

NEWS RELEASE

17 September 2015

**JUST RETIREMENT GROUP PLC
RESULTS FOR THE YEAR ENDED 30 JUNE 2015
ADAPTING RAPIDLY, CONTINUED DELIVERY**

Just Retirement Group plc (“the Group”) announces its results for the year ended 30 June 2015.

Financial highlights

- In our first full year of Defined Benefit De-risking (“DB”) business, sales were up more than five fold at £609m, largely offsetting the decline in Individually Underwritten Guaranteed Income for Life (“GifL”) sales.
- GifL and Care Plan sales fell 56% year on year, as expected given a largely pre-Budget prior year. However, fourth quarter sales were up modestly compared to the third quarter showing the ongoing customer need for these key retirement planning products.
- Total Retirement sales of £1,148m were achieved, down 9.9% against a largely pre-Budget comparative period. Margins improved from 2.9% in the first half to 3.3% in the full year.
- IFRS underlying operating profit before tax amounted to £86.4m, down 11% mainly due to lower new business volumes.
- Group embedded value of £1.02bn (204p per share). Economic capital ratio 176%.
- Solvency II progress is on plan, we have submitted our internal model application and continue to engage actively with our regulators.
- Final dividend of 2.2p.

Operational highlights

- DB De-risking Solutions became our biggest product in 2014/15, less than two years since we wrote our first contract. The pipeline continues to grow and we are optimistic that medical underwriting will become the norm for smaller pension schemes looking for both security and value for money
- Demand for individual guaranteed retirement income solutions has stabilised, and quotation levels have improved significantly since April. The product continues to serve a real need for retirees, and our medically underwritten model provides superior value for many of them. Together with continued DB momentum, sales appear to be recovering. Fourth quarter total Retirement sales were up 10% compared to Q4 13/14 and up 28% compared to Q3 14/15

Proposed Merger

- The proposed merger with Partnership Assurance Group announced on 11th August will accelerate our existing strategy and is expected to deliver at least £40m of cost synergies in 2018.

Commenting on the results Rodney Cook, Group Chief Executive, said:

“This is our first full year set of results since the Budget 2014 pension reforms, and I hope our resilient performance will not be forgotten amid the excitement of the proposed merger with Partnership Assurance Group. Our response to the pension reforms has largely enabled us to replace lost Individual Guaranteed Income for Life business with DB De-risking premiums.

Individual retirement income enquiries are now growing in number, and the increase in quote activity that we highlighted on 11th August is beginning to turn into sales. We expect GfL sales in the quarter ending 30 September to be approximately 25% up on the prior quarter and higher than the same period last year. At the same time our pipeline of DB De-risking business continues to strengthen and we are pleased to revise our expectations with respect to sales for the first half year to £400m, a 33% increase from £300m.

We have adapted rapidly to the changing individual market by launching modern Individual Guaranteed Income for Life products and a Flexible Pension Plan enabling customers to mix-and-match guaranteed and flexible benefits to secure the best of both worlds. In addition, we have launched the first retirement focused simplified advice service to support the customers of our corporate partnerships, and have started writing business in South Africa. This vigorous response to the Budget gave us real confidence in our standalone prospects. However, the proposed merger with Partnership Assurance Group will accelerate the execution of our existing strategy and generate significant further value for shareholders in the form of at least £40m of targeted cost synergies.

Our priority now is to ensure that we achieve the expected benefits of the proposed merger, while at the same time, not being distracted from the recovery in momentum we are beginning to see as a standalone business. We remain a young, agile company, so I am confident that we can deliver on both fronts. In fact the Just Retirement story has just become that much more exciting.”

Enquiries

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UK FreeCall: 08082380673

United States FreeCall: 18666551591

Std International Dial-In: +44 (0) 1452 569335

Conference ID: 33492814

A copy of this announcement, the presentation slides and a transcript of the conference call will be available on Just Retirement's website www.justretirementgroup.com

JUST RETIREMENT GROUP PLC

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FINANCIAL CALENDAR:

	Date
Q1 Interim Management Statement 2016	5 November 2015
Record date for final dividend	13 November 2015
Payment of final dividend	7 December 2015
Interim Results for the six months ended 31 December 2015	23 February 2016

Forward-looking statements disclaimer:

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

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

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

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

Chief Executive Officer's operating review

"There was plenty to get excited about in the year to June 2015, even before the recent announcement of our proposed Merger with Partnership Assurance Group"

New business sales amounted to £1,456m for the year ended 30 June 2015, including a five-fold increase in sales of Defined Benefit De-risking Solutions

The first year following the 2014 Budget was always going to be tough for companies offering retirement income, as consumers firstly deferred taking decisions about their retirement income and then began to take advantage of the greater pension freedom on offer to them. I am therefore very proud that we have largely managed to offset lower individual sales by accelerating our growth in the defined benefit de-risking segment.

As a result, DB is now comfortably our largest product. Our DB pipeline continues to grow and we remain optimistic that medical underwriting will increasingly be seen as the right option for de-risking by smaller schemes. In April this year we launched our next generation Retirement Income products, allowing individual savers to take advantage of their new freedom to choose how much of their savings to convert into a guaranteed income for life and how much to keep invested. The year also saw the second phase of the implementation of our state of the art medical underwriting platform, PrognoSys™, which is now fully rolled-out for pricing as well as reserving. We have also started writing business in South Africa.

In other words, there was plenty to get excited about in the year to June 2015, even before the recent announcement of our proposed Merger with Partnership Assurance Group. This Merger will significantly accelerate our existing strategy and we believe will make us stronger together. The rest of my review looks at the highlights of 2014/15 in more detail, but we are already working hard to ensure 2015/16 will be more exciting still once the proposed Merger gets under way.

	2014/15 £m	2013/14 £m	change %
Defined Benefit De-risking Solutions ("DB")	608.9	92.1	561.1
Guaranteed Income for Life Solutions ("GfL")	478.0	1,106.2	(56.8)
Care Plans ("CP")	12.1	2.2	450.0
Retirement Income sales	1,099.0	1,200.5	(8.5)
Capped Drawdown contracts	48.7	73.7	(33.9)
Total Retirement sales	1,147.7	1,274.2	(9.9)
LTM loans advanced	308.1	476.4	(35.3)
Total new business sales*	1,455.8	1,750.6	(16.8)

* Retirement Income premiums written are included in revenue within the Statement of comprehensive income and Capped Drawdown sales and LTM advances are deposit accounted.

Retirement Income sales

Sales of DB and GfL contracts make up the majority of the Group's new business Retirement Income sales. Overall, new business Retirement Income sales decreased by 8.5% to £1,099.0m (2013/14: £1,200.5m).

The Group's DB sales have performed very strongly, with a five-fold increase in DB sales reported compared to the prior year (2014/15: DB sales of £608.9m; 2013/14: £92.1m).

This increase has largely offset the fall in GfL sales which as expected were affected significantly by the Budget announcement on 19 March 2014. The primary changes within the pension reforms announced in the 2014 Budget came into effect from April 2015, ending a long period of uncertainty as consumers waited for clarity on the new pensions landscape and for insurance companies to develop or enhance their product offerings.

The Board of Just Retirement responded to these changes, not only by focusing on the continued growth of the DB product offering, but also by developing new products both in the GfL and drawdown markets, launching these in the last quarter of the financial year. GfL sales are proving more resilient than some commentators have suggested, with fourth quarter sales stable and further momentum in the first quarter of our new financial year. Just Retirement's new drawdown product, the Just Retirement Flexible Pension Plan, has generated its first sales already. We are also very pleased to have further strengthened our relationship with Phoenix Group and believe that the retirement-focused simplified advice we offer to their retiring customers is the first of its kind to be launched in the market.

Sales of Capped Drawdown reduced by 33.9% to £48.7m (2013/14: £73.7m). Capped Drawdown sales in the prior year were boosted by demand from savers wanting to defer their decision on whether to buy a lifetime income until after the implementation of the new Budget rules, and sales naturally fell off as the new regime approached.

Lifetime mortgage loans

The Group targets an optimally capital-efficient ratio of LTM to combined sales of DB and GfL contracts of around 25%. However, in the prior year, LTM advances was above target, boosted by a £59.6m wholesale transaction and strong retail demand. We have deliberately managed the ratio down in 2014/15, which meant LTM advances decreased by 35.3% to £308.1m (2013/14: £476.4m). The LTM market continues to grow, and these assets provide a good match for the Group's long-term liabilities, including DB schemes where the profile of liabilities can be of a longer duration than for GfL contracts due to benefit indexation.

Financial highlights

Underlying operating profit fell by 11% to £86.4m. This was driven by the modest fall in overall Retirement Income sales, and a fall in new business margin to 3.3% due to pricing pressure following the fall in individual sales after the 2014 Budget. This compares to a new business margin of 4.4% in the prior year, which meant new business profit for the current year fell 31% to £36.8m. This was partly offset by 14% growth in in-force profitability. However, a widening of credit spreads, a fall in expected house price inflation, and a reduction in long-term interest rates all had a negative impact on the overall result for the year. During the year the Group also incurred £19.4m of non-recurring costs (2013/14: £7.0m of non-recurring costs and £5.4m of restructuring costs) mainly relating to the development of new products in response to the pension changes announced in the March 2014 Budget and Solvency II. This meant that the Group reported a loss before tax for the year of £29.6m (2013/14: profit before tax of £92.8m).

Financial investments have increased to £8.5bn (2013/14: £7.5bn). Of these, £5.0bn is invested in corporate bonds, gilts, and liquidity funds, and £3.5bn in LTM advances. Of the corporate bond, gilt and liquidity fund portfolio, 21% is invested in AAA grade investments and in gilts, and 60% is invested in investments rated A grade or higher.

LTM advances continue to provide the Group with a high quality source of enhanced investment return and an appropriate match for the Group's long-duration liabilities. The LTV ratio of the LTM portfolio is at 25% (30 June 2014: 25%).

The Group continues to hold significant liquid assets, and is comfortably able to meet its obligations. Cash and cash equivalents at 30 June 2015 were £313.7m (30 June 2014: £395.6m).

European embedded value ("EEV") amounted to £1,019.3m at 30 June 2015 (30 June 2014: £959.1m). New business value generated during the year after tax amounted to £98.1m (2013/14: £114.9m).

Capital and dividends

The Group's capital position, measured under both the Pillar 1 and economic capital measures, remains strong and well in excess of risk appetite. The Group economic capital ratio at 30 June 2015 was 176% (30 June 2014: 178%). The Pillar 1 capital ratio was 166% (30 June 2014: 236%) with the fall predominantly reflecting the shift into an asset mix more appropriate to Solvency II rather than any underlying deterioration.

In line with previously stated strategy, the Group will explore, on an ongoing basis, a range of balance sheet options (including assessing the debt capital markets) with a view to providing further financial strength and supporting future growth.

The Just Retirement Board announced on 11 August 2015 that it had agreed the terms of the Merger with Partnership Assurance to create JRP Group plc. In conjunction with the Merger, Just Retirement and Partnership Assurance announced the intention to raise equity capital amounting, in aggregate, to approximately £150 million. Further details on the exact quantum and structure of the Capital Raise will be provided at the time of the Capital Raise.

I am particularly pleased that the Board has proposed a final dividend of 2.2p per share, making the total dividend for the year 3.3p. This is in line with the prior year, and the Board believes it to be a suitable and prudent payment at this time.

Business development

The Group has continued to develop its DB business and now does business with all the major employee benefit consultants. We have also launched new modern Guaranteed Income for Life Solutions allowing retirees a wider choice of benefits, launched a Flexible Pension Plan, which when combined with GfL provides a blend of guaranteed income and investment exposure. We believe we are the first company to offer retirement-focused simplified advice, initially via our recently enhanced relationship with Phoenix Group, and we are optimistic that we can expand the service to include other partners this year. We continue to explore opportunities for geographical diversification and announced the launch of our South African subsidiary earlier this year. Progress with the development of new systems and processes to support Solvency II is on plan, we submitted our internal model application on time and we continue to engage actively with our regulators.

The proposed Merger with Partnership Assurance Group represents a unique opportunity to accelerate our strategy in the next financial year.

Current trading and outlook

The outlook for DB sales remains promising. Growing numbers of trustees continue to advise sponsoring companies to de-risk their balance sheets by transferring DB liabilities to insurers such as Just Retirement. A medically underwritten approach can offer better value for money to schemes whose average life expectancy diverges from national averages, and we envisage that a medically underwritten approach will become standard practice for smaller schemes. We expect to achieve a run-rate of around £400m of DB premiums in the first half of 2015/16, although this business is inherently lumpy and unpredictable.

The pension freedom reforms announced in the 2014 Budget and introduced in April 2015 have created uncertainty across the individual retirement income market, particularly in those channels where regulated financial advice is provided. However, there are early signs of a pick-up in interest in GfL products and, provided quotations requested translate into applications, we could see an improvement in demand.

The management team remains very focused on business as usual, and is working hard to ensure that any uncertainty caused by the proposed Merger with Partnership Assurance Group does not affect our focus on a first class service for customers and intermediaries.

And finally...

In the last two years we have successfully completed our Initial Public Offering ("IPO"), addressed the 2014 Budget changes, accelerated the growth in our DB business to become our largest product, and transformed our Retirement Income offering from an old style annuity into a diversified proposition offering guaranteed income for life and flexible drawdown. None of this would have been possible without the hard work of my outstanding management team and employees. Our proposed Merger with Partnership Assurance Group will accelerate the rate of change and it is only right for me to recognise the huge efforts the team has already made and will be called on to make as the integration progresses.

In this context I am particularly proud that the quality of our service has not suffered, and that we were awarded the Financial Adviser 5 Star Service award for the tenth consecutive year for annuities and the seventh consecutive year for lifetime mortgages. This is a fantastic and unique achievement.

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

Rodney Cook
Chief Executive Officer
16 September 2015

Financial review

Our financial results demonstrate a positive response to the pension reforms announced in the 2014 Budget, which came into force in April 2015. We have continued to offer customers a just retirement by launching new individually underwritten Guaranteed Income for Life Solutions, which we have developed in response to the pension reforms. We have continued to invest in our proprietary underwriting system, PrognoSys™, to ensure our intellectual property continues to provide a competitive advantage and we have demonstrated innovation and very strong growth in the defined benefit de-risking segment during this financial year. We have diversified our offerings to retail customers to ensure they may access the flexibility that the pension reforms offer, through our new Flexible Pension Plan product which was launched in the last quarter of this financial year on a market-leading administration platform.

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

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

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

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

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

	2014/15 £m	2013/14 £m	Change £m
New business operating profit	36.8	53.1	(16.3)
In-force operating profit	49.6	43.6	6.0
Underlying operating profit	86.4	96.7	(10.3)
Operating experience and assumption changes	2.4	4.7	(2.3)
Other Group companies' operating results	(8.7)	(7.5)	(1.2)
Reinsurance and bank finance costs	(12.5)	(13.4)	0.9
Operating profit before tax	67.6	80.5	(12.9)
Non-recurring and project expenditure	(19.4)	(7.0)	(12.4)
Restructuring costs	–	(5.4)	5.4
Investment and economic profits	(74.1)	44.1	(118.2)
(Loss)/profit before finance and amortisation costs, before tax	(25.9)	112.2	(138.1)
Finance costs ¹	–	(13.2)	13.2
Amortisation costs	(3.7)	(3.9)	0.2
Listing costs	–	(2.3)	2.3
(Loss)/profit before tax	(29.6)	92.8	(122.4)

¹ Finance costs in 2013/14 represent interest payable on loan notes and preference shares that were converted to ordinary share capital following the Group's reorganisation prior to the IPO.

Insurance segment performance

	2014/15 £m	2013/14 £m	Change £m
New business operating profit	36.8	53.1	(16.3)
In-force operating profit	48.8	42.9	5.9
Underlying operating profit	85.6	96.0	(10.4)
Operating experience and assumption changes	2.4	4.7	(2.3)
Reinsurance and bank finance costs	(28.7)	(20.5)	(8.2)
Operating profit before tax	59.3	80.2	(20.9)
Non-recurring and project expenditure	(16.8)	(6.2)	(10.6)
Restructuring costs	–	(4.6)	4.6
Investment and economic profits	(74.2)	44.1	(118.3)
(Loss)/profit before tax from insurance segment	(31.7)	113.5	(145.2)

The Group's insurance segment reported an operating profit before tax of £59.3m (2013/14: £80.2m), and a loss before tax of £31.7m (2013/14: profit before tax of £113.5m).

