

NEWS RELEASE

14 March 2019

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014 ("MAR"). Upon publication of this announcement, the inside information is now considered to be in the public domain for the purposes of MAR.

JUST GROUP plc
RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

Just Group plc ("Just", the "Group") announces its results for the year ended 31 December 2018.

Highlights

- **Underlying operating profit¹ up 31% to £315m** in 2018. Adjusted operating profit¹ was down 5% to £210m
- **IFRS loss before tax was £(86m)** (2017: profit £181m), driven by changes to property assumptions in light of the economic and financial uncertainty caused by Brexit
- **New business profits up 44% to £244m²** in 2018, driven by strong sales growth and an increase in the new business margin
- **New business margin of 11.2%²** in 2018, up from 9.0% in 2017 and over three times the level reported in 2015
- **Retirement Income sales growth of 15%** in 2018. Defined Benefit De-risking sales were up 32%
- **Solvency coverage ratio of 144%, and after notional recalculation for TMTP³, 136%** (31 December 2017: 139%). Economic capital ratio has grown to 256% (31 December 2017: 238%)
- **Capital actions.** Alongside these results we are announcing an underwritten Restricted Tier 1 debt offering of at least £300m and an underwritten equity placing of 9.99% of existing share capital.

Rodney Cook, Group Chief Executive, said:

"2018 has been a year of contrasts. We have achieved significant new business profit growth, strong margins and higher sales despite significant uncertainty during the Prudential Regulation Authority's ("PRA") consultation into equity release mortgages.

I want to acknowledge the challenges our shareholders have faced during this period and to assure them we remain focused on delivering value for them by developing our highly effective new business franchise.

As previously announced, following the release of the PRA policy statement 31/18, the Board has been determining the optimal capital mix and level in order to provide a stronger capital base to support the development of the Group's capabilities. After careful consideration, we are today announcing a package of capital actions, including an underwritten Restricted Tier 1 debt offering of at least £300m and an underwritten non pre-emptive equity placing of 9.99% of existing share capital, which will allow the Group to maintain its focus on growing profits. Further details of these transactions are available on the Group website.

At the Interim Results in 2018 the Board decided to defer the 2018 interim dividend due to the uncertainty surrounding the potential outcomes from the PRA consultation paper. The Board has taken into consideration the extensive feedback received from shareholders on this matter. Given the proposed capital actions we are announcing today, we do not consider it appropriate to pay a dividend for 2018. Our current expectation is to recommence dividend payments during the 2019 financial year at a rebased level.

During the year we have continued to innovate by developing new customer solutions including our 'Just For You' mortgage range; our Secure Lifetime Income product, which is a market first, and our new fintech business, HUB Pension Solutions.

We have received external recognition for our service and been awarded 'Risk Management Provider of the Year' in the Pension Age awards, crowned winner of the 'Customer focus for a large Enterprise' category in the

Institute of Customer Service awards and have been awarded a Financial Adviser 5 Star Service Award in the Life & Pensions category, for the 14th consecutive year. I'd like to pay tribute to my colleagues across the Group for continuing to provide outstanding service to our customers in order to advance our purpose, which is to help people achieve a better later life.

We operate in highly attractive growth markets in which we hold leadership positions and despite the challenging current macro environment we remain confident of the outlook for our Group."

Notes

1. Alternative performance measure ("APM") – In addition to statutory IFRS performance measures, the Group has presented a number of non-statutory alternative performance measures. The Board believes that the APMs used give a more representative view of the underlying performance of the Group. APMs are identified in the glossary at the end of this announcement.
2. The margins reported for the year are based on the opening 2018 IFRS actuarial assumptions. If the changes to the IFRS property assumptions at 31 December 2018 had taken place at the beginning of 2018, new business margins in 2018 would have been lower by approximately 1%
3. TMTP - transitional measures for technical provisions

FINANCIAL CALENDAR	DATE
AGM and Q119 Business Update	16 May 2019

Enquiries	
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A presentation for analysts will take place at 09.30am today at Nomura, One Angel Lane, London, EC4R 3AB. A live webcast will also be available on www.justgroupplc.co.uk at 09:30am.

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

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

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Forward-looking statements disclaimer:

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

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

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

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

Chief Executive Officer's Statement

SMART ABOUT GROWTH

We remain focused on growing profits and margins, and in delivering a Just experience for our customers

INTRODUCTION

We are pleased with our results for the year and have continued to achieve strong growth in sales and new business profit. We remain focused on attractive growth markets and making smart choices to grow profits and margins.

PERFORMANCE REVIEW

The parts of the retirement market that we operate in remain buoyant and have good long-term prospects. The defined benefit de-risking market continues to grow and has now become mainstream. GifL continues to be a key retirement income solution and growth of the open market has been stimulated by FCA initiatives to encourage shopping around. Lifetime mortgages remain a very important tool to address the needs of those people at- or in-retirement where they have housing wealth, but insufficient pension income.

We focus on these attractive markets and are disciplined in the business we choose to accept. This approach has delivered significant growth in both sales and margins. We think that's smart growth.

Our corporate solutions businesses which operate under our HUB brand continue to grow and have further strengthened in 2018 through our strategic partnership to provide M&G Prudential's customers with a retirement income service, the launch of HUB Pension Solutions and through our acquisition of Corinthian Pension Consulting.

New business operating profit was £243.7m for 2018, an increase of 44% compared to the prior year. Adjusted operating profit before tax fell slightly by 5% compared to the prior year and was £210.3m and overall the Group reported an IFRS loss before tax for 2018 of £85.5m, compared to a profit before tax of £181.3m for 2017. The IFRS loss before tax was primarily due to the review of the Group's assumptions in relation to property growth and volatility, further details of which are included in the Financial Review.

Retirement Income sales increased by 15% to £2,173.4m, and LTM sales increased by 18% to £602.1m.

Once again we are proud to have received the highest recognition from the financial advisers who use our services, by being awarded a Financial Adviser 5 Star Service Award in the Life & Pensions category, for the 14th consecutive year. In addition the Institute of Customer Service crowned Just the winner in the 'Customer focus for a large Enterprise' category and Pension Age awarded Just 'Risk Management Provider of the Year'. This recognises the "Just" experience which we strive to give our customers.

CAPITAL

In our interim results in September I explained that the Prudential Regulation Authority ("PRA") had issued CP13/18 in relation to lifetime mortgages being held to back annuity liabilities, which could have resulted in a material reduction in our capital position. In December the PRA published a Policy Statement and updated Supervisory Statement in response to CP13/18 which set out the PRA's final policy and expectations. In summary I'm pleased to say the PRA has listened to the concerns that we (and others) raised, and has made adjustments to their original proposals. All firms in the industry will have to make changes to their businesses to meet the new requirements set out by the PRA. For us here at Just, the outcome is well within the range of what we have been planning for and the impact on the Group is manageable over time. The PRA has allowed firms until 31 December 2019 to implement their changes. We and others within the industry put proposals to the PRA that the lifetime mortgage business we had developed before the introduction of Solvency II in 2016, should continue to benefit from the rules that were in place at that time. We are pleased the PRA has agreed to this.

The outcome is significantly less onerous than CP13/18 suggested and we have already taken action to ensure we operate within the new boundaries set out by the PRA. We have announced an underwritten Restricted Tier 1 debt offering of at least £300m and an underwritten non pre-emptive equity placing of 9.99% of existing share capital to strengthen the Group's capital base to support our new business franchise.

The Group's Solvency Capital Requirement coverage ratio was estimated to be 136% after notional recalculation of the transitional measure on technical provisions ("TMTP") as at 31 December 2018 (31 December 2017: 139%). This reflects the benefit of the £230m Tier 3 capital issued in February 2018, offset by the capital strain from the strong new business volumes written during the year. The majority of our own funds remain comprised of Tier 1 capital. Our economic capital ratio at 31 December 2018 was 256% (31 December 2017: 238%). We plan to achieve capital self-sufficiency and the Board now expects own funds to increase organically from 2022, following implementation of a number of management actions to improve new business capital efficiency, reduce expenses, enhance management of the no-negative equity guarantees ("NNEG") and optimise our investment approach.

COLLEAGUES

Being Just is at the heart of what we do and is the core of what we strive to deliver to our customers day in, day out. Our colleagues work hard to deliver a Just experience and achievements such as the service awards we have received are testament to their hard work and determination. Once again I would like to extend my thanks and gratitude to our colleagues across the Group for their continued efforts, enthusiasm and dedication.

AND FINALLY...

We have achieved another set of excellent new business results and, with the plan to strengthen our capital base remain confident of the outlook for our Group. Because we operate in growing markets we can make smart choices in the risks we accept in order to deliver attractive returns on capital from new business. We are proud of being "Just" and delivering products and services to help our customers achieve a better later life.

RODNEY COOK

Group Chief Executive Officer

DELIVERING RESULTS

The Financial Review presents the results of the Group for the year ended 31 December 2018, including IFRS, Solvency II and economic capital information.

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

The Group’s new business franchise has delivered significant growth in sales and margins during 2018 resulting in strong new business operating profits.

The Group completed the integration of its underwriting IP in 2018 and has updated its IFRS mortality and property assumptions at 31 December 2018. Updates to the Group’s mortality assumptions and mortgage voluntary redemptions, which are included within operating profit, largely contributed a £33.5m negative change and resulted in a 5% reduction in adjusted operating profit this year, to £210.3m, compared to £220.6m in 2017. Updates to property assumptions, which are included in investment and economic losses, contributed a £236m negative change. The net effect of these assumption changes resulted in an IFRS loss before tax for the year of £85.5m (2017: IFRS profit before tax of £181.3m). These changes are explained in more detail below.

ADJUSTED OPERATING PROFIT BEFORE TAX

New business operating profit

New business operating profit has increased by 44%, from £169.8m in 2017 to £243.7m in 2018. This is due to increases in both Retirement Income sales and new business margins. Retirement Income sales increased by 15% from £1,889.9m in 2017 to £2,173.5m in 2018, driven by increased DB sales, and the new business margin for the year was 11.2% (2017: margin of 9.0%). The increased margin has been driven by the Group’s continued focus on pricing discipline. The margins reported for the year are based on the opening 2018 IFRS actuarial assumptions. If the changes to the IFRS property assumptions at 31 December 2018 had taken place at the beginning of 2018, new business margins in 2018 would have been lower by approximately 1%. We are also taking measures to reduce the capital strain that new business generates by marginally reducing the LTM backing ratio for new business and reducing the duration and loan-to-value of our LTM. Taken together, this will lower the 2019 new business margin by at least another percentage point.

ADJUSTED OPERATING PROFIT

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m	Change %
New business operating profit	243.7	169.8	44
In-force operating profit	71.7	71.3	1
Underlying operating profit	315.4	241.1	31
Operating experience and assumption changes	(33.5)	34.6	(197)
Other Group companies’ operating results	(14.6)	(14.0)	(4)
Development expenditure	(8.7)	(1.1)	(691)
Reinsurance and finance costs	(48.3)	(40.0)	(21)
Adjusted operating profit before tax¹	210.3	220.6	(5)

1 See reconciliation to IFRS profit before tax in the IFRS results section of this Financial Review.

In-force operating profit

In-force operating profit has increased slightly compared to the prior year, from £71.3m to £71.7m, and represents the margin emerging from the growing in-force book of business, and the return on the Group's surplus assets.

Underlying operating profit

Underlying operating profit is the sum of new business operating profit and in-force operating profit, and has increased by 31%, from £241.1m to £315.4m, driven by the strong new business results.

Operating experience and assumption changes

Operating experience and assumption changes reported a negative variance of £(33.5)m for 2018, compared to a positive variance of £34.6m in the prior year.

Operating experience variances were negligible in aggregate as overall experience emerged in line with expectations. The Group has seen a small positive experience variance in relation to GifL and Care mortality, and a small negative experience in relation to lifetime mortgage mortality and redemptions. Expense experience emerged in line with the updated assumptions set in the prior year, which were revised in 2017 to take into account the reduced per-policy running costs following the delivery of integration synergies post-merger.

Operating assumption changes were £(33.5)m negative overall.

During 2018, the Group completed the exercise of integrating the IP from the Just Retirement and Partnership legacy businesses and carried out a comprehensive review of its longevity assumptions. As a consequence of this review the Group's proprietary tool for pricing and reserving new business, PrognoSys™, has been recalibrated using the combined businesses' mortality data set; mortality improvement assumptions have been updated using CMI 2017, the actuarial profession's benchmark model, as a base for initial rates of improvement, increasing the long-term rate of improvement, and aligning improvement rates for Retirement Income and mortgages; and the base level structure of mortality assumptions for the other legacy basis has been developed to align better with experience and includes a modification to assume a faster run-off of initial excess mortality for the more impaired lives.

Overall the net effect of mortality assumption changes has been broadly neutral. However in one of our larger, legacy medically underwritten blocks of business, the net impact of these changes resulted in an increase in reserves of £57m. On other lines of business, there was an overall reduction in reserves of £31m from these changes, and provisions which were held pending completion of this work of £30m have been released. Mortality improvement rates are closely intertwined with the base level and structure of the mortality basis for medically underwritten business. Moreover, that valuation is underpinned by a unique, large, and rapidly expanding experience dataset.

Mortgage voluntary redemption assumptions were updated to reflect the latest experience and this resulted in a charge of £(33)m. Other minor assumption changes led to a charge of £4m.

Other Group companies' operating results

The operating result for other Group companies was a loss of £14.6m in 2018 compared to a loss of £14.0m in 2017. Included within this line item is the operating result for the Group's companies which operate under the HUB brand, and holding company costs.

Development expenditure

Development expenditure mainly relates to amounts spent on developing new products and services, such as our Just For You Lifetime Mortgage range which was launched in January 2019 and our innovative Secure Lifetime Income solution for investment platforms, launched in February 2019.

Reinsurance and finance costs

The increase in reinsurance and finance costs during 2018 is mainly due to interest on the £230m Tier 3 debt issued in February 2018.

NEW BUSINESS SALES

We have achieved double-digit growth in both Retirement Income sales and total new business sales for 2018. Retirement Income sales increased by 15%, from £1,889.9m in 2017 to £2,173.5m in 2018, and total new business sales also increased by 15%, from £2,457.1m in 2017 to £2,827.4m in 2018. The main reasons for these increases are explained below.

DB sales were £1,314.2m in 2018 (2017: £997.8m), an increase of 32%. The defined benefit de-risking market has grown significantly and in 2018 is expected to exceed £23bn (2017: £12.2bn). Employee benefits consultants

have actively managed the industry pipeline, reducing seasonality, which resulted in an increase in business completed in the first half of the year.

GifL sales decreased slightly by 4% to £786.5m in 2018, compared to £820.5m in 2017 and as expected sales slowed in the final quarter of 2018 as the pricing increases we implemented following the publication of CP13/18 took effect.

Care Plan sales for the year ended 31 December 2018 were £72.8m, a slight increase compared to 2017 sales of £71.6m, and we remain a leading provider in this sector.

Drawdown sales were £51.0m for the year (2017: £51.2m) and are mainly sales of the Group's Flexible Pension Plan ("FPP").

Our Protection product was closed to new business during the last quarter of 2017; the sales of £0.8m in 2018 related to the completion of pipeline applications.

Lifetime mortgage advances were £602.1m in 2018 (2017: £510.0m), an increase of 18%. This growth is similar to our Retirement Income sales growth. During 2018 the lifetime mortgage market continued to grow, driven by increased demand from consumers and increased supply from insurers. We continue to believe that these assets are a good match for our GifL and DB liabilities.

Following the publication of the Policy Statement we chose to be more selective in the business we acquired in the second half of 2018, which resulted in a reduction in new business volumes. We will continue to select the most attractive risks in 2019 and expect the pattern of new business to be more aligned to the second half of 2018.

NEW BUSINESS SALES

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m	Change %
Defined Benefit De-risking Solutions ("DB")	1,314.2	997.8	32
Guaranteed Income for Life Solutions ("GifL")	786.5	820.5	(4)
Care Plans ("CP")	72.8	71.6	2
Retirement Income sales	2,173.5	1,889.9	15
Drawdown	51.0	51.2	–
Total Retirement sales	2,224.5	1,941.1	15
Protection	0.8	6.0	NM
Lifetime Mortgage ("LTM") loans advanced	602.1	510.0	18
Total new business sales	2,827.4	2,457.1	15

ADJUSTED EARNINGS PER SHARE

Adjusted EPS (based on adjusted operating profit after attributed tax) has decreased by 5% compared to the prior year, and reflects the decreased operating profit for 2018.

	Year ended 31 December 2018	Year ended 31 December 2017
Earnings (£m)	170.3	178.1
Weighted average number of shares (million)	932.7	930.0
EPS (pence)	18.26	19.15

CAPITAL MANAGEMENT

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

Just Group plc estimated Solvency II capital position

The Group has approval to apply the matching adjustment, volatility adjustment and transitional measures on technical provisions (“TMTP”) in its calculation of technical provisions and uses a combination of an internal model and the standard formula to calculate its Group Solvency Capital Requirement (“SCR”).

The Group’s Solvency II position was as follows:

Unaudited	31 December 2018 ¹ £m	31 December 2017 ² £m
Capital resources		
Own funds	2,176	2,135
Solvency Capital Requirement	(1,597)	(1,539)
Excess own funds	579	596
Solvency coverage ratio	136%	139%

1 These figures allow for a notional recalculation of TMTP as at 31 December 2018.

2 Just Group plc Solvency and Financial Condition Report published June 2018.

The Group’s solvency coverage ratio was estimated at 136% at 31 December 2018, including a notional recalculation of TMTP (2017: 139%). A notional recalculation of TMTP allows for economic conditions as at 31 December 2018 and any changes in valuation assumptions during 2018. The Group’s capital resources have benefitted from the £230m Tier 3 capital issued in February 2018, offset by the capital strain from the continued growth in new business volumes written in the year and market movements.

TMTP is recalculated every two years and the next recalculation will be done at 31 December 2019. The Solvency Capital Requirement coverage ratio at 31 December 2018, excluding any notional recalculation of TMTP, has been estimated at 144%.

In July 2017, the PRA issued SS3/17 which set out principles for tests to be applied to the effective value of lifetime mortgages on insurers’ Solvency II balance sheets. On 10 December 2018, the PRA issued PS31/18, which set out the parameters for these tests, to be applied from 31 December 2019. As at 31 December 2018, the Group’s Solvency II balance sheet complies with the principles in SS3/17 and the parameters we have met for these tests (13% house price volatility and 0.3% deferment rate) are more prudent than those required as at 31 December 2019 in PS31/18 (13% house price volatility and 0% deferment rate, respectively).

During 2018 the Group has continued to demonstrate the strength of its new business franchise, reporting strong IFRS sales and new business margins. However, the strong new business sales have also driven capital strain in the Solvency II balance sheet. Whilst we continue to introduce steps to reduce the capital strain, such as changes to pricing and asset mix, the Group has announced an underwritten Restricted Tier 1 debt offering of at least £300m and an underwritten non pre-emptive equity placing of 9.99% of existing share capital to further strengthen its capital base in order to support the Company’s new business franchise.

