Rothesay Holdco UK Limited

Interim Consolidated Financial Statements

For the six months ended 30th June 2015

Risk Management | Investment | Innovation | Excellence

Rothesay life

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STRATEGIC REPORT

The Directors present their Interim Condensed Consolidated Financial Statements for Rothesay Holdco UK Limited, registered number 08668809, (the 'Company' or 'RHUK') for the six month period ended 30th June 2015. Comparative information has not been presented for the six month period ended 30th June 2014 as interim accounts were not produced for the Company at that date but comparative information has been presented for the year ended 31st December 2014. All information (unless otherwise specified) has been provided on a consolidated basis for the whole Rothesay Life Group (the 'Group').

PRINCIPAL ACTIVITIES

The Group provides bulk annuity and other bespoke pension insurance solutions tailored to meet the specific needs of our clients which include defined benefit pension plans and individual annuity providers. The Group is authorised to write long-term insurance business by the Prudential Regulation Authority (the 'PRA') and is regulated by the PRA and the Financial Conduct Authority (the 'FCA'). RHUK is the ultimate holding company of the Group.

FINANCIAL HIGHLIGHTS

Rothesay Life has delivered a strong performance in first half 2015 which included these key highlights:

- **Operating profit before tax:** The Group's first half operating profit was £185.5m (Full year 2014: £277.1m), reflecting the strong underlying performance of our business.
- **New business volume:** The Group completed a record volume of new organic business during the first half of 2015 with total gross written premiums of £1.8bn (Full year 2014: £4.1bn including the acquisition of MetLife Assurance Ltd).
- **IFRS pre-tax profit:** The Group generated interim IFRS pre-tax profits of £175.5m, driven by a combination of strong new business volume, successful deployment of assets received as premiums during 2014 and continued robust management of our risk and capital positions (Full year 2014: £244.1m)
- **Assets under management:** The Group's assets under management increased to £14.1bn, up 10% from 12.8bn at the end of 2014. This was driven primarily by the increased volume of new business, offset by increased interest rates.
- **Capital position:** The Group's capital position remains robust under both IGD (CRR Ratio: 185% 31st December 2014: 177%) and Economic Capital (Ratio: 177% 31st December 2014: 206%) frameworks. The Board of Directors and Management remain confident of maintaining a satisfactory solvency position post implementation of the forthcoming Solvency II framework.
- **Market Consistent Embedded Value ('MCEV'):** The Group's MCEV has increased by 14% to £1,383m (2014YE: £1,215m), driven by the new business volume and successful deployment of assets.

REVIEW OF THE BUSINESS

The Group manages the risks and investments associated with its in-force portfolio of annuities in order to protect policyholder security and provide shareholders with a stable return. We look to use surplus capital to fund growth opportunities which we assess with a disciplined approach to risk and return.

The primary risks transferred to the Company through wholesale annuity contracts are longevity risk, interest rate risk, inflation risk and investment risk. The Company adopts a conservative approach to managing each of these risks:

- Hedging substantially all interest rate and inflation risk with collateralised swaps;
- Entering into longevity reinsurance contracts to mitigate life expectancy risk and offer future cash flow certainty; and
- Locking in returns in long-dated liability matching investments by investing in low-risk assets which benefit from security, seniority and/or structural protection.

Residual risks and capital position are reported and monitored daily using sophisticated systems which allow the Company to dynamically manage its financial exposures in changing market conditions. By reducing the risk inherent in the in-force portfolio the Company is able to protect its surplus, ensure policyholders have certainty and deploy excess resources to acquire new business where it meets our strict underwriting criteria. New business is accretive to shareholder returns and helps the business achieve economies of scale.

New business

New business opportunities during 2015 have been attractive and the pipeline remains strong, comprising many prospective transactions across the size spectrum. The Company targets new business opportunities from defined benefit pension schemes, insurance companies with annuity portfolios and through acquisition. The Company chooses to write both small and large transactions depending on where the economics offer the most attractive returns.

The Group has made a strong start to 2015, underwriting two large transactions totalling £1.7bn of new premiums:

- £644m bulk annuity with the Lehman Brothers Pension Scheme Trustees (the ‘Lehman Transaction’). This transaction will be followed by a buy-out of the whole scheme; and
- £1.1bn reinsurance transaction with Zurich UK Life (the ‘Zurich Transaction’). This transaction will be followed by a Part VII Transfer (the ‘Zurich Transfer’) of all relevant assets and liabilities from Zurich UK Life to Rothesay Life Limited. The Zurich transfer process will begin in Q3 2015 and expected to be completed in 2016.