New business operating profit was £36.8m, compared with £53.1m in the prior year. The decrease of £16.3m primarily reflects the margin pressure on GIFL contracts written during the year, as a result of a competitive market, and the continued impact of the disruption to the retirement income market following the 2014 Budget announcement. The new business operating margin for the year to 30 June 2015 was 3.3%, down from 4.4% in the prior year.

Profits emerging from the in-force portfolio continue to grow, broadly in line with the continued increase in the size of the in-force book of business, and amounted to £48.8m (2013/14: £42.9m), an increase of £5.9m compared to the previous year.

Underlying profit for the insurance segment decreased by £10.4m from £96.0m for the year to 30 June 2014 to £85.6m for the year to 30 June 2015 as a result of the factors described above.

Total operating profit amounted to £59.3m for the year, a decrease of £20.9m compared to the prior year. Total operating profit includes underlying operating profit described above, as well as changes in operating experience and assumptions, and reinsurance and finance costs.

Operating experience and assumption changes, which include expense and mortality experience changes, amounted to a small positive result of £2.4m for the year to 30 June 2015 (2013/14: £4.7m).

Reinsurance and bank finance costs increased by £8.2m to £28.7m for the year to 30 June 2015 (2013/14: £20.5m), primarily driven by increased interest payable on Tier 2 financing from Group corporate companies which amounted to £18.3m (2013/14: £9.5m).

The insurance segment reported a loss before tax for the year to 30 June 2015 of £31.7m (2013/14: profit before tax of £113.5m). In addition to the £20.9m decrease in operating profit described above, the loss before tax includes the impact of non-recurring and project expenditure and investment and economic variances.

Non-recurring and project expenditure amounted to £16.8m (2013/14: £6.2m) and primarily comprises the costs relating to the development and launch of new products in response to the pension reforms announced in the 2014 Budget and costs associated with the continued development of Just Retirement's internal model for Solvency II.

Changes in economic and investment conditions over the year led to a loss of £74.2m, compared to a profit of £44.1m in the prior year. This loss mainly arises from a widening of corporate bond spreads, falls in the expected future property prices, and changes in long-term interest rates.

Other segments

Other Group companies, being those companies providing regulated advice and intermediary services, and professional services to corporates, reported a small operating loss of £3.3m for the year to 30 June 2015 (2013/14: £2.2m).

Corporate activities

	2014/15 £m	2013/14 £m	Change £m
Operating profit before tax	11.6	2.5	9.1
Non-recurring expenditure	(2.6)	(0.8)	(1.8)
Restructuring costs	–	(0.8)	0.8
Investment and economic profits	0.1	–	0.1
Finance costs	–	(13.2)	13.2
Amortisation of intangibles	(3.7)	(3.9)	0.2
Listing costs	–	(2.3)	2.3
Profit/(loss) before tax from corporate activities	5.4	(18.5)	23.9
(Loss)/profit before tax from insurance and other segments	(35.0)	111.3	(146.3)
Group (loss)/profit before tax	(29.6)	92.8	(122.4)

Results from corporate activities included operating profit before tax of £11.6m (2013/14: £2.5m) and a profit before tax of £5.4m (2013/14: loss of £18.5m). The increase in operating profit mainly reflects the increased Tier 2 financing income received from the insurance segment during the year. The finance costs of £13.2m incurred in the prior year related to loan notes and preference shares which were repaid as part of the Group restructure prior to the IPO. These finance costs are therefore no longer incurred. Non-recurring expenditure of £2.6m (2013/14: £0.8m) relates to one-off costs incurred by the Group including the development and launch of the Group's South African business. The amortisation of intangible assets amounted to £3.7m (2013/14: £3.9m).

Highlights from Consolidated statement of comprehensive income

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

	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m
Gross premiums written	1,099.0	1,200.5
Net premium revenue	1,927.0	978.3
Net investment income	635.2	456.9
Other operating income	5.1	6.9
Total revenue	2,567.3	1,442.1
Net claims paid	(250.5)	(206.6)
Change in insurance liabilities	(2,095.9)	(853.8)
Change in investment contract liabilities	(3.5)	(2.4)
Acquisition costs	(18.5)	(31.1)
Other operating expenses	(127.6)	(126.8)
Finance costs	(100.9)	(128.6)
Total claims and expenses	(2,596.9)	(1,349.3)
(Loss)/profit before tax	(29.6)	92.8
Income tax	4.8	(20.3)
(Loss)/profit after tax	(24.8)	72.5

Gross premiums written

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

Gross premiums written for the year to 30 June 2015 were £1,099.0m (2013/14: £1,200.5m). Whilst the Group saw a fall in sales of GifL contracts, which decreased by 57% year-on-year primarily due to the impact of the Budget announcement in March 2014, this was very nearly fully offset by the significant increase in sales of DB contracts, which increased over five-fold compared to the prior year from £92m to £609m.

Net premium revenue

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

Net premium revenue increased from £978.3m in 2013/14 to £1,927.0m in 2014/15. This increase mainly reflects the impact of the reinsurance recapture during the year. During the year the Group repaid the reinsurance financing relating to certain underwriting years and exercised its option to recapture the reinsured policies relating to these years, increasing net premium revenue by £950.9m. In addition, the cost for reinsurance premiums ceded fell compared to the prior year, reflecting the reduction in sales of GfL contracts, a proportion of which are reinsured.

Net investment income

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

Net investment income increased by £178.3m, from £456.9m for the year ended 30 June 2014 to £635.2m for the year ended 30 June 2015.

The majority of the increase in net investment income relates to the movement in fair value of financial assets, which was £568.1m (2013/14: £267.9m), offset by the movement in value of derivative financial instruments of £129.3m (2013/14: £16.6m), both of these driven by the falling long-term interest rate environment over the year to 30 June 2015.

Net claims paid

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

Net claims paid increased by £43.9m from £206.6m at 30 June 2014 to £250.5m at 30 June 2015, reflecting the continuing growth of the in-force book offset by the reinsurers' share of claims paid.

Change in insurance liabilities

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

Change in insurance liabilities increased by £1,242.1m from £853.8m for the year to 30 June 2014, to £2,095.9m for the year to 30 June 2015. The gross change in liabilities was similar year-on-year; the increase in the overall change relates to the reinsurers' share of insurance liabilities and reinsurance recapture. Both these line items are driven by the carrying value of the Group's reinsurance assets. These reinsurance assets have decreased during the year to 30 June 2015 as a result of the recapture of policies relating to certain underwriting years, as there is no longer any associated reinsurance assets relating to the underwriting years once these have been recaptured.

Acquisition costs

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

Acquisition costs decreased by £12.6m from £31.1m for the year to 30 June 2014 to £18.5m for the year to 30 June 2015, primarily as a result of lower sales of GfL and LTM contracts compared to the prior period.

Other operating expenses

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

Other operating expenses increased by £0.8m from £126.8m for the year to 30 June 2014 to £127.6m for the year ended 30 June 2015. The small increase is mainly driven by non-recurring costs of £19.4m incurred by the Group during the year, mainly relating to the cost of developing new products in response to the pension reforms announced in the 2014 Budget, and the continued costs of preparation for the Solvency II regime which will come into effect from 1 January 2016, offset by savings made by the Group as a result of the cost restructuring entered into in the prior year.

Finance costs

Finance costs represent interest payable on the deposits received from reinsurers, interest on reinsurance financing and bank finance costs, and, in the prior year, interest and dividend expense on the Group's loan notes and preference shares.

Finance costs decreased by £27.7m from £128.6m for the year to 30 June 2014 to £100.9m for the year to 30 June 2015. The decrease is due to both the conversion of the loan notes and preference shares to ordinary share capital following the Group's reorganisation prior to the IPO in November 2013, together with a fall in the interest payable on deposits received from reinsurers as a result of the fall in the reinsurance balances.

Income tax

There is an income tax credit of £4.8m for the year to 30 June 2015 (2013/14: charge of £20.3m). The effective tax rate has decreased due to reductions in the UK rate of corporation tax, and the tax credit also includes the impact of certain transition rules regarding life company taxation.

Highlights from Consolidated statement of financial position

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

	As at 30 June 2015 £m	As at 30 June 2014 £m
Assets		
Financial investments	8,494.7	7,490.0
Reinsurance assets	2,477.1	3,616.3
Other assets	276.8	242.7
Total assets	11,248.6	11,349.0
Share capital and share premium	51.3	51.3
Reorganisation reserve	347.4	347.4
Accumulated profit and other adjustments	415.3	454.1
Total equity	814.0	852.8
Liabilities		
Insurance liabilities	7,440.3	6,483.6
Other financial liabilities	2,643.2	3,653.6
Insurance and other payables	22.7	35.5
Other liabilities	328.4	323.5
Total liabilities	10,434.6	10,496.2
Total equity and liabilities	11,248.6	11,349.0

Financial investments

The table labelled financial investment ratings provides a breakdown by credit rating of financial investments where applicable as at 30 June 2015 compared with the position at 30 June 2014. Financial investments increased by £1.0bn from £7.5bn at 30 June 2014 to £8.5bn at 30 June 2015 mainly due to the continued investment of new business premiums into gilts, corporate bonds and LTM contracts. The quality of the corporate bond portfolio remains high and there were no corporate bond defaults during the year (2013/14: £nil). The loan to value ratio of the mortgage portfolio remained in line with the prior year at 25%.

	As at 30 June 2015 £m	As at 30 June 2014 £m
Financial investment ratings		
AAA* and gilts	1,045.6	614.7
AA	241.6	612.9
A	1,699.3	1,943.3
BBB	1,707.9	1,546.4
BB or below	120.6	23.3
Unrated*	207.9	–
Loans secured by mortgages	3,471.8	2,749.4
Total	8,494.7	7,490.0

* Includes units held in liquidity funds

Other balances

Reinsurance assets decreased by £1.1bn from £3.6bn at 30 June 2014 to £2.5bn at 30 June 2015 as a result of the reinsurance recapture during the year, offset by the impact of new business reinsured.

Insurance liabilities increased from £6.5bn at 30 June 2014 to £7.4bn at 30 June 2015 due to liabilities arising on new insurance business written less claims paid in the period.

Other financial liabilities reduced by £1.1bn from £3.7bn at 30 June 2014 to £2.6bn at 2015. These liabilities relate mainly to deposits received from reinsurers, the balance of which has decreased mainly as a result of the reinsurance recapture during the year.

Insurance and other payables decreased by £12.8m from £35.5m at 30 June 2014 to £22.7m at 30 June 2015, the decrease mainly relates to timing differences on amounts owed to investment brokers.

Other liability balances are in line with the prior year, increasing slightly by £4.9m from £323.5m at 30 June 2014 to £328.4m at 30 June 2015. The increase from new investments in Capped Drawdown contracts within this balance (net increase of £30.9m) has been offset by reductions to other balances, including current tax payable (decrease of £20.0m).

Total equity decreased by £38.8m from £852.8m at 30 June 2014 to £814.0m at 30 June 2015, reflecting the loss after tax for the year of £24.8m, dividends paid of £16.5m, and small adjustments for foreign exchange differences and share-based payments.

European embedded value

Group EEV increased by £60.2m from £959.1m at 30 June 2014 to £1,019.3m at 30 June 2015, due to EEV profit of £74.0m for the period, share-based payments of £2.7m and dividends paid of £16.5m.

	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m
JRH Group EEV at start of period	–	503.9
Net debt of JRGHL at date of IPO	–	(315.1)
JRGHL Group EEV at date of IPO	–	188.8
IPO reorganisation:		
Conversion of loan notes and preference shares	–	339.2
Proceeds from IPO	–	300.0
Share issue costs taken to reserves	–	(13.0)
Total IPO reorganisation		626.2
JRG Group EEV at beginning of period	959.1	
Total comprehensive income for the period	74.0	140.1
Share-based payments	2.7	4.3
Dividends	(16.5)	–
Acquisition of non-controlling interest	–	(0.3)
JRG Group EEV at end of period	1,019.3	959.1

Capital management

The Group is managed on an economic capital basis, with a target to maintain minimum cover of 140% of economic capital requirements under normal circumstances. The Group also monitors the regulatory Pillar 1 position of its life company, Just Retirement Limited.

	As at 30 June 2015		As at 30 June 2014	
	Group economic capital £m	Pillar 1 (JRL) £m	Group economic capital £m	Pillar 1 (JRL) £m
Total available capital	916	556	1,004	676
Capital required	(521)	(336)	(564)	(287)
Excess available capital resources	395	220	440	389
Coverage ratio	176%	166%	178%	236%

The Group economic capital ratio remains well in excess of the target ratio of 140%, and the ratio at 30 June 2015 of 176% is in line with the prior year ratio of 178%.

The Pillar 1 capital ratio has reduced to 166% at 30 June 2015 from 236% at 30 June 2014; this mainly reflects the change to an asset mix more appropriate to the Solvency II regulatory framework together with the impact of falls in long-term interest rates.

Solvency II

The Group continues to prepare for the new Solvency II regime, which comes into force on 1 January 2016. The Group's Solvency II programme is on track, with internal model application submitted to the PRA in May 2015, and applications for matching adjustment, volatility adjustment and transitional measures submitted to the PRA in June 2015.

Dividends

The Group paid a final dividend of 2.2 pence per share in respect of the year to 30 June 2014, and paid an interim dividend of 1.1 pence per share in respect of the year to 30 June 2015. The Board has recommended a final dividend of 2.2 pence per share in respect of the year to 30 June 2015, bringing the total dividend for the year to 30 June 2015 to 3.3 pence per share.

Proposed Merger

On 11 August 2015 the Boards of Just Retirement Group plc and Partnership Assurance Group plc announced they had reached agreement on the terms of a recommended all-share Merger to create JRP Group plc. The Merger is expected to result in Just Retirement shareholders owning approximately 60% of the Combined Group and Partnership Assurance shareholders owning approximately 40% of the Combined Group. Just Retirement and Partnership Assurance intend to raise equity capital amounting to £150m in aggregate.

Principal risks and uncertainties

Through a strong risk culture, we are confident of achieving our aspirations of competitive advantage through better business decisions

Risk management

Purpose

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

Risk framework

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

Risk evaluation and reporting

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

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

Own Risk and Solvency Assessment

The Own Risk and Solvency Assessment (“ORSA”), introduced under Solvency II, has brought a welcome opportunity to further embed comprehensive risk reviews into our Group management structure. Our annual ORSA report is a key part of our business cycle and informs strategic decision making. ORSA updates are prepared each quarter to keep the Board apprised of the Group’s evolving risk profile.

Principal risks and uncertainties

Risk description and impact

Risks from our chosen market environment

Just Retirement operates in a highly regulated market; changes in relevant legislation and regulation can have a considerable effect on our strategy and could reduce our sales and profitability or require us to hold more capital.

The pension reforms introduced in April 2015 have had a fundamental impact on the retirement income market. At present it is difficult to predict what the new norm of customer behaviour will be in the longer term. Just Retirement expects that a sizeable segment for guaranteed income for life solutions will still operate as many consumers surveyed say that they want an income that will not run out before they die. Other changes being considered by the government such as secondary annuity trading and alternative approaches to the taxation of pension contributions may in time affect the market in which we operate.

The Group’s strategy and business plans are highly sensitive to changes in the assumptions we make about these market factors and uncertainties.

Mitigation and management action

Risk outlook – Increasing risk

Our approach to legislative and regulatory change is to focus on active participation and engagement with policy makers and regulatory bodies in the UK and Europe, and this will not change.

The Group has responded to the pension reforms by evolving its strategy and developing new products and advice offerings. This followed a careful appraisal of the inherent risks presented by the changes. However, the Group will need to remain agile and prepared to flex its assumptions in response to market dynamics. The Group believes it is well placed to adapt to the changing market, supported by our brand promise, innovation credentials and financial strength.

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

Risks from regulatory changes

The financial services industry continues to see a high level of regulatory change and more intense regulatory supervision with proactive and punitive enforcement activity.

The FCA 2015/16 Business Plan identified areas of focus across the financial services industry including the actions resulting from the thematic review into the retirement income market and possible remediation activity for customers who may have been mis-sold annuities by their incumbent pension provider.

Risk outlook – Increasing risk

The regulatory agenda for the forthcoming year covers many areas directly relevant to the Group. We monitor these developments on an ongoing basis, assess their potential impacts and engage fully with regulatory bodies to implement regulatory change effectively, with the overall aim of delivering a better outcome for our customers and competitive advantage for the business.