The table below analyses the movement in excess own funds.

Movement in excess capital resources¹

Unaudited	£m
Excess own funds at 31 December 2017	596
Tier 3 debt issuance	230
In-force surplus (including impact of TMTP amortisation)	125
New business strain	(160)
Overrun and other expenses	(45)
Dividends and interest	(56)
Other, including economic and investment fluctuations ²	(111)
Excess own funds at 31 December 2018	579

1 All figures are net of tax.

2 These figures allow for a notional recalculation of TMTP as at 31 December 2018.

Estimated Group Solvency II sensitivities

Unaudited	%	£m
Solvency coverage ratio/excess own funds at 31 December 2018 ¹	136	579
-50 bps fall in interest rates (no TMTP recalculation)	-12	(159)
-50 bps fall in interest rates (with TMTP recalculation)	-2	0
+100 bps credit spreads	-1	(19)
+10% LTM early redemption	1	2
-10% property values	-17	(257)
-5% mortality	-14	(210)

1 These figures allow for a notional recalculation of TMTP as at 31 December 2018.

As at 31 December 2018, the sensitivity of the Just Group's own funds (post-tax) to a 1% increase in the implied property volatility is a reduction of c.£26m; and to a 0.5% increase in the implied deferment rate is a reduction of c.£63m. The sensitivities allow for an offset from a change in TMTP.

Reconciliation of IFRS shareholders' net equity to Solvency II own funds

Unaudited	31 December 2018 ¹ £m	31 December 2017 £m
Shareholders' net equity on IFRS basis	1,664	1,741
Goodwill	(34)	(33)
Intangibles	(137)	(160)
Solvency II risk margin	(851)	(902)
Solvency II TMTP	1,738	2,110
Other valuation differences and impact on deferred tax	(813)	(1,009)
Ineligible items	(7)	(6)
Subordinated debt	615	394
Group adjustments	1	-
Solvency II own funds	2,176	2,135
Solvency II SCR	(1,597)	(1,539)
Solvency II excess own funds	579	596

1 These figures allow for a notional recalculation of TMTP as at 31 December 2018.

Summary of Just Group plc economic capital position

The table below shows the Group's economic capital position as at 31 December 2018. The capital coverage ratio at 31 December 2018 remains strong at 256% (2017: 238%). During the year the benefit of the £230m Tier 3 debt raised in February has been partially offset by the strengthening of the Group's mortality and property related assumptions.

Unaudited	31 December 2018 £m	31 December 2017 £m
Available capital	2,806	2,835
Required capital	(1,097)	(1,191)
Surplus economic capital	1,709	1,644
Capital solvency ratio	256%	238%

The economic capital is the Group's internal assessment of the capital required to absorb a 1 in 200 year risk event and reflects our true economic view. It excludes the prudent elements of Solvency II such as risk margins and matching adjustment eligibility of assets.

EMBEDDED VALUE PER SHARE (unaudited)

Embedded value per share at 31 December 2018 was 206p per share (2017: 228p per share).

IFRS RESULTS

The following tables present the Group's results on a statutory IFRS basis.

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Adjusted operating profit before tax	210.3	220.6
Non-recurring and project expenditure	(19.6)	(11.6)
Investment and economic (losses)/profits	(252.0)	22.6
Acquisition integration costs	–	(25.6)
Amortisation	(24.2)	(24.7)
IFRS (loss)/profit before tax	(85.5)	181.3

Adjusted operating profit before tax

The underlying trends in the components of adjusted operating profit before tax are explained below.

Non-recurring and project expenditure

Non-recurring and project expenditure increased from £11.6m in 2017 to £19.6m in 2018. Non-recurring expenditure for 2018 includes costs associated with the issue of new Tier 3 capital in February 2018, as well as costs of exploring a range of capital options to further optimise the Group's balance sheet and capital tiering structure following the publication of CP13/18 in July. Project expenditure for 2018 relates to a number of projects across the Group, including investigating new products and markets, ensuring the Group's readiness for the requirements of the new General Data Protection Regulation ("GDPR") rules, and preparations for the new Insurance Contracts accounting standard, IFRS 17, and migration of IT systems.

Investment and economic losses/profits

Investment and economic losses were £252.0m (2017: profit of £22.6m).

During 2018 the Group reviewed and updated its property growth and volatility assumptions, which are the key inputs into the valuation of the NNEG included in our lifetime mortgage assets. The property growth assumption has been reduced from 4.25% to 3.8% per annum, and the property volatility assumption has been increased from 12% per annum to 13% per annum. In updating these assumptions the Board took into consideration future long and short-term forecasts, benchmarking data, and future macro economic uncertainties including the possible impact of Brexit on the UK property market. The strengthening of these assumptions has given rise to a £211m loss reported through this line which is the combination of the change in lifetime mortgage asset values and the increase to the value of insurance liabilities from the resulting reduction to the valuation interest rate.

Investment and economic losses for 2018 also include the impact of an increase in risk-free rates, and a widening of credit spreads. By contrast, the year to 31 December 2017 benefited from a narrowing of credit spreads. The Group's hedging arrangements are designed to more closely hedge the Solvency II balance sheet and the IFRS balance sheet retains some exposure to movements in risk-free rates. There were no corporate bond defaults within our portfolio during the year (2017: no defaults).

Acquisition integration costs

Merger activity was substantially completed by 31 December 2017. Any remaining costs of aligning the legacy companies' IT systems are included in non-recurring and project expenditure.

Amortisation

Amortisation mainly relates to the acquired in-force business asset relating to Partnership Assurance Group plc, which is being amortised over ten years in line with the expected run-off of the in-force business.

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.

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Gross premiums written	2,176.9	1,893.4
Reinsurance premiums ceded	(8.0)	(17.1)
Reinsurance recapture	543.3	467.5
Net premium revenue	2,712.2	2,343.8
Net investment income	142.6	621.1
Fee and commission income	8.2	5.8
Total revenue	2,863.0	2,970.7
Net claims paid	(749.9)	(638.1)
Change in insurance liabilities	(1,689.0)	(1,656.5)
Change in investment contract liabilities	0.4	(6.3)
Acquisition costs	(52.4)	(43.1)
Other operating expenses	(254.8)	(238.4)
Finance costs	(202.8)	(207.0)
Total claims and expenses	(2,948.5)	(2,789.4)
(Loss)/profit before tax	(85.5)	181.3
Income tax	21.2	(26.2)
(Loss)/profit after tax	(64.3)	155.1

Gross premiums written

Gross premiums written for the year were £2,176.9m, an increase of 15% compared to the prior year (2017: £1,893.4m). The increase is driven by the 32% increase in DB sales.

Net premium revenue

Net premium revenue increased from £2,343.8m to £2,712.2m, which includes gross premiums written plus the impact of the reinsurance recaptures made during the year, partly offset by reinsurance premiums ceded.

Net investment income

Net investment income decreased from £621.1m to £142.6m in 2018. The main components of investment income are interest earned and changes in fair value of the Group's corporate bond, mortgage and other fixed income assets. Increases in risk-free rates and widening credit spreads and changes in the Group's property growth and volatility assumptions have given rise to unrealised losses on the Group's corporate bond and mortgage portfolios during the current year. There were no corporate bond defaults during the year.

Net claims paid

Net claims paid increased to £749.9m, from £638.1m in 2017, reflecting the growth of the in-force book.

Change in insurance liabilities

Change in insurance liabilities was £1,689.0m for the current year, compared to £1,656.5m in 2017. The change for the year reflects the growth in insurance liabilities and the impact of reinsurance recaptures as noted above, changes to the Group's mortality assumptions, and changes to the valuation interest rate as a result of the changes to property assumptions.

Acquisition costs

Acquisition costs have increased from £43.1m in 2017 to £52.4m in 2018, mainly reflecting the increased volumes of new business written this year.

Other operating expenses

Other operating expenses increased from £238.4m in 2017 to £254.8m for the current year, mainly as a result of increases in development and other project-related expenditure and non-recurring costs.

Finance costs

The Group's overall finance costs decreased from £207.0m in 2017 to £202.8m in 2018. The reduction reflects reduced costs in relation to interest on reinsurance deposits; these balances have reduced during the year as a result of the reinsurance recaptures. Finance costs also include interest costs of £39.9m payable on the Group's subordinated debt (2017: £32.0m interest payable on subordinated debt).

Income tax

Income tax for the year ended 31 December 2018 was a credit of £21.2m (2017: income tax charge of £26.2m), with an effective tax rate of (24.8)% (2017: effective tax rate of 14.5%). The effective tax rate for the current year has been driven by the loss for the year and by one-off adjustments relating to prior periods. Without these one-off adjustments, the effective tax rate for the current year would have been 15.1%.

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.

Condensed consolidated statement of financial position

	31 December 2018 £m	31 December 2017 £m
Assets		
Financial investments	19,252.5	18,287.1
Reinsurance assets	4,239.2	5,285.3
Other assets	454.1	592.5
Total assets	23,945.8	24,164.9
Share capital and share premium	188.6	188.0
Other reserves	885.5	881.1
Accumulated profit and other adjustments	589.7	671.4
Total equity	1,663.8	1,740.5
Liabilities		
Insurance liabilities	17,273.8	16,633.0
Other financial liabilities	4,063.3	5,045.4
Insurance and other payables	78.3	85.5
Other liabilities	866.6	660.5
Total liabilities	22,282.0	22,424.4
Total equity and liabilities	23,945.8	24,164.9

Financial investments

During the year, financial investments increased by £1.0bn, from £18.3bn at 31 December 2017 to £19.3bn at 31 December 2018. The increase is mainly a result of investing the Group's new business premiums into corporate bonds, gilts, loans secured by mortgages, and other fixed income investments. The credit quality of the corporate bond portfolio remains high, with 60% of the Group's corporate bond and gilts portfolio rated A or above (2017: 61%) and continues to be well balanced across a range of industry sectors. The loan-to-value ratio of the mortgage portfolio at 31 December 2018 was 32.5% (2017: 29%), and the percentage of lifetime mortgages remained the same at 37.4% of financial investments.

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

	31 December 2018 £m	31 December 2018 %	31 December 2017 £m	31 December 2017 %
AAA ¹	1,798.9	9.3	1,751.1	9.6
AA ¹ and gilts	1,799.8	9.3	1,523.0	8.3
A	3,151.1	16.4	3,397.2	18.6
BBB	4,072.0	21.1	3,944.8	21.6
BB or below	208.2	1.1	151.0	0.8
Unrated	1,031.0	5.4	686.7	3.7
Lifetime mortgages	7,191.5	37.4	6,833.3	37.4
Total	19,252.5	100.0	18,287.1	100.0

1 Includes units held in liquidity funds.

Just Group has signed up to the United Nations Principles for Responsible Investment (“PRI”). We are the first UK insurer to do this. In making investment decisions sustainable investing principles are formally embedded within our processes, as set out in our Sustainable Investment Framework approved by the Board. As an example of part of this process the Group made the decision in 2016 to sell all of its tobacco holdings. Over the last two years the Group has invested in c. £350m of infrastructure debt supporting renewable projects such as wind farms and solar plants and continues to actively seek for opportunities in the renewable sector. One of our main renewable infrastructure investments is already generating enough energy to supply electricity for 600,000 UK homes.

The sector analysis of the Group’s financial investments portfolio at 31 December 2018 is shown below and continues to be well balanced across a variety of industry sectors.

	31 December 2018 £m	31 December 2018 %	31 December 2017 £m	31 December 2017 %
Basic materials	272.4	1.4	256.8	1.4
Communications	963.8	5.0	817.3	4.5
Auto manufacturers	319.4	1.7	291.9	1.6
Consumer	878.3	4.6	846.3	4.6
Energy	313.1	1.6	290.3	1.6
Banks	2,086.3	10.7	2,227.3	12.2
Insurance	733.9	3.8	819.3	4.5
Financial – other	936.3	4.9	633.4	3.5
Government	1,253.3	6.5	1,264.9	6.9
Industrial	447.4	2.3	632.0	3.4
Utilities	1,512.1	7.9	1,429.6	7.8
Liquidity funds	882.5	4.6	897.9	4.9
Lifetime mortgages	7,191.5	37.4	6,833.3	37.4
Commercial mortgages	392.3	2.0	215.4	1.2
Infrastructure loans	858.9	4.5	513.7	2.8
Other	211.0	1.1	317.7	1.7
Total	19,252.5	100.0	18,287.1	100.0

Reinsurance assets

Reinsurance assets decreased from £5.3bn at 31 December 2017 to £4.2bn at 31 December 2018. The decrease relates to the impact of reinsurance recaptures made during the year, and to the receipt of reinsurers’ share of claims paid during the year. Following the introduction of Solvency II, the Group has increased its use of reinsurance swaps rather than quota share treaties.

Other assets

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

Insurance liabilities

Insurance liabilities increased from £16.6bn at 31 December 2017 to £17.3bn at 31 December 2018. The increase in liabilities arose as a result of new insurance business written less claims paid and the impact of strengthening the Group's mortality assumptions and changes to the valuation interest rate as a result of the changes to property assumptions, partially offset by the effect of rising long-term interest rates.

Other financial liabilities

Other financial liabilities decreased from £5.0bn at 31 December 2017 to £4.1bn at 31 December 2018. These liabilities are mainly reinsurance related and include deposits received from reinsurers, reinsurance financing and other reinsurance-related balances. The change in the financial liability balance mainly reflects reinsurance recaptures made in the year.

Insurance and other payables

Insurance and other payables decreased from £85.5m at 31 December 2017 to £78.3m at 31 December 2018.

Other liabilities

Other liability balances increased from £660.5m at 31 December 2017 to £866.6m at 31 December 2018. The overall increase in the year is due to the £230m Tier 3 subordinated debt issued by the Group in February 2018.

IFRS net assets

The Group's total equity at 31 December 2018 was £1,663.8m, compared to £1,740.5m at 31 December 2017. The reduction in net assets mainly reflects the IFRS loss after tax of £64.3m for the year and the 2017 final dividend, which was paid in May 2018.

DIVIDENDS

The Board considers it appropriate not to pay a final year dividend for 2018 (total 2017 dividend: 3.72 pence per share).

The Board's current expectation is to recommence dividend payments during the 2019 financial year at a rebased level. The rebased level for the 2019 full year dividend is expected to be approximately one third of the 3.72 pence total dividend paid during the 2017 financial year, subject to the Group's earnings, cash flow and capital position.

DAVID RICHARDSON

Group Deputy Chief Executive Officer, Interim Group Chief Financial Officer and MD, UK Corporate Business

STRONG RISK CULTURE

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

PURPOSE

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

RISK FRAMEWORK

Our risk management framework is continually developed to reflect our risk environment and emerging 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 our risks and decide how best to manage them within our risk appetite. Management regularly reviews its risks and produces reports to provide assurance that material risks in the business are being appropriately mitigated. The Risk function, led by the Group Chief Risk Officer (“GCRO”), challenges the management team on the effectiveness of its risk evaluation and mitigation. The GCRO provides the Group 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 capital risk appetite. This modelling is aligned to both our economic capital and regulatory capital metrics. This modelling allows the Board to understand both the risks included in the Solvency Capital Requirement (“SCR”) and those not included in the SCR, such as liquidity and strategic risks, and how they translate into economic and regulatory capital needs. 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.

VIABILITY STATEMENT

The Directors confirm that they have a reasonable expectation that the Group will continue in operation and meet its liabilities, as they fall due, over the next five years. The Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity, and make this assessment with reference to the risk appetite of the Board and the processes and controls in place to mitigate the principal risks and uncertainties as detailed in the Strategic Report including the risks from the UK’s withdrawal from the European Union.

The Directors have also assessed the impact of complying with the parameters set out in PS31/18 “Solvency II: Equity release mortgages” over the next five years, which is included in the Group plan approved by the Board.

The Board has considered the ability of the Group to write the anticipated levels of new business over the next five years, the associated capital requirements and the need to raise additional capital in order to write that level of new business. As a result, the Group plans to strengthen its capital position during 2019 and beyond in order to support the new business franchise over the next five years. In assessing viability the Board has considered the risk that the Group may not be able to raise new capital.

On 14 March 2019 the Group announced an underwritten Restricted Tier 1 debt offering of at least £300m and an underwritten non pre-emptive equity placing of 9.99% of existing share capital.

In addition, the Board will continue to review the need for further capital and its optimal mix including consideration of the use of unutilised Tier 2 capacity and including the refinancing of the existing Partnership Life Assurance Company Limited Tier 2 debt which has a call option in March 2020.

The Group undertakes stress and scenario testing to consider the Group's capacity to respond to a series of relevant financial, insurance, or operational shocks or changes to financial regulations should future circumstances or events differ from current assumptions. The review also considers mitigating actions available to the Group should a severe stress scenario occur, such as raising further capital, varying the volumes of new business written and a scenario where the Group ceases to write new business. In particular, if adequate capital is not available to fund anticipated levels of new business, the scope of the Group's business would change. Even if the Group ceases to write new business, the Group would still be viable, although as a Group managing its existing book of business in run-off.

The Directors note that the Group is subject to the Prudential Regulatory Regime for Insurance Groups which monitors the Group's compliance with Solvency Capital Requirements. While the Directors have no reason to believe that the Group will not be viable over a longer period, given the inherent uncertainty which increases as longer time frames are considered, the Directors consider five years to be an appropriate time frame upon which they can report with a reasonable degree of confidence. A five year time frame has been selected for this statement, although the Group, as with any insurance group, has policyholder liabilities in excess of five years and therefore performs its modelling and stress and scenario testing on time frames extending to the expected settlement of these liabilities, with results reported in the Group's ORSA.

Principal Risks and Uncertainties

DESCRIPTION AND IMPACT

MITIGATION AND MANAGEMENT ACTION

Risks from our chosen market environment

Strategic objective

1 2 5

Change in the year – No change

The Group operates in a market where changes in pensions legislation can have a considerable effect on our strategy and could reduce our sales and profitability or require us to hold more capital.

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

The equity release market continues to grow due to consumer demand. The market has been dominated by a limited number of specialist providers, but new entrants – both providers and funders – have emerged along with new product launches and, despite the market growth, the intensity of competition has increased. The equity release asset class provides a good match for the Group's longer duration DB de-risking and GfL liabilities, where suitable longer

Risk outlook – Stable

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

The Group offers a range of retirement options, allowing it to remain agile in this changing environment, and has flexed its offerings in response to market dynamics. We believe we are well placed to adapt to changing customer demand, supported by our brand promise, innovation credentials and financial strength.

The most influential factors in the successful delivery of the Group's plans are closely monitored to help inform the business. The factors include market forecasts and market share, supported by insights into customer and competitor behaviour.

Work continues to improve the customer appeal of the Group's equity release products, explore new product variants and meet distributors' digital and service needs.

duration corporate or government bonds or other appropriate assets are scarce.