REVIEW OF THE BUSINESS CONTINUED

The Zurich transaction in particular represents a significant milestone for the Group as this is the first reinsurance transaction of a block of in-force individual annuity policies by the Group from another life insurer. The Group's management team believe that such transactions will become more prevalent over the next few years as other insurance companies and groups look to release encumbered capital from legacy, non-core business units.

Annuity liabilities in particular will become operationally and financially onerous under Solvency II for insurance groups that are not specialist managers of the risks associated with annuity liabilities. Such liabilities are likely to be managed with greater capital and operational efficiency by annuity specialists such as Rothesay Life. Management therefore expects future near-term opportunities to acquire annuity blocks from other insurance groups using a similar structure.

Following the Zurich transaction, the Group has now demonstrated capability to originate wholesale annuity business across the full spectrum of deal structures:

- Bulk Annuities (Buy-ins and buy-outs);
- Reinsurance followed by Part VII Transfer;
- Strategic acquisitions of life companies; and
- Longevity reinsurance hedges.

The Group's Management, Board of Directors and shareholders remain confident in continuing to pursue and execute attractive new opportunities to acquire annuity assets and liabilities. Flexibility to transact across structures and sources, combined with risk management will enable the Group to be competitive and take advantage of particular market opportunities that may arise.

Investment

During the first half, the Group has been active in investing premiums received from new business. We continue to pursue low risk, highly secure asset opportunities consistent with the business model and risk management philosophy of the Company.

New investments have included loans secured on large low-risk portfolios of UK residential ground rents, the first Consumer Price Index linked bond issued in the UK for the Greater London Authority to finance the extension of the London Underground and bonds whose proceeds are used to finance Ivy- League universities in the United States such as Harvard.

Innovative transactions such as these demonstrate the Group's ability to diversify our investment base whilst preserving the core principle of achieving high security from assets whilst generating attractive returns. We believe the outlook for investment conditions in the second half of 2015 is strong and the medium-term prospect of rising interest rates should lead to further interesting asset deployment opportunities.

FINANCIAL REVIEW

Our financial results demonstrate the Group's continuing ability to write profitable new business whilst taking a cautious approach to the management of our balance sheet.

In the period to 30th June 2015, the Group achieved an operating profit before tax (measure of profitability, capturing new business profit, in-force profit and assumption changes, but excluding market fluctuations and exceptional expenses) of £185.5m (full year 2014: £277.1m) and a profit before tax of £175.5m (full year 2014: £244.1m).

The Group focuses on profit before tax as its primary measure of profitability because this metric includes recurring and non-recurring items as well as market fluctuations and has a direct impact on distributable reserves and capital.

New business premiums increased from £1.4bn for the full year of 2014 (excluding the acquisition of MAL) to £1.8bn in the first half of 2015, leading to new business operating profits of £87.7m (full year 2014: £60.8m).

Profits from the management of the in-force book increased from £50.8m for the full year of 2014 to £122.8m for the first half of 2015, largely as a result of the impact of investing undeployed assets received as premiums during 2014.

IFRS Financial Performance

£m	H1 2015	FY 2014
New business operating profit	87.7	60.8
Acquisition of MAL	–	210.2
Management of in-force book	122.8	50.8
Acquisition costs	(24.6)	(38.0)
Administration expenses	(6.4)	(13.2)
Experience variance	1.7	11.7
Other	4.3	(5.2)
Operating profit before tax	185.5	277.1
Financing costs	(6.6)	(17.6)
Non-recurring and project expenditure	(3.8)	(14.8)
Investment and economic profits	0.4	(0.6)
Profit before tax	**175.5**	**244.1**

The small below-the-line increase in profit of £0.4m (full year 2014: reduction of £0.6m) as a result of investment and economic profits demonstrates the effectiveness of the Group's risk management against the backdrop of significant movement in interest rates, inflation rates and credit spread of the first half of 2015.

