fit with LTM assets and which deliver higher margins. New business operating profit in the prior year was impacted by competitive pricing for GifL products and by the disruption to the individual retirement market following the 2014 Budget announcement. New business operating profit for the twelve months to 30 June 2016 includes a small contribution from Partnership of £2.5m, recognising that most DB and GifL sales in this period relate to Just Retirement, with Partnership sales relating to its pipeline of GifL sales.

#### **In-force operating profit**

**£50.6m** (2014/15: £49.6m)

In-force operating profit captures the expected margin 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 has increased slightly during the twelve months to 30 June 2016. The size of the in-force book of business has grown as a direct result of the merger, which has led to an increase in the amount of margin now emerging. Excluding the impact of the merger, the in-force operating profit has reduced compared to the prior period. This is as a result of a change to a slower recognition of in-force mortgage returns from 1 July 2015, although the in-force book continues to grow. Of the in-force operating profit for the twelve months to 30 June 2016, £9.7m relates to profit contributed from the Partnership in-force book in the three months post-merger.

#### **Underlying operating profit**

**£129.4m** (2014/15: £86.4m)

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 and position.

The increase in underlying operating profit reflects the movements in new business and in-force operating profit explained above and is a combination of an underlying increase in the volume of business written by Just Retirement, at an increased margin compared to the prior period, plus the benefit of the underlying operating profit attributable to Partnership and included within the Group's results for the three months post-merger.

### **European embedded value (“EEV”)**

**£2,116.1m** (30 June 2015: £1,019.3m)

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 2016 was £2,116.1m, a significant increase of £1,096.8m compared to the closing value at 30 June 2015. The increase reflects the acquisition of Partnership, the value of new business written in the period, positive investment and economic variances, and basis harmonisation.

### **Solvency II capital coverage ratio**

**134%**

Solvency II is the Group’s regulatory capital basis, and came into force on 1 January 2016.

### **Economic capital coverage ratio**

**185%** (30 June 2015: 176%)

Economic capital is a key risk-based capital measure.

## IFRS results

The analysis of the IFRS results for the six months ended 30 June 2016, the six months ended 30 June 2015, the twelve months ended 30 June 2016 and the twelve months ended 30 June 2015 is presented in the table below.

The Group acquired Partnership Assurance Group plc on 1 April 2016, and accordingly the results below include the results of Partnership Assurance Group plc for the three month period from the date of acquisition to the period end.

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m	Twelve months ended 30 June 2016 £m	Twelve months ended 30 June 2015 £m
New business operating profit	32.8	18.6	78.8	36.8
In-force operating profit	31.4	25.2	50.6	49.6
<b>Underlying operating profit</b>	<b>64.2</b>	43.8	<b>129.4</b>	86.4
Operating experience and assumption changes	0.1	(0.3)	(3.4)	2.4
Other Group companies' operating results	(5.0)	(4.8)	(10.9)	(8.7)
Reinsurance and finance costs	(8.7)	(6.0)	(14.7)	(12.5)
<b>Operating profit before tax</b>	<b>50.6</b>	32.7	<b>100.4</b>	67.6
Non-recurring and project expenditure	(5.5)	(9.5)	(13.5)	(19.4)
Investment and economic profits/(losses)	144.6	(41.8)	147.0	(74.1)
<b>Profit/(loss) before acquisition transaction and amortisation costs, before tax</b>	<b>189.7</b>	(18.6)	<b>233.9</b>	(25.9)
Acquisition integration costs	(15.9)	–	(15.9)	–
Acquisition transaction costs	(7.9)	–	(24.2)	–
Amortisation costs	(12.3)	(1.8)	(14.1)	(3.7)
Gain on acquisition of Partnership Assurance Group plc	72.8	–	72.8	–
<b>Profit/(loss) before tax</b>	<b>226.4</b>	(20.4)	<b>252.5</b>	(29.6)

### Operating profit before tax

Operating profit before tax represents the operating results of the Group, including the acquired Partnership business, before taking into account non-recurring and project expenditure, investment and economic profits/(losses), acquisition integration and transaction costs, amortisation costs of intangible assets including the acquired in-force business asset, and gain on acquisition of Partnership Assurance Group plc.

Operating profit before tax for the twelve months ended 30 June 2016 totalled £100.4m, an increase of £32.8m compared to the twelve months ended 30 June 2015 (£67.6m). The movement has been mainly driven by an increase 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.

For the twelve months to 30 June 2016, operating experience and assumption changes amounted to a small loss of £3.4m, compared to a small profit of £2.4m for the twelve months to 30 June 2015.

### Other Group companies' operating results

Other Group companies' operating results include the results of Group companies which provide regulated advice and intermediary services, and professional services to corporates, as well as corporate costs incurred by Group holding companies. These companies reported an operating loss for the twelve months to 30 June 2016 of £10.9m (2014/15: loss of £8.7m).

### Reinsurance and finance costs

Reinsurance and finance costs include the interest charge on bank loans and reinsurance financing, together with reinsurance fees incurred in the period, and also include interest costs in relation to the Tier 2 Notes issued by Partnership Life Assurance Company Limited.

Reinsurance and bank finance costs are in line with the prior period; the increase compared to the prior period relates to the interest cost on the Tier 2 Notes issued by Partnership Life Assurance Company Limited for the three months post-merger (Reinsurance and bank finance costs 2015/16: £14.7m; 2014/15: £12.5m).

### 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 and are explained further below.

Non-recurring and project expenditure decreased to £13.5m for the twelve months to 30 June 2016, from £19.4m for the twelve months to 30 June 2015. These costs include the costs of implementing the new Solvency II regime which came into force on 1 January 2016, and the launch of Just Retirement Money Limited, through which all new mortgage advances are now written. Non-recurring costs in the prior period related to preparation for the Solvency II regime and also to the cost of developing new products in response to the pensions reforms announced in the 2014 Budget, including the Flexible Pension Plan.

#### **Investment and economic profits/(losses)**

Investment and economic profits/(losses) 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/(losses) also reflect the impact of assumption changes in future expected risk-free rates, corporate bond defaults and house price inflation and volatility.

For the twelve months to 30 June 2016, investment and economic profits were £147.0m (2014/15: loss of £74.1m), mainly reflecting the impact of the significant reduction of risk free rates during the period, and the positive impact from the difference between actual and expected investment returns earned, offset by a widening in credit spreads and property valuation movements. Of the investment and economic profits for the current period, £66m is attributable to the Just Retirement business and £81m to the Partnership business.

#### **Acquisition integration costs**

Acquisition integration costs of £15.9m relate to the cost arising from the post-merger integration of the Just Retirement and Partnership businesses and operations. This amount includes a provision of £5m in respect of staff redundancies. The restructuring changes made to date have already delivered approximately £15m of synergies on an annualised basis.

#### **Acquisition transaction costs**

Acquisition transaction costs of £24.2m reflect the one-off costs incurred during the period in relation to the acquisition of Partnership Assurance Group plc. These costs include advisory, legal and stamp duty costs.

#### **Amortisation costs**

Amortisation costs relate to the amortisation of the Group's intangible assets, including the amortisation of intangible assets newly recognised in relation to the acquisition of Partnership Assurance Group plc by JRP Group plc. Acquired in-force business and other intangibles of £192m were recognised on acquisition of Partnership Assurance Group plc. The acquired in-force business asset of £165m is being amortised in line with the run-off of the in-force business. Amortisation of the acquired in-force business relating to Partnership Assurance Group plc during the twelve month period to 30 June 2016 totalled £7.8m.

#### **Gain on acquisition of Partnership Assurance Group plc**

Although the combination of Just Retirement and Partnership was a merger between the two companies, under IFRS 3 "Business Combinations" an acquirer must be identified, and on a statutory basis Just Retirement is considered to have acquired Partnership.

The acquisition of Partnership during the period has given rise to a gain of £72.8m because the consideration was less than the fair value of the identified assets and liabilities acquired. The acquisition consideration was agreed to be an exchange ratio of Just Retirement shares to Partnership shares fixed at the time the transaction was announced in August 2015. Subsequent to this date market uncertainty and sentiment, linked to the changes in the annuity and retirement market, lead to a decline in the market value of Just Retirement shares at the date of the completion of the transaction on 1 April 2016. The market value of the consideration therefore declined below the fair value of the identified assets and liabilities acquired, when assessed separately. In accordance with IFRS 3, Business Combinations, the gain on acquisition is recognised immediately in the income statement. Further information on the accounting for the acquisition is given in Note 2 to the Condensed consolidated financial statements within this interim report.

## 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 for the six months ended 30 June 2016 and twelve months ended 30 June 2016 includes the results of Just Retirement, together with the results of Partnership for the three months from the date of acquisition on 1 April 2016. Prior year comparative figures reflect the results of Just Retirement only.

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m	Twelve months ended 30 June 2016 £m	Twelve months ended 30 June 2015 £m
Gross premiums written	505.1	473.1	1,494.1	1,099.0
Reinsurance premiums ceded	(124.9)	(9.5)	(1,543.6)	(122.9)
Reinsurance recapture	-	950.9	1,166.9	950.9
<b>Net premium revenue</b>	<b>380.2</b>	<b>1,414.5</b>	<b>1,117.4</b>	<b>1,927.0</b>
Net investment income	947.0	86.8	1,252.3	635.2
Gain on acquisition	72.8	-	72.8	-
Fee and commission income	3.3	2.7	6.1	5.1
<b>Total revenue</b>	<b>1,403.3</b>	<b>1,504.0</b>	<b>2,448.6</b>	<b>2,567.3</b>
Net claims paid	(242.9)	(131.0)	(397.5)	(250.5)
Change in insurance liabilities	(747.1)	(1,278.7)	(1,451.7)	(2,095.9)
Change in investment contract liabilities	(8.3)	6.2	(12.1)	(3.5)
Acquisition costs	(9.9)	(8.9)	(23.3)	(18.5)
Other operating expenses:				
Acquisition integration costs	(15.9)	-	(15.9)	-
Acquisition transaction costs	(7.9)	-	(24.2)	-
Other	(95.2)	(67.9)	(160.1)	(127.6)
Finance costs	(49.7)	(44.1)	(111.3)	(100.9)
<b>Total claims and expenses</b>	<b>(1,176.9)</b>	<b>(1,524.4)</b>	<b>(2,196.1)</b>	<b>(2,596.9)</b>
<b>Profit/(loss) before tax</b>	<b>226.4</b>	<b>(20.4)</b>	<b>252.5</b>	<b>(29.6)</b>
Income tax	(37.6)	3.9	(41.8)	4.8
<b>Profit/(loss) after tax</b>	<b>188.8</b>	<b>(16.5)</b>	<b>210.7</b>	<b>(24.8)</b>

### 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 twelve months ended 30 June 2016 were £1,494.1m, compared to £1,099.0m for the twelve months ended 30 June 2015. Sales of both DB and GfL solutions have increased in the current period compared to the prior period, representing an underlying growth in Just Retirement-related sales as well as the benefit of recognising Partnership-related GfL sales for the three months from April to June.

### Net premium revenue

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

Net premium revenue decreased from £1,927.0m for the twelve months ended 30 June 2015 to £1,117.4m for the twelve months ended 30 June 2016. Net premium revenue for the current period includes reinsurance recapture of £1,166.9m offset by reinsurance premiums ceded of £1,543.6m (twelve months ended 30 June 2015: reinsurance recapture of £950.9m offset by reinsurance premiums ceded of £122.9m). Reinsurance premiums ceded during the period relate to the reinsurance of certain GfL business written in prior years, as well as continuing to reinsure a proportion of the new business written during the current period.