Risks from our pricing assumptions

Strategic objective

3 4

Change in the year – No change

Writing long-term DB de-risking, GIfl and equity release business requires a range of assumptions to be made based on market data and historical experience, including customers' longevity, corporate bond yields, interest rates, property values and expenses. These assumptions are applied to the calculation of the reserves needed for future liabilities and solvency margins using recognised actuarial approaches.

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

Risk outlook – Stable

To manage the risk of our longevity assumptions being inaccurate, the Group has the benefit of extensive underwritten mortality data to provide insights and enhanced understanding of the longevity risks that the Group chooses to take.

Longevity and other decrement experience is analysed to identify any outcomes materially different from our assumptions and is used for the regular review of the reserving assumptions for all products.

Some longevity risk exposure is shared with reinsurance partners, who perform due diligence on the Group's approach to risk selection. There is a related counterparty risk of a reinsurer not meeting its repayment obligations. This risk is typically mitigated through the reinsurer depositing the reinsurance premiums back to the Group or into third party trusts and by collateral arrangements.

For equity release, the Group underwrites the properties against which it lends using valuations from expert third parties. The Group's property risk is controlled by limits to the initial loan-to-property value ratio, supported by product design features, limiting specific property types and exposure to each region. We also monitor the exposure to adverse house price movements and the accuracy of our indexed valuations.

Risks from regulatory changes

Strategic objective

1 3 4 5

Change in the year – No change

The financial services industry continues to see a high level of regulatory activity and intense regulatory supervision. The regulatory agenda for the coming year covers many areas directly relevant to the Group.

The Prudential Regulation Authority ("PRA") has published supervisory statements that set out its expectations for certain aspects of prudential regulation under Solvency II. This includes statements relating to illiquid assets, matching adjustments and transitional provisions. Further consultations are being published on these subjects which would, if implemented, impact on the regulatory capital position of the Group.

On 10 December 2018, the PRA published PS31/18, updating SS3/17 in respect of the valuation of no-negative equity guarantees ("NNEG") in equity release mortgages. Following extensive industry feedback and engagement on its consultation, our interpretation of

Risk outlook – Increasing

We monitor and assess regulatory developments on an on-going basis. We actively seek to participate in all regulatory initiatives which may affect or provide future opportunities for the Group. Our aims are to implement any required changes effectively, and to deliver better outcomes for our customers and competitive advantage for the business. We develop our strategy by giving consideration to planned political and regulatory developments and allow for contingencies should outcomes differ from our expectations.

A key focus for the Group is addressing the implications of PS31/18 while maintaining the confidence of our stakeholders. This includes strengthening our capital base, for which we have announced plans, in order to support the new business franchise.

Any changes to the regulatory environment as a result of the UK's withdrawal from the EU are being monitored.

PS31/18 is that the PRA has made a number of key changes to its proposals. The transitional measure on technical provisions (“TMTP”) for pre-2016 business will continue to be recognised over the remaining transitional period to 31 December 2031, the deferment rate will be 1%, volatility will initially be set at 13% and effective value test (“EVT”) will not be applied to other assets. These provisions will apply from 31 December 2019, rather than 2018 as originally proposed.

Improving operational resilience of financial services firms has become a key focus of both the FCA and PRA, with the expectation that firms will review and enhance their operational resilience frameworks covering internal operations, systems and technology.

EU General Data Protection Regulation (“GDPR”) came into effect on 25 May 2018. Whilst the principles of GDPR are similar to those of the UK Data Protection Act 1998, its requirements are more prescriptive and the rights of consumers are clearer and easier to enforce. We have not observed any significant changes in consumer behaviours with regard to exercising their rights under GDPR.

The Department for Work and Pensions is seeking views on a new legislative framework for authorising and regulating defined benefit superfund consolidation vehicles of the type envisaged by the White Paper – “Protecting defined benefit pension schemes” – published in March 2018, which could potentially impact the Group’s future Defined Benefit De-risking business volumes.

The regulatory focus on the issue of sustainable finance and particularly the risks that climate change could have on the safety and soundness of firms and stability of the financial system may accelerate actions of market participants that then have an impact on the availability and attractiveness of certain securities.

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

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

Just Group welcomes the PRA’s confirmation that transitional relief will remain available for pre-2016 business and that the implementation of PS31/18 has been deferred. This means the Board can evaluate the optimal capital structure to support our new business franchise in a considered manner.

We note the PRA’s intention to consult further in early 2019 on various matters relating to equity release mortgages, including how the volatility and deferment rates are reset and how the EVT applies in stress. We will continue to seek to influence the PRA’s developing views on prudential regulation and will work constructively with the PRA as part of the process of those consultations.

Risks from the economic environment

Strategic objective

1 3 4 5

Change in the year – Increasing

The premiums paid by the Group’s customers are invested to enable future benefits to be paid when expected with a high degree of certainty. The economic environment and financial market conditions have a significant influence on the value of assets and liabilities and on the income the Group receives. An adverse economic environment could increase the risk of credit downgrades and defaults in our corporate bond portfolio.

The lack of clarity regarding the UK’s future arrangements with the EU has introduced material

Risk outlook – Increasing

Economic conditions are actively monitored and alternative scenarios modelled to better understand the potential impacts of significant economic changes on the amount of capital required to be held to cover our long-term liabilities to customers and the related risks, and to inform management action plans.

It is anticipated that the UK’s withdrawal from the EU will have limited direct impact on the Group as it is predominantly UK-based with no services provided into other countries of the EEA, and its customers and policyholders are predominantly UK-based.

uncertainty for the UK's macro-economic outlook in the medium and long term. It is too early to be clear on the long-term implications of departure from the EU for the UK economy and indeed the wider economic impacts on the rest of Europe. However, the Group remains exposed to any indirect impact that the UK's withdrawal has on the UK economy as a whole, including residential house prices - the UK's withdrawal from the EU could result in property values stagnating or falling in some, or all, UK regions. A disorderly or "no-deal" Brexit is likely to have the largest impact on the UK economy.

In an environment of low interest rates, investors may be more willing to accept higher credit and liquidity risk to improve investment returns. These conditions do make it challenging to source sufficient assets to offer attractive DB de-risking and GIfl terms. Low credit spreads similarly affect the income that can be made available, although margins from our equity release portfolio help offset this risk.

Most defined benefit pension schemes link member benefits to inflation through indexation. As the Group's DB de-risking business volumes grow, its exposure to inflation risk increases.

A fall in residential property values could reduce the amounts received from equity release redemptions and may also affect the relative attractiveness of the equity release product to customers. The regulatory capital needed to support the possible shortfall in the redemption of equity release mortgages also increases if property values drop. Conversely, significant future rises in property values could increase early mortgage redemptions, leading to an earlier receipt of anticipated cash flows with the consequential reinvestment risk.

Market risks may affect the liquidity position of the Group by, for example, having to realise assets to meet liabilities during stressed market conditions or to service collateral requirements due to the changes in market value of financial derivatives. A lack of market liquidity and availability is also a risk to any intention that the Group may have to raise capital.

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

In a low interest rate environment, improved returns are sought by diversifying the types, geographies and industry sectors of investment assets. Such diversification creates an exposure to foreign exchange risk, which is controlled using derivative instruments. Swaps and swaptions are used to reduce exposures to interest rate volatility. The credit exposure to the counterparties with whom we transact these instruments is mitigated by collateral arrangements.

The Group's exposure to inflation risk through the DB de-risking business is managed with index-linked bonds and inflation hedges.

Liquidity risk is managed by ensuring that assets of a suitable maturity and marketability are held to meet liabilities as they fall due. Sufficient liquid assets are maintained so the Group can readily access the cash it needs should business cash inflows unexpectedly reduce.

There is little short-term volatility in the Group's cash flows, which can be reliably estimated in terms of timing and amount. Regular cash flow forecasts predict liquidity levels both short term and long term, and stress tests help us understand any potential periods of strain. The Group's liquidity requirements have been comfortably met over the past year and forecasting confirms that this position can be expected to continue for investments, business operations and our obligations to customers.

Risks arising from operational processes and IT Systems

Strategic objective

1 2 3 4 5

Change in the year – No change

The Group relies on its operational processes and IT systems to conduct its business, including the pricing and sale of its products, measuring and monitoring its underwriting liabilities, processing applications and delivering customer service and maintaining accurate records. These processes and systems may not operate as expected, may not fulfil their intended purpose or may be damaged or interrupted by human error, unauthorised access, natural disaster or similarly disruptive events. Any failure of the Group's

Risk outlook – Stable

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

The Group maintains plans and controls to minimise the risk of business disruption and information security-related events. Detailed incident and crisis management

IT and communications systems and/or third party infrastructure on which it relies could lead to costs and disruptions that could adversely affect its business as well as harm its reputation.

Large organisations continue to be targets for cyber-crime, particularly those organisations that hold customers' personal details. The Group is no exception and a cyber-attack could affect customer confidence, or lead to financial losses.

plans also exist to ensure effective responses. These are supported by specialist third parties for our workplace recovery centre.

Our approach to information security is under constant review as the cyber-threat landscape evolves. Due diligence is performed on all partners to ensure that they work to the same high security standards as the Group. The Group continues to invest in its information security control environment, but we recognise that the speed of change in cyber-threats means that a risk exposure remains.

Risks to the Group's brands and reputation

Strategic objective

1 2 3 5

Change in the year – Increasing

Our purpose is to help people achieve a better later life. Our Group's brands reflect the way we intend to conduct our business and treat our customer and wider stakeholder groups.

There is a risk that the Group's brands and reputation could be damaged if the Group is perceived to be acting, even unintentionally, below the standards we set for ourselves. Damage to our brands or reputation may adversely affect our underlying profitability, through reducing sales volumes, restricting access to distribution channels and attracting increased regulatory scrutiny.

Additionally, the Group's brands and reputation could be threatened by external risks such as regulatory intervention or enforcement action, either directly or as a result of contagion from other companies in the sectors in which we operate.

Risk outlook – Stable

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

STRATEGIC OBJECTIVES

1. GROW OUR MARKETS & BROADEN OUR DISTRIBUTION REACH

2. GIVE CUSTOMERS A DISTINCTLY 'JUST' EXPERIENCE EVERY TIME

3. MAKE SMART RISK CHOICES

4. FOCUS ON STRONG FINANCIAL MANAGEMENT

5. DIVERSIFY OUR BUSINESS AWAY FROM ANY SINGLE BUSINESS LINE OR MARKET

Consolidated statement of comprehensive income

for the year ended 31 December 2018

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Gross premiums written	6	2,176.9	1,893.4
Reinsurance premiums ceded		(8.0)	(17.1)
Reinsurance recapture		543.3	467.5
Net premium revenue		2,712.2	2,343.8
Net investment income	2	142.6	621.1
Fee and commission income	6	8.2	5.8
Total revenue		2,863.0	2,970.7
Gross claims paid		(1,185.3)	(1,098.8)
Reinsurers' share of claims paid		435.4	460.7
Net claims paid		(749.9)	(638.1)
Change in insurance liabilities:			
Gross amount		(642.9)	(884.7)
Reinsurers' share		(502.8)	(304.3)
Reinsurance recapture		(543.3)	(467.5)
Net change in insurance liabilities		(1,689.0)	(1,656.5)
Change in investment contract liabilities	22	0.4	(6.3)
Acquisition costs	3	(52.4)	(43.1)
Other operating expenses	4	(254.8)	(238.4)
Finance costs	5	(202.8)	(207.0)
Total claims and expenses		(2,948.5)	(2,789.4)
(Loss)/profit before tax	6	(85.5)	181.3
Income tax	7	21.2	(26.2)
(Loss)/profit for the year		(64.3)	155.1
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of land and buildings	7,14	4.4	-
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(0.4)	-
Other comprehensive income for the year, net of income tax		4.0	-
Total comprehensive (loss)/income for the year		(60.3)	155.1
(Loss)/profit attributable to:			
Equity holders of Just Group plc		(63.7)	155.1
Non-controlling interest	35	(0.6)	-
(Loss)/profit for the year		(64.3)	155.1
Total comprehensive (loss)/income attributable to:			
Equity holders of Just Group plc		(59.7)	155.1
Non-controlling interest	35	(0.6)	-
Total comprehensive (loss)/income for the year		(60.3)	155.1
Basic earnings per share (pence)	11	(6.83)	16.68
Diluted earnings per share (pence)	11	(6.83)	16.54

The notes are an integral part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2018

Year ended 31 December 2018	Note	Share capital £m	Share premium £m	Reorganisation reserve £m	Merger reserve £m	Revaluation reserve £m	Shares held by trusts £m	Accumulated profit ¹ £m	Total shareholders' equity £m	Non-controlling interest £m	Total £m
At 1 January 2018		93.8	94.2	348.4	532.7	–	(5.0)	676.4	1,740.5	–	1,740.5
Loss for the year		–	–	–	–	–	–	(63.7)	(63.7)	(0.6)	(64.3)
Other comprehensive income/(loss) for the year, net of income tax		–	–	–	–	4.4	–	(0.4)	4.0	–	4.0
Total comprehensive income/(loss) for the year		–	–	–	–	4.4	–	(64.1)	(59.7)	(0.6)	(60.3)
Contributions and distributions											
Shares issued	20	0.3	0.3	–	–	–	–	–	0.6	–	0.6
Dividends	12	–	–	–	–	–	–	(24.4)	(24.4)	–	(24.4)
Share-based payments		–	–	–	–	–	(1.2)	8.6	7.4	–	7.4
Total contributions and distributions		0.3	0.3	–	–	–	(1.2)	(15.8)	(16.4)	–	(16.4)
At 31 December 2018		94.1	94.5	348.4	532.7	4.4	(6.2)	596.5	1,664.4	(0.6)	1,663.8

Year ended 31 December 2017	Note	Share capital £m	Share premium £m	Reorganisation reserve £m	Merger reserve £m	Shares held by trusts £m	Accumulated profit ¹ £m	Total shareholders' equity £m
At 1 January 2017		93.3	91.7	348.4	532.7	(1.6)	546.1	1,610.6
Profit for the year		–	–	–	–	–	155.1	155.1
Other comprehensive income for the year, net of income tax		–	–	–	–	–	–	–
Total comprehensive income for the year		–	–	–	–	–	155.1	155.1
Contributions and distributions								
Shares issued	20	0.5	2.5	–	–	–	–	3.0
Dividends	12	–	–	–	–	–	(33.2)	(33.2)
Share-based payments		–	–	–	–	(3.4)	8.4	5.0
Total contributions and distributions		0.5	2.5	–	–	(3.4)	(24.8)	(25.2)
At 31 December 2017		93.8	94.2	348.4	532.7	(5.0)	676.4	1,740.5

1 Includes currency translation reserve.

The notes are an integral part of these financial statements.

Consolidated statement of financial position

as at 31 December 2018

	Note	2018 £m	2017 £m
Assets			
Intangible assets	13	171.0	193.5
Property, plant and equipment	14	21.4	19.6
Financial investments	15	19,252.5	18,287.1
Investment in joint ventures and associates		0.3	0.3
Reinsurance assets	21	4,239.2	5,285.3
Deferred tax assets	16	18.6	13.0
Current tax assets	28	42.1	3.7
Prepayments and accrued income	17	67.9	56.5
Insurance and other receivables	18	18.9	44.5
Cash and cash equivalents	19	113.9	261.4
Total assets		23,945.8	24,164.9
Equity			
Share capital	20	94.1	93.8
Share premium	20	94.5	94.2
Reorganisation reserve		348.4	348.4
Merger reserve	20	532.7	532.7
Revaluation reserve	14,16	4.4	–
Shares held by trusts		(6.2)	(5.0)
Accumulated profit		596.5	676.4
Total equity attributable to owners of Just Group plc		1,664.4	1,740.5
Non-controlling interest	35	(0.6)	–
Total equity		1,663.8	1,740.5
Liabilities			
Insurance liabilities	21	17,273.8	16,633.0
Investment contract liabilities	22	197.8	220.7
Loans and borrowings	23	573.4	343.9
Other financial liabilities	24	4,063.3	5,045.4
Deferred tax liabilities	16	32.2	39.2
Other provisions	27	0.7	2.1
Current tax liabilities	28	3.5	9.2
Accruals and deferred income	29	59.0	45.4
Insurance and other payables	30	78.3	85.5
Total liabilities		22,282.0	22,424.4
Total equity and liabilities		23,945.8	24,164.9

The notes are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 14 March 2019 and were signed on its behalf by:

DAVID RICHARDSON

Director

Consolidated statement of cash flows

for the year ended 31 December 2018

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Cash flows from operating activities			
(Loss)/profit before tax		(85.5)	181.3
Loss on revaluation of land and buildings		2.9	–
Depreciation of equipment		1.4	1.8
Loss on disposal of equipment		–	3.1
Amortisation of intangible assets		24.7	25.2
Share-based payments		7.4	5.0
Interest income		(655.2)	(636.4)
Interest expense		202.8	207.0
Increase in financial investments		(720.2)	(410.3)
Decrease in reinsurance assets		1,046.1	771.8
Increase in prepayments and accrued income		(11.4)	(3.2)
Decrease in insurance and other receivables		25.1	92.5
Increase in insurance liabilities		640.8	885.0
Decrease in investment contract liabilities		(22.9)	(1.6)
Decrease in deposits received from reinsurers		(875.7)	(675.9)
Increase in accruals and deferred income		10.4	11.0
Decrease in insurance and other payables		(7.2)	(27.6)
Decrease in other creditors		(91.2)	(22.6)
Interest received		375.9	399.0
Interest paid		(159.2)	(170.8)
Taxation paid		(36.5)	(46.8)
Net cash (outflow)/inflow from operating activities		(327.5)	587.5
Cash flows from investing activities			
Additions to internally generated intangible assets		(2.2)	(1.7)
Acquisition of property and equipment		(0.8)	(7.4)
Net cash outflow from investing activities		(3.0)	(9.1)
Cash flows from financing activities			
Increase in borrowings (net of costs)		228.5	–
Interest paid		(37.1)	(32.6)
Dividends paid		(24.4)	(33.2)
Issue of ordinary share capital (net of costs)		0.6	3.0
Net cash inflow/(outflow) from financing activities		167.6	(62.8)
Net (decrease)/increase in cash and cash equivalents		(162.9)	515.6
Cash and cash equivalents at start of year		1,159.3	643.7
Cash and cash equivalents at end of year		996.4	1,159.3
Cash available on demand		113.9	261.4
Units in liquidity funds		882.5	897.9
Cash and cash equivalents at end of year	19	996.4	1,159.3

The notes are an integral part of these financial statements.