FINANCIAL REVIEW CONTINUED

Assets under management increased from £12.8bn as at 31st December 2014 to £14.1bn as at 30th June 2015 largely as a result of new business, partly offset by the increase in interest rates. These numbers can be derived from the consolidated statement of financial position by adjusting for reinsurance, derivatives and collateralised financing as shown in the table below.

The Group's MCEV has increased from £1,215m at 31st December 2014 to £1,383m at 30th June 2015 largely as a result of new business. This is composed of value of in force of £497m and net assets of £1,117m less adjustments of £231m to allow for the Group's borrowings and other Group adjustments.

Assets under management

£bn	30 June 2015	31 December 2014
Total assets	22.5	21.9
Less reinsurance assets	(0.3)	(0.3)
Less payables and financial liabilities	(8.1)	(8.8)
Assets under management	**14.1**	**12.8**

Solvency II

From 1st January 2016, the current solvency regime will be replaced by Solvency II. Similar to the existing regime, under Solvency II the Group is required to hold the greater of the capital required under the new Pillar 1 framework and the capital required under our own economic capital models, Pillar 2. Current projections for Solvency II (subject to the approval of the matching adjustment and transitional solvency relief), suggest that the Group will hold a capital surplus on its economic capital basis which is greater than the surplus on the Pillar 1 basis consistent with the current capital regime.

Under Solvency II Pillar 1, the Group is required to hold sufficient assets to meet:

- The liabilities of the Group calculated on a best estimate liability (the 'BEL');
- The cost of transferring non-hedgeable risks (known as the risk margin); plus
- The capital required to meet a 1 in 200 year stress (known as the solvency capital requirement or ('SCR').

Matching adjustment

For certain insurance liabilities such as life assurance products, the best estimate liability must be discounted using a prescribed risk-free discount rate. However firms with long-term illiquid liabilities such as annuities can apply to discount these illiquid liabilities using the risk-free rate plus what is known as the 'matching adjustment'. The matching adjustment is broadly equivalent to the illiquidity premium that can be earned on the illiquid assets held to back illiquid liabilities.

The Group has submitted applications to use the matching adjustment for the majority of its business and is working closely with the PRA to obtain approval. The Group already closely matches assets and liabilities and the Group's investment strategy is consistent with the vast majority of assets meeting the buy and hold requirements of Solvency II. In addition, we believe that the underlying pension liabilities meet the illiquidity requirements given that pension payments are made until death or surrendered on a cost-neutral basis.

In order to use the matching adjustment, from 1st January 2016 the Group will be required to operate two separate funds within each life company – a matching adjustment fund and a non-matching adjustment fund. In the matching adjustment application, the Group has applied for permission to use the matching adjustment for almost all of its single premium insurance business and has set out why the Group believes that the majority of its assets are matching adjustment eligible. Regular premium business will be held in the non-matching adjustment fund along with other non-matching adjustment eligible assets and liabilities.

Partial internal model

Under Solvency II, insurers have the option of calculating the SCR either using the prescribed basis (the 'standard formula') or applying to use their own internal model. The Group is in the process of applying to use its own model for calculating the SCR in relation to spread risk but intends using the standard formula for all other risks (a 'partial internal model'). The Group is applying to use a partial internal model to ensure that the allocation of capital to investment is consistent with the low risk inherent in the types of highly secured and collateralised investments which are core to the Group's investment strategy.

Transitional solvency relief

The Group has applied to use transitional solvency relief which is likely to provide sufficient transitional capital to ensure that the solvency position of the Group on 1st January 2016 is the same as under the current regime. This will allow the Group to phase in the impact of Solvency II on existing business over 16 years. New business will then be priced to allow for the additional capital required under the Solvency II regime without transitional solvency relief.

BUSINESS OUTLOOK

The Board and Management expects the second half of 2015 to provide additional opportunities to source new business and appropriate investments. We will continue to apply the Group's strict business selection criteria to underwriting to ensure that we meet or exceed target return metrics.

The European macroeconomic environment appears to be stabilising with a number of countries demonstrating strong growth, including the UK which has now produced two years of consistent positive GDP progression. Interest rates are expected to rise over the near to medium-term. Increases to real yields will be positive for the Group's business as most pension schemes are not fully interest rate hedged so will benefit from increased levels of funding which would in turn increase their demand for de-risking transactions from insurers such as Rothesay Life.