### Net investment income

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

Net investment income increased by £617.1m, from £635.2m for the twelve months ended 30 June 2015 to £1,252.3m for the twelve months ended 30 June 2016. During the first six months of 2016 there were significant falls in interest rates which have led to unrealised gains in relation to the Group's corporate bond and mortgage portfolios.

**Gain on acquisition**

The gain on acquisition of Partnership Assurance Group plc is explained within the IFRS Operating Profit analysis above.

**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 £147.0m in the twelve months to 30 June 2016 compared to the twelve months to 30 June 2015, reflecting the continued growth of Just Retirement's in-force book, together with claims paid in respect of Partnership's in-force book, offset by the reinsurers' share of claims paid.

**Change in insurance liabilities**

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

Change in insurance liabilities decreased from £2,095.9m for the twelve months ended 30 June 2015 to £1,451.7m for the twelve months ended 30 June 2016.

This line item comprises the gross change in insurance liabilities together with the change in the reinsurers' share of insurance liabilities and the impact of reinsurance recaptures. The gross change in insurance liabilities during the twelve months to 30 June 2016 was £1.8bn which was driven by the new business written and by the fall in the valuation interest rate over the period.

The reinsurers' share of change in insurance liabilities and reinsurance recapture together total £381m. This reflects the increase in reinsurance assets, which have increased as a result of new business reinsured during the year, offset by claims paid, and the impact of the reinsurance recaptures.

**Acquisition costs**

Acquisition costs comprise the direct costs (such as commissions) of obtaining new business. Acquisition costs are not deferred.

Acquisition costs have increased by £4.8m from £18.5m for the twelve months ended 30 June 2015 to £23.3m for the twelve months ended 30 June 2016. This is a result of increases in both GfL and LTM sales compared to the previous period.

**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 £32.5m from £127.6m to £160.1m. The increase principally relates to operating expenses for Partnership group companies for the three months from April to June.

**Finance costs**

Finance costs represent interest payable on the deposits received from reinsurers, interest on reinsurance financing and bank finance costs, and the interest cost on the Group's Tier 2 Notes issued by Partnership Life Assurance Company Limited.

Finance costs increased by £10.4m from £100.9m for the twelve months ended 30 June 2015 to £111.3m for the twelve months ended 30 June 2016. The increase relates to interest on the reinsurance deposit back balances, which have increased compared to the prior year, and the interest cost on the Tier 2 Notes issued by Partnership Life Assurance Company Limited for the three months from April to June.

**Income tax**

There is an income tax charge of £41.8m for the twelve months ended 30 June 2016 (twelve months ended 30 June 2015: credit of £4.8m). The effective tax rate is 17%, and includes the impact of certain transitional rules regarding life company taxation.

### 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 and as at 30 June 2016 reflects the statements of financial position of both Just Retirement and Partnership on a consolidated basis. Prior year comparative figures reflect the statement of financial position of Just Retirement only.

	As at 30 June 2016 £m	As at 30 June 2015 £m
<b>Assets</b>		
Financial investments	16,204.8	8,577.7
Reinsurance assets	6,123.1	2,477.1
Other assets	672.3	193.8
<b>Total assets</b>	<b>23,000.2</b>	<b>11,248.6</b>
Share capital and share premium	185.0	51.3
Other reserves	880.1	347.4
Accumulated profit and other adjustments	611.3	415.3
<b>Total equity</b>	<b>1,676.4</b>	<b>814.0</b>
<b>Liabilities</b>		
Insurance liabilities	14,827.7	7,440.3
Other financial liabilities	5,871.1	2,643.2
Insurance and other payables	109.2	22.7
Other liabilities	515.8	328.4
<b>Total liabilities</b>	<b>21,323.8</b>	<b>10,434.6</b>
<b>Total equity and liabilities</b>	<b>23,000.2</b>	<b>11,248.6</b>

The significant increase in the assets, liabilities and total equity of the group from 30 June 2015 to 30 June 2016 is largely as a result of the acquisition of Partnership Assurance Group plc on 1 April 2016. JRP Group plc owns the entire share capital of Partnership and its assets and liabilities are reflected on a line by line basis in the group consolidated statement of financial position.

### Financial investments

The following table provides a breakdown by credit rating of financial investments where applicable as at 30 June 2016 compared with the position as at 30 June 2015.

	As at 30 June 2016 £m	As at 30 June 2015 £m
AAA* and gilts	1,727.3	1,053.8
AA	825.4	246.0
A	3,032.8	1,731.8
BBB	3,630.1	1,741.1
BB or below	148.2	123.6
Unrated*	327.7	209.6
Loans secured by mortgages	6,513.3	3,471.8
<b>Total</b>	<b>16,204.8</b>	<b>8,577.7</b>

\* Includes units held in liquidity funds

Financial investments increased by £7.6bn from £8.6bn at 30 June 2015 to £16.2bn at 30 June 2016, the significant increase being mainly a result of the acquisition of Partnership Assurance Group plc, which accounts for £5.3bn of the increase. The remainder of the increase relates to the continued investment of new business premiums into gilts, corporate bonds and LTM contracts, together with the impact of falling 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 is approximately 29%.

The sector analysis of the Group's corporate bond and gilt portfolio at 30 June 2016 is shown in the table below.

<b>Sector analysis – corporate bond and gilt portfolio</b>	<b>£m</b>	<b>%</b>
Basic materials	212	2%
Communications	882	10%
Auto manufacturers	224	3%
Consumer	779	9%
Energy	251	3%
Banks	2,018	22%
Insurance	751	8%
Financial – other	1,173	13%
Government	751	8%
Industrial	483	5%
Utilities	1,392	16%
Other	125	1%
<b>Total</b>	<b>9,041</b>	<b>100%</b>

The sector analysis shows that the Group's investment portfolio is well balanced across a variety of industry sectors.

Reinsurance assets increased from £2.5bn at 30 June 2015 to £6.1bn at 31 December 2015; of this increase £3.3bn relates to reinsurance assets acquired with Partnership. The reinsurance assets relating to Just Retirement increased slightly from £2.5bn to £2.8bn as a result of new business reinsured during the year, offset by claims paid and reinsurance recaptures.

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

Insurance liabilities increased from £7.4bn at 30 June 2015 to £14.8bn at 30 June 2016. Of this increase, £5.6bn relates to the acquisition of Partnership. Liabilities arising on new insurance business written less claims paid in the period, together with the impact of falling interest rates, have together driven an increase in insurance liabilities relating to Just Retirement of £1.8bn.

Other financial liabilities increased from £2.6bn at 30 June 2015 to £5.9bn at 30 June 2016. These liabilities are mainly reinsurance-related and include deposits received from reinsurers, reinsurance financing and other reinsurance-related balances. The increase mainly reflects the deposits received from reinsurers balances relating to Partnership.

Insurance and other payables increased by £86.5m from £22.7m at 30 June 2015 to £109.2m at 30 June 2016; this increase relates to insurance and other payables acquired with the Partnership business, and to timing differences on settlement of investments.

Other liability balances increased by £187.4m from £328.4m at 30 June 2015 to £515.8m at 30 June 2016. The increase mainly relates to the Tier 2 Notes issued by Partnership Life Assurance Company Limited of £94.1m and to the drawdown of a new £60m bank facility in August 2015, less amounts repaid during the period.

Total equity increased by £862.4m from £814.0m at 30 June 2015 to £1,676.4m at 30 June 2016, reflecting new equity raised in October 2015 and shares issued to acquire the Partnership Group in April 2016, a total of £666.4m, the profit after tax for the period of £210.7m, dividends paid of £22.6m, and small adjustments for foreign exchange differences and share-based payments.

#### **Dividends**

An interim dividend for the period of 1.1p per share will be paid in October 2016.

## Principal risks and uncertainties

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

### 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 the 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 supported and decide how best to manage the risks 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 team, led by the Chief Risk Officer ("CRO"), challenges the management team on the effectiveness of its risk management. The CRO provides the Group Board's Risk and Compliance Committee with his independent assessment of the principal risks to the business and emerging risk themes.

Financial risk modelling is used to assess the amount of each risk type against our risk appetite. This modelling is aligned to both our economic capital and regulatory capital 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
<b>Risks from our chosen market environment</b>  The Group operates in a market in which changes in pensions legislation can have a considerable effect on our strategy and could reduce our sales and profitability.  The pension reforms introduced last year 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 a level of demand for guaranteed income for life solutions will continue. Other changes being considered by the government such as secondary annuity trading and new approaches to the taxation of pension contributions may in time affect our market.	<b>Risk outlook – No change</b>  Our approach to legislative change is to participate actively and engage with policy makers in the UK, and this will not change.  The Group offers a wider range of 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.
<b>Risks from regulatory changes</b>  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.  Following implementation of Solvency II, the PRA is conducting an industry-wide review of the valuation and capital treatment of equity release mortgages, which could prompt changes in the Group's approach in this respect. The Solvency II risk margin is particularly sensitive to movements in interest rates, which can cause volatility. The PRA has agreed to consider applications for the recalculation of the transitional measure on technical provisions ("TMTP").	<b>Risk outlook – Increased uncertainty</b>  We monitor and assess regulatory developments on an ongoing 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.  The Group is in the process of applying for an internal model to calculate the Solvency Capital Requirement for Partnership Life Assurance Company Limited. The introduction of the matching adjustment to meet Solvency II requirements has made management of liquidity within the Group more complex. Any potential changes needed to our internal model or matching adjustment criteria resulting from the PRA equity

## Risk description and impact

The EU Insurance Distribution Directive due for implementation in 2018 allows Member States to impose requirements beyond those of the Directive. This could include prohibiting the non-advised sale of insurance-based investment products seen as complex.

The FCA is developing a strategy to address the challenges for financial services of the ageing UK population and is pursuing other reviews and initiatives pertinent to the retirement and mortgage markets.

In addition, the ultimate terms of the UK's exit from the EU could have significant consequences for the regulation and legislation that applies to the Group's operations.

## Mitigation and management action

release mortgage review will be carefully reviewed. We have received approval from the PRA of our application for TMTP recalculation which largely mitigates the impact of the sharp fall in long-term interest rates this year. We will continue to work closely with the PRA to understand and seek to influence its developing views on solvency capital.

The Insurance Distribution Directive is not expected to have a significant impact on our business other than the potential impacts on non-advised sales of pension drawdown products.

Where possible, we seek to actively participate in all regulatory initiatives which may affect the Group or provide future opportunities for us. We aim to champion outcomes that are positive for consumers in terms of more choice and better communication of options. The Group is actively engaged in the insurance industry's work with the UK Government and regulators on the potential form of the UK's exit from the EU.

### Risks from our pricing assumptions

Writing long-term retirement income and LTM 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 selection of risk and the calculation of the reserves needed for future liabilities and solvency margins using recognised actuarial approaches.

The Group's assumptions on these risk factors may be materially inaccurate requiring them to be recalibrated. This could affect the level of reserves needed with an impact on profitability and the Group's solvency position.

### Risk outlook – No change

To manage the risk of our longevity assumptions being incorrect, the Group now has the benefit of the combined experience of Just Retirement and Partnership 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. The 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.

### Risks from the economic environment

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.

Financial markets were volatile following the vote for the UK to leave the EU. The referendum result has resulted in long-term interest rates falling to record lows and introduced material uncertainty for the UK economy in the short to medium-term. In response the Bank of England has cut base rates and extended its quantitative easing programme. 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. However, market conditions can be expected to be volatile for some time to come.

In an environment of very low risk-free 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 LTM 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 LTM redemptions and may affect the relative attractiveness of the LTM product. The solvency capital needed to support the no-negative equity guarantee in the LTM product also increases if property values drop. Uncertainty following the EU referendum may in due course result

### Risk outlook – No change

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.