Notes to the consolidated financial statements

1. SIGNIFICANT ACCOUNTING POLICIES

General information

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

1.1. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union effective for accounting periods commencing on or before 1 January 2018 and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2018 or 2017 but is derived from those accounts. Statutory accounts for 2017 have been delivered to the registrar of companies, and those for 2018 will be delivered in due course. The auditor has reported on those accounts. Their report for the year ended 31 December 2018 was (i) unqualified, (ii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006, and (iii) by way of emphasis of matter, without qualifying their report, drew attention to the capital note which discloses the matters also covered in note 34 to this results announcement. Their report for the year ended 31 December 2017 was (i) unqualified, (ii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006, and (iii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report.

As part of their assessment of going concern at 31 December 2018 the Directors have considered the development of CP13/18 “Solvency II: Equity Release Mortgages” (the CP). CP13/18 was published by the PRA in July 2018 and set out a number of parameters relating to the calculation of the matching adjustment including volatility and deferment rate, with implementation expected for the December 2018 year end. This created a significant level of uncertainty for the Group in relation to the treatment of its Lifetime Mortgage assets in the Solvency II balance sheet. At the time of publishing the Group’s interim results for 2018 on 6 September 2018, the consultation period for CP13/18 was still open. When carrying out the assessment of going concern in relation to the interim results for 2018, the Directors concluded that although the going concern basis of preparation was appropriate, the potential outcome of the CP, together with any actions that the PRA might take, represented a material uncertainty.

In December 2018 the PRA published PS31/18 “Solvency II: Equity Release Mortgages” (the PS) setting out its conclusions, including a number of key changes from the original CP which are material to the Group, such as the deferral of the implementation date to 31 December 2019, confirmation that transitional measures for technical provisions for pre-2016 business will be recognised over the remaining transitional period to 31 December 2031, and a requirement that firms must meet an effective value test using a volatility rate of 13% and a deferment rate of 0% at the end of 2019 and that the deferment rate should increase to 1% by year-end 2021. The PS also noted a number of areas for further consideration, in particular the calculation of the SCR.

As part of the assessment of going concern for December 2018, the Directors have considered the impact of the PS. The PS has significantly reduced the uncertainty created by the CP and provides clarity on the calculation of the matching adjustment for future periods, which has enabled the Group to model the impact of the PS in its latest capital projections, business plan and liquidity forecasts.

There is still some uncertainty as regards areas for further PRA consultation and determination, which include the process by which the volatility and deferment rates will be updated and how the effective value test applies in stress, but the Board considers, including having considered the matters below, that the material uncertainty in relation to going concern which was disclosed in the Group’s interim results for 2018 does not exist at the 2018 year-end.

The Directors have also considered the following in their assessment:

- The projected liquidity position of the Group, current financing arrangements and contingent liabilities.
- A range of forecast scenarios with differing levels of new business and associated additional capital requirements, including the Restricted Tier 1 debt and equity placing, to write anticipated levels of new business. This included assessing the risk that the Group may not be able to raise new capital.
- Eligible own funds being in excess of minimum capital requirements in a combined stress scenario with a disruptive Brexit, no capital strengthening and reduced new business volumes.

- The findings of the 2018 Group Own Risk and Solvency Assessment (“ORSA”), and in particular sensitivity to the most significant risks faced by the Group, including the risks from the open areas of PS31/18 noted earlier and from the UK’s withdrawal from the European Union.
- Scenarios, including those in the ORSA, where the Group ceases to write new business. In such a run off scenario, this included any changes required in the valuation of insurance liabilities as a result of changes in assumptions. However, in the run-off scenario the going concern basis would continue to be applicable because the Group would be continuing to trade with its existing business (e.g. collect premiums and administer policies) rather than ceasing to trade.
- The Group plan, which was approved by the Board in the first quarter of 2019, and in particular the forecast regulatory solvency position calculated on a Solvency II basis, which included strengthening the Group’s capital base to support its new business franchise.

Taking the above matters into account the Directors of the Company have concluded that they have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future, including in the event of the run-off scenarios considered above. Therefore, the financial statements of Just Group plc have been prepared on a going concern basis.

The following new accounting standards, interpretations and amendments to existing accounting standards have been adopted by the Group with effect from 1 January 2018:

- Amendments to IFRS 4, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts.

The amendments to IFRS 4 allow the deferral of the application of IFRS 9 until accounting periods commencing on 1 January 2021. This is intended to align with the effective date of IFRS 17, the replacement insurance contracts standard. The IASB has recommended that the deferral period for IFRS 9 and the effective date of IFRS 17 are extended to 1 January 2022. This option, which the Group has adopted, is subject to meeting criteria relating to the predominance of insurance activity. The predominance of insurance activity has been assessed at 31 December 2016, the end of the annual period during which the acquisition of Partnership Assurance Group plc took place and significantly changed the magnitude of the Group’s activities. At 31 December 2016, the Group’s insurance liabilities in relation to its total liabilities were 95% and deferral of IFRS 9 was applicable.

If the Group had adopted IFRS 9 it would continue to classify financial assets at fair value through profit or loss. Therefore, under IFRS 9 all financial assets would continue to be recognised at fair value through profit or loss and the fair value at 31 December 2018 would be £19,252.5m. As well as financial assets, the Group also holds Insurance and other receivables and Cash and cash equivalents assets, with contractual terms that give rise to cash flows on specified dates; the fair value of these investments is considered to be materially consistent with their carrying value, as disclosed in notes 18 and 19.

- IFRS 15, Revenue from Contracts with Customers.

IFRS 15 specifies how and when an entity recognises revenue, providing a single, principles-based model to be applied to all contracts with customers, whilst requiring more informative and relevant disclosures. Insurance contracts, although contracts with customers, are outside the scope of IFRS 15. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The main source of non-insurance contract income in the year was fee and commission income amounting to £8.2m. The Group’s previous accounting policy was to recognise fee and commission income when the service is rendered. Therefore, the adoption of IFRS 15 does not result in a material difference to when revenue is recognised by the Group.

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

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

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

The effect of applying this standard at 31 December 2018 would be to recognise right of use assets and lease payment liabilities on the balance sheet with an approximate value of £13.3m.

- IFRS 17, Insurance Contracts (effective 1 January 2021, not yet endorsed by the EU, IASB recommended extension of implementation date to 1 January 2022).

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

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

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

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

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

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

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

Accounting policy and notes	Item involving estimates and assumptions	Critical estimates and assumptions
1.18, 15(a) and (d)	Measurement of fair value of loans secured by residential mortgages, including measurement of the no-negative equity guarantees	<p>The critical estimates used in valuing loans secured by residential mortgages include the projected future receipts of interest and loan repayments, and the future costs of administering the loan portfolio.</p> <p>The key assumptions used as part of the valuation calculation include future property prices and their volatility, mortality, the rate of voluntary redemptions and the liquidity premium added to the risk-free curve and used to discount the mortgage cash flows.</p>
1.19, 21, 24	Measurement of reinsurance assets and deposits received from reinsurers arising from reinsurance arrangements	<p>The critical estimates used in measuring the value of reinsurance assets include the projected future cash flows arising from reinsurers' share of the Group's insurance liabilities.</p> <p>The key assumptions used in the valuation include discount rates and mortality experience, as described below, and assumptions around the reinsurers' ability to meet its claim obligations.</p> <p>Deposits received from reinsurers are measured in accordance with the reinsurance contract and taking account of an appropriate discount rate for the timing of the expected cash flows of the liabilities.</p> <p>For deposits received from reinsurers measured at fair value through profit or loss, the key assumption used in the valuation is the discount rate.</p> <p>For deposits received from reinsurers measured using insurance rules under IFRS 4, the key assumptions used</p>

		in the valuation include discount rates and mortality experience.
1.21, 21(b)	Measurement of insurance liabilities arising from writing Retirement Income insurance	<p>The critical estimates used in measuring insurance liabilities include the projected future Retirement Income payments and the cost of administering payments to policyholders.</p> <p>The key assumptions are the discount rates and mortality experience used in the valuation of future Retirement Income payments. The valuation discount rates are derived from yields on supporting assets after deducting allowances for default. Mortality assumptions are derived from the appropriate standard mortality tables, adjusted to reflect the future expected mortality experience of the policyholders.</p> <p>Further detail can be found in note 21.</p>
1.16, 13	Assessment of carrying value of intangible assets recognised on acquisition of Partnership Assurance Group ("PAG")	Intangible assets recognised on the acquisition of PAG in 2016, including the value of the acquired in-force business, are reviewed for indicators of impairment and, if such indicators exist, are tested for impairment. The key impairment testing assumptions include the choice of discount rate used, which represents a weighted-average cost of capital determined using a capital asset pricing model approach.

1.3. Consolidation principles

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

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

Subsidiaries are consolidated from the date on which control is transferred to the Group and are excluded from consolidation from the date on which control ceases. All inter-company transactions, balances and unrealised surpluses and deficits on transactions between Group companies are eliminated. Accounting policies of subsidiaries are aligned on acquisition to ensure consistency with Group policies.

The Group uses the acquisition method of accounting for business combinations. Under this method, the cost of acquisition is measured as the aggregate of the fair value of the consideration at date of acquisition and the amount of any non-controlling interest in the acquiree. The excess of the consideration transferred over the identifiable net assets acquired is recognised as goodwill.

The Group uses the equity method to consolidate its investments in joint ventures and associates. Under the equity method of accounting the investment is initially recognised at fair value and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the joint ventures and associates.

1.4. Segments

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

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

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

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

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

- the writing of insurance products for distribution to the at- or in-retirement market, which is undertaken through the activities of the life company (this is referred to as the insurance segment in note 6, Segmental reporting);
- the arranging of guaranteed income for life contracts and lifetime mortgages through regulated advice and intermediary services; and
- the provision of licensed software to financial advisers, banks, building societies, life assurance companies and pension trustees.

Operating segments, where certain materiality thresholds in relation to total results from operating segments are not exceeded, are combined when determining reportable segments. For segmental reporting, the arranging of guaranteed income for life contracts, providing intermediary mortgage advice and arranging, plus the provision of licensed software, are included in the Other segment along with Group activities, such as capital and liquidity management, and investment activities.

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

1.5. Foreign currencies

Transactions in foreign currencies are translated to sterling at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the financial year. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

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

1.6. Classification of insurance and investment contracts

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

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

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

1.7. Premium revenue

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

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

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

Facilitated adviser charges are not accounted for within premium revenue, and do not represent a charge on the Group.

Deposits collected under investment contracts are not accounted for through the Consolidated statement of comprehensive income, except for fee income and attributable investment income, but are accounted for directly through the Consolidated statement of financial position as an adjustment to the investment contract liability.

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

1.8. Net investment income

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

Interest income is recognised as it accrues.

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

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

1.9. Revenue from contracts with customers

The Group recognises revenue from contracts with customers in accordance with IFRS15, in an amount that reflects the consideration to which the Group expects to be entitled in exchange for the services provided. Revenue from contracts with customers comprises fee income on initial advances made on loans secured by residential mortgages, investment management fees, administration fees, software licensing fees and commission.

1.10. Claims paid

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

Death claims are accounted for when notified.

1.11. Acquisition costs

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

1.12. Leases

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

1.13. Finance costs

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

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

1.14. Employee benefits

Defined contribution plans

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in funds managed by a third party. Obligations for contributions to the defined contribution pension scheme are recognised as an expense in profit or loss when due.

Share-based payment transactions

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

remaining vesting period. Where a scheme is cancelled, this is treated as an acceleration in the period of the vesting of all remaining options.

1.15. Earnings per share

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

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

1.16. Intangible assets

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

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

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

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

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

PrognoSys™ is the Group's proprietary underwriting engine. The Group has over two million person-years of experience collected over 20 years of operations. It is enhanced by an extensive breadth of external primary and secondary healthcare data and medical literature.

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

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

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

The significant intangible assets recognised by the Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Intangible asset	Estimated useful economic life	Valuation method
PVIF	Up to 16 years	Estimated value in-force using European embedded value model
Brand	2 – 5 years	Estimated royalty stream if the rights were to be licensed
Distribution network	3 years	Estimated discounted cash flow
Software	2 – 3 years	Estimated replacement cost
Intellectual property	12 – 15 years	Estimated replacement cost

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

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

1.17. Property, plant and equipment

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

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

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

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

Plant and equipment	Estimated useful economic life
Computer equipment	3 – 4 years
Furniture and fittings	2 – 10 years

1.18. Financial investments

Classification

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

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

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

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

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

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

Use of fair value

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

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

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

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

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

Level 1: Quoted price (unadjusted) in active markets for identical assets and liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly (i.e. derived from prices); and

Level 3: Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs).

1.19. Reinsurance

Reinsurance assets

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

Financial liabilities

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

Where reinsurance contracts entered into by the Group require deposits received from reinsurers to be repaid, such amounts are classified as "deposits received from reinsurers" and included in other financial liabilities in the Consolidated statement of financial position. Where the liability carries no insurance risk, it is initially recognised at fair value at the date the deposited asset is recognised and subsequently re-measured at fair value at each balance sheet date. The resulting gain or loss is recognised in the Consolidated statement of comprehensive income. Fair value is determined as the amount payable discounted from the first date that the amount is required to be paid. All other deposits received from reinsurers are valued in accordance with the terms of the reinsurance contracts under IFRS 4, which take into account an appropriate discount rate for the timing of expected cash flows. It should be noted that the reinsurance recoverable amount is capped at the value of the deposit anticipating that underwriting years will eventually be recaptured.

Amounts receivable/payable

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

1.20. Cash and cash equivalents

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

1.21. Equity

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

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

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

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

1.22. Insurance liabilities

Measurement

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

Liability adequacy test

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

1.23. Investment contract liabilities

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

1.24. Loans and borrowings

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

1.25. Other provisions

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

1.26. Taxation

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

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

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

2. NET INVESTMENT INCOME

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Interest income:		
Assets at fair value through profit or loss	655.2	636.4
Movement in fair value:		
Financial assets and liabilities designated on initial recognition at fair value through profit or loss	(447.3)	(44.0)
Derivative financial instruments (note 25)	(65.3)	28.7
Total net investment income	142.6	621.1

3. ACQUISITION COSTS

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Commission	19.2	15.8
Other acquisition expenses	33.2	27.3
Total acquisition costs	52.4	43.1

4. OTHER OPERATING EXPENSES

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Personnel costs (note 9)	118.7	113.8
Investment expenses and charges	16.3	11.2
Depreciation of equipment	1.4	1.8
Operating lease rentals: land and buildings	2.4	4.2
Acquisition integration costs	–	25.6
Amortisation of intangible assets	24.7	25.2
Other costs	91.3	56.6
Total other operating expenses	254.8	238.4

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

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Fees payable for the audit of the Parent Company and consolidated accounts	125	41
Fees payable for other services:		
The audit of the Company's subsidiaries pursuant to legislation	885	835
Corporate finance services	1,155	175
Audit-related assurance services	653	639
Other assurance services	222	234
Auditor remuneration	3,040	1,924

Audit-related assurance services mainly include fees relating to the audit of the Group's Solvency II regulatory returns. Other assurance services mainly include fees relating to review procedures in relation to the Group's interim results. Corporate finance services relate to due diligence and reporting accountant services.

5. FINANCE COSTS

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Interest payable on deposits received from reinsurers	159.2	170.8
Interest payable on subordinated debt	39.9	32.0
Other interest payable	3.7	4.2
Total finance costs	202.8	207.0

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

6. SEGMENTAL REPORTING

Adjusted operating profit

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

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

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

Variances between actual and expected investment returns due to economic and market changes, and gains and losses on the revaluation of land and buildings, are also disclosed outside adjusted operating profit.

Segmental analysis

The insurance segment writes insurance products for the retirement market – which include Guaranteed Income for Life Solutions, Defined Benefit De-risking Solutions, Care Plans, Flexible Pension Plans and Protection – and invests the premiums received from these contracts in debt securities, gilts, liquidity funds and lifetime mortgage advances.

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

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

Segmental reporting and reconciliation to financial information

	Year ended 31 December 2018			Year ended 31 December 2017		
	Insurance £m	Other £m	Total £m	Insurance £m	Other £m	Total £m
New business operating profit	243.7	–	243.7	169.8	–	169.8
In-force operating profit	69.2	2.5	71.7	71.0	0.3	71.3
Underlying operating profit	312.9	2.5	315.4	240.8	0.3	241.1
Operating experience and assumption changes	(33.5)	–	(33.5)	34.6	–	34.6
Other Group companies' operating results	–	(14.6)	(14.6)	–	(14.0)	(14.0)
Development expenditure	(6.4)	(2.3)	(8.7)	–	(1.1)	(1.1)
Reinsurance and financing costs	(45.8)	(2.5)	(48.3)	(43.4)	3.4	(40.0)
Adjusted operating profit before tax	227.2	(16.9)	210.3	232.0	(11.4)	220.6
Non-recurring and project expenditure	(4.3)	(15.3)	(19.6)	(10.9)	(0.7)	(11.6)
Investment and economic (losses)/profits	(251.0)	(1.0)	(252.0)	22.6	–	22.6
(Loss)/profit before acquisition transaction and amortisation costs, before tax	(28.1)	(33.2)	(61.3)	243.7	(12.1)	231.6

Acquisition integration costs	–	(25.6)
Amortisation costs	(24.2)	(24.7)
(Loss)/profit before tax	(85.5)	181.3

Segmental revenue

All net premium revenue arises from the Group's insurance segment. Net investment income of £141.3m arose from the insurance segment and £1.3m arose from other segments (2017: £621.0m and £0.1m respectively). Fee and commission income of £5.0m arose from the insurance segment and £3.2m arose from other segments (2017: £1.6m and £4.2m respectively).

Product information analysis

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

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Defined Benefit De-risking Solutions ("DB")	1,314.2	997.8
Guaranteed Income for Life contracts ("GIfL")	786.5	820.5
Care Plans ("CP")	72.8	71.6
Protection	3.4	3.5
Gross premiums written	2,176.9	1,893.4

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:

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Drawdown	51.0	51.2
LTM loans advanced	602.1	510.0

Reconciliation of gross premiums written to new business sales

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Gross premiums written	2,176.9	1,893.4
Regular premiums recognised on a single premium equivalent basis in new business sales	(2.6)	2.5
Drawdown and LTM new business sales not included in gross premiums written	653.1	561.2
New business sales	2,827.4	2,457.1

Disaggregation of revenue from contracts with customers

	Year ended 31 December 2018			Year ended 31 December 2017		
	Insurance £m	Other £m	Total £m	Insurance £m	Other £m	Total £m
Product/service						
LTM set-up fees	0.5	–	0.5	0.6	–	0.6
LTM commission and advice fees	–	1.7	1.7	–	1.7	1.7
GIfL commission	–	1.8	1.8	–	1.2	1.2
FPP fees	0.6	0.1	0.7	0.3	0.1	0.4
Other	0.4	3.1	3.5	1.0	0.9	1.9
Timing of revenue recognition	1.5	6.7	8.2	1.9	3.9	5.8
Products transferred at point in time	0.9	6.4	7.3	1.6	3.9	5.5
Products and services transferred over time	0.6	0.3	0.9	0.3	–	0.3
Revenue from contracts with customers	1.5	6.7	8.2	1.9	3.9	5.8

All revenue from contracts with customers is from the UK.