It is recognised that adapting to these regulatory changes may involve a high degree of strategy execution risk associated with the scale and pace

Risk description and impact

Solvency II, the new European prudential regulatory framework, has introduced wide-ranging changes for the insurance industry in terms of governance, risk management and solvency capital requirements and comes into force on 1 January 2016.

The Group is seeking regulatory approval to use an internal model and a matching adjustment to calculate its solvency capital and to employ transitional measures to calculate its technical provisions. Any approvals not being forthcoming, or being given subject to onerous terms, could increase the Group's solvency capital requirements.

Risks from our pricing assumptions

The writing of long-term retirement income and LTM business requires a range of assumptions to be made based on market data and historical experience, including customers' longevity, corporate bond yields, interest rates and expenses. These assumptions are applied to the calculation of the reserves needed for future liabilities and solvency margins using recognised actuarial approaches.

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

Risks from the economic environment

The premiums paid by the Group's customers are invested to enable future benefit payments to be made. The economic environment and financial market conditions have a significant influence on the value of assets and liabilities and on the income the Group receives. An adverse market could increase the risk of credit downgrades and defaults in our corporate bond portfolio.

Loose monetary policy has supported global growth since the financial crisis. As recovery becomes more evident, the UK and US central banks will cautiously tighten monetary policy with interest rates expected to rise in the next 12 months.

In an environment of very low risk-free interest rates and large-scale purchases of assets by central banks across advanced economies, investors are more willing to accept higher credit and liquidity risk to improve investment returns. These conditions could make it difficult to source sufficient assets to offer attractive retirement income terms. Low credit spreads similarly affect the income that can be made available although margins from our LTM portfolio help offset this risk.

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

A fall in residential property values could reduce the amounts received from LTM redemptions and may affect the relative attractiveness of the LTM product. The solvency capital needed to support the no-negative equity guarantee in the LTM product also increases if property values drop. Significant rises in property values could increase early mortgage redemptions.

Market risks may affect the liquidity position of the Group by, for example, having to realise assets to meet liabilities during stressed market conditions or to service collateral requirements due to the changes in market value of financial derivatives.

Mitigation and management action

of change.

Our preparations for Solvency II are well advanced and on target to ensure full compliance ahead of implementation. Notably considerable effort has been invested in submitting high quality applications for regulatory approval of the internal model, matching adjustment and technical provision transitional measures. We are providing additional information as required by the regulator to facilitate approval of the applications and have contingency plans in place should any approvals not be forthcoming.

Risk outlook – No change

To manage the risk of our longevity assumptions being incorrect, the Group has developed its own proprietary underwriting system, Prognosys™, which provides insights and enhanced understanding of the longevity risks that the Group chooses to take.

Longevity experience is analysed to identify any outcomes materially different from our assumptions and is used for the regular review of the reserving basis for liabilities. No changes have been made to GifL longevity assumptions and reserves during the year.

Some longevity risk exposure is shared with reinsurance partners, who perform due diligence on the Group's approach to risk selection. The related counterparty risk of the reinsurer failing to meet its repayment obligations is managed by the reinsurer depositing the reinsurance premiums back to the Group for the financing treaties and by collateral arrangements for the longevity swaps.

Risk outlook – No change

Economic conditions are actively monitored and alternative scenarios modelled to better understand the potential impacts of significant economic changes and to inform management action plans.

The Group's strategy is for its investment portfolio to comprise high quality, low-risk assets to facilitate management of the asset and liability matching position. Portfolio credit risk is managed by specialist fund managers executing a diversified investment strategy in investment grade assets while adhering to counterparty limits.

In a low interest rate environment, improved returns are sought by diversifying the types, geographies and industry sectors of investment assets. Such diversification can create 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 DB business volumes is managed with inflation hedging mechanisms.

For LTM, the Group underwrites the properties against which it lends using valuations from expert third parties. The Group's property risk is controlled by limits to the loan to property value ratio supported by product design features, initial underwriting and monitoring of the exposure to adverse house price movements.

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

There is little short-term volatility in the Group's cash flows, which can be reliably estimated in terms of timing and amount. Regular cash flow forecasts predict liquidity levels both short-term and long-term and stress

Risk description and impact

Mitigation and management action

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

Risks to Just Retirement's brands

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

Brand image and our reputation could be threatened by external risks such as regulatory interpretation or enforcement action, either directly or as a result of contagion from other insurers in our sector. Equally large organisations are increasingly becoming targets for cyber-crime, particularly if those organisations hold customers' personal details. Just Retirement is no exception and a cyber-attack could affect customer confidence.

Risk outlook – No change

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

Risks to Just Retirement's reputation are mitigated in part by actively engaging with government policy makers and regulators to ensure the retirement needs of customers are understood. We develop our strategy by giving consideration to planned political and regulatory developments and allow for contingencies should outcomes differ from our expectations.

Our information security is under constant review as the cyber-threat evolves. Due diligence is performed on all partners to ensure that they work to the same high security standards as the Group. We remain vigilant to the range of cyber-risks but recognise the speed of change in cyber-threats means that a risk exposure remains.

Risks arising from the proposed Merger with Partnership Assurance

On 11 August 2015 the Group announced its intention to merge with Partnership Assurance, and in doing so deliver significant strategic and financial benefits for the Combined Group.

Merger integration is a complex process and it may cost more to realise the intended synergies, take more time or indeed result in fewer than intended synergies. During the integration process, there is a risk that management are distracted from running the day-to-day business, which could result in lost opportunities.

The impacts of combining two organisations may produce undesirable impacts on the culture of the future organisation, which in turn may impact its future effectiveness.

Risk outlook – New

We have announced that the Group will raise up to £150m to support new business and product development, meet one-off transaction and integration costs and support the regulatory capital strength of the Combined Group under Solvency II.

Due to the overlapping nature of the two organisations, we believe that it will be possible to maintain business as usual activity and move strategic development forward at the same time as integrating the businesses. The integration plans will reflect this approach.

The integration philosophy that we have adopted is "best of both" and this will set the tone for the culture of the new organisation.

Statement of Directors' responsibilities

Directors' responsibility statement

We confirm to the best of our knowledge that:

- The financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- The Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the performance, strategy and business model of the Company.

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

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

By order of the Board:

Rodney Cook

Chief Executive Officer

Simon Thomas

Group Finance Director

16 September 2015

Consolidated statement of comprehensive income

For the year ended 30 June 2015

	Note	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m
Gross premiums written		1,099.0	1,200.5
Reinsurance premiums ceded		(122.9)	(485.3)
Reinsurance recapture		950.9	263.1
Net premium revenue		1,927.0	978.3
Net investment income	2	635.2	456.9
Fee and commission income		5.1	6.9
Total revenue		2,567.3	1,442.1
Gross claims paid		(498.6)	(439.6)
Reinsurers' share of claims paid		248.1	233.0
Net claims paid		(250.5)	(206.6)
Change in insurance liabilities:			
Gross amount		(956.7)	(993.3)
Reinsurers' share		(188.3)	402.6
Reinsurance recapture		(950.9)	(263.1)
		(2,095.9)	(853.8)
Change in investment contract liabilities		(3.5)	(2.4)
Acquisition costs	3	(18.5)	(31.1)
Other operating expenses	4	(127.6)	(126.8)
Finance costs	5	(100.9)	(128.6)
Total claims and expenses		(2,596.9)	(1,349.3)
(Loss)/profit before tax	6	(29.6)	92.8
Income tax	7	4.8	(20.3)
(Loss)/profit for the period		(24.8)	72.5
Other comprehensive income:			
Exchange differences on translating foreign operations		(0.2)	–
Other comprehensive income for the period, net of tax		(0.2)	–
Total comprehensive income for the period		(25.0)	72.5
(Loss)/profit attributable to:			
Equity holders of Just Retirement Group plc		(24.8)	72.9
Non-controlling interest		–	(0.4)
(Loss)/profit for the period		(24.8)	72.5
Total comprehensive income attributable to:			
Equity holders of Just Retirement Group plc		(25.0)	72.9
Non-controlling interest		–	(0.4)
Total comprehensive income for the period		(25.0)	72.5
Basic earnings per share (pence)	11	(4.96)	16.21
Diluted earnings per share (pence)	11	(4.96)	16.21

The notes are an integral part of these financial statements.

Consolidated statement of changes in equity

For the year ended 30 June 2015

Year ended 30 June 2015	Share capital £m	Share premium £m	Reorganisation reserve £m	Shares held by trusts £m	Accumulated profit £m	Shareholders' equity £m	Non-controlling interest £m	Total £m
Balance at 1 July 2014	50.1	1.2	347.4	(0.1)	454.2	852.8	–	852.8
Loss for the period	–	–	–	–	(24.8)	(24.8)	–	(24.8)
Other comprehensive income for the period	–	–	–	–	(0.2)	(0.2)	–	(0.2)
Total comprehensive income for the period	–	–	–	–	(25.0)	(25.0)	–	(25.0)
Contributions and distributions								
Dividends	–	–	–	–	(16.5)	(16.5)	–	(16.5)
Share-based payments	–	–	–	(0.6)	3.3	2.7	–	2.7
Total contributions and distributions	–	–	–	(0.6)	(13.2)	(13.8)	–	(13.8)
Changes in ownership interests								
	–	–	–	–	–	–	–	–
Balance at 30 June 2015	50.1	1.2	347.4	(0.7)	416.0	814.0	–	814.0

Year ended 30 June 2014	Share capital £m	Share premium £m	Reorganisation reserve £m	Shares held by trusts £m	Accumulated profit £m	Shareholders' equity £m	Non-controlling interest £m	Total £m
Balance at 1 July 2013	21.6	–	63.6	–	66.1	151.3	(1.2)	150.1
Profit for the period	–	–	–	–	72.9	72.9	(0.4)	72.5
Total comprehensive income for the year	–	–	–	–	72.9	72.9	(0.4)	72.5
Contributions and distributions								
Exchange of preference shares	3.6	–	45.1	–	32.1	80.8	–	80.8
Exchange of loans and loan notes	11.5	–	246.9	–	–	258.4	–	258.4
Shares issued for cash	13.3	286.7	–	–	–	300.0	–	300.0
Share issue costs ¹	–	(7.6)	(8.2)	–	2.8	(13.0)	–	(13.0)
Share-based payments	0.1	1.2	–	(0.1)	3.1	4.3	–	4.3
Capital reduction	–	(279.1)	–	–	279.1	–	–	–
Total contributions and distributions	28.5	1.2	283.8	(0.1)	317.1	630.5	–	630.5
Changes in ownership interests								
Acquisition of non-controlling interest	–	–	–	–	(1.9)	(1.9)	1.6	(0.3)
Total changes in ownership interests	–	–	–	–	(1.9)	(1.9)	1.6	(0.3)
Balance at 30 June 2014	50.1	1.2	347.4	(0.1)	454.2	852.8	–	852.8

¹ Total share issue costs incurred were £18.4m, consisting of £13.0m recognised directly in reserves and £2.3m recognised through profit and loss in the year to 30 June 2014, and £3.1m recognised in the year to 30 June 2013, of which £2.8m has been transferred to the reorganisation reserve in the year to 30 June 2014.

Consolidated statement of financial position

As at 30 June 2015

	Note	30 June 2015 £m	30 June 2014 £m
Assets			
Intangible assets	13	75.2	77.6
Equipment	14	0.7	1.0
Financial investments	15	8,494.7	7,490.0
Reinsurance assets	21	2,477.1	3,616.3
Deferred tax assets	16	4.2	12.7
Current tax assets	28	17.6	0.6
Prepayments and accrued income	17	86.2	91.4
Insurance and other receivables	18	34.1	5.0
Cash and cash equivalents	19	58.8	54.4
Total assets		11,248.6	11,349.0
Equity			
Share capital	20	50.1	50.1
Share premium	20	1.2	1.2
Reorganisation reserve		347.4	347.4
Shares held by trusts		(0.7)	(0.1)
Accumulated profit		416.0	454.2
Equity attributable to owners of Just Retirement Group plc		814.0	852.8
Non-controlling interest		–	–
Total equity		814.0	852.8
Liabilities			
Insurance liabilities	21	7,440.3	6,483.6
Investment contract liabilities	22	228.3	197.4
Loans and borrowings	23	46.9	51.6
Other financial liabilities	24	2,643.2	3,653.6
Deferred tax liabilities	16	32.9	33.2
Other provisions	27	1.5	4.8
Current tax liabilities	28	0.1	20.1
Accruals and deferred income	29	18.7	16.4
Insurance and other payables	30	22.7	35.5
Total liabilities		10,434.6	10,496.2
Total equity and liabilities		11,248.6	11,349.0

The notes are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 16 September 2015 and were signed on its behalf by:

Simon Thomas
Director

Consolidated statement of cash flows

For the year ended 30 June 2015

	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m
Cash flows from operating activities		
(Loss)/profit before tax	(29.6)	92.8
Depreciation of equipment	0.5	0.9
Amortisation of intangible assets	4.2	4.9
Impairment of intangible assets	–	1.9
Share-based payments	2.7	4.3
Interest income	(196.4)	(205.6)
Interest expense	100.9	128.6
Increase in financial investments	(1,082.6)	(1,248.3)
Decrease/(increase) in reinsurance assets	1,139.2	(139.5)
(Increase)/decrease in insurance and other receivables	(29.1)	13.1
Increase in insurance liabilities	956.7	993.3
Increase in investment contract liabilities	30.9	67.0
(Decrease)/increase in deposits received from reinsurers	(990.4)	150.7
Increase/(decrease) in accruals and deferred income	2.3	(0.4)
Decrease in insurance and other payables	(12.8)	(29.7)
(Decrease)/increase in other creditors	(38.8)	18.6
Interest received	201.6	198.6
Interest paid	(91.8)	(105.2)
Taxation paid	(24.1)	(19.9)
Net cash outflow from operating activities	(56.6)	(73.9)
Cash flows from investing activities		
Additions to internally generated intangible assets	(1.8)	(1.1)
Acquisition of equipment	(0.2)	(0.3)
Acquisition of non-controlling interest	–	(0.3)
Net cash outflow from investing activities	(2.0)	(1.7)
Cash flows from financing activities		
Decrease in borrowings	(4.5)	(3.6)
Interest paid	(2.3)	(2.1)
Dividends paid	(16.5)	–
Issue of ordinary and preference share capital (net of costs)	–	287.0
Net cash (outflow)/inflow from financing activities	(23.3)	281.3
Net (decrease)/increase in cash and cash equivalents	(81.9)	205.7
Cash and cash equivalents at start of period	395.6	189.9
Cash and cash equivalents at end of period	313.7	395.6
Cash available on demand	58.8	54.4
Units in liquidity funds	254.9	341.2
Cash and cash equivalents at end of period	313.7	395.6

Notes to the consolidated financial statements

1 Significant accounting policies

General information

Just Retirement 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 results in this preliminary announcement have been taken from the Group's Annual Report and Accounts for the year ended 30 June 2015 which will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union effective for accounting periods commencing on or before 1 July 2014 and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

The Group has adopted the following new accounting standards, interpretations and amendments to existing standards as of 1 July 2014:

- IFRS 10, Consolidated financial statements (effective 1 January 2014) – the standard defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. It states that an investor controls an investee when it is exposed, or has the rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Adoption of IFRS 10 has not resulted in any change in the entities which are determined to be subsidiaries of the Group.
- IFRS 12, Disclosures of interests in other entities (effective 1 January 2014) – the standard provides the disclosure requirements which apply to all entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. The relevant disclosures are included in note 35 but are not significantly affected by the new requirements.

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

- IFRS 9, Financial instruments (effective 1 January 2018, not yet endorsed).

IFRS 9 will replace IAS 39, Financial instruments: recognition and measurement. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if held to collect contractual cash flows and the cash flows represent principal and interest. For liabilities measured at fair value, the fair value change due to an entity's own credit risk is recorded in other comprehensive income in the Consolidated statement of comprehensive income, unless this creates an accounting mismatch. IFRS 9 was amended to incorporate a new general hedge accounting model. The new requirements change what qualifies as a hedged item and some of the restrictions on the use of some hedging instruments.

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

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.

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

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

Other changes in accounting policy

To reflect the significant increase in Defined Benefit De-risking contract revenue during the year to 30 June 2015, the premium revenue accounting policy has been reviewed and has been updated to reflect the slightly different nature of Defined Benefit De-risking contracts and Individual Annuity contracts. This change has no impact on the premium revenue recognised in the prior year to 30 June 2014.

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
1.7	Classification of insurance and investment contracts	Assessment of significance of insurance risk transferred.
1.19	Financial investments	Classification of financial investments, including assessment of market observability of valuation inputs.