The Group's strategy is hold high quality, low-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 created 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 Defined Benefit De-risking business is managed with inflation hedging mechanisms.

For LTM, 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 properties or regions, and monitoring of the exposure to adverse house price movements.

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

## Risk description and impact

in property values stagnating or even falling in some areas. 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.

## Mitigation and management action

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 pinch points. The Group's liquidity requirements have been comfortably met over the past year and forecasting confirms that this position can be expected to continue for both investments and business operations.

### Risks to the Group's brands

The Group's vision is to be the leading retirement brand, known and trusted for enriching our customers' lives. Damage to our brand or reputation may adversely affect our underlying profitability, through reducing sales volumes, limitation of distribution channels and increasing capital requirements.

Brand image and our reputation could be threatened by external risks such as regulatory intervention or enforcement action, either directly or as a result of contagion from other insurers in our sector. Equally 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.

### Risk outlook – No change

The Group has a low appetite for reputational damage and actively seeks to differentiate its business from competitors by investing in the Group's brand-enhancing activities. Fairness to customers and high service standards are at the heart of our brand promise.

Risks to the Group's reputation are mitigated in part by actively engaging with government policy makers and regulators to ensure the retirement needs of customers 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.

Our information security is under constant review as the cyber-threat 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.

### Risks arising from the post-merger integration process

On 1 April 2016 the merger of Just Retirement and Partnership Assurance completed to form JRP. The purpose of the merger is to deliver significant strategic and financial benefits for the combined Group.

Integration of the two businesses is a complex process and may take longer, or cost more, than expected to deliver the intended synergies or those synergies may not be fully realised. During the integration process, management could be distracted from day-to-day business resulting in missed opportunities. While the capital consequences of the merger have been carefully assessed, it is possible that the resultant position may be different when the businesses are combined.

The process of combining two organisations may have an undesirable effect on the culture of the new Group impacting its effectiveness in the short-term.

### Risk outlook – No change

Prior to the merger, Just Retirement and Partnership Assurance raised capital to meet the one-off transaction and integration costs, support new business and product development, and add to the regulatory capital strength of the new combined Group under Solvency II.

Given the complementary business models of the two organisations, business as usual activity is being maintained and strategic development moved forward at the same time as integrating the businesses. The integration process reflects this approach and is being carefully managed 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  
14 September 2016

## Independent review report to JRP Group plc

### Introduction

We have been engaged by the Group to review the condensed consolidated set of financial statements in the interim report for the six months from 1 January to 30 June 2016 and twelve months ended 30 June 2016 which comprises the condensed consolidated statement of financial position, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and the related explanatory notes on pages 24 to 42.

We have also been engaged by the Group to review the European Embedded Value (EEV) basis supplementary information, set out on pages 43 to 54, for the six months from 1 January to 30 June 2016 and twelve months ended 30 June 2016.

We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated set of financial statements.

This report is made solely to the Group in accordance with the terms of our engagement to assist the Group in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA"). Our review has been undertaken so that we might state to the Group 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 Group for our review work, for this report, or for the conclusions we have reached.

### Directors' responsibilities

The interim report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim 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 IFRS's as adopted by the EU. The condensed consolidated set of financial statements included in this interim report have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

The supplementary information has been prepared in accordance with the EEV principles, using the methodology and assumptions detailed in the basis of preparation of the supplementary information. The supplementary information should be read in conjunction with the condensed consolidated set of financial statements.

### Our responsibility

Our responsibility is to express to the Group a conclusion on the condensed consolidated set of financial statements in the interim report based on our review.

### 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. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) 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.

The scope of our work did not include detailed checking of the models and processes involved in the preparation of the results shown in the EEV supplementary financial statements. Accordingly, the scope of our review was less detailed than that which we would carry out in respect of a full audit.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the interim report for the six months period from 1 January to 30 June 2016 and twelve months ended 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information for the six months period from 1 January to 30 June 2016 and twelve months ended 30 June 2016 is not prepared, in all material respects, in accordance with the EEV principles, using the methodology and assumptions as detailed in the basis of preparation of the supplementary information.

**Ben Priestley**  
for and on behalf of KPMG LLP

*Chartered Accountants*

15 Canada Square

London

E14 5GL

United Kingdom

14 September 2016

# Condensed consolidated statement of comprehensive income

## For the period ended 30 June 2016

	Note	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m	Twelve months ended 30 June 2016 £m	Twelve months ended 30 June 2015 £m
Gross premiums written		505.1	473.1	1,494.1	1,099.0
Reinsurance premiums ceded		(124.9)	(9.5)	(1,543.6)	(122.9)
Reinsurance recapture		–	950.9	1,166.9	950.9
<b>Net premium revenue</b>		<b>380.2</b>	<b>1,414.5</b>	<b>1,117.4</b>	<b>1,927.0</b>
Net investment income		947.0	86.8	1,252.3	635.2
Gain on acquisition		72.8	–	72.8	–
Share of results of joint ventures and associates		–	–	–	–
Fee and commission income		3.3	2.7	6.1	5.1
<b>Total revenue</b>		<b>1,403.3</b>	<b>1,504.0</b>	<b>2,448.6</b>	<b>2,567.3</b>
Gross claims paid		(405.2)	(256.0)	(677.3)	(498.6)
Reinsurers' share of claims paid		162.3	125.0	279.8	248.1
<b>Net claims paid</b>		<b>(242.9)</b>	<b>(131.0)</b>	<b>(397.5)</b>	<b>(250.5)</b>
Change in insurance liabilities:					
Gross amount		(1,058.2)	289.5	(1,832.5)	(956.7)
Reinsurers' share		311.1	(617.3)	1,547.7	(188.3)
Reinsurance recapture		–	(950.9)	(1,166.9)	(950.9)
		(747.1)	(1,278.7)	(1,451.7)	(2,095.9)
Change in investment contract liabilities		(8.3)	6.2	(12.1)	(3.5)
Acquisition costs		(9.9)	(8.9)	(23.3)	(18.5)
Other operating expenses		(119.0)	(67.9)	(200.2)	(127.6)
Finance costs		(49.7)	(44.1)	(111.3)	(100.9)
<b>Total claims and expenses</b>		<b>(1,176.9)</b>	<b>(1,524.4)</b>	<b>(2,196.1)</b>	<b>(2,596.9)</b>
<b>Profit/(loss) before tax</b>		<b>226.4</b>	<b>(20.4)</b>	<b>252.5</b>	<b>(29.6)</b>
Income tax		(37.6)	3.9	(41.8)	4.8
<b>Profit/(loss) for the period</b>		<b>188.8</b>	<b>(16.5)</b>	<b>210.7</b>	<b>(24.8)</b>
<b>Other comprehensive income:</b>					
Exchange differences on translating foreign operations		0.2	(0.2)	(0.2)	(0.2)
<b>Other comprehensive income for the period, net of tax</b>		<b>0.2</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.2)</b>
<b>Total comprehensive income for the period</b>		<b>189.0</b>	<b>(16.7)</b>	<b>210.5</b>	<b>(25.0)</b>
<b>Profit/(loss) attributable to:</b>					
Equity holders of JRP Group plc		188.8	(16.5)	210.7	(24.8)
<b>Profit/(loss) for the period</b>		<b>188.8</b>	<b>(16.5)</b>	<b>210.7</b>	<b>(24.8)</b>
<b>Total comprehensive income attributable to:</b>					
Equity holders of JRP Group plc		189.0	(16.7)	201.5	(25.0)
<b>Total comprehensive income for the period</b>		<b>189.0</b>	<b>(16.7)</b>	<b>210.5</b>	<b>(25.0)</b>
Basic earnings per share (pence)	4	29.04	(3.30)	33.35	(4.96)
Diluted earnings per share (pence)	4	28.89	(3.30)	33.18	(4.96)

The notes are an integral part of these financial statements.

## Condensed consolidated statement of changes in equity For the twelve months ended 30 June 2016

Twelve months ended 30 June 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	347.4	–	(0.7)	416.0	814.0
Profit for the period	–	–	–	–	–	210.7	210.7
Other comprehensive income for the period	–	–	–	–	–	(0.2)	(0.2)
<b>Total comprehensive income for the period</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>210.5</b>	<b>210.5</b>
<b>Contributions and distributions</b>							
Shares issued (net of issue costs)	43.2	90.5	–	532.7	–	–	666.4
Dividends	–	–	–	–	–	(22.6)	(22.6)
Share-based payments	–	–	–	–	(1.2)	9.3	8.1
<b>Total contributions and distributions</b>	<b>43.2</b>	<b>90.5</b>	<b>–</b>	<b>532.7</b>	<b>(1.2)</b>	<b>(13.3)</b>	<b>651.9</b>
<b>Balance at 30 June 2016</b>	<b>93.3</b>	<b>91.7</b>	<b>347.4</b>	<b>532.7</b>	<b>(1.9)</b>	<b>613.2</b>	<b>1,676.4</b>

Twelve months ended 30 June 2015	Share capital £m	Share premium £m	Reorganisation reserve £m	Shares held by trusts £m	Accumulated profit £m	Total shareholders' equity £m
Balance at 1 July 2014	50.1	1.2	347.4	(0.1)	454.2	852.8
Loss for the period	–	–	–	–	(24.8)	(24.8)
Other comprehensive income for the period	–	–	–	–	(0.2)	(0.2)
Total comprehensive income for the period	–	–	–	–	(25.0)	(25.0)
<b>Contributions and distributions</b>						
Dividends	–	–	–	–	(16.5)	(16.5)
Share-based payments	–	–	–	(0.6)	3.3	2.7
Total contributions and distributions	–	–	–	(0.6)	(13.2)	(13.8)
Balance at 30 June 2015	50.1	1.2	347.4	(0.7)	416.0	814.0

# Condensed consolidated statement of financial position

## As at 30 June 2016

	Note	30 June 2016 £m	Restated <sup>1</sup> 30 June 2015 £m
<b>Assets</b>			
Intangible assets		252.5	75.2
Property, plant and equipment		18.2	0.7
Financial investments	6	16,204.8	8,577.7
Investment in joint ventures and associates		0.3	–
Reinsurance assets		6,123.1	2,477.1
Deferred tax assets		11.2	4.2
Current tax assets		8.7	17.6
Prepayments and accrued income		12.9	3.2
Insurance and other receivables		28.6	34.1
Cash and cash equivalents		339.9	58.8
<b>Total assets</b>		<b>23,000.2</b>	<b>11,248.6</b>
<b>Equity</b>			
Share capital	7	93.3	50.1
Share premium	7	91.7	1.2
Reorganisation reserve		347.4	347.4
Merger reserve		532.7	–
Shares held by trusts		(1.9)	(0.7)
Accumulated profit		613.2	416.0
<b>Total equity attributable to owners of JRP Group plc</b>		<b>1,676.4</b>	<b>814.0</b>
<b>Liabilities</b>			
Insurance liabilities		14,827.7	7,440.3
Investment contract liabilities		213.0	228.3
Loans and borrowings	8	192.2	46.9
Other financial liabilities	9	5,871.1	2,643.2
Deferred tax liabilities		54.3	32.9
Other provisions		4.0	1.5
Current tax liabilities		31.5	0.1
Accruals and deferred income		20.8	18.7
Insurance and other payables		109.2	22.7
<b>Total liabilities</b>		<b>21,323.8</b>	<b>10,434.6</b>
<b>Total equity and liabilities</b>		<b>23,000.2</b>	<b>11,248.6</b>

The notes are an integral part of these financial statements.