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors' of the Group confirm that these Condensed Consolidated Financial Statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' as adopted by the European Union ('EU') except for the omission of prior period comparative figures and that the interim financial report includes a fair review of the information namely:

- An indication of important events that have occurred during the first six months and their impact on the condensed set of Financial Statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- Material related-party transactions in the first six months and any material changes in the related-party transactions described in the last Annual Report.

The Directors of RHUK are listed in the RHUK Annual Report for 31st December 2014.

On Behalf of the Board

Addy Loudiadis.
Chief Executive Officer
23rd September 2015

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 30TH JUNE 2015

	Note	Period ended 30 June 2015 £000s	Year ended 31 December 2014 £000s
Income			
Gross premiums written	2	1,867,532	1,679,335
Premiums ceded to reinsurers		(252,005)	(435,179)
Net Premiums Written		**1,615,527**	**1,244,156**
Investment return	7	(131,588)	1,778,882
Total Revenue		**1,483,939**	**3,023,038**
Expenses			
Claims and change in insurance liabilities	3	(1,500,744)	(3,228,526)
Reinsurance recoveries	3	233,745	533,182
Net Claims and Change in Insurance Liabilities		**(1,266,999)**	**(2,695,344)**
Operating expenses	4	(34,844)	(65,970)
Finance costs	5	(6,558)	(17,643)
Total Operating Expenses		**(41,402)**	**(83,613)**
Profit Before Tax		**175,538**	**244,081**
Income tax expense	6	(36,044)	(63,642)
Profit for the Period/Year		**139,494**	**180,439**

All income and expenses relate to continuing operations.

The Consolidated Statement of Comprehensive Income includes all income and expenses for the period. RHUK has no items required to be reported in other comprehensive income. Therefore a separate comprehensive income statement has not been presented.

Notes 1–22 form an integral part of these Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30TH JUNE 2015

	Note	Period ended 30 June 2015 £000s	Year ended 31 December 2014 £000s
Assets			
Property, Plant and Equipment	9	2,157	1,524
Financial investments	10	21,784,298	20,989,390
Reinsurance assets	13	285,162	288,654
Accrued interest and prepayments		89,213	132,127
Receivables		187,864	360,156
Cash and cash equivalents		118,838	111,617
Total Assets		**22,467,532**	**21,883,468**
Equity and Liabilities			
Share capital	16	1,800	1,800
Share premium	17	265,710	265,710
Capital contribution reserve	17	6,703	4,520
Other reserves	17	628,320	488,826
Total Equity		**902,533**	**760,856**
Liabilities			
Insurance contract liabilities	12	13,212,648	12,105,682
Payables and financial liabilities	14	8,090,737	8,755,167
Borrowings	15	225,000	225,000
Deferred tax liabilities	11	3,246	3,429
Accruals and deferred income		33,368	33,334
Total Equity and Liabilities		**22,467,532**	**21,883,468**

Notes 1–22 form an integral part of these Financial Statements.

The Financial Statements were approved by the Board of Directors on 9th September 2015 and signed on its behalf.

Addy Loudiadis
Chief Executive Officer
23rd September 2015
Company number 08668809

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 30TH JUNE 2015

	Share Capital £000s	Share Premium £000s	Capital Contribution Reserve £000s	Other Reserves £000s	Total Equity £000s
As at 1st January 2015	1,800	265,710	4,520	488,826	760,856
Profit for the period	–	–	–	139,494	139,494
Capital contribution	–	–	2,183	–	2,183
As at 30 June 2015	**1,800**	**265,710**	**6,703**	**628,320**	**902,533**

FOR THE YEAR ENDED 31ST DECEMBER 2014

	Share Capital £000s	Share Premium £000s	Capital Contribution Reserve £000s	Other Reserves £000s	Total Equity £000s
As at 1st January 2014	1,800	265,710	155	308,387	576,052
Profit for the year	–	–	–	180,439	180,439
Capital contribution	–	–	4,365	–	4,365
As at 31 December 2014	**1,800**	**265,710**	**4,520**	**488,826**	**760,856**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE PERIOD ENDED 30TH JUNE 2015