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

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

Accounting policy and notes	Item involving estimates and assumptions	Critical estimates and assumptions
1.23, 21(b), 22(b)	Measurement of insurance liabilities arising from writing Retirement Income insurance contracts	<p>The critical estimates used in measuring insurance liabilities include the projected future Retirement Income payments and the cost of maintaining the reserves.</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 mortality experience of the policyholders.</p> <p>Further detail can be found in note 21.</p>
1.20, 21	Measurement of reinsurance assets 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 above, and assumptions around the reinsurers' ability to meet its claim obligations.</p>
1.19, 15(d)	Measurement of fair value of loans secured by mortgages	<p>The critical estimates used in valuing loans secured by mortgages include the projected future receipts of interest and loan repayments, future house prices, 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 swap curve and used to discount the mortgage cash flows.</p> <p>Further details can be found in note 15(a).</p>

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 and the identifiable net assets acquired is recognised as goodwill.

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 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 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, LTM and Capped drawdown products.

Information on operating profit and profit before tax used by the CODM is presented on an operating segment basis.

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

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

- The writing of insurance products for distribution to the at- or in-retirement market, which is undertaken through the activities of the life company;
- The arranging of guaranteed income for life contracts through a regulated advice and intermediary service; and
- The provision of licensed software to financial advisers.

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 Other segments. Other Group activities, such as capital and liquidity management, and investment activities, are reported within corporate activities.

The information on 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 Operating profit

The Group reports operating profit as an alternative measure of profit which the Group uses for decision making and performance measurement. The operating profit represents a combination of both the profits generated from new business written in the period and profits expected to emerge from the in-force book of business, together with the actual operating experience where different from that assumed at the start of the period. In addition, operating profit includes the impacts of changes to future operating assumptions applied in the period.

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 unwind of prudent reserves above best estimates for mortality, corporate bond defaults and, with respect to lifetime mortgages, no-negative guarantee and early redemptions.

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

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

1.6 Foreign currencies

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

The assets and liabilities of foreign operations are translated to sterling at the rates of exchange at the reporting date. The revenues and expenses are translated to sterling at the average rates of exchange for the period. Foreign exchange differences arising on translation to sterling are classified as equity movements and recognised in the Group's foreign currency translation reserve, and reported in other comprehensive income in the Consolidated statement of comprehensive income.

1.7 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 contracts are classified as investment contracts as there is no transfer of longevity risk due to the fixed term nature of the contract.

1.8 Premium revenue

All premium revenue is in respect of single premium insurance contract business.

To reflect the significant increase in Defined Benefit De-risking contract revenue during the year to 30 June 2015, the premium revenue accounting policy has been reviewed and has been updated to reflect the slightly different nature of Defined Benefit De-risking contracts and Individual GfL contracts. This change has no impact on the premium revenue recognised in the prior year to 30 June 2014.

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

Premium revenue in respect of Defined Benefit De-risking contracts is accounted for when the premiums are due for payment, 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.

Facilitated adviser charges, which have arisen since 1 January 2013 following the implementation of the Retail Distribution Review ("RDR"), 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 and the recapture can arise once reinsurance financing for an underwriting year is fully repaid.

1.9 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 and loss.

Interest income is recognised as it accrues.

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

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

1.10 Fee and commission income

Fee and commission income, which consists of fee income for initial advances made on loans secured by mortgages, investment management fees, administration fees and commission, are recognised as the services are rendered. In addition, operating income includes fees from software licensing which are recognised across the license period.

1.11 Claims paid

GIFL maturity claims are accounted for when due for payment. Reinsurance paid claim recoveries are accounted for in the same period as the related claim.

GIFL death claims are accounted for when notified.

1.12 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.

1.13 Other operating expenses

Other operating expenses, including investment expenses, which comprise fund managers' and transaction costs, are recognised on an accruals basis.

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.

1.14 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.

1.15 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.

1.16 Earnings per share

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

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

1.17 Intangible assets

Intangible assets consist of goodwill, which is deemed to have an indefinite useful life, and PrognoSys™, PVIIF, brand, purchased and internally developed software, 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 recognised 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 recognised at cost less accumulated amortisation and any impairments.

PrognoSys™ is the Group's proprietary database, which has over 1 million person-years of experience collected over ten years of operations, 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 software development team's employee costs. All other costs associated with researching or maintaining computer software programs are recognised as an expense as incurred.

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

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

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

Intangible asset	Estimated useful economic life	Valuation method
PVIF	16 years	Estimated value in-force using IFRS European Embedded Value model
Brand	5 years	Estimated royalty stream if the rights were to be licensed
Distribution network	3 years	Estimated discounted cash flow
Software	3 years	Estimated replacement cost

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

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

1.18 Equipment

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

Computer equipment – four years
Furniture and fittings – two years

1.19 Financial investments

Classification

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

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

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

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

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

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

Use of fair value

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

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

The Group holds certain financial investments for which the markets are not active. These comprise financial investments which are not quoted in active markets and include loans secured by 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 to account for financial investments at fair value. 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).

1.20 Reinsurance

Reinsurance assets

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

Financial liabilities

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

Where reinsurance contracts entered into by the Group require deposits received from reinsurers to be repaid, such amounts are classified as "deposits received from reinsurers" and included in other financial liabilities in the Consolidated statement of financial position. Deposits received from reinsurers are valued in accordance with the terms of the reinsurance contracts, which take into account an appropriate discount rate for the timing of expected cash flows.

Amounts receivable/payable

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

1.21 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.

1.22 Equity

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

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

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

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

1.23 Insurance liabilities

Measurement

Long-term insurance liabilities arise from the Group writing Retirement Income contracts, including Defined Benefit De-risking Solutions, and are measured by using estimates of projected future cash flows arising from Retirement Income payments 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.

1.24 Investment contract liabilities

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

1.25 Loans and borrowings

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

1.26 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.

1.27 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 derivative contracts, technical provisions and other insurance items and tax losses carried forward.

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 30 June 2015 £m	Year ended 30 June 2014 £m
Interest income:		
Assets at fair value through profit or loss	196.4	205.6
Movement in fair value:		
Financial assets and liabilities designated on initial recognition	568.1	267.9
Derivative financial instruments	(129.3)	(16.6)
Total net investment income	635.2	456.9

3 Acquisition costs

	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m
Commission	10.1	19.7
Other acquisition expenses	8.4	11.4
Total acquisition costs	18.5	31.1

4 Other operating expenses

	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m
Personnel expenses (note 9)	56.6	61.9
Investment expenses and charges	3.7	3.3
Depreciation of equipment	0.5	0.9
Operating lease rentals: land and buildings	1.5	1.3
Restructuring costs ¹	–	5.4
Amortisation of intangible assets	4.2	4.9
Other costs	61.1	49.1
Total other operating expenses	127.6	126.8

¹ Restructuring costs include a charge for impairment of intangible assets of £1.9m.

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

Services provided by Group's auditor

	Year ended 30 June 2015 £'000	Year ended 30 June 2014 £'000
Fees payable for the audit of the Parent Company and consolidated accounts	41	40
Fees payable for other services:		
The audit of the Company's subsidiaries pursuant to legislation	313	282
Corporate finance services	–	1,359
Audit-related assurance services	78	75
Tax compliance services	5	–
Tax advisory services	28	16
Other assurance services	178	22
Auditor remuneration	643	1,794

5 Finance costs

	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m
Interest payable on deposits received from reinsurers	91.8	105.2
Loan notes and preference shares interest	–	13.2
Other interest payable	9.1	10.2
Total finance costs	100.9	128.6

The liabilities in relation to loan notes and preference shares were extinguished during the restructuring of the Group, prior to the IPO, as explained in note 20. The interest payable on deposits received from reinsurers is calculated by reference to the gross redemption yield on the asset portfolio.

6 Segmental reporting

Segmental analysis of operating profit and profit before tax

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

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

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

During the year, the Group reviewed the presentation of its segmental reporting in relation to the operating results of those companies within the insurance segment providing non-advised services, regulated advice and intermediary services, and the provision of licensed software to financial advisers, and the operating results of the other group companies which are included within Corporate activities. The operating results of these companies have been reclassified to a new line item within operating profit, "Other Group companies' operating result".

In the prior year, the operating result of these companies was included within operating profit within "Operating experience and assumption changes". Accordingly, operating losses of £7.5m have been reclassified in the prior year segmental note from Operating experience and assumption changes to Other Group companies' operating result. Of this amount, £2.2m relates to the insurance segment and £5.3m relates to Corporate activities.

In addition, intra-Group interest on Tier 2 loans within Corporate activities has been reclassified from Operating experience and assumption changes to Reinsurance and financing costs. Accordingly, £9.5m of intra-Group interest income previously reported within Operating experience and assumption changes within Corporate activities for the year to 30 June 2014, has been reclassified to Reinsurance and financing costs.

There is no net impact to Underlying operating profit, Operating profit before tax, Profit before corporate costs and before tax, or Profit/(loss) before tax from these changes.

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

Segmental reporting and reconciliation to financial information

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

Year ended 30 June 2014	Insurance £m	Other segments £m	Corporate activities £m	Total £m
New business operating profit	53.1	–	–	53.1
In-force operating profit	42.9	–	0.7	43.6
Underlying operating profit	96.0	–	0.7	96.7
Operating experience and assumption changes	4.7	–	–	4.7
Other Group companies' operating result	–	(2.2)	(5.3)	(7.5)
Reinsurance and financing costs	(20.5)	–	7.1	(13.4)
Operating profit before tax	80.2	(2.2)	2.5	80.5
Non-recurring and project expenditure	(6.2)	–	(0.8)	(7.0)
Restructuring costs	(4.6)	–	(0.8)	(5.4)
Investment and economic profits	44.1	–	–	44.1
Profit before finance and amortisation costs, before tax	113.5	(2.2)	0.9	112.2
Finance costs ¹	–	–	(13.2)	(13.2)
Amortisation costs	–	–	(3.9)	(3.9)
Listing costs	–	–	(2.3)	(2.3)
Profit/(loss) before tax	113.5	(2.2)	(18.5)	92.8

¹ Finance costs represent interest payable on loan notes and preference shares that were converted to ordinary share capital following the Group's reorganisation prior to the IPO.

Product information analysis

Additional analysis relating to the Groups products is presented below. The Group's products are from one material geographical segment which is the UK.

The Group's Gross Premiums Written, as shown in the consolidated statement of comprehensive income, is analysed by product below:

	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m
Defined Benefit De-risking Solutions ("DB")	608.9	92.1
Guaranteed Income for Life contracts ("GfL")	478.0	1,106.2
Care Plans	12.1	2.2
Gross Premiums Written	1,099.0	1,200.5

Capped 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 30 June 2015 £m	Year ended 30 June 2014 £m
Capped Drawdown contracts	48.7	73.7
LTM loans advanced	308.1	476.4

7 Income tax

	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m
Current taxation		
Current year	(13.1)	31.5
Adjustments in respect of prior periods	0.1	0.4
Total current tax	(13.0)	31.9
Deferred taxation		
Origination and reversal of temporary differences	8.2	(7.2)
Rate change	–	(4.4)
Total deferred tax	8.2	(11.6)
Total income tax	(4.8)	20.3

Reconciliation of total income tax to the applicable tax rate:

	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m
(Loss)/profit on ordinary activities before tax	(29.6)	92.8
Income tax at 20.75% (2014: 22.5%)	(6.1)	20.9
Effects of:		
Expenses not deductible for tax purposes	1.5	1.8
Transition adjustment	3.0	3.3
Temporary differences	(3.1)	(2.1)
Rate change	(0.4)	(4.4)
Higher rate for overseas income	(0.1)	–
Unrecognised deferred tax asset	0.3	0.4
Adjustments in respect of prior periods	0.1	0.4
Total income tax	(4.8)	20.3

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. In the Budget on 8 July 2015, the Chancellor announced additional planned reductions to 18% by 2020. This will reduce the Company's future current tax charge accordingly, although there will be no material effect. The deferred tax assets and liabilities at 30 June 2015 have been calculated based on the rate of 20% substantively enacted at the Consolidated statement of financial position date.

Taxation of life insurance companies was fundamentally changed following the publication of the Finance Act 2012. From 1 January 2013, life insurance tax is 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. The tax charge for the period to 30 June 2015 includes profits chargeable to corporation tax arising from this amortisation of £14.7m (2014: £14.7m).

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 respect of 2015 was £3.4m (2014: £1.8m). Employer contributions to pensions for Executive Directors for qualifying periods were £nil (2014: £nil). The aggregate net value of share awards granted to the Directors in the period was £2.6m (2014: £2.5m). The net value has been calculated by reference to the closing middle-market price of an ordinary share at the date of grant. During the year, no share options were exercised by Directors.

9 Staff numbers and costs

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

	Year ended 30 June 2015 Number	Year ended 30 June 2014 Number
Directors	9	9
Senior management	68	57
Staff	692	768
Average number of staff	769	834

The aggregate personnel costs were as follows.

	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m
Wages and salaries	46.7	50.6
Social security costs	5.0	5.7
Other pension costs	1.6	4.9
Share-based payment expense	3.3	0.7
Total personnel costs	56.6	61.9

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 period represents contributions payable to the fund and amounted to £1.6m (2014: £4.9m).

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

Long-term incentive plan ("LTIP")

The Group made awards under the LTIP to Executive Directors and other senior managers in November 2013 and September 2014. Awards were made in the form of nil-cost options which become exercisable on the third anniversary of the grant date, subject to the satisfaction of service and performance conditions set out in the Directors' remuneration report. Options are exercisable until the tenth anniversary of the grant date.

The options are accounted for as equity-settled schemes.

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

	2015 Number of options	2014 Number of options
Outstanding at 1 July	2,994,265	–
Granted	4,816,871	3,006,703
Forfeited	(102,413)	(12,438)
Exercised	–	–
Expired	–	–
Outstanding at 30 June	7,708,723	2,994,265
Exercisable at 30 June	–	–
Weighted-average remaining contractual life (years)	1.91	2.38

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

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	£1.07
Option pricing model used - operating profit performance	Black-Scholes
Option pricing model used - TSR performance	Stochastic
Share price at grant date	£1.39
Exercise price	Nil
Expected volatility*	30%
Option life	3 years
Dividends	Nil
Risk-free interest rate	1.23%

*A proxy volatility based on the average volatility of 10 UK listed insurance companies, measured over the historic period commensurate with the performance 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. Awards under the DSBP were granted in September 2014 over shares with a market value of one-third of the annual bonus payable under the Group's short-term incentive plan in respect of bonuses earned in the financial year ended 30 June 2014, as explained in the Directors' remuneration report. Awards were 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.

	2015 Number of options
Outstanding at 1 July	–
Granted	447,916
Forfeited	–
Exercised	–
Expired	–
Outstanding at 30 June	447,916
Exercisable at 30 June	–
Weighted-average remaining contractual life (years)	2.24

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

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	£1.39
Option pricing model used	Black-Scholes
Share price at grant date	£1.39
Exercise price	Nil
Expected volatility*	Nil
Option life	3 years
Dividends	Nil
Risk-free interest rate	Nil

*A proxy volatility based on the average volatility of 10 UK listed insurance companies, measured over the historic period commensurate with the performance period.

Save As You Earn ("SAYE") scheme

The Group operates SAYE plans for all employees, allowing a monthly amount to be saved from salaries over either a three year or five year period which can be used to purchase shares in the Company at a predetermined price. The employee must remain in employment for the duration of the saving period and satisfy the monthly savings requirement (except in "good leaver" circumstances). Options are exercisable for up to six months after the saving period. The Group granted options under the SAYE in April 2014 and April 2015.

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 30 June 2015		Year ended 30 June 2014	
	Number of options	Weighted-average exercise price (£)	Number of options	Weighted-average exercise price (£)
Outstanding at 1 July	4,192,332	1.21	–	–
Granted	792,683	1.28	4,261,320	1.21
Forfeited	(560,498)	1.21	(68,988)	1.21
Exercised	(33,636)	1.21	–	–
Expired	–	–	–	–
Outstanding at 30 June	4,390,881	1.22	4,192,332	1.21
Exercisable at 30 June	4,545	1.21	3,232	1.21
Weighted-average share price at exercise		1.44		–
Weighted-average remaining contractual life (years)		2.56		3.38

The range of exercise prices of options outstanding at 30 June are as follows.