<sup>1</sup>The fair value of debt securities includes accrued interest previously classified as prepayments and accrued income on the statement of financial position. As a result of this change in presentation, £83m of accrued interest has been reclassified from prepayments and accrued income at 30 June 2015.

# Condensed consolidated statement of cash flows

## For the twelve months ended 30 June 2016

	Twelve months ended 30 June 2016 £m	Twelve months ended 30 June 2015 £m
<b>Cash flows from operating activities</b>		
Profit/(loss) before tax	252.5	(29.6)
Gain on acquisition	(72.8)	–
Depreciation of equipment	1.2	0.5
Amortisation of intangible assets	14.8	4.2
Share-based payments	8.1	2.7
Interest income	(414.8)	(196.4)
Interest expense	111.3	100.9
Increase in financial investments	(2,102.7)	(1,082.6)
(Increase)/decrease in reinsurance assets	(380.7)	1,139.2
Increase in prepayments and accrued income	76.4	–
Decrease/(increase) in insurance and other receivables	51.1	(29.1)
Increase in insurance liabilities	1,832.7	956.7
(Decrease)/increase in investment contract liabilities	(15.3)	30.9
Increase/(decrease) in deposits received from reinsurers	166.7	(990.4)
(Decrease)/increase in accruals and deferred income	(0.5)	2.3
Increase/(decrease) in insurance and other payables	45.6	(12.8)
Increase/(decrease) in other creditors	306.5	(38.8)
Interest received	347.6	201.6
Interest paid	(100.0)	(91.8)
Taxation paid	(9.6)	(24.1)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>118.1</b>	<b>(56.6)</b>
<b>Cash flows from investing activities</b>		
Acquisition of Partnership Assurance Group plc	268.6	–
Additions to intangible assets	–	(1.8)
Acquisition of property and equipment	(10.0)	(0.2)
<b>Net cash inflow/(outflow) from investing activities</b>	<b>258.6</b>	<b>(2.0)</b>
<b>Cash flows from financing activities</b>		
Increase/(decrease) in borrowings	51.2	(4.5)
Interest paid	(3.5)	(2.3)
Dividends paid	(22.6)	(16.5)
Issue of ordinary share capital (net of costs)	96.9	–
<b>Net cash inflow/(outflow) from financing activities</b>	<b>122.0</b>	<b>(23.3)</b>
Net increase/(decrease) in cash and cash equivalents	498.7	(81.9)
Cash and cash equivalents at start of period	313.7	395.6
<b>Cash and cash equivalents at end of period</b>	<b>812.4</b>	<b>313.7</b>
Cash available on demand	339.9	58.8
Units in liquidity funds	472.5	254.9
<b>Cash and cash equivalents at end of period</b>	<b>812.4</b>	<b>313.7</b>

# Notes to the condensed consolidated financial statements

## 1 Basis of preparation

As explained in note 2, on 1 April 2016, Just Retirement Group plc (“JRG”) and Partnership Assurance Group plc (“PAG”) completed an all-share merger to create JRP Group plc (“JRP”). This has been accounted for as a business combination in which JRG has acquired 100% of the ordinary share capital of PAG through a share-for-share exchange. JRG changed its name to JRP Group plc on 4 April 2016. As such, these condensed interim financial statements comprise the condensed consolidated financial statements of JRP Group plc (formerly Just Retirement Group plc) (“the Company”) and its subsidiaries, together referred to as “the Group”, as at, and for the period ended, 30 June 2016.

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 year ended 30 June 2015 have been taken from the Group’s 2015 Annual Report and Accounts, which was approved by the Board of Directors on 16 September 2015 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 months ended 30 June 2015 presented in the condensed consolidated statement of comprehensive income have been taken from the Group’s 2015 Annual Report and Accounts and from the Group’s Interim Results for the six months to 31 December 2014, and have been calculated as the difference between the consolidated statements of comprehensive income for these two periods.

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 2015 Annual Report and Accounts. The fair value of debt securities includes accrued interest previously classified as prepayments and accrued income on the statement of financial position. As a result of this change in presentation, £83m of accrued interest has been reclassified from prepayments and accrued income at 30 June 2015. 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 1 April 2016, the Group completed the acquisition of 100% of the ordinary share capital of Partnership Assurance Group plc through an all share exchange which gave PAG shareholders 0.834 JRP Group plc for every PAG share held. In total, 368,376,421 new JRP shares were issued and commenced trading on 4 April 2016. As a result, PAG shareholders hold approximately 40% of the enlarged share capital of the Combined Group. At the closing price of 154.60 pence on the 1 April 2016, the share exchange represents consideration of £569.5m. As part of the acquisition certain employee share schemes granted to PAG employees have been exchanged for equivalent JRP employee share schemes. The fair value cost of replacing those schemes, included in the consideration for PAG, was £2.4m.

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

The fair value of PAG identifiable assets and liabilities acquired have been provisionally determined for the purpose of this note. The consideration of £571.9m represents the fair value of PAG net assets acquired of £644.7m and a gain on acquisition of £72.8m, as follows:

	Provisional fair value £m
<b>Assets</b>	
Acquired value of in-force business and intangible assets	192.0
Property, plant and equipment	8.7
Financial investments	5,298.9
Investment in joint ventures and associates	0.2
Reinsurance assets	3,265.3
Deferred tax assets	8.3
Current tax assets	5.6
Prepayments and accrued income	3.1
Insurance and other receivables	45.6
Cash and cash equivalents	268.6
<b>Total assets</b>	<b>9,096.3</b>
<b>Liabilities</b>	
Insurance liabilities	5,554.7
Loans and borrowings	94.1
Financial liabilities	2,725.4
Deferred tax liabilities	36.5
Insurance and other payables	40.9
<b>Total liabilities</b>	<b>8,451.6</b>
<b>Net assets</b>	<b>644.7</b>
<b>Goodwill arising on acquisition</b>	<b>(72.8)</b>
<b>Total net assets acquired</b>	<b>571.9</b>
Fair value of shares exchanged	569.5
Fair value cost of exchanging employee share schemes	2.4
<b>Total consideration</b>	<b>571.9</b>

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

#### *Fair value and accounting policy adjustments*

##### *Insurance liabilities and reinsurance assets*

On completion of the acquisition, the economic assumptions applied to the actuarial models used to determine the value of insurance liabilities and reinsurance assets have been reviewed across the Group. Following this review consistent economic and other assumptions have been applied to all Group entities, resulting in a decrease of £27.9m to PAG's insurance liabilities and a decrease of £28.0m to PAG's reinsurance assets recognised on acquisition. Similarly, consistent economic assumptions have been applied to the models used to determine the fair value of loan assets secured by mortgages, resulting in an increase of £35.8m to the value of PAG's mortgage loan assets.

##### *Financial liabilities*

PAG's subordinated debt liability has been recognised at fair value on acquisition. The fair value represents a £5.8m reduction to the amortised cost of the debt liability. The methodology applied to the valuation of reinsurance deposit back liabilities has also been reviewed and a Group accounting basis has been adopted, resulting in a £62.9m increase in the value of PAG's financial liabilities.

##### *Gain on acquisition*

The acquisition resulted in a gain of £72.8m, representing the excess of fair value of acquired assets over purchase consideration. The transaction resulted in a gain as a result of the acquisition consideration consisting of shares in the Group exchanged for shares in PAG at a ratio set at the announcement of the transaction on 11 August 2015. At the acquisition date the market value of consideration had been adversely affected by investor uncertainty, reducing the value of consideration below the fair value of the net assets of PAG.

##### *Acquired value of in-force business and intangible assets*

An asset of £165.0m was recognised on acquisition representing the present value of future profits from the acquired in-force business as of 1

April 2016. This will be amortised in accordance with the Group's accounting policies.

Intangible assets of £27.0m 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.

*Profit and loss*

If the acquisition had been effective on 1 July 2015, on a pro-forma basis the Group's revenue is estimated at £2,869.4m and profit before tax attributable to shareholders is estimated at £213.4m. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 July 2015. The pro-forma results are provided for information purposes only and do not necessarily reflect the actual results that would have occurred had the acquisition taken place on 1 July 2015. Since 1 April 2016 £196.3m has been recognised within the Group's revenue and £66.0m has been recognised within the Group's profit before tax attributable to shareholders arising from the acquired entities.

Acquisition costs of £24.2m incurred to support the transaction have been recognised within other operating expenses in the statement of comprehensive income.

### 3 Segmental reporting

#### Segmental analysis of operating profit and profit before tax

The Group's insurance segment writes insurance products for the retirement market – which include Guaranteed Income for Life Solutions and Defined Benefit De-risking Solutions, Care Plans, and Drawdown contracts – and invests the premiums received from these contracts in corporate bonds, Lifetime Mortgage advances, and other financial investments.

The Group's other segments include regulated advice and intermediary services, and professional services to corporates.

The Group's corporate activities are primarily involved in managing the Group's liquidity, capital and investment activities.

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

#### Segmental reporting and reconciliation to financial information

Six months ended 30 June 2016	Insurance £m	Other segments £m	Corporate activities £m	Total £m
New business operating profit	32.8	–	–	32.8
In-force operating profit	31.2	–	0.2	31.4
<b>Underlying operating profit</b>	<b>64.0</b>	<b>–</b>	<b>0.2</b>	<b>64.2</b>
Operating experience and assumption changes	0.1	–	–	0.1
Other Group companies' operating result	–	(3.3)	(1.7)	(5.0)
Reinsurance and financing costs	(17.0)	–	8.3	(8.7)
<b>Operating profit/(loss) before tax</b>	<b>47.1</b>	<b>(3.3)</b>	<b>6.8</b>	<b>50.6</b>
Non-recurring and project expenditure	(4.3)	–	(1.2)	(5.5)
Investment and economic profits/(losses)	147.1	–	(2.5)	144.6
<b>Profit/(loss) before acquisition transaction and amortisation costs, before tax</b>	<b>189.9</b>	<b>(3.3)</b>	<b>3.1</b>	<b>189.7</b>
Acquisition integration costs	–	–	(15.9)	(15.9)
Acquisition transaction costs	–	–	(7.9)	(7.9)
Amortisation costs	–	–	(12.3)	(12.3)
Gain on acquisition of Partnership Assurance Group plc	–	–	72.8	72.8
<b>Profit/(loss) before tax</b>	<b>189.9</b>	<b>(3.3)</b>	<b>39.8</b>	<b>226.4</b>
Six months ended 30 June 2015	Insurance £m	Other segments £m	Corporate activities £m	Total £m
New business operating profit	18.6	–	–	18.6
In-force operating profit	24.8	–	0.4	25.2
Underlying operating profit	43.4	–	0.4	43.8
Operating experience and assumption changes	(0.3)	–	–	(0.3)
Other Group companies' operating result	–	(1.9)	(2.9)	(4.8)
Reinsurance and financing costs	(14.6)	–	8.6	(6.0)
Operating profit/(loss) before tax	28.5	(1.9)	6.1	32.7
Non-recurring and project expenditure	(8.5)	–	(1.0)	(9.5)
Investment and economic (losses)/profits	(42.6)	–	0.8	(41.8)
(Loss)/profit before amortisation costs and before tax	(22.6)	(1.9)	5.9	(18.6)
Amortisation costs	–	–	(1.8)	(1.8)
(Loss)/profit before tax	(22.6)	(1.9)	4.1	(20.4)