	Period ended 30 June 2015 £000s	Year ended 31 December 2014 £000s
Cash Flows from Operating Activities		
Profit for the period/year	139,494	180,439
Adjustments for Non-Cash Movements in Net Profit for the period/year		
Share-based payments	2,182	4,365
Interest income	(177,290)	(270,267)
Interest expense	6,558	17,643
Other adjustments	–	7,988
Depreciation	219	–
Tax expense	36,044	63,642
Net Increase in Operational Assets		
Financial investments	(794,908)	(6,649,323)
Reinsurance asset	3,493	(124,329)
Trade receivable	172,292	(287,815)
Net Increase in Operational Liabilities		
Insurance contracts	1,106,966	2,464,431
Other payables	(405,968)	592,181
Financial liabilities	(247,400)	4,026,346
Accruals	–	9,734
Cash Generated in Operations	**(158,318)**	**35,035**
Interest paid	(7,231)	(16,921)
Interest received	220,846	277,747
Tax paid	(47,224)	(42,733)
Net Cash Inflow from Operating Activities	**8,073**	**253,128**
Cash Flows from Financing Activities		
Proceeds from issuance of debt	–	125,000
Net Cash Inflows from Financing Activities	**–**	**125,000**
Cash flows from Investing Activities		
Net acquisition of plant, equipment and intangibles	(852)	(1,524)
Acquisitions of subsidiaries (net of cash acquired)	–	(354,814)
Net Cash Outflows from Investing Activities	**(852)**	**(356,338)**
Net increase in cash and cash equivalents	7,221	21,790
Cash at bank and in hand at 1 January	111,617	89,827
Cash and Cash Equivalents at 30 June 2015/31 December 2014	**118,838**	**111,617**

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Accounting Policies

(a) General Information

RHUK is the ultimate holding Company of the Rothesay group of companies. RHUK is a registered company incorporated in the United Kingdom. The Company's registered office and principal place of business is Level 25, The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AB.

(b) Basis of Preparation

The Condensed Consolidated Interim Financial Statements for the six-month period ended 30th June 2015 have been prepared in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the EU except for the omission of prior period comparative figures. The Condensed Interim Financial Statement should be read in conjunction with the Annual Financial Statements for the year ended 31st December 2014, which has been prepared in accordance with IFRS as adopted by the EU.

The Consolidated Financial Statements of the Group are presented in Sterling (£) rounded to the nearest thousand (£000s) except where otherwise stated.

The Group presents its Statement of Financial Position broadly in order of liquidity.

Assets and liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by IFRS.

c) Accounting policies

The accounting policies adopted are consistent with those of the previous financial year. The Group has not adopted any new standards or made any changes to existing standards.

Note 2 – Segmental Analysis

All of the Group's business risks and returns are within one business segment (i.e. long-term insurance business). The Group's operations are materially within the United Kingdom. The split between regular premiums (payments of premium made regularly over the duration of the policy) and single premiums (single payment of premium which covers the life of the policy) is shown below:

	Regular premiums		Single premiums	
	Period ended 30 June 2015 £000s	Year ended 31 December 2014 £000s	Period ended 30 June 2015 £000s	Year ended 31 December 2014 £000s
Group pension bulk annuities	136,563	273,567	660,474	1,405,768
Assumed reinsurance premiums	–	–	1,070,495	–
Total Gross Premiums Written	**136,563**	**273,567**	**1,730,969**	**1,405,768**

Note 3 – Net Claims and Change in Insurance Contract Liabilities

	Period ended 30 June 2015 £000s	Year ended 31 December 2014 £000s
Claims Paid		
Gross claims paid	(393,801)	(700,560)
Reinsurance recoveries	237,238	408,607
Change in the provision for claims outstanding	253	680
	(156,310)	**(291,273)**
Change in Insurance Contract Liabilities		
Gross change in insurance contract liabilities	(1,107,196)	(2,528,646)
Reinsurance recoveries	(3,493)	124,575
	(1,110,689)	**(2,404,071)**
Net Claims and Change in Insurance Contract Liabilities	**(1,266,999)**	**(2,695,344)**

Note 4 – Operating Expenses

The note gives further details of items included in the Operating Expenses section of the Consolidated Statement of Comprehensive Income which have been included in arriving at the profit before tax:

	Period ended 30 June 2015 £000s	Year ended 31 December 2014 £000s
Acquisition costs	24,622	37,960
Administration expenses - recurring	6,441	13,234
Administration expenses – project other	3,781	14,776
	34,844	**65,970**