	2015 Number of options outstanding	2014 Number of options outstanding
£1.21	3,598,198	4,192,232
£1.28	792,683	–
Total	4,390,881	4,192,232

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	£0.42
Option pricing model used	Black-Scholes
Share price at grant date	£1.68
Exercise price	£1.28
Expected volatility*	23.60-26.85%
Option life	3.4-5.5 years
Dividends	Nil
Risk-free interest rate	0.73-1.11%
Saving forfeit discount	5%

*A proxy volatility based on the average volatility of 8 UK listed insurance companies, measured over the historic period commensurate with the performance period.

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 will be forfeited if the employees cease employment (except in "good leaver" circumstances) within the first three years from the date of the award.

The number of awards in issue at 30 June 2015 were 733,601 (2014: 792,583). 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 £26,924 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 30 June 2015 £m	Year ended 30 June 2014 £m
LTIP	1.9	0.3
DSBP	0.2	–
SAYE	0.7	0.1
SIP	0.5	0.3
Total expense	3.3	0.7

11 Earnings per share

	Year ended 30 June 2015			Year ended 30 June 2014		
	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 earnings	(24.8)	499.7	(4.96)	72.9	449.6	16.21
Diluted earnings	(24.8)	499.7	(4.96)	72.9	449.8	16.21

The calculation of basic and diluted earnings per share is based on dividing the loss attributable to equity holders of the Company of £24.8m (2014: profit of £72.9m) by the weighted average number of ordinary shares outstanding and by the diluted weighted average number of ordinary shares potentially outstanding at the end of the period, calculated as follows.

	Year ended 30 June 2015 million	Year ended 30 June 2014 million
Weighted average number of ordinary shares	499.7	449.6
Effect of dilutive potential ordinary shares:		
Share options	–	0.2
Diluted weighted average number of ordinary shares	499.7	449.8

12 Dividends

Dividends paid in the year were as follows.

	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m
Final dividend in respect of the year ended 30 June 2014 – 2.2 pence per share, paid on 8 December 2014	11.0	–
Interim dividend in respect of the year ended 30 June 2015 – 1.1 pence per share, paid on 14 May 2015	5.5	–
Total dividends paid	16.5	–

The Directors proposed a final dividend for the year ended 30 June 2015 of 2.2 pence per share.

13 Intangible assets

30 June 2015	Goodwill £m	Present value of in-force business £m	Distribution network £m	Brand £m	Prognosis™ £m	Purchased computer software £m	Assets under development £m	Internally developed software £m	Total £m
Cost									
Balance at 1 July 2014	33.6	57.3	16.6	1.6	–	1.1	2.7	14.6	127.5
Acquired during the year	–	–	–	–	–	–	–	–	–
Additions arising from internal development	–	–	–	–	–	–	1.8	–	1.8
Transfers	–	–	–	–	5.0	–	(4.1)	(0.9)	–
At 30 June 2015	33.6	57.3	16.6	1.6	5.0	1.1	0.4	13.7	129.3
Amortisation and impairment									
Balance at 1 July 2014	(0.8)	(16.4)	(16.6)	(1.5)	–	(1.0)	(0.4)	(13.2)	(49.9)
Charge for the year	–	(3.6)	–	(0.1)	(0.1)	(0.1)	–	(0.3)	(4.2)
Impairment	–	–	–	–	–	–	–	–	–
At 30 June 2015	(0.8)	(20.0)	(16.6)	(1.6)	(0.1)	(1.1)	(0.4)	(13.5)	(54.1)
Net book value at 30 June 2015	32.8	37.3	–	–	4.9	–	–	0.2	75.2
Net book value at 30 June 2014	32.8	40.9	–	0.1	–	0.1	2.3	1.4	77.6

30 June 2014	Goodwill £m	Present value of in-force business £m	Distribution network £m	Brand £m	Purchased computer software £m	Assets under development £m	Internally developed software £m	Total £m
Cost								
Balance at 1 July 2013	33.6	57.3	16.6	1.6	1.1	1.6	14.6	126.4
Acquired during the year	–	–	–	–	–	–	–	–
Additions arising from internal development	–	–	–	–	–	1.1	–	1.1
Transfers	–	–	–	–	–	–	–	–
At 30 June 2014	33.6	57.3	16.6	1.6	1.1	2.7	14.6	127.5
Amortisation and impairment								
Balance at 1 July 2013	–	(12.9)	(16.6)	(1.1)	(0.9)	–	(11.6)	(43.1)
Charge for the year	–	(3.5)	–	(0.4)	(0.1)	–	(0.9)	(4.9)
Impairment	(0.8)	–	–	–	–	(0.4)	(0.7)	(1.9)
At 30 June 2014	(0.8)	(16.4)	(16.6)	(1.5)	(1.0)	(0.4)	(13.2)	(49.9)
Net book value at 30 June 2014	32.8	40.9	–	0.1	0.1	2.3	1.4	77.6
Net book value at 30 June 2013	33.6	44.4	–	0.5	0.2	1.6	3.0	83.3

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.

Goodwill has been allocated to cash generating units or groups of cash generating units as follows.

	30 June 2015 £m	30 June 2014 £m
Insurance operating segment	32.8	32.8
Total goodwill	32.8	32.8

The recoverable amounts of goodwill have been determined from value in use.

The key assumptions of this calculation are noted below.

	2015
Period on which management approved forecasts are based	5 years
Discount rate	12%

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

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

14 Equipment

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

30 June 2014	Computer equipment £m	Furniture and fittings £m	Total £m
Cost			
Balance at 1 July 2013	3.4	2.8	6.2
Acquired during the year	0.3	–	0.3
Disposals	–	–	–
At 30 June 2014	3.7	2.8	6.5
Depreciation			
Balance at 1 July 2013	(2.0)	(2.6)	(4.6)
Charge for the year	(0.7)	(0.2)	(0.9)
Disposals	–	–	–
At 30 June 2014	(2.7)	(2.8)	(5.5)
Net book value at 30 June 2014	1.0	–	1.0
Net book value at 30 June 2013	1.4	0.2	1.6

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.

The Group's financial investments are summarised by measurement category as follows.

	30 June 2015 £m	30 June 2014 £m
Fair value through profit or loss		
Loans secured by mortgages	3,471.8	2,749.4
Other financial investments	5,022.9	4,740.6
Total financial investments	8,494.7	7,490.0

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

Other financial investments

	30 June 2015 £m	30 June 2014 £m
Fair value		
Units in liquidity funds	280.2	341.2
Debt securities and other fixed income securities	4,673.8	4,327.9
Deposits with credit institutions	18.0	29.2
Derivative financial assets	50.9	42.3
Total fair value of other financial investments	5,022.9	4,740.6
Cost		
Units in liquidity funds	279.9	341.2
Debt securities and other fixed income securities	4,536.2	4,192.6
Deposits with credit institutions	18.0	29.2
Derivative financial assets	8.2	4.2
Total cost of other financial investments	4,842.3	4,567.2

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 £18.0m (2014: £29.2m) have been pledged as collateral in respect of the Group's derivative financial instruments. Amounts pledged as collateral are deposited with the derivative counterparty.

Of the above financial investments, £4,453.8m (2014: £4,146.2m) is expected to be recovered more than one year after the Consolidated statement of financial position date.

(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 where an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Unobservable inputs reflect the same assumptions as those that the market participant would use in pricing the asset or liability.

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

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

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

The recalibration process has reassessed the level of the liquidity premium and this is now considered to be an observable input to the internal model. As such, the value of the liquidity premium added to the swap rate used to discount each of the mortgages has been updated with a weighted average liquidity premium used for the year to 30 June 2015 being 183bps. As a result of the recalibration, a day-one gain no longer arises, and profit is recognised over the term of the contract. There is no longer any aggregate difference yet to be recognised in profit or loss between the fair value of the mortgages at initial recognition and the amount that would have been determined at that date using the valuation technique.

There was no difference arising between the value of the mortgages previously reported at 30 June 2014 and the value arising using the recalibrated model. Therefore there is no impact on the fair value of the mortgage assets recognised at 30 June 2014 arising from this change.

The Level 3 bonds are asset-backed securities. Such securities are valued using discounted cash flow analyses using prudent assumptions based on the repayment of the underlying loan.

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

There are no non-recurring fair value measurements as at 30 June 2015 (2014: nil).

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

30 June 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets held at fair value				
Units in liquidity funds	280.2	–	–	280.2
Debt securities and other fixed income securities	710.3	3,945.0	18.5	4,673.8
Deposits with credit institutions	17.2	0.8	–	18.0
Derivative financial assets	–	50.9	–	50.9
Loans secured by mortgages	–	–	3,471.8	3,471.8
Total assets held at fair value	1,007.7	3,996.7	3,490.3	8,494.7
Liabilities held at fair value				
Investment contract liabilities	–	–	228.3	228.3
Derivative financial liabilities	–	74.3	–	74.3
Obligations for repayment of cash collateral received	18.6	–	–	18.6
Total liabilities held at fair value	18.6	74.3	228.3	321.2

30 June 2014	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets held at fair value				
Units in liquidity funds	341.2	–	–	341.2
Debt securities and other fixed income securities	75.9	4,236.5	15.5	4,327.9
Deposits with credit institutions	29.2	–	–	29.2
Derivative financial assets	–	42.3	–	42.3
Loans secured by mortgages	–	–	2,749.4	2,749.4
Total assets held at fair value	446.3	4,278.8	2,764.9	7,490.0
Liabilities held at fair value				
Investment contract liabilities	–	–	197.4	197.4
Derivative financial liabilities	–	89.6	–	89.6
Obligations for repayment of cash collateral received	1.8	–	–	1.8
Total liabilities held at fair value	1.8	89.6	197.4	288.8

(c) Transfers between levels

The Group's policy is to assess pricing source changes and determine transfers between levels as of the end of each half-yearly reporting period.

During the period there were no transfers between Level 1 and Level 2.

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

Debt securities and other fixed income securities

Reconciliation of the opening and closing recorded amount of Level 3 debt securities and other fixed income securities.

	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m
At start of period	15.5	–
Gains in profit or loss	(0.1)	–
Purchases	–	15.5
Transfers from Level 2	3.5	–
Amortisation	(0.4)	–
At end of period	18.5	15.5

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

Redemption and defaults

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

Sensitivity analysis

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

Loans secured by mortgages

	30 June 2015 £m	30 June 2014 £m
Fair value	3,471.8	2,749.4
At cost ¹	2,073.3	1,846.7

¹ Includes advances and further advances, less redemptions.

Loans secured by mortgages are classified as fair value through profit or loss. The loans are not expected to be recovered within 12 months of the Consolidated statement of financial position date because the loans are lifetime mortgages and significant levels of early redemption are not anticipated.

The change in fair value of loans secured by mortgages recognised in profit or loss during the period is a gain of £369.5m (2014: gain of £145.8m).

In the prior year, the fair value of loans secured by mortgages was calculated by discounting the future cash flows at swap rates together with a nil liquidity premium, and the difference between the fair value at transaction date and the transaction price was recognised and deferred over the expected life of each loan.

In the current year, the fair value of loans secured by mortgages is calculated by discounting the future cash flows at a swap rate plus an observable liquidity premium. The liquidity premium is calculated at the completion date for each policy such that, at outset, the value is equal to the face value of the loan. There is no longer any difference arising between the fair value of loans secured by mortgages at transaction date and the transaction price.

The movement in the aggregate difference yet to be recognised in profit or loss between the fair value of mortgages and the amount that would have been recognised using the valuation technique is shown below:

	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m
At start of period	564.5	431.0
Amounts deferred in the period	-	178.6
Release of previously recognised gains	(902.7)	-
Amounts recognised in profit or loss in the period	902.7	(45.1)
Amounts no longer arising due to recalibration of internal model	(564.5)	-
At end of period	-	564.5

Reconciliation of the opening and closing recorded amount of Level 3 loans secured by mortgages.

	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m
At start of period	2,749.4	2,081.2
Total gains/(losses) in profit or loss ¹	523.9	274.9
Loans advanced	308.1	476.4
Redemptions	(109.6)	(83.1)
At end of period	3,471.8	2,749.4

¹ All gains and losses are included in "Net investment income" in profit or loss.

Principal assumptions underlying the calculation of the loans secured by mortgages

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

Maintenance expenses

Assumptions for future policy expense levels are based on the Group's recent expense analyses. The assumed future expense levels incorporate an annual inflation rate allowance of 3.8% (2014: 3.9%).

Mortality

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

Property prices

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

Voluntary redemptions

Assumptions for future voluntary redemption levels are based on the Group's recent analyses and external benchmarking, and the assumed redemption rate for policies in their first year is 0.6% (2014: 0.6%).

Sensitivity analysis

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

Net increase/(decrease) in profit before tax (£m)	Loans secured by mortgages valuation assumptions			
	Maintenance expenses +10%	Mortality -5%	Property prices -10%	Voluntary redemptions -10%
30 June 2015	(4.1)	15.3	(26.1)	14.3
30 June 2014	(0.6)	2.8	(5.0)	2.7

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

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

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

Investment contract liabilities

Reconciliation of the opening and closing recorded amount of Level 3 investment contract liabilities.

	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m
At start of period	197.4	130.4
Deposits received from policyholders	49.1	73.7
Payments made to policyholders	(21.7)	(9.1)
Change in contract liabilities recognised in profit or loss	3.5	2.4
At end of period	228.3	197.4

Principal assumption underlying the calculation of investment contract liabilities

Maintenance expenses

Assumptions for future policy expense levels are based on the Group's recent expense analyses. The assumed future expense levels incorporate an annual inflation rate allowance of 4.1% (2014: 4.2%).

Sensitivity analysis

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

16 Deferred tax

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

30 June 2014	Asset £m	Liability £m	Total £m
Transitional tax	–	(25.0)	(25.0)
Intangible assets	–	(8.2)	(8.2)
Other provisions	12.7	–	12.7
Total deferred tax	12.7	(33.2)	(20.5)

Other provisions relate to timing differences between the IFRS financial statements and tax deductions for statutory insurance liabilities. The tax liability includes the transitional difference of £22.1m (2014: £25.0m) that arose on 1 January 2013 and represents the change in the tax rules for life insurance companies which is amortised over ten years.

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

	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m
Net balance at 1 July	(20.5)	(32.1)
Amounts (charged)/credited to the Consolidated statement of comprehensive income	(8.2)	11.6
Net balance at 30 June	(28.7)	(20.5)

The Group has unrecognised deferred tax assets of £6.4m (2014: £6.2m) arising from unrelieved tax losses.

17 Prepayments and accrued income

Included in prepayments and accrued income are capitalised bank borrowing issue costs of £0.8m (2014: £1.2m).

Prepayments and accrued income for the Group includes £0.7m (2014: £0.8m) that is expected to be recovered more than one year after the Consolidated statement of financial position date.

18 Insurance and other receivables

	30 June 2015 £m	30 June 2014 £m
Receivables arising from insurance and reinsurance contracts	28.6	0.2
Other receivables	5.5	4.8
Total insurance and other receivables	34.1	5.0

Of the above insurance and other receivables, £0.6m (2014: £3.5m) is expected to be recovered more than one year after the Consolidated statement of financial position date.

19 Cash and cash equivalents

	30 June 2015 £m	30 June 2014 £m
Cash available on demand	58.8	54.4
Units in liquidity funds	254.9	341.2
Cash and cash equivalents in the Consolidated statement of cash flows	313.7	395.6

20 Share capital

The allotted and issued ordinary share capital of Just Retirement Group plc ("JRG") at 30 June 2015 is detailed below.

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

JRG was incorporated on 13 June 2013 and admitted to the London Stock Exchange on 15 November 2013. Prior to admission the Company completed a reverse acquisition of the entire issued share capital of Just Retirement Group Holdings Limited ("JRGHL"). Prior to the reverse acquisition the issued debt and equity of JRGHL was converted to JRGHL ordinary shares which were subsequently acquired by JRG through a share-for-share exchange, as detailed below. The reorganisation reserve arises on consolidation for the difference between the value of JRGHL debt and equity and the value of JRG shares exchanged.