Twelve months ended 30 June 2016	Insurance £m	Other segments £m	Corporate activities £m	Total £m
New business operating profit	78.8	–	–	78.8
In-force operating profit	50.0	–	0.6	50.6
<b>Underlying operating profit</b>	<b>128.8</b>	<b>–</b>	<b>0.6</b>	<b>129.4</b>
Operating experience and assumption changes	(3.4)	–	–	(3.4)
Other Group companies' operating result	–	(6.3)	(4.6)	(10.9)
Reinsurance and financing costs	(31.3)	–	16.6	(14.7)
<b>Operating profit/(loss) before tax</b>	<b>94.1</b>	<b>(6.3)</b>	<b>12.6</b>	<b>100.4</b>
Non-recurring and project expenditure	(11.3)	–	(2.2)	(13.5)
Investment and economic profits/(losses)	149.9	–	(2.9)	147.0
<b>Profit/(loss) before acquisition transaction and amortisation costs, before tax</b>	<b>232.7</b>	<b>(6.3)</b>	<b>7.5</b>	<b>233.9</b>
Acquisition integration costs	–	–	(15.9)	(15.9)
Acquisition transaction costs	–	–	(24.2)	(24.2)
Amortisation costs	–	–	(14.1)	(14.1)
Gain on acquisition	–	–	72.8	72.8
<b>Profit/(loss) before tax</b>	<b>232.7</b>	<b>(6.3)</b>	<b>26.1</b>	<b>252.5</b>

Twelve months ended 30 June 2015	Insurance £m	Other segments £m	Corporate activities £m	Total £m
New business operating profit	36.8	–	–	36.8
In-force operating profit	48.8	–	0.8	49.6
Underlying operating profit	85.6	–	0.8	86.4
Operating experience and assumption changes	2.4	–	–	2.4
Other Group companies' operating result	–	(3.3)	(5.4)	(8.7)
Reinsurance and financing costs	(28.7)	–	16.2	(12.5)
Operating profit/(loss) before tax	59.3	(3.3)	11.6	67.6
Non-recurring and project expenditure	(16.8)	–	(2.6)	(19.4)
Investment and economic (losses)/profits	(74.2)	–	0.1	(74.1)
(Loss)/profit before amortisation costs and before tax	(31.7)	(3.3)	9.1	(25.9)
Amortisation costs	–	–	(3.7)	(3.7)
(Loss)/profit before tax	(31.7)	(3.3)	5.4	(29.6)

### Product information analysis

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

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m	Twelve months ended 30 June 2016 £m	Twelve months ended 30 June 2015 £m
Defined Benefit De-risking Solutions ("DB")	164.4	254.2	865.6	608.9
Guaranteed Income for Life contracts ("GfL")	298.6	211.6	569.8	478.0
Care Plans ("CP")	41.3	7.3	57.9	12.1
Protection	0.8	–	0.8	–
<b>Gross premiums written</b>	<b>505.1</b>	<b>473.1</b>	<b>1,494.1</b>	<b>1,099.0</b>

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 year for these products is shown below.

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m	Twelve months ended 30 June 2016 £m	Twelve months ended 30 June 2015 £m
Drawdown	5.4	13.4	12.6	48.7
LTM loans advanced	255.3	149.1	492.3	308.1
<b>New business sales not included in gross premiums written</b>	<b>260.7</b>	162.5	<b>504.9</b>	356.8

#### Reconciliation of gross premiums written to new business sales

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m	Twelve months ended 30 June 2016 £m	Twelve months ended 30 June 2015 £m
Gross premiums written	505.1	473.1	1,494.1	1,099.0
Change in premiums receivable not included in new business sales*	22.4	–	22.4	–
Drawdown and LTM new business sales not included in gross premiums written	260.7	162.5	504.9	356.8
<b>New business sales</b>	<b>788.2</b>	635.6	<b>2,021.4</b>	1,455.8

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

#### Pro-forma information analysis

The following table reconciles the pro-forma new business sales and pro-forma operating profit before tax information presented within the Business review, to the new business sales and operating profit before tax information presented within this segmental reporting note. Pro-forma information is unreviewed and unaudited

#### Reconciliation of pro-forma new business sales to new business sales

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m
Pro-forma new business sales (unreviewed and unaudited)	948.7	922.6
New business sales relating to Partnership Assurance Group plc pre-acquisition	(160.5)	(287.0)
<b>New business sales</b>	<b>788.2</b>	635.6

#### Reconciliation of pro-forma operating profit before tax to operating profit before tax

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m
Pro-forma operating profit before tax (unreviewed and unaudited)	48.4	43.4
Operating profit relating to Partnership Assurance Group plc pre-acquisition and other adjustments	2.2	(10.7)
<b>Operating profit before tax</b>	<b>50.6</b>	32.7

#### 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.

	Six months ended 30 June 2016			Six months ended 30 June 2015		
	Earnings £m	Weighted average number of shares million	Earnings per share pence	Earnings £m	Weighted average number of shares million	Earnings per share pence
Basic	188.8	650.2	29.04	(16.5)	499.6	(3.30)
Effect of dilutive potential ordinary shares:						
Share options	–	3.4	–	–	–	–
Diluted	188.8	653.6	28.89	(16.5)	499.6	(3.30)

	Twelve months ended 30 June 2016			Twelve months ended 30 June 2015		
	Earnings £m	Weighted average number of shares million	Earnings per share pence	Earnings £m	Weighted average number of shares million	Earnings per share pence
Basic	210.7	631.8	33.35	(24.8)	499.7	(4.96)
Effect of dilutive potential ordinary shares:						
Share options	–	3.3	–	–	–	–
Diluted	210.7	635.1	33.18	(24.8)	499.7	(4.96)

#### 5 Dividends

Dividends paid were as follows.

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m	Twelve months ended 30 June 2016 £m	Twelve months ended 30 June 2015 £m
Final dividend:				
- in respect of the year ended 30 June 2015 – 2.2 pence per share, paid on 7 December 2015	–	–	12.4	–
- in respect of the year ended 30 June 2014 – 2.2 pence per share, paid on 8 December 2014	–	–	–	11.0
Interim dividend:				
- first interim dividend in respect of the 18 month period ended 31 December 2016 – 1.1 pence per share, paid on 20 May 2016	10.2	–	10.2	–
- in respect of the year ended 30 June 2015 – 1.1 pence per share, paid on 14 May 2015	–	5.5	–	5.5
<b>Total dividends paid</b>	<b>10.2</b>	<b>5.5</b>	<b>22.6</b>	<b>16.5</b>

The Directors proposed a second interim dividend of 1.1 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.

The fair value of debt securities includes accrued interest previously classified as prepayments and accrued income on the statement of financial position. As a result of this change in presentation, £83m of accrued interest has been reclassified from prepayments and accrued income at 30 June 2015.

	30 June 2016 £m	30 June 2015 £m
<b>Fair value</b>		
Units in liquidity funds	473.1	280.2
Debt securities and other fixed income securities	8,858.4	4,756.8
Deposits with credit institutions	77.2	18.0
Derivative financial assets	90.1	50.9
Loans secured by residential mortgages	6,379.0	3,471.8
Loans secured by commercial mortgages	134.3	–
Other loans	183.0	–
Recoveries from reinsurers on investment contracts	9.7	–
<b>Total fair value</b>	<b>16,204.8</b>	<b>8,577.7</b>
<b>Cost</b>		
Units in liquidity funds	473.1	279.9
Debt securities and other fixed income securities	8,133.5	4,536.2
Deposits with credit institutions	77.2	18.0
Derivative financial assets	8.2	8.2
Loans secured by residential mortgages	3,678.4	2,073.3
Loans secured by commercial mortgages	127.1	–
Other loans	158.5	–
Recoveries from reinsurers on investment contracts	4.1	–
<b>Total cost</b>	<b>12,660.1</b>	<b>6,915.6</b>

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 £160.9m (2015: £17.2m) have been pledged as collateral in respect of the Group's derivative financial instruments. Amounts pledged as collateral are deposited with the derivative counterparty.

### (a) Determination of fair value and fair value hierarchy

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

#### Level 1

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

#### Level 2

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

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

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

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

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

#### Level 3

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

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

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

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

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

The Level 3 bonds are either 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 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 2016 (2015: nil).

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

30 June 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Assets held at fair value</b>				
Units in liquidity funds	473.1	–	–	473.1
Debt securities and other fixed income securities	4,059.7	4,730.4	68.3	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	–	–	6,379.0	6,379.0
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
<b>Total assets held at fair value</b>	<b>4,608.8</b>	<b>4,823.1</b>	<b>6,772.9</b>	<b>16,204.8</b>
<b>Liabilities held at fair value</b>				
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	–	–	2,721.9	2,721.9
<b>Total liabilities held at fair value</b>	<b>–</b>	<b>298.8</b>	<b>2,934.9</b>	<b>3,233.7</b>

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

**(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*

Twelve 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	18.5	3,471.8	–	–	–	(228.3)	–
On acquisition of Partnership Assurance Group plc	0.1	1,629.2	117.2	–	–	–	(2,647.8)
Purchases/Advances/Deposits	50.0	497.4	13.9	157.1	4.8	(12.6)	(35.9)
Transfers from level 2	–	–	–	–	–	–	–
Sales/Redemptions/Payments	(6.0)	(145.9)	(0.4)	–	(0.3)	40.0	57.6
Gains and losses recognised in profit or loss in net investment income	6.0	763.3	2.5	24.5	5.2	–	(71.7)
Amortisation/Interest accrued	(0.3)	163.2	1.1	–	–	–	(24.1)
Change in fair value of liabilities recognised in profit or loss	–	–	–	–	–	(12.1)	–
<b>At end of period</b>	<b>68.3</b>	<b>6,379.0</b>	<b>134.3</b>	<b>181.6</b>	<b>9.7</b>	<b>(213.0)</b>	<b>(2,721.9)</b>

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

### **Debt securities and other fixed income securities**

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

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

#### *Redemption and defaults*

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

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*

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

### **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 3.6% for loans written by Just Retirement (2015: 3.8%) and 4.6% for loans written by Partnership.

#### *Mortality*

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

#### *Property prices*

The value of a property at the date of valuation is calculated by taking the latest valuation for that property and indexing this value using the Nationwide or Halifax quarterly index for the property's region.

#### *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 (2015: 0.6%) and 1.5% for loans written by Partnership.

#### *Sensitivity analysis*

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

Net increase/(decrease) in profit before tax (£m)	Loans secured by residential mortgages valuation assumptions			
	Maintenance expenses +10%	Mortality -5%	Property prices -10%	Voluntary redemptions +10%
<b>30 June 2016</b>	<b>(5.6)</b>	<b>38.5</b>	<b>(87.0)</b>	<b>(35.0)</b>
30 June 2015	(4.1)	15.3	(26.1)	(14.3)

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, and the assumption that there is a parallel shift in interest rates at all durations.

### **Loans secured by commercial mortgages**

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

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

#### *Sensitivity analysis*

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

Net increase/(decrease) in profit before tax (£m)	Loans secured by commercial mortgages valuation assumptions
	Interest rates +100bps
<b>30 June 2016</b>	<b>(8.5)</b>

### **Other loans**

Other loans classified as Level 3 are infrastructure loans.

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

#### *Redemption and defaults*

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

#### *Sensitivity analysis*

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

### **Recoveries from reinsurers on investment contracts**

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

*Principal assumptions and sensitivity of profit before tax*

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

### **Investment contract liabilities**

*Principal assumption 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 4.0% (2015: 4.1%).

#### *Sensitivity analysis*

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

## Deposits received from reinsurers

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

### Discount rate

The valuation model discounts the expected future cash flows using a contractual discount rate derived from the assets hypothecated to back the liabilities at a product level. The discount rates used as at 30 June 2016 for Individual retirement and Individual care annuities were 3.51% and 1.26% respectively.

### Credit spreads

The valuation of deposits received from reinsurers includes a credit spread applied by individual reinsurer. A credit spread of 135bps was applied in respect of the most significant reinsurance contract.