Note 5 – Finance Costs

	Period ended 30 June 2015 £000s	Year ended 31 December 2014 £000s
Interest payable on collateral	1,536	1,511
Interest payable on overnight loans	9	23
Interest payable on third-party borrowings	5,013	3,991
Interest payable on borrowings from affiliates	–	4,909
Debt issuance expenses	–	7,209
Net Finance Costs	**6,558**	**17,643**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 6 – Taxation

The major components of income tax expense for the period ended 30th June 2015 and year ended 31st December 2014 are:

(a) Tax charged in the income statement

	Period ended 30 June 2015 £000s	Year ended 31 December 2014 £000s
Current income tax:		
UK corporation tax	36,227	57,479
Adjustments in respect of prior periods	–	6,557
Total Current Income Tax	**36,227**	**64,036**
Deferred tax:		
Origination and reversal of temporary differences	(183)	(394)
Total Deferred Tax	**(183)**	**(394)**
Total Expense in the Income Statement	**36,044**	**63,642**

(b) Reconciliation of the total tax charge

The tax expense in the Statement of Comprehensive Income for the half year and the standard rate of corporation tax in the UK of 20.25% (2014: 21.49%) is reconciled below:

	Period ended 30 June 2015 £000s	Year ended 31 December 2014 £000s
Profit from continuing operations before tax	175,538	244,081
Tax calculated at UK standard rate of corporation tax of 20.25% (2014: 21.49%)	35,546	52,453
Income not subject to corporation tax	–	(12,102)
Expenses not deductible for tax purposes	50	14,290
Adjustment to tax charge in respect of prior periods	–	6,765
Tax losses on which deferred tax asset recognised	448	2,236
Total Tax Expense Reported in the Statement of Comprehensive Income	**36,044**	**63,642**

Note 7 – Investment Return

Investment return includes fair value gains and losses. Interest is included on an accrual basis.

	Period ended 30 June 2015 £000s	Year ended 31 December 2014 £000s
Interest income on financial investments at fair value through profit and loss	177,290	270,267
Unrealised (losses)/gains on financial investments	(657,632)	895,260
Realised gains on financial investments	351,704	564,189
Investment expenses	(2,950)	(7,247)
Gains on acquisition of subsidiary undertaking	–	56,413
Total Investment Return	(131,588)	1,778,882

The unrealised losses during the six-month period were primarily due to either the sale of assets crystallising gains or to the impact of increasing interest rates (which led to an offsetting decrease in insurance liabilities).

Note 8 –Investment in Unconsolidated Structured Entities

The Group has interests in investments which are classified under IFRS as unconsolidated structured entities. A structured entity is an entity that has been designed so that voting or similar rights are not the dominating factor in deciding who controls the entity, such as when voting rights might relate to administrative tasks only and the relevant activities are directed by means of contractual arrangement. Structured entities include those entities that have restricted activities or a narrow and well-defined objective. These structured entities have not been consolidated as the Group does not have the power to affect their returns.

As at 30th June 2015 our total interest in such entities, reflected on the Group's consolidated balance sheet and classified as financial investments held at fair value through profit or loss, was £1,782m (31st December 2014: £1,156m).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 9 – Property, Plant and Equipment

	Furniture and Fittings £000s	Computer Equipment	Total £000s
Cost			
As at 1st January 2015	1,524	–	1,524
Additions	627	225	852
Disposals	–	–	–
As at 30 June 2015	**2,151**	**225**	**2,376**
Accumulated Depreciation			
As at 1st January 2015	–	–	–
Charge for the half year	(201)	(18)	(219)
Disposals	–	–	–
As at 30 June 2015	**(201)**	**(18)**	**(219)**
Net Book Value			
As at 30 June 2015	**1,950**	**207**	**2,157**
As at 31 December 2014	**1,524**	**–**	**1,524**

Note 10 – Fair Value

Determination of Fair Value and Fair Values Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of Financial Instruments by valuation technique:

- Level 1: inputs are unadjusted quoted prices in active markets to which the Group had access at the measurement date for identical unrestricted assets and liabilities,
- Level 2: inputs to valuation techniques are observable either directly or indirectly,
- Level 3: one or more inputs to valuation techniques are significant and unobservable.