7. INCOME TAX

Income tax recognised in profit or loss

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Current taxation		
Current year	(9.8)	44.2
Adjustments in respect of prior periods	2.1	(8.1)
Total current tax	(7.7)	36.1
Deferred taxation		
Origination and reversal of temporary differences	(12.9)	(7.3)
Adjustments in respect of prior periods	(0.9)	(2.5)
Rate change	0.3	(0.1)
Total deferred tax	(13.5)	(9.9)
Total income tax recognised in profit or loss	(21.2)	26.2

The net income tax credit of £21.2m includes a tax credit of £9.8m for carry back of current year tax losses of £51.6m against 2017 taxable profits for overpayment relief of £15.9m and tax provision for the HMRC transfer pricing enquiry of £3.3m.

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

The deferred tax assets and liabilities at 31 December 2018 have been calculated based on the rate at which they are expected to reverse.

Reconciliation of total income tax to the applicable tax rate

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
(Loss)/profit on ordinary activities before tax	(85.5)	181.3
Income tax at 19% (2017: 19.25%)	(16.2)	34.9
Effects of:		
Expenses not deductible for tax purposes	1.0	0.4
Rate change	0.1	0.4
Higher rate for overseas income	(0.3)	–
Unrecognised deferred tax asset	1.3	0.5
Losses utilised/carried back	(0.1)	0.6
Adjustments in respect of prior periods	1.2	(10.6)
Deferred tax not previously recognised	(9.1)	–
Other	0.9	–
Total income tax recognised in profit or loss	(21.2)	26.2

The rate change of £0.1m is largely due to deferred tax recognised at 17% rather than current rate of 19%.

Income tax recognised in other comprehensive income

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Deferred taxation		
Revaluation of land and buildings	0.9	–
Total deferred tax	0.9	–
Total income tax recognised in other comprehensive income	0.9	–

Taxation of life insurance companies was fundamentally changed following the publication of the Finance Act 2012. Since 1 January 2013, life insurance tax has been based on financial statements; prior to this date, the basis for profits chargeable to corporation tax was surplus arising within the Pillar 1 regulatory regime. Cumulative differences arising between the two bases, which represent the differences in retained profits and taxable surplus which are not excluded items for taxation, are brought back into the computation of taxable profits. However, legislation provides for transitional arrangements whereby such differences are amortised on a straight-line basis over a ten year period from 1 January 2013. Similarly, the resulting cumulative transitional adjustments for tax purposes in adoption of IFRS will be amortised on a straight-line basis over a ten year period from 1 January 2016. The tax charge for the year to 31 December 2018 includes profits chargeable to corporation tax arising from amortisation of transitional balances of £2.5m (2017: £2.5m).

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

8. REMUNERATION OF DIRECTORS

Information concerning individual Directors' emoluments, interests and transactions is given in the Directors' Remuneration Report. For the purposes of the disclosure required by Schedule 5 to the Companies Act 2006, the total aggregate emoluments of the Directors in the year was £4.4m (2017: £5.7m). Employer contributions to pensions for Executive Directors for qualifying periods were £nil (2017: £nil). The aggregate net value of share awards granted to the Directors in the year was £2.7m (2017: £2.3m). The net value has been calculated by reference to the closing middle-market price of an ordinary share at the date of grant. Two Directors exercised share options during the year with an aggregate gain of £5k (2017: two Directors exercised options with an aggregate gain of £1,735k).

9. STAFF NUMBERS AND COSTS

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

	Year ended 31 December 2018 Number	Year ended 31 December 2017 Number
Directors	9	12
Senior management	120	116
Staff	1,007	963
Average number of staff	1,136	1,091

The aggregate personnel costs were as follows:

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Wages and salaries	96.6	90.3
Social security costs	9.0	8.9
Other pension costs	4.3	4.3
Share-based payment expense	8.8	10.3
Total personnel costs	118.7	113.8

The Company does not have any employees.

10. EMPLOYEE BENEFITS

Defined contribution pension scheme

The Group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable to the fund and amounted to £4.3m (2017: £4.3m).

Employee share plans

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

Share options

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

The Group has made awards under the LTIP to Executive Directors and other senior managers. Awards are made in the form of nil-cost options which become exercisable on the third anniversary of the grant date, subject to the satisfaction of service and performance conditions set out in the Directors' Remuneration Report. Options are exercisable until the tenth anniversary of the grant date. Options granted since 2017 are subject to a two year holding period after the options have been exercised.

The options are accounted for as equity-settled schemes.

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

	Year ended 31 December 2018 Number of options	Year ended 31 December 2017 Number of options
Outstanding at start of year	15,736,774	17,157,164
Granted	4,498,115	4,718,136
Forfeited	(23,303)	(1,450,989)
Exercised	(357,912)	(2,439,772)
Expired	(2,258,366)	(2,247,765)
Outstanding at end of year	17,595,308	15,736,774
Exercisable at end of year	3,203,315	1,117,994
Weighted-average share price at exercise (£)	1.11	1.57
Weighted-average remaining contractual life (years)	1.13	1.45

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

During the year to 31 December 2018, awards of LTIPs were made on 29 March 2018. The weighted-average fair value and assumptions used to determine the fair value of options granted during the year under the LTIP are as follows:

Fair value at grant date	£1.03
Option pricing models	Black-Scholes, Stochastic, Finnerty
Share price at grant date	£1.36
Exercise price	Nil
Expected volatility – TSR performance	37.41%
Expected volatility – holding period	39.52%
Option life	3 years + 2 year holding period
Dividends	Nil
Risk-free interest rate – TSR performance	0.87%
Risk-free interest rate – holding period	1.11%

A Black-Scholes option pricing model is used where vesting is related to an earnings per share target, a Stochastic model is used where vesting is related to a total shareholder return target, and a Finnerty model is used to model the holding period.

Deferred share bonus plan (“DSBP”)

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

The options are accounted for as equity-settled schemes.

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

	Year ended 31 December 2018 Number of options	Year ended 31 December 2017 Number of options
Outstanding at start of year	2,959,716	2,257,544
Granted	925,734	1,493,790
Exercised	(20,892)	(791,618)
Outstanding at end of year	3,864,558	2,959,716
Exercisable at end of year	1,641,831	796,252
Weighted-average share price at exercise (£)	0.74	1.58
Weighted-average remaining contractual life (years)	1.02	1.57

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

During the year to 31 December 2018, awards of DSBPs were made on 29 March 2018. The weighted-average fair value and assumptions used to determine the fair value of options granted during the year under the DSBP are as follows:

Fair value at grant date	£1.36
Option pricing model used	Black-Scholes
Share price at grant date	£1.36
Exercise price	Nil
Expected volatility	Nil
Option life	3 years
Dividends	Nil
Risk-free interest rate	Nil

Save As You Earn (“SAYE”) scheme

The Group operates SAYE plans for all employees, allowing a monthly amount to be saved from salaries over either a three or five year period which can be used to purchase shares in the Company at a predetermined price. The employee must remain in employment for the duration of the saving period and satisfy the monthly savings requirement (except in “good leaver” circumstances). Options are exercisable for up to six months after the saving period.

The options are accounted for as equity-settled schemes.

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

	Year ended 31 December 2018		Year ended 31 December 2017	
	Number of options	Weighted- average exercise price £	Number of options	Weighted- average exercise price £
Outstanding at start of year	4,401,381	1.12	4,804,147	1.21
Granted	1,544,255	1.18	3,302,135	1.07
Forfeited	(348,098)	1.13	(423,430)	1.21
Cancelled	(632,207)	1.13	(621,001)	1.20
Exercised	(285,347)	1.24	(2,539,617)	1.19
Expired	(123,601)	1.25	(120,853)	1.20
Outstanding at end of year	4,556,383	1.12	4,401,381	1.12
Exercisable at end of year	69,981	1.36	234,759	1.14
Weighted-average share price at exercise				1.42
Weighted-average remaining contractual life (years)				2.39

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

	2018 Number of options outstanding	2017 Number of options outstanding
£1.07	2,581,382	3,157,377
£1.13	81,640	194,057
£1.18	1,335,184	–
£1.20	445,922	521,114
£1.27	61,973	426,917
£1.47	50,282	101,916
Total	4,556,383	4,401,381

During the year to 31 December 2018, awards of SAYEs were made on 20 June 2018. The weighted-average fair value and assumptions used to determine the fair value of options granted during the year under the SAYE are as follows:

Fair value at grant date	£0.40
Option pricing model used	Black-Scholes
Share price at grant date	£1.38
Exercise price	£1.18
Expected volatility - 3 year scheme	36.93%
Expected volatility - 5 year scheme	54.53%
Option life	3-5 years
Dividends	Nil
Risk-free interest rate - 3 year scheme	0.79%
Risk-free interest rate - 5 year scheme	1.05%
Saving forfeit discounts	5%

Share awards

Share incentive plan (“SIP”)

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

Awards made in the year are in respect of additional shares to existing scheme participants on payment of dividends by the Group. The weighted-average fair value of awards made in the year was £10,185 measured by reference to the quoted share price of the Company at grant date.

Share-based payment expense

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

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Equity-settled schemes	8.8	10.3
Total expense	8.8	10.3

11. 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 year, calculated as follows:

	Year ended 31 December 2018			Year ended 31 December 2017		
	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	(63.7)	932.7	(6.83)	155.1	930.0	16.68
Effect of potentially dilutive share options	–	–	–	–	7.5	(0.14)
Diluted	(63.7)	932.7	(6.83)	155.1	937.5	16.54

12. DIVIDENDS

Dividends paid in the year were as follows:

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Final dividend:		
– in respect of the year ended 31 December 2017 (2.55 pence per share, paid on 25 May 2018)	23.8	–
– in respect of the 18 months ended 31 December 2016 (2.4 pence per share, paid on 26 May 2017)	–	22.3
Interim dividend:		
– in respect of the year ended 31 December 2017 (1.17 pence per share, paid on 24 November 2017)	–	10.9
Dividends paid on the vesting of employee share schemes	0.6	–
Total dividends paid	24.4	33.2

The Board considers it appropriate to not pay a final year dividend for 2018 (total 2017: 3.72 pence per ordinary share, amounting to £34.7m in total).

The Board's current expectation is to recommence dividend payments during the 2019 financial year at a rebased level. The rebased level for the 2019 full year dividend is expected to be approximately one third of the 3.72 pence total dividend paid during the 2017 financial year, subject to the Group's earnings, cash flow and capital position.

13. INTANGIBLE ASSETS

Year ended 31 December 2018	Goodwill £m	Present value of in- force business £m	Distribution network £m	Brand £m	Prognosis™ and other intellectual property £m	Software £m	Leases £m	Total £m
Cost								
At 1 January 2018	33.9	200.0	26.6	5.6	7.4	25.4	2.0	300.9
Additions	1.0	–	–	–	0.5	0.7	–	2.2
At 31 December 2018	34.9	200.0	26.6	5.6	7.9	26.1	2.0	303.1
Amortisation and impairment								
At 1 January 2018	(0.8)	(54.0)	(22.4)	(5.6)	(1.4)	(21.2)	(2.0)	(107.4)
Charge for the year	–	(17.9)	(3.3)	–	(0.6)	(2.9)	–	(24.7)
At 31 December 2018	(0.8)	(71.9)	(25.7)	(5.6)	(2.0)	(24.1)	(2.0)	(132.1)
Net book value at 31 December 2018	34.1	128.1	0.9	–	5.9	2.0	–	171.0
Net book value at 31 December 2017	33.1	146.0	4.2	–	6.0	4.2	–	193.5

Year ended 31 December 2017	Goodwill £m	Present value of in- force business £m	Distribution network £m	Brand £m	Prognosis™ and other intellectual property £m	Software £m	Leases £m	Total £m
Cost								
At 1 January 2017	33.9	200.0	26.6	5.6	7.4	23.7	2.0	299.2
Additions	–	–	–	–	–	1.7	–	1.7
At 31 December 2017	33.9	200.0	26.6	5.6	7.4	25.4	2.0	300.9
Amortisation and impairment								
At 1 January 2017	(0.8)	(36.1)	(19.1)	(5.6)	(1.2)	(17.4)	(2.0)	(82.2)
Charge for the year	–	(17.9)	(3.3)	–	(0.2)	(3.8)	–	(25.2)
At 31 December 2017	(0.8)	(54.0)	(22.4)	(5.6)	(1.4)	(21.2)	(2.0)	(107.4)
Net book value at 31 December 2017	33.1	146.0	4.2	–	6.0	4.2	–	193.5
Net book value at 31 December 2016	33.1	163.9	7.5	–	6.2	6.3	–	217.0

Amortisation and impairment charge

The amortisation and impairment charge is recognised in other operating expenses in profit or loss.

Impairment testing

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

The Group's goodwill of £34.1m at 31 December 2018 represents £1.0m recognised on the 2018 acquisition of Corinthian Group Limited (see note 35), £0.3m recognised on the 2016 acquisition of the Partnership Assurance Group and £32.8m on the 2009 acquisition by Just Retirement Group Holdings Limited of Just Retirement (Holdings) Limited, the holding company of Just Retirement Limited ("JRL").

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

	2018	2017
Period on which management approved forecasts are based	5 years	5 years
Discount rate (pre-tax)	10.0%	10.0%

The value-in-use of the insurance operating segment is considered by reference to latest business plans over the next five years, which reflect management's best estimate of future profits based on historical experience, expected growth rates and assumptions around market share, customer numbers, expense inflation and mortality rates. A stressed scenario that assumes no growth in sales for the next five years and discount rate of 20% is also considered. The outcome of the impairment assessment under both scenarios is that the goodwill in respect of the insurance operating segment is not impaired and that the value-in-use is higher than the carrying value of goodwill and net assets.

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

14. PROPERTY, PLANT AND EQUIPMENT

Year ended 31 December 2018	Freehold land and buildings £m	Computer equipment £m	Furniture and fittings £m	Total £m
Cost or valuation				
At 1 January 2018	16.6	6.0	5.7	28.3
Acquired during the year	–	0.8	–	0.8
Revaluations	1.3	–	–	1.3
At 31 December 2018	17.9	6.8	5.7	30.4
Depreciation				
At 1 January 2018	(0.7)	(5.1)	(2.9)	(8.7)
Eliminated on revaluation	1.1	–	–	1.1
Charge of the year	(0.5)	(0.5)	(0.4)	(1.4)
At 31 December 2018	(0.1)	(5.6)	(3.3)	(9.0)
Net book value at 31 December 2018	17.8	1.2	2.4	21.4
Net book value at 31 December 2017	15.9	0.9	2.8	19.6

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

Included in freehold land and buildings is land of value £4.4m (2017: £4.3m).

The Company's freehold land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the Company's freehold land and buildings as at 15 November 2018 were performed by Hurst Warne & Partners Surveyors Ltd, independent valuers not related to the Company. Hurst Warne & Partners Surveyors Ltd is registered for regulation by the Royal Institution of Chartered Surveyors ("RICS"). The valuation was undertaken by a RICS registered valuer. The valuer has sufficient current local knowledge of the particular market, and the knowledge, skills and understanding to undertake the valuation competently. The fair value of the freehold land was undertaken using a residual valuation assuming a new build

office on each site to an exact equivalent size as currently and disregarding the possibility of developing any alternative uses or possible enhancements. The fair value of the buildings was determined based on open market comparable evidence of market rent.

Revaluations during the year comprise a loss of £2.9m recognised in profit or loss, a gain of £5.3m recognised in other comprehensive income (gross of tax of £0.9m), and the elimination of depreciation on the revaluations of £1.1m.

15. FINANCIAL INVESTMENTS

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

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

	Fair value		Cost	
	2018 £m	2017 £m	2018 £m	2017 £m
Units in liquidity funds	882.5	897.9	882.5	897.9
Investment funds	182.0	46.3	182.8	45.6
Debt securities and other fixed income securities	9,518.3	9,589.5	8,858.5	8,745.8
Deposits with credit institutions	153.4	87.9	153.4	87.9
Derivative financial assets	81.2	100.2	–	2.6
Loans secured by residential mortgages	7,191.5	6,833.3	4,847.6	4,127.0
Loans secured by commercial mortgages	392.3	215.4	385.9	211.7
Other loans	749.1	444.3	711.8	408.0
Amounts recoverable from reinsurers on investment contracts	102.2	72.3	101.2	67.6
Total	19,252.5	18,287.1	16,123.7	14,594.1

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

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

Deposits with credit institutions with a carrying value of £152.6m (2017: £87.1m) have been pledged as collateral in respect of the Group's derivative financial instruments. Amounts pledged as collateral are deposited with the derivative counterparty.

(a) Determination of fair value and fair value hierarchy

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

Level 1

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

Level 2

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

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

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

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

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

Level 3

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

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

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

Under the "no-negative equity" guarantee, the amount recoverable by the Group on termination of mortgages is generally capped at the net sale proceeds of the property. This guarantee does not apply where the mortgage redemption is not accompanied by a sale of the underlying property. This could occur when, for example, the property is remortgaged with another provider. The time value of this option and guarantee is allowed for in the asset valuation using closed form calculations, based on a variant of the Black-Scholes option pricing formula. The formula incorporates a number of assumptions, including those for risk-free interest rates, future property growth and future property price volatility.

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

The Level 3 other loans are infrastructure-related loans, and are valued using discounted cash flow analysis using 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.

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.

There are no non-recurring fair value measurements as at 31 December 2018 (2017: nil).

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

	2018				2017			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets held at fair value								
Units in liquidity funds	877.7	4.8	–	882.5	894.3	3.6	–	897.9
Investment funds	–	112.2	69.8	182.0	–	46.3	–	46.3
Debt securities and other fixed income securities	918.0	7,984.3	616.0	9,518.3	553.5	8,295.5	740.5	9,589.5
Deposits with credit institutions	152.6	0.8	–	153.4	87.0	0.9	–	87.9
Derivative financial assets	1.8	79.4	–	81.2	–	100.2	–	100.2
Loans secured by residential mortgages	–	–	7,191.5	7,191.5	–	–	6,833.3	6,833.3
Loans secured by commercial mortgages	–	–	392.3	392.3	–	–	215.4	215.4
Other loans	–	25.9	723.2	749.1	–	11.0	433.3	444.3
Recoveries from reinsurers on investment contracts	–	–	102.2	102.2	–	–	72.3	72.3
Total assets held at fair value	1,950.1	8,207.4	9,095.0	19,252.5	1,534.8	8,457.5	8,294.8	18,287.1
Liabilities held at fair value								
Investment contract liabilities	–	–	197.8	197.8	–	–	220.7	220.7
Derivative financial liabilities	–	178.3	–	178.3	–	236.3	–	236.3
Obligations for repayment of cash collateral received	3.2	0.2	–	3.4	16.3	–	–	16.3
Deposits received from reinsurers	–	–	2,443.5	2,443.5	–	–	2,654.1	2,654.1
Total liabilities held at fair value	3.2	178.5	2,641.3	2,823.0	16.3	236.3	2,874.8	3,127.4

(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 year transfers from Level 2 to Level 1 were £485.7m (2017: £nil). Transfers between Level 1 and Level 2 and between Level 2 and Level 3, as shown in the tables below, have arisen from changes in the availability of market prices for specific bonds.