### Sensitivity analysis

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

Net increase/(decrease) in fair value (£m)	Deposits received from reinsurers	
	Credit spreads +100bps	Interest rates +100bps
<b>30 June 2016</b>	<b>(127.7)</b>	<b>(217.7)</b>

## 7 Share capital

The allotted and issued ordinary share capital of JRP Group plc at 30 June 2016 is detailed below.

	Number of £0.10 ordinary shares	Share capital £m	Share premium £m	Merger reserve £m	Total £m
At 1 July 2015	500,864,706	50.1	1.2	–	51.3
Shares issued under capital placing and open offer	63,525,672	6.4	90.5	–	96.9
Shares issued in exchange for shares in PAG	368,376,421	36.8	–	532.7	569.5
In respect of employee share schemes	7,024	–	–	–	–
<b>At 30 June 2016</b>	<b>932,773,823</b>	<b>93.3</b>	<b>91.7</b>	<b>532.7</b>	<b>717.7</b>

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

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

## 8 Loans and borrowings

	30 June 2016 £m	30 June 2015 £m
Bank borrowings	98.1	46.9
Subordinated debt	94.1	–
<b>Total loans and borrowings</b>	<b>192.2</b>	<b>46.9</b>

On 25 September 2012, Just Retirement (Holdings) Limited entered into a £35m five-year term loan agreement provided by Royal Bank of Scotland plc.

On 9 May 2013, Deutsche Bank AG and Nomura International plc acceded to the loan agreement under the terms of an accordion feature, with each providing loans of £10m to Just Retirement (Holdings) Limited.

On 7 August 2015, Just Retirement (Holdings) Limited entered into an amendment to the original loan agreement and on 10 August 2015 drew down a further £30m from each of Royal Bank of Scotland plc and Barclays Bank plc.

£3.6m of the loan was repaid on 11 October 2013, £4.5m was repaid on 11 October 2014, and £8.8m was repaid on 11 October 2015.

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

In March 2015, the Partnership group issued a £100m Solvency II Tier 2 qualifying instrument at par with a maturity date of March 2025 and a coupon of 9.5%. Net of issuance fees the amount received was £99.9m. The fair value of the debt at the date of acquisition of PAG was £94.1m.

## 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 2016 £m	30 June 2015 £m
<b>Fair value through profit or loss</b>			
Derivative financial liabilities	(a)	268.6	74.3
Obligations for repayment of cash collateral received	(a)	30.2	18.6
Deposits received from reinsurers	(b)	2,721.9	–
<b>Liabilities measured using insurance rules</b>			
Deposits received from reinsurers	(b)	2,566.2	2,473.6
Reinsurance finance	(c)	74.2	76.7
Reinsurance funds withheld	(d)	210.0	–
<b>Total other liabilities</b>		<b>5,871.1</b>	<b>2,643.2</b>

The liabilities above, which are measured at fair value through profit or loss, are designated as such on initial recognition.

### (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 Pillar 1 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	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
Interest rate futures	–	–	–
<b>Total at 30 June 2016</b>	<b>90.1</b>	<b>268.6</b>	<b>3,993.1</b>

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

The Group's derivative financial instruments are not designated as hedging instruments and changes in their fair value are included in profit or loss. Derivatives are used to manage the Group's European embedded value and regulatory capital, which is affected by a surplus of long-dated fixed interest securities when liabilities are measured on a realistic basis.

All over-the-counter derivative transactions are conducted under standardised International Swaps and Derivatives Association Inc. ("ISDA") master agreements, and the Group has collateral agreements between the individual Group entities and relevant counterparties in place under each of these market master agreements.

As at 30 June 2016, the Company had pledged collateral of £197.4m (2015: £55.6m) of which £36.5m were gilts (2015: £38.4m) and had received cash collateral of £30.2m (2015: £18.6m).

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

	Twelve months ended 30 June 2016 £m	Twelve months ended 30 June 2015 £m
Movement in fair value of swaps	<b>(92.9)</b>	15.7
Realised losses on interest rate swaps closed	<b>(40.4)</b>	(145.0)
<b>Total amounts recognised in profit or loss</b>	<b>(133.3)</b>	(129.3)

## 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.

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m	Twelve months ended 30 June 2016 £m	Twelve months ended 30 June 2015 £m
Short-term employee benefits	<b>1.5</b>	4.3	<b>3.6</b>	7.0
Share-based payments	<b>0.2</b>	0.7	<b>0.9</b>	1.2
<b>Total key management compensation</b>	<b>1.7</b>	5.0	<b>4.5</b>	8.2
Loans owed by Directors	<b>0.3</b>	–	<b>0.3</b>	–
Loans advanced to associate and fees on loans	<b>0.2</b>	–	<b>0.2</b>	–

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

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

## 12 Post balance sheet events

There have been no material events between 30 June 2016 and the date of this report that are required to be brought to the attention of shareholders.

## **European embedded value (“EEV”)**

### **Supplementary financial statements**

JRP Group plc has prepared supplementary financial statements for the Group on an EEV basis. These statements have been prepared in accordance with the CFO Forum’s Principles and Guidance on EEV reporting dated April 2016. These principles permit, but do not require, the use of projection methods and assumptions applied for market consistent solvency regimes. JRP has chosen not to align its methodology and assumptions between Solvency II and EEV and has instead chosen to report EEV under an IFRS based methodology.

Life insurance products are, by their nature, long-term and the profit on this business is generated over a significant number of years. Accounting under IFRS alone does not, in the Group’s opinion, fully reflect the value of future cash flows. The Group considers that embedded value reporting provides investors with a measure of the future profit streams of the Group’s in-force long-term business and is a valuable supplement to statutory accounts.

# Group statement of changes in embedded value

## For the twelve months ended 30 June 2016

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

	Twelve months ended 30 June 2016			Twelve months ended 30 June 2015 £m
	Covered business £m	Non-covered business £m	Total £m	
<b>Opening Group EEV</b>	<b>782.8</b>	<b>236.5</b>	<b>1,019.3</b>	959.1
Operating EEV earnings	87.8	2.7	<b>90.5</b>	53.6
Non-operating EEV earnings	(33.9)	(18.1)	<b>(52.0)</b>	25.5
<b>Total EEV earnings</b>	<b>53.9</b>	<b>(15.4)</b>	<b>38.5</b>	79.1
Other movements in IFRS net equity	–	1.4	<b>1.4</b>	0.9
Dividend and capital flows	30.0	54.6	<b>84.6</b>	(11.0)
<b>December Closing Group EEV</b>	<b>866.7</b>	<b>277.1</b>	<b>1,143.8</b>	1,028.1
Methodology change as at December 2015	47.6	–	<b>47.6</b>	–
<b>Restated December EEV</b>	<b>914.3</b>	<b>277.1</b>	<b>1,191.4</b>	1,028.1
Acquisition of Partnership Assurance Group	621.2	63.8	<b>685.0</b>	–
Operating EEV earnings	45.0	(7.5)	<b>37.5</b>	36.5
Non-operating EEV earnings	224.1	(17.9)	<b>206.2</b>	(41.6)
<b>Total EEV earnings</b>	<b>890.3</b>	<b>38.4</b>	<b>928.7</b>	(5.1)
Other movements in IFRS net equity	–	6.2	<b>6.2</b>	1.8
Dividend and capital flows	10.0	(20.2)	<b>(10.2)</b>	(5.5)
<b>Closing Group EEV</b>	<b>1,814.6</b>	<b>301.5</b>	<b>2,116.1</b>	1,019.3

### Covered business

Covered business embedded value has increased by £1,031.8m over the twelve months ended 30 June 2016. The primary drivers for this increase include the acquisition of PAG (£621.2m) and economic variances in the period (£190.3m). The remainder of the increase in EEV arises as a result of basis harmonisation following the acquisition of PAG (£47.6m) and new business written in the period (£116.6m).

### Non-covered business

The non-covered business across the Group has increased by £65.0m over the period. New shares issued by JRG increased non-covered business by £97.0m, offset by a capital injection into JRL and PLACL, and dividend payments. Non-covered business increased by £63.8m as a result of the acquisition of PAG.

## Reconciliation of shareholders' equity on IFRS basis to shareholders' equity on EEV basis

	30 June 2016 £m	31 December 2015 £m	30 June 2015 £m
<b>Shareholders' equity on an IFRS basis</b>	<b>1,676.4</b>	921.5	814.0
Goodwill	(32.8)	(32.8)	(32.8)
Intangibles	(215.2)	(35.5)	(37.3)
Adjustments to IFRS	74.3	(263.8)	(142.5)
<b>EEV Net worth</b>	<b>1,502.7</b>	589.4	601.4
<i>Value of in-force business</i>			
Present value of future profits	706.0	624.4	525.8
Cost of residual non-hedgeable risks	(55.1)	(13.4)	(11.9)
Frictional cost of capital	(37.5)	(31.2)	(28.6)
Deferred Tax Asset	–	31.1	8.7 <sup>1</sup>
Time Value of Options and Guarantees	–	(56.5)	(76.1) <sup>2</sup>
<b>EEV (Net of taxation)</b>	<b>2,116.1</b>	1,143.8	1,019.3

<sup>1</sup> The EEV as at 30<sup>th</sup> June 2015 and 31 December 2015 was calculated on the previous methodology based on Solvency I, which included a deferred tax asset within the VIF reflecting the difference between the actual tax basis and the tax within the Shareholders' net assets on a Solvency I regulatory reporting basis. This deferred tax asset in the VIF no longer exists as the EEV shareholders' net assets are now on an IFRS basis.

<sup>2</sup> The Time Value of Options and Guarantees included within the VIF at 30 June 2015 and 31 December 2015 included an implicit amount reflecting a quantification of the reduction in the yield of lifetime mortgages and the impact this has on the liquidity premium. As this is implicit, rather than calculated explicitly, it has been removed from the breakdown of VIF as at June 2016.

## Covered business analysis of movement in embedded value of JRP

The analysis of movement represents the change in the EEV for the twelve months ended 30 June 2016 for the JRP Group. Material economic assumptions have been aligned to be consistent across the group at 31 December 2015 and are included within the Methodology Change as at 31 December 2015. To better demonstrate the movement in embedded value, the composition of the embedded value profit for the current year is shown separately between the movement in shareholders' net worth and the value of in-force business.