	Note	Number of £0.10 ordinary shares	Share capital £m	Share premium £m	Reorganisation reserve £m	Total £m
On incorporation		20	–	–	–	–
Issued to JRGHL A, A1, B, C1 and C2 ordinary shareholders	1	215,918,201	21.6	–	63.6	85.2
Issued to JRGHL A and B preference shareholders	2	35,918,843	3.6	–	45.1	48.7
Issued to JRGHL A and B loan note and other loan holders	3	114,829,354	11.5	–	246.9	258.4
Issued on admission to the London Stock Exchange	4	133,333,582	13.3	286.7	–	300.0
Issue costs		–	–	(7.6)	(8.2)	(15.8)
In respect of employee share schemes	5	831,070	0.1	1.2	–	1.3
Capital reduction	6	–	–	(279.1)	–	(279.1)
At 30 June 2014		500,831,070	50.1	1.2	347.4	398.7

- (1) Prior to its acquisition, JRGHL A, A1, B, C1 and C2 ordinary shares (including any accrued and unpaid dividend) with a carrying value of £85.2m were exchanged for 215,918,221 new JRGHL £0.10 ordinary shares. As part of the acquisition JRG issued 215,918,221 £0.10 ordinary shares in exchange for the JRGHL ordinary shares.
- (2) Prior to its acquisition, JRGHL A and B preference shares (including any accrued and unpaid dividend) with a carrying value of £80.8m were exchanged for 35,918,843 new JRGHL £0.10 ordinary shares. As part of the acquisition JRG issued 35,918,843 £0.10 ordinary shares in exchange for the JRGHL ordinary shares. The rate of exchange of new JRGHL ordinary shares for A and B preference shares reflected non-payment of the accrued dividend of £32.1m which has been reversed through reserves and the liability derecognised, and therefore does not impact the value of capital issued by JRG or the reorganisation reserve shown above.
- (3) Prior to its acquisition, JRGHL A and B loan notes and other loans (including any accrued and unpaid coupon) with a carrying value of £258.4m were exchanged for 114,829,354 new JRGHL £0.10 ordinary shares. As part of the acquisition JRG issued 114,829,354 £0.10 ordinary shares in exchange for the JRGHL ordinary shares.
- (4) On 15 November 2013, JRG issued 133,333,582 £0.10 ordinary shares through an IPO, generating proceeds of £300m.
- (5) On 15 November 2013, JRG issued 831,070 £0.10 ordinary shares to the employee “Share Incentive Plan”.
- (6) On 30 April 2014 JRG completed a High Court-approved capital reduction of the entire share premium attaching to the Company’s ordinary shares in issue at that time.

21 Insurance contracts and related reinsurance

Insurance liabilities

	2015 Gross £m	2015 Reinsurance £m	2015 Net £m
Future policyholders’ benefits	7,440.3	2,477.1	4,963.2

	2014 Gross £m	2014 Reinsurance £m	2014 Net £m
Future policyholders’ benefits	6,483.6	3,616.3	2,867.3

(a) Terms and conditions of insurance contracts

The Group writes insurance contracts in the form of individually underwritten Guaranteed Income for Life Solutions (“GifL”) for the at-retirement market where the policyholder has one or more pre-existing medical or lifestyle conditions leading to a reduced life expectancy. In return for an initial single premium, these contracts pay a regular amount (usually monthly or annually and sometimes increasing at a fixed or index-linked rate) until the death of the policyholder. Some contracts have payments guaranteed for a minimum term and some have payments that continue after the death of the policyholder to a dependant until the death of that dependant.

(b) Principal assumptions underlying the calculation of insurance contracts

Valuation discount rates

Valuation discount rate assumptions for GifL 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	2015 %	2014 %
Individually underwritten Guaranteed Income for Life Solutions	3.96	4.13

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 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.

Mortality tables:

Individually underwritten Guaranteed Income for Life Solutions

	2015	2014
Males	PCMA00	PCMA00
Females	PCFA00	PCFA00

The percentage of each table used varies according to medical and lifestyle conditions, premium size and gender. In addition, the Company overlays mortality improvement projections and its own additional assessment of how the additional mortality determined at the date of underwriting will develop in the future.

Defined benefit

Mortality assumptions for defined benefit schemes are set by reference to the mortality tables of the scheme's reinsurer, which are underpinned by the Self-Administered Pension Scheme ("SAPS") S1 tables.

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 4.1% (2014: 4.2%) derived from the expected retail price index implied by inflation swap rates and an additional allowance for earnings inflation.

(c) Movements

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

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

	Gross £m	Reinsurance £m	Net £m
Carrying amount			
At 1 July 2013	5,490.3	3,476.8	2,013.5
Increase in liability from premiums	1,176.2	502.7	673.5
Release of liability due to recorded claims	(445.7)	(235.0)	(210.7)
Unwinding of discount	242.5	107.7	134.8
Changes in economic assumptions	37.9	39.0	(1.1)
Changes in non-economic assumptions	(14.1)	(14.1)	–
Other movements ¹	(3.5)	(260.8)	257.3
At 30 June 2014	6,483.6	3,616.3	2,867.3

¹Includes the impact of reinsurance recapture

Effect of changes in assumptions and estimates during the period

Economic assumption changes

Discount rates

The valuation interest rate over the period has decreased by 0.17% from 4.13% at 30 June 2014 to 3.96% at 30 June 2015. A decrease in the valuation interest rate increases the carrying value of insurance liabilities.

Expense inflation

The renewal expense inflation assumption used at 30 June 2015 was 4.1% p.a. (2014: 4.2% p.a.).

Non-economic assumption change

Expense assumption

The GifL renewal expense assumption used at 30 June 2015 was £43.97 per plan, an increase from £38.94 per plan at 30 June 2014, whilst the DB renewal assumption used at 30 June 2015 was £53.32 per plan. An increase in the renewal expense assumption increases the carrying value of insurance liabilities.

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

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

30 June 2015	Within 1 year £m	1–5 years £m	5–15 years £m	Over 15 years £m	Total £m
Gross	529.0	1,864.5	3,121.8	1,925.0	7,440.3
Reinsurance	(172.6)	(618.0)	(1,053.5)	(633.0)	(2,477.1)
Net	356.4	1,246.5	2,068.3	1,292.0	4,963.2

30 June 2014	Within 1 year £m	1–5 years £m	5–15 years £m	Over 15 years £m	Total £m
Gross	470.9	1,659.1	2,733.2	1,620.4	6,483.6
Reinsurance	(265.9)	(935.4)	(1,530.1)	(884.9)	(3,616.3)
Net	205.0	723.7	1,203.1	735.5	2,867.3

(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.

Impact on profit before tax (£m)

30 June 2015	Interest rates +1%	Interest rates -1%	Maintenance expenses +10%	Mortality -5%	Property prices -10%	Voluntary redemptions -10%
Gross	(5.3)	58.2	(19.9)	(80.8)	(26.1)	14.3
Reinsurance	(20.6)	25.5	–	31.9	–	–
Net (decrease)/increase in profit before tax	(25.9)	83.7	(19.9)	(48.9)	(26.1)	14.3

30 June 2014	Interest rates +1%	Interest rates -1%	Maintenance expenses +10%	Mortality -5%	Property prices -10%	Voluntary redemptions -10%
Gross	(17.4)	20.5	(13.8)	(69.8)	(28.7)	2.7
Reinsurance	(15.3)	18.0	–	42.4	–	–
Net (decrease)/increase in profit before tax	(32.7)	38.5	(13.8)	(27.4)	(28.7)	2.7

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

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 30 June 2015 £m	Year ended 30 June 2014 £m
Balance at 1 July	197.4	130.4
Deposits received from policyholders	49.1	73.7
Payments made to policyholders	(21.7)	(9.1)
Change in contract liabilities recognised in profit or loss	3.5	2.4
Balance at 30 June	228.3	197.4

Investment contracts are not reinsured.

(a) Terms and conditions of investment contracts

The Group writes Capped Drawdown products for the at-retirement market. In return for a single premium, these contracts pay a guaranteed lump sum on survival to the end of the fixed term. There is an option at outset to select a lower sum at maturity and regular income until the earlier of death or maturity. Upon death of the policyholder and subject to the option selected at the outset, there may be a return of premium less income received or income payable to a dependant until the death of that dependant.

(b) Principal assumptions underlying the calculation of investment contracts

Valuation discount rates

Valuation discount rate assumptions for investment contracts are set with regards to yields on supporting assets. An explicit allowance for credit risk is included by making an explicit deduction from the yields on debt and other fixed income securities based on historical default experience of each asset class. Because the expected cash inflows from the supporting assets closely match the expected cash flows arising from the investment contracts, the derived discount rate reflects the characteristics of the investment contracts in terms of timing, currency and liquidity.

The changes in the valuation discount rates reflect the changes in yields on the supporting assets.

Valuation discount rates	2015 %	2014 %
Investment contracts	3.96	4.22

23 Loans and borrowings

	30 June 2015 £m	30 June 2014 £m
Bank borrowings	46.9	51.6

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

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

£3.6m of the loan was repaid on 11 October 2013 and a further £4.5m was repaid on 11 October 2014.

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

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	30 June 2015 £m	30 June 2014 £m
Fair value through profit or loss			
Derivative financial liabilities	(a)	74.3	89.6
Obligations for repayment of cash collateral received	(a)	18.6	1.8
Liabilities measured using insurance rules			
Deposits received from reinsurers	(b)	2,473.6	3,464.0
Reinsurance finance	(c)	76.7	98.2
Total other liabilities		2,643.2	3,653.6

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

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

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

(b) Deposits received from reinsurers

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

(c) Reinsurance finance

The reinsurance finance has been established in recognition of the loan obligation to the reinsurers under the Group's reinsurance financing arrangements, the repayment of which are contingent upon the emergence of surplus under the Pillar 1 valuation rules.

25 Derivative financial instruments

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

Derivatives	Asset fair value £m	Liability fair value £m	Notional amount £m
GBP and USD/EUR asset swaps	29.7	4.0	368.4
Sterling interest rate swaps	15.1	70.3	314.0
Sterling interest rate swaptions	6.1	–	1,140.0
Inflation swap	–	–	6.5
Total at 30 June 2015	50.9	74.3	1,828.9

Derivatives	Asset fair value £m	Liability fair value £m	Notional amount £m
GBP and USD asset swaps	7.5	0.6	186.1
Sterling interest rate swaps	34.8	89.0	702.0
Sterling interest rate swaptions	–	–	365.0
Total at 30 June 2014	42.3	89.6	1,253.1

The above derivative financial instruments are not expected to be settled within 12 months of the Consolidated statement of financial position date. The maximum exposure to credit risk at the reporting date is the fair value of the derivatives in the Consolidated statement of financial position.

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

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

As at 30 June 2015, the Company had pledged collateral of £55.6m (2014: £54.3m) of which £38.4m were gilts (2014: £25.1m) and had received cash collateral of £18.6m (2014: £1.8m).

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

	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m
Movement in fair value of swaps	15.7	(17.8)
Realised (losses)/gains on interest rate swaps closed	(145.0)	1.2
Total amounts recognised in profit or loss	(129.3)	(16.6)

26 Reinsurance

The Group's subsidiary, Just Retirement Limited, has entered into long-term reinsurance arrangements with a number of reinsurance companies as part of its risk management activities. Individually underwritten GfL business is reinsured by quota share treaties, where a percentage of the liability under the reinsured policies written, determined on the Pillar 1 basis, is ceded to the reinsurers who deposit back an amount calculated to cover the credit risk that would otherwise be borne by Just Retirement Limited. Since 1 March 2015, GfL business which has been underwritten using Prognosis™ is 45% reinsured via a longevity swap contract in addition to amounts reinsured under the quota share treaties.

In addition to the reinsurance of the mortality risk, Just Retirement Limited receives a benefit for Pillar 1 solvency purposes, because the reinsurance premium paid to the reinsurers represents less than 100% of the value of the reinsured liabilities on the treaty basis with the resultant capital benefit utilised as solvency capital in determining the regulatory Pillar 1 solvency of Just Retirement Limited. The resultant benefit is treated as a liability in the financial statements and its repayment is contingent upon the emergence of surplus under Pillar 1 valuation rules.

The amount of deposits received from reinsurers that is expected to be settled more than one year after the Consolidated statement of financial position date is £2,292.5m (2014: £3,207.2m).

During the period the Group recaptured business in respect of certain underwriting years in respect of its quota share treaty with Hannover Re. The recapture resulted in a decrease in ceded liabilities of £950.9m (2014: £263.1m) and a reduction in the deposit back of £950.9m (2014: £263.1m). Other treaties remain in-force in respect of these underwriting years, so a proportion of liabilities for these years remain reinsured, although for the business recaptured the Group now solely bears the risks and rewards in respect of that business.

DB business is reinsured on a scheme-by-scheme basis via a longevity swap contract which transfers 55% of risk to the reinsurer.

Care Plan business is reinsured via a longevity swap contract which transfers 90% of the risk to the reinsurer.

27 Other provisions

	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m
Balance at 1 July	4.8	1.7
Amounts utilised	(2.2)	(0.8)
Amounts released	(1.3)	(0.4)
Amounts charged to Consolidated statement of comprehensive income	0.2	4.3
Balance at 30 June	1.5	4.8

Other provisions include holiday pay, redundancy and ancillary expense provisions.

The amount of provisions that is expected to be settled more than 12 months after the Consolidated statement of financial position date is £0.5m (2014: £0.5m).

28 Current tax

Current tax assets/liabilities receivable/payable in more than one year are £nil (2014: £nil).

29 Accruals and deferred income

Accruals and deferred income payable in more than one year are £0.7m (2014: £nil).

30 Insurance and other payables

	30 June 2015 £m	30 June 2014 £m
Payables arising from insurance and reinsurance contracts	15.6	13.3
Other payables	7.1	22.2
Total insurance and other payables	22.7	35.5

Insurance and other payables due in more than one year are £2.0m (2014: £2.0m).

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.

	30 June 2015 £m	30 June 2014 £m
Less than one year	1.5	1.5
Between one and five years	6.0	5.9
More than five years	0.3	1.8
Total future minimum lease payments	7.8	9.2

Capital commitments

The Group had no capital commitments as at 30 June 2015 (2014: £nil).

32 Contingent liabilities

The Group had no contingent liabilities as at 30 June 2015 (2014: £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 GfL 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 GfL 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 (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 Actuarial Function Holder and the Board;
- Regular monitoring and analysis of actual experience;
- Use of reinsurance to minimise volatility of capital requirement and profit; and
- Monitoring of expense levels.

Concentrations of insurance risk

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

(b) Market risk

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

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

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

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

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

(i) Interest rate risk

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

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

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

30 June 2015	Less than one year £m	One to five years £m	Five to ten years £m	Over ten years £m	No fixed term £m	Total £m
Units in liquidity funds	280.2	–	–	–	–	280.2
Debt securities and other fixed income securities	270.9	1,229.1	1,377.4	1,796.4	–	4,673.8
Deposits with credit institutions	18.0	–	–	–	–	18.0
Derivative financial assets	–	6.3	29.5	15.1	–	50.9
Loans secured by mortgages	–	–	–	–	3,471.8	3,471.8
Total	569.1	1,235.4	1,406.9	1,811.5	3,471.8	8,494.7

30 June 2014	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	341.2	–	–	–	–	341.2
Debt securities and other fixed income securities	224.0	1,290.4	1,372.9	1,440.6	–	4,327.9
Deposits with credit institutions	29.2	–	–	–	–	29.2
Derivative financial assets	–	–	30.2	12.1	–	42.3
Loans secured by mortgages	–	–	–	–	2,749.4	2,749.4
Total	594.4	1,290.4	1,403.1	1,452.7	2,749.4	7,490.0

(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.

(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 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 30 June.

30 June 2015	AAA ¹ £m	AA £m	A £m	BBB ² £m	Unrated £m	Total £m
Units in liquidity funds	254.9	–	–	–	25.3	280.2
Debt securities and other fixed income securities	790.7	241.6	1,680.9	1,778.0	182.6	4,673.8
Deposits with credit institutions	–	–	0.9	17.1	–	18.0
Derivative financial assets	–	–	17.5	33.4	–	50.9
Reinsurance assets	–	2.6	0.9	–	–	3.5
Insurance and other receivables	–	–	0.6	–	33.5	34.1
Total	1,045.6	244.2	1,700.8	1,828.5	241.4	5,060.5

30 June 2014	AAA ¹ £m	AA £m	A £m	BBB ² £m	Unrated £m	Total £m
Units in liquidity funds	341.2	–	–	–	–	341.2
Debt securities and other fixed income securities	273.5	612.9	1,871.8	1,569.7	–	4,327.9
Deposits with credit institutions	–	–	29.2	–	–	29.2
Derivative financial assets	–	–	42.3	–	–	42.3
Reinsurance assets	–	121.7	30.6	–	–	152.3
Insurance and other receivables	–	–	0.6	–	4.4	5.0
Total	614.7	734.6	1,974.5	1,569.7	4.4	4,897.9

1 Includes treasury gilts.

2 Includes BBB and below.

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

(d) Liquidity risk

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

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

Exposure to liquidity risk arises from:

- Deterioration in the external environment caused by economic shocks, regulatory changes or reputational damage;
- Realising assets to meet liabilities during stressed market conditions;
- Increasing cash flow volatility in the short term giving rise to mismatches between cash flows from assets and requirements from liabilities;
- Needing to support liquidity requirements for day-to-day operations;
- Ensuring financial support can be provided across the Group; and
- Maintaining and servicing collateral requirements arising from the changes in market value of financial derivatives used by the Group.