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

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

	Investment funds £m	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
Year ended 31 December 2018								
At 1 January 2018	–	740.5	6,833.3	215.4	433.3	72.3	(220.7)	(2,654.1)
Purchases/advances/deposits	79.0	78.1	602.1	177.8	295.5	54.6	(51.0)	(20.2)
Transfers to Level 2	–	(158.3)	–	–	–	–	–	–
Sales/redemptions/payments	(9.7)	(26.6)	(297.2)	(18.0)	(4.7)	(24.5)	73.5	227.7
Realised gains and losses recognised in profit or loss within net investment income	–	(2.4)	78.7	–	–	–	–	–
Unrealised gains and losses recognised in profit or loss within net investment income ¹	–	(9.7)	(291.4)	27.1	(0.9)	(0.2)	–	92.0
Interest accrued	0.5	(5.6)	266.0	(10.0)	–	–	–	(88.9)
Change in fair value of liabilities recognised in profit or loss	–	–	–	–	–	–	0.4	–
At 31 December 2018	69.8	616.0	7,191.5	392.3	723.2	102.2	(197.8)	(2,443.5)

1 Includes the impact of changes in assumptions in respect of the valuation of loans secured by residential mortgages of £112m, which includes £61m in relation to property growth assumptions and £51m in relation to property volatility assumptions.

For Level 1 and Level 2 assets measured at fair value, the change in fair value during the year was £66.3m and £181.0m respectively.

Year ended 31 December 2017	Debt securities and other fixed income securities £m	Loans secured by residential mortgages £m	Loans secured by commercial mortgages £m	Other loans £m	Recoveries from reinsurers on investment contracts £m	Investment contract liabilities £m	Deposits received from reinsurers £m
At 1 January 2017	179.0	6,430.4	163.8	188.7	28.5	(222.3)	(2,741.1)
Purchases/advances/deposits	27.0	510.0	60.5	240.2	49.4	(51.2)	(31.1)
Transfers from Level 2	534.3	–	–	–	–	–	–
Sales/redemptions/payments	(11.5)	(360.3)	(7.8)	–	(8.9)	59.1	191.7
Realised gains and losses recognised in profit or loss within net investment income	0.1	167.5	(0.1)	0.4	–	–	–
Unrealised gains and losses recognised in profit or loss within net investment income	11.6	(164.6)	(1.5)	4.0	3.3	–	19.7
Interest accrued	–	250.3	0.5	–	–	–	(93.3)
Change in fair value of liabilities recognised in profit or loss	–	–	–	–	–	(6.3)	–
At 31 December 2017	740.5	6,833.3	215.4	433.3	72.3	(220.7)	(2,654.1)

Investment funds

Investment funds classified as Level 3 are structured entities that operate under contractual arrangements which allow a group of investors to invest in a pool of corporate loans without any one investor having overall control of the entity.

Principal assumptions underlying the calculation of investment funds classified as Level 3

Discount rate

Discount rates are the most significant assumption applied in calculating the fair value of investment funds. The discount rates used range from 6.9% to 12.1% depending on the individual loan within the investment fund.

Sensitivity analysis

Reasonably possible alternative assumptions for unobservable inputs used in the valuation model could give rise to significant changes in the fair value of the assets. The Group has estimated the impact on fair value to changes to these inputs as follows:

Net increase/(decrease) in fair value (£m)	Investment funds Discount rate +1%
2018	(3.1)
2017	n/a

Debt securities and other fixed income securities

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

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

Redemption and defaults

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

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

Sensitivity analysis

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

Net increase/(decrease) in fair value (£m)	Debt securities and other fixed income securities
	Credit spreads +100bps
2018	(28.9)
2017	(44.8)

Loans secured by residential mortgages

Principal assumptions underlying the calculation of loans secured by residential mortgages

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

Maintenance expenses

Assumptions for future policy expense levels are based on the Group's recent expense analyses. The assumed future expense levels incorporate an annual inflation rate allowance of 4.1% (2017: 4.2%).

Mortality

Mortality assumptions have been derived with reference to England & Wales population mortality using the CMI 2017 data set and model mortality tables for both base table rates and mortality improvements (2017: CMI 2016 mortality tables for both base table rates and mortality improvements). These base mortality and improvement tables have been adjusted to reflect the expected future mortality experience of mortgage contract holders, taking into account the medical and lifestyle evidence collected during the sales process and the Group's assessment of how this experience will develop in the future. This assessment takes into consideration relevant industry and population studies, published research materials and management's own experience.

Property prices

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

Future property prices

In the absence of a reliable long-term forward curve for UK residential property price inflation, the Group has made an assumption about future residential property price inflation based upon available market and industry data. These assumptions have been derived with reference to the long-term expectation of the UK retail price inflation, "RPI", plus an allowance for the expectation of house price growth above RPI (property risk premium) less a margin for a combination of risks including property dilapidation and basis risk. An additional allowance is made for the volatility of future property prices. This results in a single rate of future house price growth of 3.8% (2017: 4.25%), with a volatility assumption of 13% per annum (2017: 12%). The change in these assumptions since 2017 included consideration of future long and short term forecasts, the Group's historical experience, benchmarking data, and future uncertainties including the possible impact of Brexit on the UK property market.

Voluntary redemptions

Assumptions for future voluntary redemption levels are based on the Group's recent analyses and external benchmarking. The assumed redemption rate varies by duration and product line between 0.7% and 3.8% for loans written by JRL (2017: 0.7% and 3.0%) and between 0.9% and 3.2% for loans written by PLACL (2017: 0.9% and 2.8%).

Sensitivity analysis

Reasonably possible alternative assumptions for unobservable inputs used in the valuation model could give rise to significant changes in the fair value of the assets. The Group has estimated the impact on fair value to changes to these inputs as follows:

Net increase/(decrease) in fair value (£m)	Loans secured by residential mortgages valuation assumptions					
	Maintenance expenses +10%	Base mortality -5%	Immediate property price fall -10%	Future property price growth -0.5%	Future property price volatility +1%	Voluntary redemptions +10%
2018	(7.1)	22.4	(97.1)	(79.4)	(53.2)	(15.1)
2017	(7.2)	30.3	(72.4)	(62.3)	(43.8)	(24.1)

Loans secured by commercial mortgages

The sensitivity factors are determined via financial models. The analysis has been prepared for a change in each variable with other assumptions remaining constant. In reality such an occurrence is unlikely due to correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear and larger or smaller impacts cannot be interpolated or extrapolated from these results.

The sensitivity factors take into consideration that the Group's assets and liabilities are actively managed and may vary at the time that any actual market movement occurs.

Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represents the Group's view of reasonably possible near-term market changes that cannot be predicted with any certainty.

Principal assumption underlying the calculation of loans secured by commercial mortgages

The discount rate is the most significant assumption applied in calculating the fair value of the loans secured by commercial mortgages. The discount rate used is 1.4% for JRL (2017: n/a) and 1.5% for PLACL (2017: 0.9%) plus a spread % of between 2.0% and 2.8% for JRL (2017: n/a) and between 1.7% and 3.2% for PLACL (2017: 1.3% and 2.8%) depending on the individual loan.

Sensitivity analysis

Reasonably possible alternative assumptions for unobservable inputs used in the valuation model could give rise to significant changes in the fair value of the assets. The Group has estimated the impact on fair value to changes to these inputs as follows.

Net increase/(decrease) in fair value (£m)	Loans secured by commercial mortgages valuation assumptions
	Interest rates +100bps
2018	(19.8)
2017	(11.1)

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

Reasonably possible alternative assumptions for unobservable inputs used in the valuation model could give rise to significant changes in the fair value of the assets. The sensitivity of the valuation of infrastructure loans to the default assumption is determined by reference to the movement in credit spreads.

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

Net increase/(decrease) in fair value (£m)	Other loans
	Credit spreads +100bps
2018	(73.4)
2017	(37.1)

Recoveries from reinsurers on investment contracts

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

Principal assumptions and sensitivity of fair value

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

Investment contract liabilities

Principal assumptions underlying the calculation of investment contract liabilities

Maintenance expenses

Assumptions for future policy expense levels are based on the Group's recent expense analyses. The assumed future expense levels incorporate an annual inflation rate allowance of 4.6% (2017: 4.4%).

Sensitivity analysis

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

Deposits received from reinsurers measured at fair value through profit or loss

Principal assumptions underlying the calculation of deposits received from reinsurers

Discount rate

The valuation model discounts the expected future cash flows using a contractual discount rate derived from the assets hypothecated to back the liabilities at a product level. The discount rates used for individual retirement and individual care annuities were 3.47% and 1.32% respectively (2017: 3.11% and 0.95% respectively).

Credit spreads

The valuation of deposits received from reinsurers includes a credit spread applied by the individual reinsurer. A credit spread of 142bps (2017: 102bps) was applied in respect of the most significant reinsurance contract.

Sensitivity analysis

Reasonably possible alternative assumptions for unobservable inputs used in the valuation model could give rise to significant changes in the fair value of the liabilities (see note 24 (b)). The Group has estimated the impact on fair value to changes to these inputs as follows:

Net increase/(decrease) in fair value (£m)	Deposits received from reinsurers	
	Credit spreads +100bps	Interest rates +100bps
2018	(75.8)	(196.4)
2017	(88.5)	(217.1)

16. DEFERRED TAX

	2018			2017		
	Asset £m	Liability £m	Total £m	Asset £m	Liability £m	Total £m
Transitional tax	–	(8.5)	(8.5)	–	(11.1)	(11.1)
Intangible assets	–	(22.1)	(22.1)	–	(27.3)	(27.3)
Land and buildings	–	(0.9)	(0.9)	–	–	–
Other provisions	18.6	(0.7)	17.9	13.0	(0.8)	12.2
Total deferred tax	18.6	(32.2)	(13.6)	13.0	(39.2)	(26.2)

The transitional tax liability of £8.5m (2017: £11.1m) represents the adjustment arising from the change in the tax rules for life insurance companies which is amortised over ten years from 1 January 2013 and the transitional adjustments for tax purposes in adopting IFRS which is amortised over ten years from 1 January 2016.

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

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

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Net balance at start of year	(26.2)	(36.1)
Recognised in profit or loss	13.5	9.9
Recognised in other comprehensive income	(0.9)	–
Net balance at end of year	(13.6)	(26.2)

The Group has unrecognised deferred tax assets of £4.2m (2017: £5.4m).

17. PREPAYMENTS AND ACCRUED INCOME

Included in prepayments and accrued income are capitalised bank borrowing costs of £1.4m (2017: £1.8m).

Prepayments and accrued income for the Group includes £0.8m (2017: £0.2m) that is expected to be recovered more than one year after the Consolidated statement of financial position date.

18. INSURANCE AND OTHER RECEIVABLES

	2018 £m	2017 £m
Receivables arising from insurance and reinsurance contracts	14.1	40.3
Other receivables	4.8	4.2
Total insurance and other receivables	18.9	44.5

Of the above insurance and other receivables, £nil (2017: £nil) is expected to be recovered more than one year after the Consolidated statement of financial position date.

19. CASH AND CASH EQUIVALENTS

	2018 £m	2017 £m
Cash available on demand	113.9	261.4
Units in liquidity funds	882.5	897.9
Cash and cash equivalents in the Consolidated statement of cash flows	996.4	1,159.3

20. SHARE CAPITAL

The allotted and issued ordinary share capital of Just Group plc at 31 December 2018 is detailed below:

	Number of £0.10 ordinary shares	Share capital £m	Share premium £m	Merger reserve £m	Total £m
At 1 January 2018	938,308,340	93.8	94.2	532.7	720.7
In respect of employee share schemes	2,760,542	0.3	0.3	–	0.6
At 31 December 2018	941,068,882	94.1	94.5	532.7	721.3
At 1 January 2017	932,884,033	93.3	91.7	532.7	717.7
In respect of employee share schemes	5,424,307	0.5	2.5	–	3.0
At 31 December 2017	938,308,340	93.8	94.2	532.7	720.7

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

21. INSURANCE CONTRACTS AND RELATED REINSURANCE

Insurance liabilities

	2018 £m	2017 £m
Gross insurance liabilities	17,273.8	16,633.0
Reinsurance	(4,239.2)	(5,285.3)
Net insurance liabilities	13,034.6	11,347.7

(a) Terms and conditions of insurance contracts

The Group's long-term insurance contracts include annuities to fund Retirement Income, Guaranteed Income for Life ("GIFL") and Defined Benefit ("DB"), annuities to fund care fees (immediate needs and deferred), long-term care insurance and whole of life and term protection insurance.

The insurance liabilities are agreed by the Board using recognised actuarial valuation methods proposed by the Group's Actuarial Reporting Function. In particular, a prospective gross premium valuation method has been adopted for major classes of business.

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

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

(b) Principal assumptions underlying the calculation of insurance contracts

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

Mortality assumptions

Mortality assumptions have been set by reference to appropriate standard mortality tables. These tables have been adjusted to reflect the future mortality experience of the policyholders, taking into account the medical and lifestyle evidence collected during the underwriting process, premium size, gender and the Group's assessment of how this experience will develop in the future. The assessment takes into consideration relevant industry and population studies, published research materials, input from the Group's lead reinsurer and management's own industry experience.

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

	2018	2017
Individually underwritten Guaranteed Income for Life Solutions (JRL)	Modified E&W Population mortality, with modified CMI 2017 model mortality improvements for both Merica and Prognosys™ underwritten business	PCMA/PCFA00, with CMI 2014 model mortality improvements for both Merica and Prognosys™ underwritten business
Individually underwritten Guaranteed Income for Life Solutions (PLACL)	Modified E&W Population mortality, with modified CMI 2017 model mortality improvements	Modified E&W Population mortality, with CMI 2014 model mortality improvements
Defined Benefit (JRL)	Modified E&W Population mortality, with modified CM 2017 model mortality improvements for standard underwritten business; Reinsurer supplied tables underpinned by the Self-Administered Pension Scheme (“SAPS”) S1 tables, with CMI 2009 model mortality improvements for medically underwritten business	Modified E&W Population mortality, with CMI 2016 model mortality improvements for standard underwritten business; Reinsurer supplied tables underpinned by the Self-Administered Pension Scheme (“SAPS”) S1 tables, with CMI 2009 model mortality improvements for medically underwritten business
Defined Benefit (PLACL)	Modified E&W Population mortality, with modified CMI 2017 model mortality improvements	Modified E&W Population mortality, with CMI 2015 model mortality improvements
Care plans and other annuity products (PLACL)	Modified PCMA/PCFA and with modified CMI 2017 model mortality improvements for Care Plans; Modified PCMA/PCFA or modified E&W Population mortality with modified CMI 2017 model mortality improvements for other annuity products	Modified PCMA/PCFA with CMI 2016 model mortality improvements for Care Plans; Modified PCMA/PCFA bespoke improvements for other annuity products
Protection (PLACL)	TM/TF00 Select	TM/TF00 Select

The long term improvement rates in the modified CMI 2017 model are 2.0% for males and 1.75% for females (2017: long term improvement rates in the CMI 2016 and earlier versions of the CMI model for mortality improvements range from 1.75% for males and 1.5% for females to 2.5% for males and 2.3% for females). The period smoothing parameter in the modified CMI 2017 model has been set to 7.25 (2017: core CMI models were used).

Valuation discount rates

Valuation discount rate assumptions are set with regards to yields on supporting assets. An explicit allowance for credit risk is included by making an explicit deduction from the yields on debt and other fixed income securities based on a prudent expectation of default experience of each asset class.

Valuation discount rates – gross liabilities	2018 %	2017 %
Individually underwritten Guaranteed Income for Life Solutions (JRL)	3.51	3.23
Individually underwritten Guaranteed Income for Life Solutions (PLACL)	3.47	3.11
Defined Benefit (JRL)	3.51	3.23
Defined Benefit (PLACL)	3.47	3.11
Other annuity products (PLACL)	1.32	0.95
Term and whole of life products (PLACL)	1.54	1.39

Future expenses

Assumptions for future policy expense levels are determined from the Group's recent expense analyses. The assumed future policy expense levels incorporate an annual inflation rate allowance of 4.6% (2017: 4.4%) derived from the expected retail price index implied by inflation swap rates and an additional allowance for earnings inflation.

(c) Movements

The following movements have occurred in the insurance contract balances for Retirement Income products during the year.

Year ended 31 December 2018	Gross £m	Reinsurance £m	Net £m
At 1 January 2018	16,633.0	(5,285.3)	11,347.7
Increase in liability from premiums	1,735.4	2.2	1,737.6
Release of liability due to recorded claims	(1,213.2)	419.8	(793.4)
Unwinding of discount	547.4	(154.9)	392.5
Changes in economic assumptions	(286.6)	136.4	(150.2)
Changes in non-economic assumptions	(128.8)	98.1	(30.7)
Other movements ¹	(13.4)	544.5	531.1
At 31 December 2018	17,273.8	(4,239.2)	13,034.6

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

1 Includes the impact of reinsurance recapture.

Effect of changes in assumptions and estimates during the year

Economic assumption changes

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

Discount rates

The movement in the valuation interest rate captures the impact of underlying changes in risk-free curves and spreads on backing assets (excluding Lifetime Mortgages) and impact of changes to the property growth and volatility assumptions and mortality improvement rates on the Lifetime Mortgages. The mortality improvement rates for Lifetime Mortgages have been aligned with mortality assumptions for annuities. Both existing in-force assets and new assets purchased during the year contribute to the movement in the discount rate. Differences between the discount rates recognised on new business written during the year and the prevailing discount rates on the entire portfolio of business also contribute to the movement in insurance liabilities.

Non-economic assumption changes

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

Expense assumption

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

The JRL GIfL maintenance expense assumption used at 31 December 2018 was £30.29 per plan (2017: £30.68), whilst the JRL DB maintenance assumption used at 31 December 2018 was £118.75 per scheme member (2017: £113.53). The PLACL GIfL maintenance expense assumption used at 31 December 2018 was £29.30 per plan (2017: £23.69), whilst the PLACL DB maintenance assumption used at 31 December 2018 was £161.40 per scheme member (2017: £128.02). An increase in the maintenance expense assumption increases the carrying value of the insurance liabilities.

Mortality assumptions

For both JRL and PLACL mortality assumptions have been derived with reference to England & Wales population mortality using the CMI 2017 data set and model for both base table rates and mortality improvements (2017: England & Wales population mortality or CMI annuitant mortality tables for base mortality and CMI 2016 and earlier versions of the CMI model for mortality improvements). These base mortality and improvement tables have been adjusted to reflect the expected future mortality experience of the lives insured, taking into account the medical and lifestyle evidence collected during the underwriting process and the Group's assessment of how this experience will develop in the future. This assessment takes into consideration relevant industry and population studies, published research materials and management's own experience.