	Twelve months ended 30 June 2016			Twelve months ended 30 June 2015 £m
	Shareholders' Net worth £m	Value of in-force business £m	Total £m	
<b>Opening EEV</b>	<b>364.9</b>	<b>417.9</b>	<b>782.8</b>	699.1
New business value	(34.8)	105.8	<b>71.0</b>	48.6
Expected existing business contribution (reference rate and in excess of reference rate)	1.7	15.6	<b>17.3</b>	13.8
Transfers from VIF and required capital to free surplus	25.4	(25.4)	–	–
Experience variances	(52.6)	49.1	<b>(3.5)</b>	(10.1)
Assumption changes	(26.8)	37.8	<b>11.0</b>	6.9
Other operating variances	(8.0)	–	<b>(8.0)</b>	(6.9)
<b>Operating EEV earnings</b>	<b>(95.1)</b>	<b>182.9</b>	<b>87.8</b>	52.3
Economic variances	12.5	(46.4)	<b>(33.9)</b>	27.2
Other non-operating variances	–	–	–	–
<b>Total EEV earnings</b>	<b>(82.6)</b>	<b>136.5</b>	<b>53.9</b>	79.5
Dividend and capital flows	30.0	–	<b>30.0</b>	10.0
<b>December closing EEV</b>	<b>312.3</b>	<b>554.4</b>	<b>866.7</b>	788.6
Methodology change as at December 2015	252.2	(204.6)	<b>47.6</b>	–
<b>Restated December EEV</b>	<b>564.5</b>	<b>349.8</b>	<b>914.3</b>	788.6
Acquisition of Partnership Assurance Group	456.3	164.9	<b>621.2</b>	–
New business value	26.6	19.0	<b>45.6</b>	49.5
Expected existing business contribution (reference rate and in excess of reference rate)	4.7	8.3	<b>13.0</b>	16.3
Transfers from VIF and required capital to free surplus	9.3	(9.3)	–	–
Experience variances	(4.3)	(0.6)	<b>(4.9)</b>	(13.0)
Assumption changes	(0.6)	(0.3)	<b>(0.9)</b>	(7.4)
Other operating variances	(7.8)	–	<b>(7.8)</b>	(7.6)
<b>Operating EEV earnings</b>	<b>484.2</b>	<b>182.0</b>	<b>666.2</b>	37.8
Economic variances	143.5	80.7	<b>224.2</b>	(43.6)
Other non-operating variances	(1.0)	0.9	<b>(0.1)</b>	–
<b>Total EEV earnings</b>	<b>626.7</b>	<b>263.6</b>	<b>890.3</b>	(5.8)
Dividend and capital flows	10.0	–	<b>10.0</b>	–
<b>Closing EEV</b>	<b>1,201.2</b>	<b>613.4</b>	<b>1,814.6</b>	782.8

The movements in EEV to 31 December 2015 are described in detail in the 31 December 2015 Interim Results already published and are not described in further detail here. The impact of methodology changes at 31 December 2015 reflects the changes from the harmonisation of reporting assumptions and the change to reporting EEV methodology as a result of the move to Solvency II for regulatory reporting. These have increased EEV by £47.6m. The large offsetting movement from VIF into net worth is a result of the move to base EEV on the IFRS balance sheet following the introduction of Solvency II (which replaced the Solvency I regulatory regime which was the basis for EEV in the past). New business increased EEV by £45.6m since December 2015. The other material positive item included in operating EEV earnings is the expected contribution from existing business which has been offset by the impact of the negative experience mainly arising on lifetime mortgage redemptions and other operating variances which mainly consist of interest payable on the subordinated debt. The key driver for the large increase in embedded value from the non-operating earnings is the impact of the large fall in risk-free interest rates over the period. The positive contribution from higher lifetime mortgage sales was offset by changes in corporate bond spreads.

# Notes to the European Embedded Value results

## Supplementary financial statements

### 1) Basis of presentation

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

The Directors' view is that embedded value reporting provides shareholders with additional information on the financial position and current performance of the Group to that otherwise provided in the primary financial statements. Under the EEV method, the total profit recognised over the lifetime of a policy is the same as that recognised under alternative reporting bases, but the timing of recognition is different.

The Group uses EEV methodology to value all lines of insurance business within Just Retirement Limited ("JRL") and Partnership Life Assurance Company Limited ("PLACL"), the covered business of the Group.

The acquisition of Partnership Assurance Group plc ("PAG") by Just Retirement Group plc ("JRG") took place on 1 April 2016, at which point Just Retirement Group plc was renamed JRP Group plc ("JRP"). These supplementary statements of JRP report on JRP's EEV for the twelve month period to 30 June 2016. The transaction has been accounted for as a business combination in which JRG acquired PAG on 1 April 2016. As such, the result for JRP has included PAG's embedded value as an acquisition at 1 April 2016 and includes the impact of changes in PAG's EEV for the three months from 1 April 2016 to 30 June 2016.

No other Group companies contain material amounts of covered business and the value of these companies has been included in the Group EEV at IFRS net asset value less the value of goodwill and intangibles (to the extent that their recovery is supported by future profits).

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

### 2) Methodology

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

The Group has amended its EEV methodology in light of the introduction of Solvency II as the regulatory reporting basis as of 1 January 2016.

As part of the acquisition of PAG the methodologies for calculating the EEV and material economic assumptions were harmonised. The notes that follow generally apply to the calculation of the embedded values for both JRG and PAG. Any differences are commented on as appropriate.

#### A. Embedded value overview

In reporting under the EEV Principles, the Group has chosen to adopt a "bottom-up" approach to the allowance for risk. The approach makes an explicit allowance for part of the spread (that part being referred to as "liquidity premium") expected to be earned on corporate bonds and lifetime mortgages. This has been achieved by increasing the discount rate used for valuing retirement income liabilities by that liquidity premium.

The embedded value is the sum of the net worth of the Group companies, plus the value of in-force covered business, this being the present value of profits that will emerge over time. The embedded value is calculated net of the impacts of reinsurance and allows for taxation based on current legislation and enacted future changes.

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

Required capital is assessed as the market value of assets attributed to the covered business in excess of assets required to back liabilities, and for which distribution to shareholders is restricted. The level of required capital is set with regards to the regulatory capital requirements (i.e. Solvency II) such that the free surplus is equal to Solvency II Excess Own Funds.

This methodology reflects the level of capital considered by the Directors to be required to support the business, and includes any additional shareholder funds not available for distribution.

For other Group companies, the net worth is the IFRS net asset value less the value of goodwill and intangibles to the extent that their recovery is supported by future profits.

The value of in-force business is the present value of projected after-tax profits emerging in future from the current in-force business less the cost arising from holding the required capital to support the in-force business and an allowance for non-hedgeable risks. The future cash flows are projected using best estimate assumptions for each component of the cash flow.

The value of new business is the present value of projected after-tax profits emerging in future from new business sold in the period less the cost arising from holding additional capital to support this business and an allowance for non-hedgeable risks. The figures shown also include the expected return between the point of sale and the reporting date.

## **B. Covered business**

The business to which the EEV Principles have been applied is defined as the covered business. The covered business includes all business written by JRL and PLACL. In particular, business falling under the definition of long-term insurance business for UK regulatory purposes and principally comprising:

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

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

## **C. New business**

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

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

Any changes to non-economic assumptions and methodology in respect of new business are introduced at the reporting date. The impact of these changes on the value of new business at the end of the year is therefore included within the analysis of the embedded value profit in the operating assumption changes.

## **D. Components of value**

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

- (i) Certainty equivalent value; less
- (ii) Time value of financial options and guarantees; less
- (iii) Allowance for non-hedgeable risk; less
- (iv) Cost of capital.

### *(i) Certainty equivalent value*

The certainty equivalent value is the value of the future cash flows, excluding the time value of financial options and guarantees. It is calculated assuming assets earn the reference rate and the cash flows are discounted at the reference rate. The reference rate is defined in Section 2E “Valuation of cashflows” below.

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

The IFRS value of the provision for guarantees described in (ii) below is allowed for in the net worth.

### *(ii) Time value of financial options and guarantees (“TVOG”)*

The certainty equivalent value calculation above is based on a single (base) economic scenario; however, a single scenario cannot appropriately allow for the effect of certain features of options and guarantees. If an option or guarantee affects shareholder cash flows in the base scenario, the impact is included in the certainty equivalent value and is referred to as the intrinsic value of the option or guarantee; however, as future investment returns are uncertain, the actual impact on shareholder profits may be higher or lower. The covered business does not contain any significant policyholder options or guarantees and therefore there is no explicit TVOG.

The assets backing the covered business include mortgages secured against individual domestic properties (lifetime mortgages). These mortgages contain a “no negative equity” guarantee. Under this guarantee, the amount recoverable by the Group on termination of the mortgage is generally capped at the net sale proceeds of the property. This guarantee does not apply where the mortgage redemption is not accompanied by a sale of the underlying property. This could occur when, for example, the property is remortgaged with another provider. The time value of this guarantee is allowed for in the asset valuation using closed form calculations, based on a variant of the Black-Scholes option pricing formula. The formula incorporates a number of assumptions, including those for risk-free interest rates, future property growth and future property price volatility. The value of this guarantee is allowed for through a reduction in the liquidity premium included in the VIF for covered business, and is not explicitly valued. In prior periods, the impact on the VIF from the reduction in liquidity premium was included in the disclosures for JRG, but these are no longer included in the disclosure as they are not an explicit element of the VIF.

### *(iii) Allowance for non-hedgeable risks*

The key non-hedgeable (or diversifiable) risks faced by the Group are mortality (including longevity), early redemptions on lifetime mortgages and operational risks. In principle no explicit adjustment is required for non-hedgeable risks because the capital markets do not require an additional return for risks which can be diversified away. However, this is only true if the assumptions made as regards future experience are set so as to give the mean of the expected outcome (including allowing for the tails of the distribution) and that all cash flows have been allowed for.

The Group has set the assumptions in respect of mortality and lifetime mortgage early redemptions with the intention that they give the mean of the expected outcome, including allowing for the tails of the distribution. As such, no further adjustment has been made in respect of these risks.

However, the certainty equivalent value and the time value of financial options and guarantees make no allowance for the cost of possible operational and other asymmetric risk and the Group has made an explicit allowance for these risks.

In the valuation approach used, the market (or non-diversifiable) risks faced by the Company are allowed for directly in the valuation of the cash flows.

### *(iv) Cost of capital*

In addition to holding assets to back the covered business, the Company must also hold additional shareholder capital to support the business. The amount of required capital has been assessed, as described in Section 2A above, with reference to the Solvency II regulatory requirements.

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

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

#### **E. Valuation of cash flows**

Reference rates are calculated using corporate bond and lifetime mortgage liquidity premiums added to the swap curve. The liquidity premium on corporate bond assets is calculated by deducting an allowance for credit default risk, individually assessed for each bond based on credit rating, and comparing the resulting risk adjusted internal rate of return on the portfolio to the swap curve.

The lifetime mortgage assets are valued using a mark to model approach that allows for the cost of the no negative equity guarantee, where relevant, with the liquidity premium calculated on a consistent basis.

For protection business, cash flows are assumed to be liquid and as such are discounted with no allowance for a liquidity premium

##### *(i) In-force business*

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

##### *(ii) New business*

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

#### **F. Reinsurance**

The Group has reinsurance arrangements in respect of the GlfL business, whereby part of the mortality risk is transferred to the reinsurers. The Group received an initial financing payment which is repayable out of future surplus emerging. Some associated initial and renewal fees are also payable to the reinsurers.

The face value of the amount owed to the reinsurers at the relevant reporting date together with all management fees expected to be paid in the future has been explicitly allowed for in the value of the in-force business at the reporting date.

The risk transfer is not reflected in the EEV because, on the assumptions used, the Group expects to recapture the business once remaining financing has been repaid.

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

#### **G. Taxation**

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

### 3) Assumptions

#### A. Economic assumptions

##### Reference rates

The term structure of the reference rates has been derived from mid-market swap rates. The resulting rates reflect the shape of the swap rate curve. For new business the rates have been derived from the swap rates applicable on the date each payment was received for retirement income policies or the date each mortgage advance was completed as appropriate.

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

Swap rates (at sample terms, %)	Term (years)				
	1	5	10	20	30
<b>30 June 2016</b>	<b>0.6</b>	<b>0.6</b>	<b>1.0</b>	<b>1.3</b>	<b>1.2</b>
31 December 2015	0.8	1.6	2.0	2.2	2.2
30 June 2015	0.8	1.7	2.2	2.4	2.4

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

Liquidity premium, bps	JRG	PAG
<b>30 June 2016</b>	<b>215</b>	<b>277</b>
31 December 2015	192	n/a
30 June 2015	178	n/a

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

Liquidity premium, bps	JRG	PAG
<b>30 June 2016</b>	<b>298</b>	<b>300</b>
31 December 2015	228	n/a
30 June 2015	61 <sup>1</sup>	n/a

<sup>1</sup> The liquidity premium methodology in JRL changed from 30 June 2015, the value quoted above is therefore calculated under the previous methodology.