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

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

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

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

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

30 June 2014	Within one year or payable on demand £m	One to five years £m	More than five years £m	No fixed term £m
Bank borrowings	6.4	50.2	–	–
Derivative financial liabilities	1.0	4.0	453.4	–
Obligations for repayment of cash collateral received	1.8	–	–	–
Deposits received from reinsurers	261.6	1,015.3	4,257.9	–
Reinsurance finance	–	–	–	98.2

34 Capital

The Group and its regulated subsidiaries are required to maintain a minimum margin of solvency capital in excess of the value of its liabilities to comply with a number of regulatory requirements relating to the Group's and such subsidiaries' solvency and reporting bases. These regulatory requirements apply to individual regulated subsidiaries on a stand-alone basis and in respect of the Group as a whole, and apply to different levels within the Group and on different bases.

The amount of regulatory and economic capital required also depends on the level of risk facing the insurance and other subsidiaries in the Group, and as such correlates to economic market cycles. The Group must assess its capital resources on both a Pillar 1 (regulatory capital) and a Pillar 2 (individual capital assessment) basis and must hold sufficient qualifying regulatory capital to satisfy both tests. Pillar 1 capital requirement is calculated by applying fixed percentages to reserves in accordance with the PRA General Prudential Sourcebook, whereas the Pillar 2 capital requirement is determined following an individual capital assessment by the Group, which is then reviewed by the PRA. The Group may also be required by the PRA to hold capital over and above that required to satisfy the Pillar 1 and 2 requirements and its Group risk profile.

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

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

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

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

- Authorised by the PRA, and regulated by the PRA and FCA – Just Retirement Limited.
- Authorised and regulated by the FCA – Just Retirement Solutions Limited.

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

Group capital composition

The Group's capital composition comprises the following balances in the Consolidated statement of financial position.

	30 June 2015 £m	30 June 2014 £m
Share capital	50.1	50.1
Share premium	1.2	1.2
Reorganisation reserve	347.4	347.4
Shares held by trusts	(0.7)	(0.1)
Accumulated profit	416.0	454.2
Capital attributable to owners of Just Retirement Group plc	814.0	852.8
Non-controlling interest	–	–
Total capital	814.0	852.8

Just Retirement Limited – Pillar 1 capital position (unaudited)

	30 June 2015 £m	30 June 2014 £m
Total capital resources	556.2	675.6
Capital resources requirement (Pillar 1)	(336.0)	(286.6)
Excess available capital resources	220.2	389.0
Cover ratio	166%	236%

35 Group entities

The Group holds investment in the ordinary shares (unless otherwise stated) of the following subsidiary undertakings.

	Principal activity	Country of incorporation	Percentage of nominal share capital and voting rights held
Just Retirement Group Holdings Limited	Holding company	England & Wales	100%
Just Retirement (Holdings) Limited ¹	Holding company	England & Wales	100%
Just Retirement Limited ²	Life assurance	England & Wales	100%
Just Retirement Finance plc ³	Dormant	England & Wales	100%
Just Re 1 Limited ³	Dormant	England & Wales	100%
Just Re 2 Limited ³	Dormant	England & Wales	100%
Just Retirement Solutions Limited ²	Distribution	England & Wales	100%
Just Retirement Management Services Limited ²	Management services	England & Wales	100%
TOMAS Acquisitions Limited ²	Holding company	England & Wales	100% ⁶
The Open Market Annuity Service Limited ⁴	Software solutions	Northern Ireland	100%
TOMAS Online Development Limited ⁴	Software development	Northern Ireland	100%
Just Retirement (South Africa) Holdings (Pty) Limited ²	Holding company	South Africa	100%
Just Retirement Life (South Africa) Limited ⁵	Life assurance	South Africa	100%
Just Retirement Money Limited ²	Dormant	England & Wales	100%
Just Retirement Nominees Limited ²	Dormant	England & Wales	100%
Just Equity Release Limited ²	Dormant	England & Wales	100%
Just Annuities Limited ²	Dormant	England & Wales	100%
Just Protection Limited ²	Dormant	England & Wales	100%
Enhanced Retirement Limited ²	Dormant	England & Wales	100%

1 Subsidiary of Just Retirement Group Holdings Limited.

2 Subsidiary of Just Retirement (Holdings) Limited.

3 Subsidiary of Just Retirement Limited.

4 Subsidiary of TOMAS Acquisitions Limited.

5 Subsidiary of Just Retirement (South Africa) Holdings (Pty) Limited.

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

All subsidiary undertakings have a financial year end of 30 June.

36 Related parties

The Group has related party relationships with its immediate parent and ultimate parent company. All transactions with related parties are carried out on an arm's length basis.

Key management personnel comprise the Directors of the Company, Directors of subsidiary undertakings and certain members of senior management.

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 30 June 2015 £m	Year ended 30 June 2014 £m
Short-term employee benefits	7.0	5.3
Share-based payments	1.2	0.2
Total key management compensation	8.2	5.5

37 Ultimate Parent Company and ultimate controlling party

The ultimate parent undertaking of the Group is Avallux S.à.r.l., a company incorporated in Luxembourg. The Directors consider the ultimate controlling party to be funds advised by Permira LLP. The funds have a controlling interest of 100% in Avallux S.à.r.l.

Permira is an international private equity firm advising private equity funds raised from a diverse group of investors in public and corporate pension funds, insurance companies, charities and foundations, banks and government entities.

See note 8 for details regarding the remuneration of Directors.

38 Post balance sheet events

The following non-adjusting post balance sheet event has taken place since 30 June 2015 and the date of this report:

On 11 August 2015, the Boards of Just Retirement Group plc and Partnership Assurance Group plc announced they had reached agreement on the terms of a recommended all-share Merger to create JRP Group plc. The proposed Merger is expected to result in Just Retirement shareholders owning approximately 60% of the Combined Group and Partnership Assurance shareholders owning approximately 40% of the Combined Group. Just Retirement and Partnership Assurance intend to raise equity capital amounting to £150m in aggregate. The proposed Merger, which will be accounted for as a business combination, is expected to complete in late 2015, subject to shareholder, CMA and regulatory approvals.

European embedded value (“EEV”)

Supplementary financial statements

Just Retirement Group plc has prepared supplementary financial statements for the Group on an EEV basis. The EEV basis results have been prepared in accordance with the European Embedded Value Principles issued by the CFO Forum of European Insurance Companies in May 2004 and additional guidance issued in October 2005. Life insurance products are, by their nature, long-term and the profit on this business is generated over a significant number of years. Accounting under IFRS alone does not, in the Group’s opinion, fully reflect the value of future cash flows. The Group considers that embedded value reporting provides investors with a measure of the future profit streams of the Group’s in-force long-term business and is a valuable supplement to statutory accounts.

Summarised statement of comprehensive income

For the year ended 30 June 2015

	Note	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m
Operating profit for covered business	6	112.3	97.7
Operating loss of distribution company		(0.7)	(0.7)
Operating profit/(loss) from other Group companies		6.5	(16.8)
Operating profit		118.1	80.2
Economic variance	6	(23.4)	106.5
Profit before tax		94.7	186.7
Tax			
Covered business	6	(16.7)	(45.8)
Other		(3.8)	(0.8)
Profit after tax		74.2	140.1
Other comprehensive income			
Exchange differences on translating foreign operations		(0.2)	–
Total other comprehensive income, net of tax		(0.2)	–
Total comprehensive income		74.0	140.1

For the purposes of EEV reporting, the distribution company is considered to be a stand-alone business and its activities do not relate to the sale of Just Retirement Limited products alone. Therefore its losses have not been included on a look-through basis as expenses of the covered business.

Group statement of changes in equity

For the year ended 30 June 2015

	Year ended 30 June 2015			Year ended 30 June 2014		
	Covered business £m	Non-covered business £m	Total £m	Covered business £m	Non-covered business £m	Total £m
Opening Group EEV	699.1	260.0	959.1	491.2	(302.4)	188.8
Total comprehensive income for the period	73.7	0.3	74.0	157.9	(17.8)	140.1
Exchange of preference shares	–	–	–	–	80.8	80.8
Exchange of loans and loan notes	–	–	–	–	258.4	258.4
Shares issued for cash	–	–	–	–	300.0	300.0
Share issue costs ¹	–	–	–	–	(13.0)	(13.0)
Capital injections	10.0	(10.0)	–	50.0	(50.0)	–
Dividends	–	(16.5)	(16.5)	–	–	–
Share-based payments	–	2.7	2.7	–	4.3	4.3
Acquisition of non-controlling interest	–	–	–	–	(0.3)	(0.3)
Closing Group EEV	782.8	236.5	1,019.3	699.1	260.0	959.1

1 Total share issue costs incurred were £18.4m, consisting of £13.0m recognised directly in reserves in the year to 30 June 2014, £2.3m recognised in comprehensive income in the year to 30 June 2014, and £3.1m recognised in the year to 30 June 2013.

Group statement of financial position

As at 30 June 2015

	30 June 2015 £m	30 June 2014 £m
Assets		
Value of in-force business	417.9	202.5
Intangible assets	5.1	3.8
Equipment	0.7	1.0
Financial investments	8,494.7	8,054.5
Reinsurance assets	2,645.0	3,681.8
Deferred tax assets	4.2	3.8
Current tax assets	17.6	0.6
Prepayments and accrued income	86.2	91.4
Insurance and other receivables	34.1	5.0
Cash and cash equivalents	58.8	54.4
Total assets	11,764.3	12,098.8
Equity	1,019.3	959.1
Liabilities		
Insurance liabilities	7,859.0	7,258.4
Loans and borrowings	46.9	51.6
Other liabilities	2,794.7	3,752.8
Other provisions	4.8	7.1
Current tax liabilities	0.1	20.1
Accruals and deferred income	18.7	16.4
Insurance and other payables	20.8	33.3
Total liabilities	10,745.0	11,139.7
Total equity and liabilities	11,764.3	12,098.8

The notes form an integral part of these supplementary financial statements.

The supplementary financial statements were approved by the Board of Directors on 16 September 2015 and were signed on its behalf by:

Simon Thomas
Group Finance Director

Shayne Deighton
Group Chief Actuary

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

	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m
Shareholders' equity on IFRS basis	814.0	852.8
Asset valuation differences	94.5	554.0
Liability valuation differences	(340.0)	(674.5)
Deferred tax	32.9	24.3
Value of in-force business	417.9	202.5
Shareholders' equity on EEV basis	1,019.3	959.1
Analysis of ordinary shareholders' equity		
IFRS-basis ordinary shareholders' equity	814.0	852.8
Additional retained profit on an EEV basis	205.3	106.3
Shareholders' equity on EEV basis	1,019.3	959.1

The asset valuation differences of £94.5m (2014: £554.0m) are caused largely by the different valuation placed on reinsurance assets under regulatory accounting and the removal of intangible assets recorded under IFRS, which are not recognised on the EEV basis. The liability valuation differences of £(340.0)m (2014: £(674.5)m) are caused largely by the different discount rates used to value the Retirement Income customer liabilities in regulatory accounting (resulting from additional margins for prudence) and additional margins in the longevity assumptions.

Notes to the European embedded value

Supplementary financial statements

1) Basis of presentation

The Group's primary financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The Group has also prepared these supplementary financial statements in accordance with the European Embedded Value Principles.

The EEV basis results have been prepared in accordance with the EEV Principles issued in May 2004 by the European Insurance CFO Forum ("CFO Forum"), and supplemented by the Additional Guidance on EEV Disclosures published in October 2005. The Directors believe that the supplementary statements appropriately reflect its underlying profitability whilst continuing to adhere to EEV Principles.

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

The Group uses EEV methodology to value all lines of insurance business within Just Retirement Limited ("JRL" or "the Company"), the covered business of the Group. No other Group companies contain any covered business and the value of these companies has been included in the Group EEV at IFRS net asset value less the value of goodwill and intangibles to the extent that their recovery is supported by future profits.

The Directors of the Group are responsible for the preparation of these supplementary financial statements. The supplement included an unqualified audit report from the auditor.

2) Methodology

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

A. Embedded value overview

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

The embedded value is the sum of adjusted net worth of the Group companies, plus the value of in-force covered business, this being the present value of profits that will emerge over time.

The net worth is the market value of the shareholders' funds and the shareholders' interest in the surplus held in the long-term business fund. The shareholders' net assets in respect of the life company have been derived from the annual regulatory returns submitted to the PRA. The net worth represents the market value of the assets of the life company in excess of the insurance and non-insurance liabilities of the life company as assessed on the regulatory basis. For other Group companies, the net worth is the IFRS net asset value less the value of goodwill and intangibles to the extent that their recovery is supported by future profits.

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

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

B. Covered business

The business to which the EEV Principles have been applied is defined as the covered business. The covered business includes all business written by the life company. In particular:

- Long-term business operations. This is business falling under the definition of long-term insurance business for UK regulatory purposes and principally comprises:
 - Pension Guaranteed Income for Life Solutions;
 - Defined Benefit De-risking contracts;
 - Capped Drawdown pension business contracts; and
 - Care Plans.

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

- Lifetime mortgages. These are held as investments to back the pension GfL and DB contracts.

C. New business

All of the covered business is written on a single premium basis. New business is defined to be all single premiums received in the period in respect of Retirement Income policies completed in the period and all cash advances made during the period in respect of lifetime mortgages. No allowance is made in the embedded value for the value of any future new business written after the reporting date.

For the value of new business, the Group has used economic assumptions determined at point of sale and has generally used opening period non-economic assumptions. The Group considers point-of-sale economic assumptions, rather than economic assumptions determined at either the opening or closing dates, to be more appropriate given the nature of its business.

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

D. Components of value

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

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

(i) Certainty equivalent value

The certainty equivalent value is the value of the future cash flows, excluding the time value of financial options and guarantees. It is calculated assuming assets earn the reference rate and the cash flows are discounted at the reference rate.

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

The regulatory equivalent of the value of the provision for the guarantee described in (ii) below is included in the shareholders' net assets and this is reversed out in the certainty equivalent value.

(ii) Time value of financial options and guarantees

The only material financial options and guarantees within the covered business arise from the no-negative equity guarantee under the lifetime mortgage business. Under this guarantee, the amount recoverable by the Group on termination of the mortgage is generally capped at the net sale proceeds of the property. Circumstances where this guarantee does not apply are those 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.

This guarantee is explicitly allowed for in the calculations. The value of this guarantee has been estimated using a variant of the Black-Scholes option pricing formula. The formula incorporates a number of assumptions, including those for risk-free rates, future property growth and property volatility.

The value of the financial options and guarantee shown in the presentation is the total value of this guarantee, net of tax, assessed on a realistic basis (it includes any intrinsic value in the option).

(iii) Allowance for non-market risk

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

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

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

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

(iv) Cost of capital

In addition to holding assets to back the covered business, the Company also has to hold additional shareholder capital to support the business. The amount of capital has been assessed taking into account the Company's own internal assessment of its capital requirements and the amount required under the UK Solvency I regulatory environment.

The cost of capital represents the frictional costs of having to retain this capital. The Group has taken these frictional costs to be any tax payable in respect of future investment returns earned on this capital and the associated investment management costs.

The required capital is provided by the retained surplus in the long-term business fund and the retained earnings and issued share capital in the shareholder fund.

E. Valuation of cash flows

Within the calculation of the value of in-force business, the reference rate used for valuing the Retirement Income cash flows has been set equal to the mid-market swap rate, plus a liquidity premium adjustment. At June 2015 the mortgage asset values used in the embedded value have been brought into line with the IFRS fair values calculated by discounting the future cash flows at a swap rate plus a liquidity premium. To be consistent with the mortgage asset values the calculation of the liquidity premium adjustment in the value of in-force has changed and is calculated separately for both corporate bonds and lifetime mortgages backing the Retirement Income liabilities. For corporate bonds the liquidity premium is calculated by deducting a prudent allowance for credit default risk from the overall average spread to swaps on the whole corporate bond portfolio. For lifetime mortgages the liquidity premium is calculated by equating the present value of all the matching cash flows discounted at the swap rate plus the liquidity premium to the IFRS asset value of the matching mortgages. The same approach has been used to value the lifetime mortgage cash flows that are not deemed to back the Retirement Income business.