(d) Estimated timing of net cash outflows from insurance contract liabilities

The following table shows the insurance contract balances analysed by duration. The total balances are split by duration of Retirement Income payments in proportion to the policy cash flows estimated to arise during the year.

	Expected cash flows (undiscounted)				Total £m	Carrying value (discounted) £m
	Within 1 year £m	1-5 years £m	5-10 years £m	Over 10 years £m		
2018						
Gross	1,243.2	4,715.5	5,353.2	14,667.9	25,979.8	17,273.8
Reinsurance	(358.3)	(1,320.8)	(1,399.0)	(2,998.7)	(6,076.8)	(4,239.2)
Net	884.9	3,394.7	3,954.2	11,669.2	19,903.0	13,034.6

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

(e) Sensitivity analysis

The Group has estimated the impact on profit for the year in relation to insurance contracts and related reinsurance from changes in key assumptions relating to financial assets and liabilities.

Sensitivity factor	Description of sensitivity factor applied
Interest rate and investment return	The impact of a change in the market interest rates by +/- 1% (e.g. if a current interest rate is 5%, the impact of an immediate change to 4% and 6% respectively). The test consistently allows for similar changes to both assets and liabilities
Expenses	The impact of an increase in maintenance expenses by 10%
Base mortality rates	The impact of a decrease in base table mortality rates by 5% applied to both Retirement Income liabilities and mortgage assets
Immediate property price fall	The impact of an immediate decrease in the value of properties by 10%. The test allows for the impact on the Retirement Income liabilities arising from any change in yield on the loans secured by residential mortgages and loans secured by commercial mortgages used to back the liabilities
Future property price growth	The impact of a reduction in future property price growth by 0.5%
Future property price volatility	The impact of an increase in future property price volatility by 1%
Voluntary redemptions	The impact of an increase in voluntary redemption rates on loans secured by residential and commercial mortgages by 10%. The test allows for the impact on the annuity liabilities arising from any change in yield on the loans secured by residential mortgages and loans secured by commercial mortgages used to back the liabilities
Credit defaults	The impact of an increase in the credit default assumption of 10pbs
Mortality improvement rates	The impact of a level increase in mortality improvement rates of 0.25% for both Retirement Income liabilities and mortgage assets

Impact on profit before tax (£m)

	Interest rates +1%	Interest rates -1%	Maintenance expenses +10%	Base mortality -5%	Immediate property price fall -10%	Future property price growth -0.5%	Future property price volatility +1%	Voluntary redemptions +10%	Credit defaults +10bps
2018	(156.3)	199.7	(37.6)	(116.6)	(161.3)	(143.6)	(83.2)	(88.3)	(60.0)
2017	(123.3)	127.1	(52.1)	(125.9)	(122.7)	(124.8)	(71.7)	(98.7)	(65.2)

The sensitivity to an additional 0.25% improvement in mortality rates in each future year for both annuity and lifetime mortgage business is £(86.8)m. This is broadly equivalent to a four month increase in projected life expectancy for a typical male aged 65.

The sensitivity factors are applied via financial models. The analysis has been prepared for a change in each variable with other assumptions remaining constant. In reality, such an occurrence is unlikely, due to correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts cannot be interpolated or extrapolated from these results.

The sensitivity factors take into consideration that the Group's assets and liabilities are actively managed and may vary at the time that any actual market movement occurs. The impacts indicated above for insurance contracts also reflect movements in financial derivatives, which are impacted by movements in interest rates. Related reinsurance assets are not impacted by financial derivatives.

Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represents the Group's view of reasonably possible near-term market changes that cannot be predicted with any certainty, and the assumption that there is a parallel shift in interest rates at all durations.

22. INVESTMENT CONTRACT LIABILITIES

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
At start of year	220.7	222.3
Deposits received from policyholders	51.0	51.2
Payments made to policyholders	(73.5)	(59.1)
Change in contract liabilities recognised in profit or loss	(0.4)	6.3
At end of year	197.8	220.7

Recoveries from reinsurers on investment contracts were £102.2m (2017: £72.3m) as shown in note 15.

(a) Terms and conditions of investment contracts

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

The Group has written Capped Drawdown products for the at-retirement market. These products are no longer available to new customers. In return for a single premium, these contracts pay a guaranteed lump sum on survival to the end of the fixed term. There is an option at outset to select a lower sum at maturity and regular income until the earlier of death or maturity. Upon death of the policyholder and subject to the option selected at the outset, there may be a return of premium less income received or income payable to a dependant until the death of that dependant.

(b) Principal assumptions underlying the calculation of investment contracts

Valuation discount rates

Valuation discount rate assumptions for investment contracts are set with regard to yields on supporting assets. An explicit allowance for credit risk is included by making an explicit deduction from the yields on debt and other fixed income securities based on historical default experience of each asset class.

Valuation discount rates	2018 %	2017 %
Investment contracts	3.51	3.23

23. LOANS AND BORROWINGS

	Carrying value		Fair value	
	2018 £m	2017 £m	2018 £m	2017 £m
£100m 9.5% 10 year subordinated debt 2025 non-callable 5 years (Tier 2) issued by Partnership Life Assurance Company Limited (call option in March 2020)	95.9	95.3	113.5	112.8
£250m 9.0% 10 year subordinated debt 2026 (Tier 2) issued by Just Group plc	248.8	248.6	289.9	282.3
£230m 3.5% 7 year subordinated debt 2025 (Tier 3) issued by Just Group plc	228.7	–	214.7	–
Total loans and borrowings	573.4	343.9	618.1	395.1

24. 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	2018 £m	2017 £m
Fair value through profit or loss			
Derivative financial liabilities	(a)	178.3	236.3
Obligations for repayment of cash collateral received	(a)	3.4	16.3
Deposits received from reinsurers	(b)	2,443.5	2,654.1
Liabilities measured using insurance rules under IFRS 4			
Deposits received from reinsurers	(b)	1,236.3	1,901.4
Reinsurance finance	(c)	30.6	49.3
Reinsurance funds withheld	(d)	171.2	188.0
Total other liabilities		4,063.3	5,045.4

The amount of deposits received from reinsurers and reinsurance funds withheld that is expected to be settled more than one year after the Consolidated statement of financial position date is £3,730.4m (2017: £4,363.3m).

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

The derivative financial liabilities are classified at fair value through profit or loss. All financial liabilities at fair value through profit or loss are designated as such on initial recognition or, in the case of derivative financial liabilities, are classified as held for trading.

(b) Deposits received from reinsurers

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

(c) Reinsurance finance

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

(d) Reinsurance funds withheld

Reinsurance funds withheld are measured and valued in accordance with the reinsurance contract, which takes into account an appropriate discount rate for the timing of expected cash flows.

25. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses various derivative financial instruments to manage its exposure to interest rates, counterparty credit risk, property risk, inflation and foreign exchange risk.

Derivatives	2018			2017		
	Asset fair value £m	Liability fair value £m	Notional amount £m	Asset fair value £m	Liability fair value £m	Notional amount £m
Foreign currency swaps	1.3	131.8	1,186.5	7.7	71.1	866.2
Interest rate swaps	36.2	9.5	2,131.8	63.7	48.8	1,527.5
Inflation swaps	38.0	27.6	1,879.3	25.6	31.1	1,689.1
Forward swaps	0.6	9.4	927.6	1.8	1.0	385.8
Put option on property index	3.3	–	80.0	–	–	–
Credit default swaps	–	–	–	–	0.5	43.4
Interest rate futures	1.8	–	186.0	1.4	83.8	186.0
Total	81.2	178.3	6,391.2	100.2	236.3	4,698.0

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. master agreements, and the Group has collateral agreements between the individual Group entities and relevant counterparties in place under each of these market master agreements.

As at 31 December 2018, the Company had pledged collateral of £152.6m (2017: £119.3m) of which £nil were gilts and European Investment Bank bonds (2017: £5.8m) and had received cash collateral of £3.4m (2017: £16.3m). In addition to the cash collateral received recognised within other financial liabilities (see note 24), certain collateral arrangements within the Group's subsidiary, PLACL, give rise to collateral of £10.4m (2017: £6.7m) which is not included in the Consolidated statement of financial position of the Group because it is deposited into a ringfenced collateral account that the Group has no control over and does not accrue any of the economic benefit.

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

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Movement in fair value of derivative instruments	(49.0)	30.1
Realised losses on interest rate swaps closed	(16.3)	(1.4)
Total amounts recognised in profit or loss	(65.3)	28.7

26. REINSURANCE

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

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

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

The quota share treaties entered into by the Group's subsidiary, JRL, include financing arrangements (see note 24(c)), the repayment of which is contingent upon the emergence of surplus under the old Solvency I valuation

rules. The Group retains a capital benefit under Solvency II from the financing arrangements as these form part of the transitional calculations.

These treaties also allow JRL to recapture business once the financing has been repaid. During the year the Group recaptured business in respect of certain underwriting years that resulted in a decrease of ceded liabilities of £543.3m and a reduction of equal amount in the deposit received.

In addition to the deposits received from reinsurers recognised within other financial liabilities (see note 24(b)), certain reinsurance arrangements within the Group's subsidiary, PLACL, give rise to deposits from reinsurers that are not included in the Consolidated statement of financial position of the Group as described below:

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

	2018 £m	2017 £m
Deposits managed by the Group	191.6	221.3
Deposits held in trust	272.8	295.4
Total deposits not included in the Consolidated statement of financial position	464.4	516.7

27. OTHER PROVISIONS

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
At start of year	2.1	8.5
Amounts utilised	(1.4)	(6.4)
At end of year	0.7	2.1

The amount of provisions that is expected to be settled more than 12 months after the Consolidated statement of financial position date is £0.5m (2017: £0.5m).

28. CURRENT TAX

Current tax assets/liabilities receivable/payable in more than one year are £nil (2017: £nil).

29. ACCRUALS AND DEFERRED INCOME

Accruals and deferred income payable in more than one year are £0.6m (2017: £1.1m).

30. INSURANCE AND OTHER PAYABLES

	2018 £m	2017 £m
Payables arising from insurance and reinsurance contracts	21.2	34.0
Other payables	57.1	51.5
Total insurance and other payables	78.3	85.5

Insurance and other payables due in more than one year are £nil (2017: £nil).

31. COMMITMENTS

Operating leases

The Group leases a number of properties under operating leases. The future minimum lease payments payable over the remaining terms of non-cancellable operating leases are as follows:

	2018 £m	2017 £m
Less than one year	2.4	2.1
Between one and five years	8.2	6.4
More than five years	2.7	3.4
Total future minimum lease payments	13.3	11.9

Capital commitments

The Group had no capital commitments as at 31 December 2018 (2017: £nil).

32. CONTINGENT LIABILITIES

The Group has recognised £0.3m of contingent consideration on the acquisition of Corinthian Group Limited. There are no other contingent liabilities as at 31 December 2018 (2017: £nil).

33. FINANCIAL AND INSURANCE RISK MANAGEMENT

This note presents information about the major financial and insurance risks to which the Group is exposed, and its objectives, policies and processes for their measurement and management. Financial risk comprises exposure to market, credit and liquidity risk.

(a) Insurance risk

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

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

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

Individually underwritten GIfL are priced using assumptions about future longevity that are based on historic experience information, lifestyle and medical factors relevant to individual customers, and judgements about the future development of longevity improvements. In the event of an increase in longevity, the actuarial reserve required to make future payments to customers may increase.

Loans secured by mortgages are used to match some of the liabilities arising from the sale of GIfL and DB business. In the event that early repayments in a given period are higher than anticipated, less interest will have accrued on the mortgages and the amount repayable will be less than assumed at the time of sale. In the event of an increase in longevity, although more interest will have accrued and the amount repayable will be greater than assumed at the time of the sale, the associated cash flows will be received later than had originally been anticipated. In addition, a general increase in longevity would have the effect of increasing the total amount repayable, which would increase the LTV ratio and could increase the risk of failing to be repaid in full as a consequence of the no-negative equity guarantee. There is also morbidity risk exposure as the contract ends when the customer moves into long-term care.

Underpinning the management of insurance risk are:

- the development and use of medical information including Prognosys™ for both pricing and reserving to provide detailed insight into longevity risk;
- adherence to approved underwriting requirements;
- controls around the development of suitable products and their pricing;
- review and approval of assumptions used by the Board;
- regular monitoring and analysis of actual experience;
- use of reinsurance to minimise volatility of capital requirement and profit; and
- monitoring of expense levels.

Concentrations of insurance risk

Concentration of insurance risk comes from improving longevity. Improved longevity arises from enhanced medical treatment and improved life circumstances. Concentration risk is managed by writing business across a wide range of different medical and lifestyle conditions to avoid excessive exposure.

(b) Market risk

Market risk is the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments, together with the impact of changes in interest rates.

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

Market risk represents both upside and downside impacts but the Group's policy to manage market risk is to limit downside risk. Falls in the financial markets can reduce the value of pension funds available to purchase Retirement Income products and changes in interest rates can affect the relative attractiveness of Retirement Income products. Changes in the value of the Group's investment portfolio will also affect the Group's financial position.

In mitigation, Retirement Income product monies are invested to match the asset and liability cash flows as closely as practicable. In practice, it is not possible to eliminate market risk fully as there are inherent uncertainties surrounding many of the assumptions underlying the projected asset and liability cash flows.

For each of the material components of market risk, described in more detail below, the market risk policy sets out the risk appetite and management processes governing how each risk should be measured, managed, monitored and reported.

(i) Interest rate risk

The Group is exposed to interest rate risk through its impact on the value of, or income from, specific assets, liabilities or both. It seeks to limit its exposure through appropriate asset and liability matching and hedging strategies.

The Group's exposure to changes in interest rates is concentrated in the investment portfolio, loans secured by mortgages and its insurance obligations. Changes in investment and loan values attributable to interest rate changes are mitigated by corresponding and partially offsetting changes in the value of insurance liabilities. The Group monitors this exposure through regular reviews of the asset and liability position, capital modelling, sensitivity testing and scenario analyses. Interest rate risk is also managed using derivative instruments e.g. swaps.

The following table indicates the earlier of contractual repricing or maturity dates for the Group's significant financial assets.

	Less than one year £m	One to five years £m	Five to ten years £m	Over ten years £m	No fixed term £m	Total £m
2018						
Units in liquidity funds	882.5	–	–	–	–	882.5
Investment funds	112.2	69.8	–	–	–	182.0
Debt securities and other fixed income securities	829.6	2,732.8	2,514.9	3,441.0	–	9,518.3
Deposits with credit institutions	153.4	–	–	–	–	153.4
Derivative financial assets	3.5	13.7	5.2	58.8	–	81.2
Loans secured by residential mortgages	–	–	–	–	7,191.5	7,191.5
Loans secured by commercial mortgages	12.3	173.5	142.4	64.1	–	392.3
Other loans	2.7	8.3	62.3	675.8	–	749.1
Amounts recoverable from reinsurers on investment contracts	102.2	–	–	–	–	102.2
Total	2,098.4	2,998.1	2,724.8	4,239.7	7,191.5	19,252.5

2017	Less than one year £m	One to five years £m	Five to ten years £m	Over ten years £m	No fixed term £m	Total £m
Units in liquidity funds	897.9	–	–	–	–	897.9
Investment funds	46.3	–	–	–	–	46.3
Debt securities and other fixed income securities	994.1	2,570.0	2,408.6	3,616.8	–	9,589.5
Deposits with credit institutions	87.9	–	–	–	–	87.9
Derivative financial assets	3.3	13.7	8.6	74.6	–	100.2
Loans secured by residential mortgages	–	–	–	–	6,833.3	6,833.3
Loans secured by commercial mortgages	–	103.4	89.8	22.2	–	215.4
Other loans	0.8	3.1	3.0	437.4	–	444.3
Amounts recoverable from reinsurers on investment contracts	72.3	–	–	–	–	72.3
Total	2,102.6	2,690.2	2,510.0	4,151.0	6,833.3	18,287.1

A sensitivity analysis of the impact of interest rate movements on profit before tax is included in note 21(e).

(ii) Property risk

The Group's exposure to property risk arises from indirect exposure to the UK residential property market through the provision of lifetime mortgages. A substantial decline or sustained underperformance in UK residential property prices, against which the Group's lifetime mortgages are secured, could result in proceeds on sale being exceeded by the mortgage debt at the date of redemption. Demand may also reduce for lifetime mortgage products through reducing consumers' propensity to borrow and by reducing the amount they are able to borrow due to reductions in property values and the impact on loan-to-value limits.

The risk is mitigated by ensuring that the advance represents a low proportion of the property's value at outset and independent third party valuations are undertaken on each property before initial mortgages are advanced. Lifetime mortgage contracts are also monitored through dilapidation reviews. House prices are monitored and the impact of exposure to adverse house prices (both regionally and nationally) is regularly reviewed.

A sensitivity analysis of the impact of property price movements on profit before tax is included in note 21(e).

(iii) Inflation risk

Inflation risk is the risk of fluctuations in the value of, or income from, specific assets or liabilities or both in combination, arising from relative or absolute changes in inflation or in the volatility of inflation.

Exposure to inflation occurs in relation to the Group's own management expenses and its matching of index-linked Retirement Income products. Its impact is managed through the application of disciplined cost control over its management expenses and through matching its index-linked assets and index-linked liabilities for the inflation risk associated with its index-linked Retirement Income products.

(iv) Currency risk

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

Exposure to currency risk could arise from the Group's investment in non-sterling denominated assets. From time to time, the Group acquires fixed income securities denominated in US dollars or other foreign currencies for its financial asset portfolio. All material Group liabilities are in sterling. As the Group does not wish to introduce foreign exchange risk into its investment portfolio, derivative or quasi-derivative contracts are entered into to eliminate the foreign exchange exposure as far as possible.

(c) Credit risk

Credit risk arises if another party fails to perform its financial obligations to the Group, including failing to perform them in a timely manner.

Credit risk exposures arise from:

- Holding fixed income investments where the main risks are default and market risk. The risk of default (where the counterparty fails to pay back the capital and/or interest on a corporate bond) is mitigated by investing only in higher quality or investment grade assets. Market risk is the risk of bond prices falling as a result of concerns over the counterparty, or over the market or economy in which the issuing company

operates. This leads to wider spreads (the difference between redemption yields and a risk-free return), the impact of which is mitigated through the use of a “hold to maturity” strategy. Concentration of credit risk exposures is managed by placing limits on exposures to individual counterparties and limits on exposures to credit rating levels.