##### Residential property assumptions

When calculating the value of the no-negative equity guarantee on the lifetime mortgages, certain economic assumptions are required within the variant of the Black-Scholes formula.

These assumptions have been harmonised across the Group as part of the acquisition of PAG.

The market against which these assumptions have been assessed, and the cost of the no negative equity guarantee has been calibrated, is neither deep nor liquid. The Group has therefore set these assumptions taking into account historic published UK residential property price movements.

The risk-free rate used in the variant of the Black Scholes formula is the mid-market swap rate.

In the absence of a reliable long-term forward curve for UK residential property price inflation, the Group has assumed that residential property will grow in line with a bespoke house price inflation assumption. This has been derived by reference to the long-term expectation of the UK retail price inflation (consistent with the Bank of England inflation target plus an allowance for the expectation of house price growth above RPI less a margin for a combination of risks including property dilapidation and basis risk). The resulting rate is applied as a single rate of future house price growth. The methodology at 30 June 2015 was broadly the same but was derived from the UK retail price inflation rates with an explicit house price inflation spread, but was applied as a term structure assumption rather than a flat rate.

The long-term assumption of 4.25%p.a used to project future house prices includes an adjustment to reflect the potential significant downside risk in the short term from external factors. These risks do not impact the long term view but do impact what might happen over the next 12 months. Therefore it is assumed that house prices will, on average across the portfolio, fall by 10% between 30 June 2016 and 30 June 2017 and grow thereafter at a rate of 5.0%p.a. This is broadly equivalent to the flat 4.25% p.a long term assumption.

In deriving an assessment of long-term UK residential property price volatility, the Group has used house price data published by the Nationwide Building Society. The Group has adjusted the derived value to allow for the additional volatility expected to be observed in the Company's portfolio compared with the market as a whole, the idiosyncratic risk.

The volatility assumption used at 30 June 2016 was 12% p.a. on lifetime mortgages (30 Jun 2015: 9.7% p.a.).

#### *Expense inflation*

For the Group's retirement income products, the assumed future rate of increases in per policy maintenance expenses ranges from 3.5% p.a. to 4.4% p.a. (30 Jun 2015: 3.6% p.a. to 4.5% p.a.). For the Group's lifetime mortgages, the assumed future rate of increases in maintenance expenses ranges from 3.6% p.a. to 4.4% p.a. (30 Jun 2015: 3.8% p.a. to 4.5% p.a.).

The difference between the retirement income and lifetime mortgage products reflects the difference in average duration of the cash flows and the shape of the RPI curve at the valuation date.

#### *Taxation*

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

Calendar year	Effective tax rate 30 June 2016
2016	20.00%
2017	19.25%
2018	19.00%
2019	19.00%
2020	18.25%
2021	18.00%

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

#### **B. Operating assumptions**

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

#### *Mortality*

The mortality assumptions have been set by the Group taking into account the Group's own mortality experience together with relevant studies undertaken by the Continuous Mortality Investigation Bureau of the Institute and Faculty of Actuaries ("CMI"), population studies undertaken by offices of the UK government, published research materials, input from the Group's lead reinsurer and management's own industry experience.

#### *Mortgage repayments*

Assumptions are made about the number of future mortgage repayments resulting from individuals moving into long-term care or through voluntary repayments. When deriving appropriate assumptions the Group has taken into account its own experience together with other relevant available information. The JRG assumptions for mortality have been updated from those used at 30 June 2015 to reflect the emerging experience on this business.

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

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

#### *Expenses*

The expense levels are based on internal expense analysis investigations and are appropriately allocated to the new business and policy maintenance functions. Acquisition expenses have been fully allocated to the values of new business for each product.

The Group has set long-term maintenance expense allowances for each product at a level which it considers to be realistic.

In calculating the embedded value, an adjustment has been made equal to the net present value of any expected future maintenance expense overruns.

Investment expenses have been set by reference to the expenses payable under the investment management arrangements.

Some of the expenses incurred in the financial period to 30 June 2016 have been considered exceptional and one-off in nature. These non-recurring expenses have been identified separately and have not been included in the calculation of the value of in-force business or in the value of new business although they have been charged to the non-operating earnings in the year incurred. Total non-recurring expenses for the twelve months ended 30 June 2016 were £11.3m for the Group's covered business (twelve month period ended 30 Jun 2015: £16.8m, six month period ended 31 Dec 2015: £7.0m).

The look-through principle has not been applied to the losses in the distribution company arising from the sale of products arising from the covered business, and so these losses have not been included as a deduction against the value of new business. The distribution company is considered to be a standalone business and its activities do not relate solely to the sale of covered business. The recognised loss in the distribution company has been accounted for on an IFRS basis, separately to the results of the covered business.

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

*Non-hedgeable risk*

At 30 June 2016 the JRG provision for non-hedgeable risk has been established as 0.29% of the best estimate reserves in respect of retirement income business for JRG and 0.55% for PAG (30 June 2015: 0.18% for JRG). The increase in this assumption is due to the introduction of the Solvency II regulatory regime, bringing changes to the assessment of operational and expense risks. This assumption applies to new business from 1 January 2016. New business in the 6 months to 31 December 2015 uses the 30 June 2015 assumption of 0.18% of best estimate reserves at point of sale.

*Required capital*

At 30 June 2016 the amount of required capital has been assessed, as described in Section 2A above, with reference to the Solvency II regulatory requirements.

This assumption is changed from that used as at 30 June 2015, which was based on 175% of JRL's long-term insurance capital requirement ("LTICR") together with 175% of the resilience capital requirement ("RCR"), as set out in the PRA Solvency I regulations.

#### 4) Sensitivities

The Group embedded value at 30 June 2016 and the value of new business for the year to 30 June 2016 have been recalculated to show the sensitivity of the results to changes in certain of the assumptions discussed above.

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

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

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

#### **Sensitivity of values to changes in assumptions**

Liquidity premium, bp	Embedded value at 30 June 2016 £m	Value of new business for six months ended 30 June 2016 £m	Value of new business for six months ended 31 December 2015 £m
Central value	1,814.6	45.6	71.0
Impact of:	–		
• 1% reduction in yield curves	360.1	n/a	n/a
• 1% increase in yield curves	(296.2)	n/a	n/a
• 20% reduction in property values	(78.4)	(0.5)	(0.8)
• 125% of implied property volatilities	(146.7)	(1.1)	(1.3)
• 5% reduction in retirement income customer base mortality	(139.0)	(4.3)	(5.2)
• 10% increase in lifetime mortgage voluntary redemptions	(36.2)	(0.4)	n/a
• 10% increase in maintenance expenses	(26.3)	(0.6)	n/a
• 0.25% increase in mortality improvements for retirement income business	(83.1)	(4.3)	n/a

#### **Notes to the sensitivities:**

- Interest rate environment +/-100 bps: this sensitivity is modelled as a 100bp change to the yield on each asset. The sensitivity allows for the resulting change in asset value and the change in liability value that follows from the change in risk adjusted internal rate of return on the portfolio. In the -100bp sensitivity the reference rate has a floor of 0%.
- 20% fall in property values: this sensitivity allows for the change in asset value arising from an immediate fall of 20% in property prices. From 30 June 2017 onwards, the sensitivity assumes an additional 10% reduction to property prices over and above the 10% fall assumed in the base position. The sensitivity also allows for the corresponding change in liabilities as a result of the yield change.
- 25% increase in property volatility: this sensitivity allows for the change in equity release asset value as a result of the change in the cost of the no negative equity guarantee", and for the change in commercial mortgage asset value. The sensitivity also allows for the corresponding change in liabilities as a result of the yield change.
- 5% decrease in base mortality: this sensitivity is modelled for the annuity business only. This is modelled as a change in the best estimate mortality level and the IFRS prudent margins remain unchanged.
- 10% proportionate change in lapses: this sensitivity is modelled as a change in assumptions for both covered business lapse rates and equity release mortgage voluntary repayment rates. The sensitivity is applied as a proportionate increase in the rate of withdrawal (e.g. a withdrawal rate of 5.5% becomes 4.5% under the sensitivity). The IFRS reserves are also changed in this scenario as a result of changing yields on the equity release mortgages.
- 10% increase in maintenance expenses: this sensitivity is modelled as a 10% change in the expense reserve. There is no change to expense inflation and no change to valuation interest rates.
- Mortality improvements +0.25%: this sensitivity is modelled as an additional 0.25% improvement in each future year within the best estimate basis for annuity business only. Prudent margins are unchanged.

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

For the six months to 31 December 2015, sensitivities on new business for voluntary redemptions and maintenance expenses were calculated as reductions to the base assumption, and have not been restated as increases to the base assumption. The mortality improvement sensitivity was not performed on the new business in the six months to 31 December 2015.

# Pro forma Group statement of changes in embedded value

## For the six months ended 30 June 2016

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

	Six months ended 30 June 2016		
	Covered business £m	Non-covered business £m	Total £m
<b>Opening Group EEV (Pro-forma)<sup>1</sup></b>	<b>1,523.1</b>	<b>340.6</b>	<b>1,863.7</b>
Operating EEV earnings	43.1	(7.5)	<b>35.6</b>
Non-operating EEV earnings	238.4	(18.1)	<b>220.3</b>
<b>Total EEV earnings</b>	<b>281.5</b>	<b>(25.6)</b>	<b>255.9</b>
Other movements in IFRS net equity	–	6.7	<b>6.7</b>
Dividend and capital flows	10.0	(20.2)	<b>(10.2)</b>
<b>Closing Group EEV</b>	<b>1,814.6</b>	<b>301.5</b>	<b>2,116.1</b>

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

	Six months ended 30 June 2016		
	Shareholders' net worth £m	Value of in-force business £m	Total £m
<b>Restated opening EEV (Pro-forma)</b>	<b>1,020.5</b>	<b>502.6</b>	<b>1,523.1</b>
New business value	25.2	20.5	<b>45.7</b>
Expected existing business contribution (reference rate and in excess of reference rate)	4.7	11.1	<b>15.8</b>
Transfers from VIF and required capital to free surplus	13.2	(13.2)	–
Experience variances	(3.5)	(1.1)	<b>(4.6)</b>
Assumption changes	(0.6)	(0.3)	<b>(0.9)</b>
Other operating variances	(13.3)	0.4	<b>(12.9)</b>
<b>Operating EEV earnings</b>	<b>25.7</b>	<b>17.4</b>	<b>43.1</b>
Economic variances	146.4	91.6	<b>238.0</b>
Other non-operating variances	(1.4)	1.8	<b>0.4</b>
<b>Total EEV earnings</b>	<b>170.7</b>	<b>110.8</b>	<b>281.5</b>
Dividend and capital flows	10.0	–	<b>10.0</b>
<b>Closing EEV</b>	<b>1,201.2</b>	<b>613.4</b>	<b>1,814.6</b>

Operating EEV earnings include £45.7m from new business written in the period. The other material positive item included in operating EEV earnings is the expected contribution from existing business which has been offset by the impact of the negative experience on lifetime mortgage redemptions and interest paid on subordinated debt.

The key driver for the large increase in embedded value from the non-operating earnings is the impact of the large fall in risk-free interest rates over the period. The non-operating earnings also include transaction and integration costs with regards to the merger (£23.9m pre-tax).

Share based payments were the main driver for the increase in EEV included in the “Other movements in IFRS net equity” line. The JRP Group paid dividends in the period of £10.2m which led to a corresponding reduction in EEV.