(i) In-force business

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

(ii) New business

For new business written during the financial year the liquidity premium varies by the month of policy inception. The liquidity premium adjustment applied to each month's new business is consistent with the previous approach adopted at 30 June 2014 and is derived from the iBOXX Sterling Corporate Bond Index, as 50% of the Index Asset Swap Margin less 40bp where the value of the Index Asset Swap Margin for each month's new business is a weighted average for the month using the amounts of Retirement Income premium received each day as the weights.

In the calculations it has been assumed that each month's new lifetime mortgage business is available to match part of that month's new annuity business and the remaining new Retirement Income cash flows are backed by bonds.

F. Reinsurance

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

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

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

The Group has put in place separate reinsurance arrangements for the DB and Care Plan business. Part of the mortality risk is transferred to the reinsurers by means of a mortality swap arrangement where JRL will pay reinsurance premiums equal to their share of expected claims according to the reinsurers' mortality assessment, and the reinsurers will pay reinsurance claims equal to their share of actual payments made.

G. Taxation

The projected cash flows take into account all tax which the Company expects to pay. The calculations are undertaken assuming current tax legislation and rates continue unaltered.

Embedded value profits have been calculated on an after-tax basis and have then been grossed up at the full corporation tax rate to arrive at a pre-tax level for reporting in the Summarised statement of comprehensive income.

3) Assumptions

A. Economic assumptions

Reference rates

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

Sample mid-market swap rates at 30 June 2015 and 30 June 2014 are shown in the following table.

Swap rates (at sample terms, %)	Term (years)				
	1	5	10	20	30
30 June 2015	0.8	1.7	2.2	2.4	2.4
30 June 2014	0.9	2.2	2.8	3.2	3.2

The average in-force liquidity premium adjustment as at 30 June 2015 using the revised methodology was 178bp (2014: 51bp on previous methodology). The liquidity premium adjustment for each month's new business has varied over the financial year but the effect is equivalent to an average adjustment of 61bp (2014: 59bp) for each month's new business.

Residential property assumptions

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

The market against which these assumptions have been assessed and the cost of the no-negative equity guarantee has been calibrated at any point in time is neither deep nor liquid. The Group has therefore set these assumptions taking into account information available to it from within the capital markets linked to the assessment of the indicative costs of hedging out such exposures and published UK residential property historic price movements.

In the formula the risk-free rate used is the mid-market swap rate.

In the absence of a reliable long-term forward curve for UK residential property price inflation, the Group has assumed that residential property will grow in line with a bespoke house price inflation curve. This has been derived by reference to mid-market UK retail price inflation swap rates together with an explicit term-dependent house price inflation spread.

Sample mid-market house price inflation rates at 30 June 2015 and 30 June 2014 are shown in the following table.

House price inflation rates (at sample terms, %)	Term (years)				
	1	5	10	20	30
30 June 2015	(3.7)	0.9	3.2	4.1	4.1
30 June 2014	(2.1)	1.3	3.4	4.2	4.2

In deriving an assessment of long-term UK residential property price volatility, the Group has used house price data published by the Nationwide Building Society. The Group has adjusted the derived value to allow for the additional volatility expected to be observed in the Company's portfolio compared with the market as a whole. The volatility assumption used at 30 June 2015 was 9.7% p.a. (2014: 9.8% p.a.). The volatility assumption used for new business was 9.8% p.a.

Expense inflation

For the Retirement Income products, the assumed future rate of increases in per policy maintenance expenses is 3.6% p.a. (2014: 3.7% p.a.). For the lifetime mortgages, the assumed future rate of increases in maintenance expenses is 3.8% p.a. (2014: 3.9% p.a.). The difference reflects the difference in average duration of the cash flows and the shape of the RPI curve at the valuation date.

Taxation

The rate of corporation tax assumed is 20% throughout being the effective tax rate at the valuation date (2014: 22.5%).

B. Operating assumptions

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

Mortality

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

For the GfL policies the mortality assumptions are based on the PCMA00 (males) and PCFA00 (females) mortality tables and the CMI 2014 model improvement factors. These base factors are overlaid by a series of underwriting factors applied to the base mortality rates. These adjustments are made to reflect the nature and likely incidence of the underlying risks inherent within the business written. The underwriting factors applying to certain underwriting years have been reviewed as at 30 June 2015.

For DB policies the mortality basis is set with reference to the base table and mortality improvement rates provided by RGA (i.e. the reinsurer with whom each DB scheme is reinsured).

For Care Plan policies the mortality basis is set with reference to the table provided by Gen Re (i.e. the reinsurer with whom each INA policy is individually underwritten).

For the lifetime mortgages the mortality assumptions are based on the PCMA00 and PCFA00 mortality tables and the CMI 2012 model improvement factors. These assumptions are unchanged from those used at 30 June 2014.

For Lump Sum Plus mortgages on standard terms the same mortality basis applies as used for the normal roll-up business. The underlying basis for the mortgages is the same, with adjustments applied to reflect the nature and likely incidence of the underlying risks.

Mortgage repayments

Assumptions are made about the number of future mortgage repayments resulting from individuals moving into long-term care or through voluntary repayments. When deriving appropriate assumptions the Group has taken into account its own experience together with other relevant available information.

The decrement for moving into long-term care is expressed as a proportion of the underlying mortality assumption for the relevant lives. The decrement for voluntary repayments is expressed as annual percentages of the portfolio in force and exhibits a term structure based on duration in force. These assumptions are unchanged from those used at 30 June 2014.

Expenses

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

The Group has set maintenance expense allowances for each product which it considers to be realistic.

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

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

Some of the expenses incurred in the financial period to 30 June 2015 have been considered exceptional and one-off in nature. These non-recurring expenses have been identified separately and have not been included in the calculation of the value of in-force business or in the value of new business although they have been reflected in the operating profit. Total non-recurring expenses for the year ended 30 June 2015 were £16.8m (2014: £10.8m).

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

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

Non-market risk

At 30 June 2015 the provision for non-market risk has been established as 0.18% of the best estimate reserves in respect of Retirement Income business. This assumption is unchanged from that used as at 30 June 2014. For the value of new business in the period to 30 June 2015, a deduction of 0.18% of best estimate reserves at point of sale has been applied.

Required capital

At 30 June 2015 the assumed level of required capital to support the business represents 175% of JRL's long-term insurance capital requirement ("LTICR") together with 175% of the resilience capital requirement ("RCR"), as set out in PRA regulations. This assumption is unchanged from that used as at 30 June 2014.

4) Group embedded value

The following table sets out the Group embedded value as at the current and previous reporting dates.

	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m
Just Retirement Limited		
Shareholders' net assets	364.9	496.6
Value of in-force business		
Certainty equivalent value	525.8	293.6
Deferred tax asset	8.7	–
Time value of financial options and guarantees	(76.1)	(45.1)
Allowance for non-market risk	(11.9)	(10.0)
Cost of capital	(28.6)	(36.0)
Value of in-force business	417.9	202.5
Embedded value of Just Retirement Limited	782.8	699.1
Net assets/(liabilities) of other Group companies	236.5	260.0
Group embedded value	1,019.3	959.1

Based on the appropriate year-end assumptions, as set out above, the amount of required capital as at 30 June 2015 was £588.0m (2014: £501.5m). The free surplus of Just Retirement Limited at 30 June 2015 was £(223.1)m (2014: £(4.9)m) excluding the £210m (2014: £179m) of Tier 2 debt held within JRL.

5) After-tax value of new covered business of JRL

The following table sets out the after-tax value of the new business for the financial years ended 30 June 2015 and 30 June 2014.

	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m
Certainty equivalent value	119.2	131.7
Time value of financial options and guarantees	(14.3)	(8.9)
Allowance for non-market risk	(1.4)	(2.0)
Cost of capital	(5.4)	(5.9)
Value of new business	98.1	114.9

During the year ended 30 June 2015 the amount of required capital for new business was £87.0m (2014: £73.7m).

6) Covered business analysis of movement in embedded value of JRL

The following table sets out an analysis of the embedded value profit for the year ended 30 June 2015 together with the comparative figures for the year ended 30 June 2014. In order to explain better the movement in capital flows, the composition of the embedded value profit for the current year is shown separately between the movement in free surplus, required capital and the value of in-force business.

	Free surplus £m	Required capital £m	Value of in- force business £m	Total for year ended 30 June 2015 £m	Total for year ended 30 June 2014 £m
Opening embedded value	(4.9)	501.5	202.5	699.1	491.2
Expected return on opening embedded value	(0.1)	5.4	32.4	37.7	43.7
Expected surplus from in-force business	34.9	(24.0)	(10.9)	–	–
New business contribution	(75.2)	87.0	110.9	122.7	148.2
Operating experience variance	(40.3)	(0.4)	11.5	(29.2)	(39.5)
Operating assumption changes	18.4	(12.0)	(7.0)	(0.6)	(45.2)
Interest on Tier 2 loan	(18.3)	–	–	(18.3)	(9.5)
Operating profit for covered business	(80.6)	56.0	136.9	112.3	97.7
Economic variance ¹	(184.7)	30.5	132.3	(21.9)	106.0
Embedded value profit before tax	(265.3)	86.5	269.2	90.4	203.7
Tax	37.1	–	(53.8)	(16.7)	(45.8)
Profit after tax	(228.2)	86.5	215.4	73.7	157.9
New capital	10.0	–	–	10.0	50.0
Closing embedded value	(223.1)	588.0	417.9	782.8	699.1

1 The economic variance of £(23.4)m (2014: £106.5m) reported in the Summarised statement of comprehensive income includes £(1.5)m (2014: £0.5m) in respect of the fair value movement on the interest rate swap derivatives held by Just Retirement (Holdings) Limited.

The “expected return on opening embedded value” is the expected change in the embedded value resulting from a projection of the assets and liabilities over the period using expected “real world” investment returns.

The “expected surplus from in-force business” represents the surplus expected to emerge during the period from business that was in force at the beginning of that period. The effect is a transfer of value between the value of in-force business and shareholders’ net assets, with the overall effect on the embedded value being zero.

The “new business contribution” is the value of new business at the point of sale, together with the expected return on this value between the point of sale and the end of the period.

The “operating experience variance” represents the profits and losses caused by differences between the actual experience during the period and that expected on the operating assumptions, relating to both the business in force at the start of the period and new business written.

The “operating assumption changes” reflect changes in the assumptions in respect of future operating experience between the start and end of the period.

The “economic variance” arises from the impact of differences between the actual investment returns in the period and the expected investment returns, and the impact of the change to the end of period future economic assumptions. Further impacts have arisen between the shareholders’ net assets and value of in-force business figures due to changes in the economic assumptions used in the regulatory reserving bases. All of these impacts are calculated in relation to the start of period economic assumptions for business in force at the start of the period and point-of-sale economic assumptions for new business sold in the period.

7) Operating experience variances before tax for JRL

An analysis of the key operating experience variances before tax is set out in more detail in the following table.

	Shareholders' net assets £m	Value of in-force business £m	Total for year ended 30 June 2015 £m	Total for year ended 30 June 2014 £m
Reinsurance arrangements	(0.1)	5.2	5.1	(5.3)
Maintenance and investment expenses	(0.3)	–	(0.3)	(3.6)
Non-recurring expenses	(16.8)	–	(16.8)	(10.8)
Strategic investment expenses	(1.5)	–	(1.5)	(3.6)
Tax variances	(13.4)	10.9	(2.5)	(2.1)
Experience variances	(8.6)	(4.6)	(13.2)	(14.1)
Total operating experience variances	(40.7)	11.5	(29.2)	(39.5)

8) Operating assumption changes before tax for JRL

An analysis of the operating assumption changes item before tax is set out in more detail in the following table.

	Shareholders' net assets £m	Value of in-force business £m	Total for year ended 30 June 2015 £m	Total for year ended 30 June 2014 £m
Maintenance expenses	(0.7)	(1.2)	(1.9)	0.5
Mortgage assumption	–	–	–	(46.5)
Tax	–	16.1	16.1	3.5
Non-market risk	–	0.9	0.9	2.9
Cost of capital	–	–	–	(10.2)
Reinsurance changes	2.1	(1.1)	1.0	(4.1)
Non-policy reserves	–	–	–	9.6
IFRS mortgage valuation	4.9	(21.5)	(16.6)	–
Model changes	0.1	(0.2)	(0.1)	(0.9)
Total operating assumption changes	6.4	(7.0)	(0.6)	(45.2)

The tax item reflects the change from the effective tax rate used at the previous reporting date (22.5%) to the rate used at this reporting date (20%).

The IFRS mortgage valuation item includes the change to the liquidity premium methodology.

9) Sensitivities

The Group embedded value at 30 June 2015 and the value of new business for the year to 30 June 2015 have been recalculated to show the sensitivity of the results to changes in certain of the assumptions discussed above.

Most of the sensitivities are as prescribed by the additional guidance provided by the CFO Forum in October 2005. There is no lapse/surrender risk for the Retirement Income products and so no sensitivity to this assumption has been shown for this business. The sensitivities chosen do not represent the boundaries of possible outcomes, nor are they intended to represent events of equal likelihood, but rather illustrate how certain alternative assumptions would affect the results.

For each of the sensitivities all the other assumptions remain unchanged, unless otherwise stated. In all of the sensitivities, the statutory reserving basis was left unchanged, except for the first two where the valuation rate of interest was changed to reflect the sudden change in economic conditions.

The sensitivities tested were:

- Interest rates 1% lower than in the central case with resulting changes in asset values and reference rates. The impact for the values of new business has not been calculated for this sensitivity as the Group actively reviews its premium rates and in the event of such a sudden change in economic conditions the Group would change its rates.
- Interest rates 1% higher than in the central case with resulting changes in asset values and reference rates.
- Reference rates 10bp lower than in the central case, with no change in asset values. The purpose of this sensitivity is to illustrate the impact of using a different definition of the reference rate than basing it on mid-market swap rates.
- Credit spreads (represented by the difference between corporate bond yields and swap rates) 10bp narrower than in the central case. For this sensitivity there is no change to the liquidity premium.
- Credit spreads 10bp wider than in the central case. For this sensitivity there is no change to the liquidity premium.
- Liquidity premium 10bp lower than in the central case (in relation to the corporate bond element only).
- Property market values 10% lower than in the central case.
- Implied property volatility assumption 125% of the assumption in the central case.
- Implied property volatility assumption 75% of the assumption in the central case.
- Retirement Income customer base mortality 5% lower than in the central case (i.e. 95% of the central mortality rates).
- Lifetime mortgage base mortality 5% lower than in the central case (i.e. 95% of the central mortality rates). For this sensitivity, the allowance for moving into long-term care is also assumed to be 5% lower.
- Lifetime mortgage voluntary redemption assumption 10% lower than in the central case (i.e. 90% of the base case assumption).
- Maintenance expenses 10% lower than in the central case (i.e. 90% of base case costs) including the resulting reduction in the maintenance expense overrun.
- Corporation tax rate set to 19% (i.e. 1% lower than in the central case).
- Required capital equal to 100% of the LTICR plus 100% of the RCR.

Sensitivity of values to changes in assumptions

	Embedded value at 30 June 2015 £m	Value of new business for year ended 30 June 2015 £m
Central value	1,019.3	98.1
Impact of:		
• 1% reduction in yield curves	106.4	n/a
• 1% increase in yield curves	(50.0)	n/a
• 10bp reduction in reference rate	(10.1)	(2.4)
• 10bp reduction in credit spreads	20.9	n/a
• 10bp increase in credit spreads	(20.7)	n/a
• 10bp reduction in liquidity premium	(20.5)	(2.1)
• 10% reduction in property values	(24.1)	(5.3)
• 125% of implied property volatilities	(44.3)	(10.5)
• 75% of implied property volatilities	30.1	7.6
• 5% reduction in Retirement Income customer base mortality	(78.6)	(10.4)
• 5% reduction in lifetime mortgage base mortality	21.8	4.3
• 10% reduction in lifetime mortgage voluntary redemptions	18.6	4.4
• 10% reduction in maintenance expenses	13.8	1.3
• 1% reduction in corporation tax rate	7.8	1.6
• Required capital equal to 100% of LTICR plus 100% of RCR	14.3	4.0