- The Group also manages credit risk on its corporate bond portfolio through the appointment of specialist fund managers, who execute a diversified investment strategy, investing in investment-grade assets and imposing individual counterparty limits. Current economic and market conditions are closely monitored, as are spreads on the bond portfolio in comparison with benchmark data.
- Counterparties in derivative contracts – the Group uses financial instruments to mitigate interest rate and currency risk exposures. It therefore has credit exposure to various counterparties through which it transacts these instruments, although this is usually mitigated by collateral arrangements (see note 25).
- Reinsurance – reinsurance is used to manage longevity risk but, as a consequence, credit risk exposure arises should a reinsurer fail to meet its claim repayment obligations. Credit risk on reinsurance balances is mitigated by the reinsurer depositing back more than 100% of premiums ceded under the reinsurance agreement.
- Cash balances – credit risk on cash assets is managed by imposing restrictions over the credit ratings of third parties with whom cash is deposited.
- Credit risk – credit risks for loans secured by mortgages has been considered within “property risk” above.

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

2018	UK gilts £m	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Unrated £m	Total £m
Units in liquidity funds	–	877.7	4.8	–	–	–	–	882.5
Investment funds	–	–	13.7	–	–	–	168.3	182.0
Debt securities and other fixed income securities	623.4	832.1	938.3	2,916.7	3,555.9	208.2	443.7	9,518.3
Deposits with credit institutions	–	–	–	111.0	41.6	–	0.8	153.4
Derivative financial assets	–	–	0.3	30.1	50.8	–	–	81.2
Loans secured by residential mortgages	–	–	–	–	–	–	7,191.5	7,191.5
Loans secured by commercial mortgages	–	–	–	–	–	–	392.3	392.3
Other loans	–	89.1	117.1	93.3	423.7	–	25.9	749.1
Reinsurance	–	–	189.3	294.2	–	–	6.9	490.4
Insurance and other receivables	–	–	–	–	–	–	18.9	18.9
Total	623.4	1,798.9	1,263.5	3,445.3	4,072.0	208.2	8,248.3	19,659.6

2017	UK gilts £m	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Unrated £m	Total £m
Units in liquidity funds	–	894.3	3.6	–	–	–	–	897.9
Investment funds	–	–	7.2	–	–	–	39.1	46.3
Debt securities and other fixed income securities	552.9	792.6	886.2	3,298.3	3,488.2	151.0	420.3	9,589.5
Deposits with credit institutions	–	–	–	29.8	57.2	–	0.9	87.9
Derivative financial assets	–	–	0.8	18.8	80.6	–	–	100.2
Loans secured by residential mortgages	–	–	–	–	–	–	6,833.3	6,833.3
Loans secured by commercial mortgages	–	–	–	–	–	–	215.4	215.4
Other loans	–	64.2	–	50.3	318.8	–	11.0	444.3
Reinsurance	–	–	294.7	347.8	5.2	–	0.4	648.1
Insurance and other receivables	–	–	–	–	–	–	44.5	44.5
Total	552.9	1,751.1	1,192.5	3,745.0	3,950.0	151.0	7,564.9	18,907.4

The credit rating for Cash and cash equivalents assets at 31 December 2018 was between a range of AA and BB.

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

(d) Liquidity risk

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

Liquidity risk is the risk of loss because the Group, although solvent, either does not have sufficient financial resources available to it in order to meet its obligations as they fall due, or can secure them only at excessive cost.

Exposure to liquidity risk arises from:

- deterioration in the external environment caused by economic shocks, regulatory changes, reputational damage, or an economic shock resulting from Brexit;
- realising assets to meet liabilities during stressed market conditions;
- increasing cash flow volatility in the short term giving rise to mismatches between cash flows from assets and requirements from liabilities;
- needing to support liquidity requirements for day-to-day operations;
- ensuring financial support can be provided across the Group; and
- maintaining and servicing collateral requirements arising from the changes in market value of financial derivatives used by the Group.

Liquidity risk is managed by ensuring that assets of a suitable maturity and marketability are held to meet liabilities as they fall due. The Group's short-term liquidity requirements are predominantly funded by advance Retirement Income premium payments, investment coupon receipts, and bond principal repayments out of which contractual payments need to be made. There are significant barriers for policyholders to withdraw funds that have already been paid to the Group in the form of premiums. Cash outflows associated with Retirement Income liabilities can be reasonably estimated and liquidity can be arranged to meet this expected outflow through asset-liability matching and new business premiums.

The cash flow characteristics of the lifetime mortgages are reversed when compared with Retirement Income products, with cash flows effectively representing an advance payment, which is eventually funded by repayment of principal plus accrued interest. Policyholders are able to redeem mortgages, albeit at a cost. The mortgage assets are considered illiquid, as they are not readily saleable due to the uncertainty about their value and the lack of a market in which to trade them.

Cash flow forecasts over the short, medium and long term are regularly prepared to predict and monitor liquidity levels in line with limits set on the minimum amount of liquid assets required.

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

2018	Within one year or payable on demand £m	One to five years £m	More than five years £m	No fixed term £m
Subordinated debt	40.8	203.8	672.0	–
Derivative financial liabilities	10.4	86.1	486.9	–
Obligations for repayment of cash collateral received	3.4	–	–	–
Deposits received from reinsurers	316.6	1,156.4	3,675.6	–
Reinsurance finance	–	–	–	30.6
Reinsurance funds withheld	16.3	59.9	148.8	–

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

34. CAPITAL

The net assets of the Group at 31 December 2018 on an IFRS basis were £1,663.8m (2017: £1,740.5m). The Group manages capital on a regulatory basis. Since 1 January 2016, the Group has been required to measure and monitor its capital resources on a new regulatory basis and to comply with the requirements established by the Solvency II Framework Directive, as adopted by the Prudential Regulation Authority (“PRA”) in the UK. The Group and its regulated subsidiaries are required to maintain eligible capital, or “Own Funds,” in excess of the value of their Solvency Capital Requirements (“SCR”). The SCR represents the risk capital required to be set aside to absorb 1 in 200 year stress tests of each risk type that the Group is exposed to, including longevity risk, property risk, credit risk and interest rate risk. These risks are all aggregated with appropriate allowance for diversification benefits.

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

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

In managing its capital the Group undertakes stress and scenario testing to consider the Group’s capacity to respond to a series of relevant financial, insurance, or operational shocks or changes to financial regulations should future circumstances or events differ from current assumptions. The review also considers mitigating actions available to the Group should a severe stress scenario occur, such as raising capital, varying the volumes of new business written and a scenario where the Group does not write new business.

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

In assessing the Group's capital position the requirements of PS31/18 "Solvency II: Equity release mortgages", published by the PRA in December 2018, have been taken into account. The publication of PS31/18 has significantly reduced the uncertainty created by CP13/18 "Solvency II: Equity release mortgages" and includes a number of key changes which are material to the Group, such as the deferral of the implementation date to 31 December 2019, confirmation that transitional measures for technical provisions for pre-2016 business will be recognised over the remaining transitional period to 31 December 2031, requirement that firms must meet an effective value test using a volatility rate of 13% and a deferment rate of 0% at the end of 2019 and that the deferment rate should increase to 1% by year-end 2021. PS31/18 also noted a number of areas for further consideration, in particular the calculation of the SCR. There is still some uncertainty as regards areas for further PRA consultation and determination, which include the process by which the volatility and deferment rates will be reset and how the effective value test applies in stress.

Given that the Group continues to experience a high level of regulatory activity and intense regulatory supervision, there is also the risk of PRA intervention, not limited to the matters described in the paragraph above, which could negatively impact on the Group's capital position.

The Group plans to strengthen its capital position during 2019 and beyond in order to write the anticipated levels of new business.

On 14 March 2019 the Group announced an underwritten Restricted Tier 1 debt offering of at least £300m and an underwritten non pre-emptive equity placing of 9.99% of existing share capital.

In addition, the Board will continue to review the need for further capital and its optimal mix including consideration of the use of unutilised Tier 2 capacity and including the refinancing of the existing Partnership Life Assurance Company Limited Tier 2 debt which has a call option in March 2020.

Further information on the matters considered by the Directors at 31 December 2018 in relation to capital and going concern is included in note 1.1, Basis of preparation.

The Group's objectives when managing capital for all subsidiaries are:

- to comply with the insurance capital requirements required by the regulators of the insurance markets where the Group operates. The Group's policy is to manage its capital in line with its risk appetite and in accordance with regulatory requirements;
- to safeguard the Group's ability to continue as a going concern;
- to continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk.

Group entities that are under supervisory regulation and are required to maintain a minimum level of regulatory capital include:

- Just Retirement Limited and Partnership Life Assurance Company Limited – authorised by the PRA, and regulated by the PRA and FCA.
- HUB Financial Solutions Limited, Just Retirement Money Limited, and Partnership Home Loans Limited – authorised and regulated by the FCA.

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

Group capital position (unaudited)

The Group's estimated capital surplus position at 31 December 2018, which is unaudited, and is stated after including 12 months' amortisation of transitional relief, was as follows:

	Solvency Capital Requirement		Minimum Group Solvency Capital Requirement	
	2018 £m	2017 £m	2018 £m	2017 £m
Eligible Own Funds	2,288.9	2,135.1	1,762.9	1,815.0
Capital Requirement	1,591.4	1,539.2	392.5	382.2
Excess Own Funds	697.5	595.9	1,370.4	1,432.8
Coverage ratio	144%	139%	449%	475%

35. GROUP ENTITIES

On 4 July 2018, the Group subscribed for 33% of the ordinary share capital of Spire Platform Solutions Limited, a newly incorporated company, for consideration of £500. The Group has majority representation on the Board of the company, giving it effective control, and therefore consolidates the company in full in the results of the Group.

On 17 August 2018, the Group acquired 75% of the ordinary share capital of Corinthian Group Limited for consideration of £1.2m. The Group's share of net assets acquired were £0.2m, consisting mainly of trading balances, resulting in goodwill recognised on acquisition of £1.0m. In 2018 revenue of £1.2m and profit of nil have been recognised in the Group's consolidated statement of comprehensive income since acquisition.

As a result of the above transactions, the non-controlling interests of the minority shareholders of Spire Platform Solutions Limited and Corinthian Group Limited totalling £(0.6)m have been recognised in the year.

The Group holds investment in the ordinary shares (unless otherwise stated) of the following subsidiary undertakings and associate undertakings. All subsidiary undertakings have a financial year end at 31 December.

	Principal activity	Registered office	Percentage of nominal share capital and voting rights held
Direct subsidiary			
Just Retirement Group Holdings Limited	Holding company	Reigate	100%
Partnership Assurance Group Limited	Holding company	London	100%
Indirect subsidiary			
HUB Acquisitions Limited ¹	Holding company	Reigate	100%
HUB Financial Solutions Limited	Distribution	Reigate	100%
HUB Online Development Limited	Software development	Belfast	100%
Just Management Services (Proprietary) Limited	Management services	South Africa	100%
Just Re 1 Limited	Investment activity	Reigate	100%
Just Re 2 Limited	Investment activity	Reigate	100%
Just Retirement (Holdings) Limited	Holding company	Reigate	100%
Just Retirement (South Africa) Holdings (Pty) Limited	Holding company	South Africa	100%
Just Retirement Life (South Africa) Limited	Life assurance	South Africa	100%
Just Retirement Limited	Life assurance	Reigate	100%
Just Retirement Management Services Limited	Management services	Reigate	100%
Just Retirement Money Limited	Provision of lifetime mortgage products	Reigate	100%
Partnership Group Holdings Limited	Holding company	London	100%
Partnership Holdings Limited	Holding company	London	100%
Partnership Home Loans Limited	Provision of lifetime mortgage products	London	100%
Partnership Life Assurance Company Limited	Life assurance	London	100%
Partnership Life US Company	Management services	USA	100%
Partnership Services Limited	Management services	London	100%
PASPV Limited	Investment activity	London	100%
PayingForCare Limited	Website	Reigate	100%
PLACL RE 1 Limited	Investment activity	Reigate	100%
PLACL RE 2 Limited	Investment activity	Reigate	100%
The Open Market Annuity Service Limited	Software solutions	Belfast	100%
TOMAS Online Development Limited	Software development	Belfast	100%
Enhanced Retirement Limited	Dormant	Reigate	100%
HUB Pension Consulting Limited	Dormant	Reigate	100%

	Principal activity	Registered office	Percentage of nominal share capital and voting rights held
HUB Pension Solutions Limited	Dormant	Reigate	100%
HUB Transfer Solutions Limited	Dormant	Reigate	100%
JRP Group Limited	Dormant	Reigate	100%
JRP Nominees Limited	Dormant	Reigate	100%
Just Annuities Limited	Dormant	Reigate	100%
Just Equity Release Limited	Dormant	Reigate	100%
Just Incorporated Limited	Dormant	Reigate	100%
Just Protection Limited	Dormant	Reigate	100%
Just Retirement Finance plc	Dormant	Reigate	100%
Just Retirement Nominees Limited	Dormant	Reigate	100%
Just Retirement Solutions Limited	Dormant	Reigate	100%
PAG Finance Limited	Dormant	Jersey	100%
PAG Holdings Limited	Dormant	Jersey	100%
TOMAS Acquisitions Limited	Dormant	Reigate	100%
Corinthian Group Limited	Holding company	Reigate	75%
Corinthian Pension Consulting Limited	Pension Consulting	Reigate	75%
Spire Platform Solutions Limited ²	Software development	Portsmouth	33% ³
Associate			
Eldercare Group Limited	Independent financial advisers	Hitchin	33%
Eldercare Solutions Limited	Independent financial advisers	Hitchin	33%
Eldercare Property Partners Limited	Independent financial advisers	Hitchin	33%
Care Fees Investment Limited	Dormant	Hitchin	33%

1 Class "A" and Class "B" ordinary shares.

2 Class "B" ordinary shares.

3 Control is based on Board representation rather than percentage holding.

Registered offices

Reigate office:	London office:	Belfast office:	South Africa office:
Vale House	5th Floor, 110 Bishopsgate	3rd Floor, Arena Building	Office G01, Big Bay Office Park
Roebuck Close, Bancroft Road	London EC2N 4AY	Ormeau Road	16 Beach Estate Boulevard, Big Bay
Reigate, Surrey RH2 7RU		Belfast BT7 1SH	Western Cape 7441
Jersey office:	United States office:	Portsmouth office:	Hitchin office:
44 Esplanade	2711 Centerville Road, Suite 400	Building 3000, Lakeside North Harbour	Suite 4, Titmore Court, Titmore Green
St Helier	Wilmington	Portsmouth	Little Wymondley, Hitchin
Jersey JE4 9WG	Delaware	Hampshire, PO6 3EN	Hertfordshire, SG4 7JT

36. RELATED PARTIES

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

Key management personnel comprise the Directors of the Company.

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

Key management compensation is as follows:

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £'000
Short-term employee benefits	4.4	4.8
Share-based payments	2.7	2.3
Total key management compensation	7.1	7.1
Loans owed by Directors	0.4	0.3

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

37. ULTIMATE PARENT COMPANY AND ULTIMATE CONTROLLING PARTY

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

38. POST BALANCE SHEET EVENTS

On 14 March 2019 the Group announced an underwritten Restricted Tier 1 debt offering of at least £300m and an underwritten non pre-emptive equity placing of 9.99% of existing share capital.

There are no other post balance sheet events that have taken place between 31 December 2018 and the date of this report.

Glossary

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

Adjusted earnings per share – an APM, this measures earnings per share based on adjusted operating profit after attributed tax, rather than IFRS profit before tax. This measure is calculated by taking the adjusted operating profit APM, reduced for the effective tax rate (19% for 2018), and dividing this result by the weighted average number of shares in issue by the Group for the year.

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

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

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

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

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

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

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

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

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

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

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

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

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

Development expenditure – development expenditure captures costs relating to the development of new products and new initiatives, and is included within adjusted operating profit.

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

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

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

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

Embedded value – an APM, this represents the sum of shareholders' net assets and the value of in-force business, and is a measure in assessing the future profit streams of the Group's long-term business. It also recognises the additional value of profits in the business that has been written but not yet recognised under IFRS accounting.

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

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

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

Guaranteed Guidance – see Pensions Wise.

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

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

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

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

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

Key performance indicators ("KPIs") – KPIs are metrics adopted by the Board which are considered to give an understanding of the Group's underlying performance drivers. The Group's KPIs are new business sales, new business operating profit, in-force operating profit, adjusted operating profit, IFRS profit before tax, IFRS net assets, Solvency II capital coverage ratio and economic capital coverage ratio.

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

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

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

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

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

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

New business sales – an APM and one of the Group's KPIs, and a key indicator of the Group's growth and realisation of its strategic objectives. New business sales include DB, GifL, Care, FPP and protection premiums written combined with LTM advances in the year. New business sales are reconciled to IFRS Gross premiums in note 2 to the consolidated financial statements.

Non-recurring and project expenditure – non-recurring and project expenditure includes any one-off regulatory, project and development costs. This line item does not include acquisition integration, or acquisition transaction costs, which are shown as separate line items.

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

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

Other operating expenses – other operating expenses represent the Group's operational overheads, including personnel expenses, investment expenses and charges, depreciation of equipment, reinsurance fees, operating leases, amortisation of intangibles, and other expenses incurred in running the Group's operations.

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

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

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

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

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

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

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

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

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

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

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

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

Abbreviations

AGM – Annual General Meeting	OP – adjusted operating profit
APM – alternative performance measures	ORSA – Own Risk and Solvency Assessment
Articles – Articles of Association	PAG – Partnership Assurance Group
BME – black and minority ethnic	PILON – payment in lieu of notice
Code – UK Corporate Governance Code	PLACL – Partnership Life Assurance Company Limited
CP – Care Plans	PRA – Prudential Regulation Authority
CMI – Continuous Mortality Investigation	PRI –United Nations Principles for Responsible Investment
DB – Defined Benefit De-risking Solutions	PVIF – purchased value of in-force
DC – defined contribution	PwC – PricewaterhouseCoopers LLP
DSBP – deferred share bonus plan	RICS – the Royal Institution of Chartered Surveyors
EBC – employee benefits consultant	RPI – retail price inflation
EBT – employee benefit trust	SAM – Solvency Assessment and Management
EPS – earnings per share	SAPS – Self-Administered Pension Scheme
EVT – effective value test	SAYE – Save As You Earn
FCA – Financial Conduct Authority	SCR – Solvency Capital Requirement
FPP – Flexible Pension Plan	SFCR – Solvency and Financial Condition Report
GDPR – General Data Protection Regulation	SIP – Share Incentive Plan
GHG – greenhouse gas	STIP – Short Term Incentive Plan
GifL – Guaranteed Income for Life	tCO₂e – tonnes of carbon dioxide equivalent
Hannover – Hannover Life Reassurance Bermuda Ltd	TMTP – transitional measures on technical provisions
IFRS – International Financial Reporting Standards	TSR – Total Shareholder Return
IP – intellectual property	
JRL – Just Retirement Limited	
KPI – key performance indicators	
LTIP – Long Term Incentive Plan	
LTM – lifetime mortgage	
MAR – Market Abuse Regulation	
NBS – New Bridge Street	
NED – Non-Executive Director	
NNEG – no-negative equity guarantees	