Financial Investments and liabilities measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are assets and liabilities for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial investments with fair values based on broker quotes and assets that are valued using the Group's own models whereby the majority of assumptions are market observable.

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy for 2015 and 2014:

Note 10 – Fair Value continued

30 June 2015

	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
Financial investments:				
Collective investment schemes	789,833	–	–	789,833
Government and agency obligations	2,802,301	2,844,514	–	5,646,815
Corporate debt	–	4,972,695	438,608	5,411,303
Derivative assets	–	5,738,397	1,743	5,740,140
Collateralised agreements and financing	–	4,085,043	–	4,085,043
Certificate of deposits	–	111,164	–	111,164
Total Financial Investments at Fair Value	**3,592,134**	**17,751,813**	**440,351**	**21,784,298**
Financial liabilities:				
Derivative financial instruments	–	5,380,890	12,082	5,392,972
Collateralised financing agreements	–	1,933,207	–	1,933,207
Total Financial Liabilities at Fair Value	**–**	**7,314,097**	**12,082**	**7,326,179**

31 December 2014

	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
Financial investments:				
Collective investment schemes	726,307	–	–	726,307
Government and agency obligations	3,390,645	2,464,822	–	5,855,467
Corporate debt	–	4,827,882	248,409	5,076,291
Derivative assets	–	5,800,209	1,785	5,801,994
Collateralised agreements and financing	–	3,400,828	–	3,400,828
Certificate of deposits	–	128,503	–	128,503
Total Financial Investments at Fair Value	**4,116,952**	**16,622,244**	**250,194**	**20,989,390**
Financial liabilities:				
Derivative financial instruments	–	5,544,495	6,654	5,551,149
Collateralised financing agreements	–	2,022,430	–	2,022,430
Total Financial Liabilities at Fair Value	**–**	**7,566,925**	**6,654**	**7,573,579**

Around 2% (31st December 2014: 1%) of the total financial assets recorded at fair value are based on estimates and recorded as Level 3 investments. Where estimates are used, these are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible. While such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 10 – Fair Value continued
The following table shows a reconciliation of the opening and closing recorded amounts in relation to the Level 3 Financial Instruments recorded at fair value:

	Corporate debt £000s	Collateralised agreements £000s	Derivatives £000s	Total £000s
At 1st January 2015	**248,409**	**–**	**(4,869)**	**243,540**
Total gains in the Statement of Comprehensive Income:				
Unrealised losses	(10,715)	–	(5,470)	(16,185)
Realised gains	336	–	–	336
Transfer into level 3	213,160	–	–	213,160
Sale	(12,582)	–	–	(12,582)
At 30 June 2015	**438,608**	**–**	**(10,339)**	**428,269**
At 1st January 2014	961,890	552,767	(14,719)	1,499,938
Acquisition at market value	6,942	–	7,474	14,416
Total gains in the Statement of Comprehensive Income:				
Unrealised gains	25,693	–	9,850	35,543
Transfer into level 3	24,511	–	–	24,511
Transfer out of level 3	(812,535)	(552,767)	(7,474)	(1,372,776)
Purchases/additions	41,908	–	–	41,908
At 31 December 2014	**248,409**	**–**	**(4,869)**	**243,540**

There have been no transfers between level 1 and level 2 during the period.

During the period, the Group transferred certain financial instruments between Level 2 and Level 3 of the fair value hierarchy. The recorded amount of the total assets transferred from Level 2 to Level 3 is £213.1m (Full year 2014:£24.5m) and from Level 3 to Level 2 is £nil (Full year 2014:£1,372.8m). The reason for the change is a change in the availability of observable market transactions for the same or similar instruments.

Note 11 – Deferred Taxation

Deferred tax balances comprise:

	30 June 2015 £000s	31 December 2014 £000s
Temporary differences between the Financial Statements and the tax deductions	(3,246)	(3,429)
	(3,246)	**(3,429)**

The movements in the deferred tax balances were as follows:

	30 June 2015 £000s	31 December 2014 £000s
At 1st January	(3,429)	(2,914)
Consolidation adjustment	–	(909)
Capital allowances	(27)	(58)
Transitional adjustments	210	452
At Statement of Financial Position date	**(3,246)**	**(3,429)**

Deferred tax assets are only recognised to the extent that based on management's assessment, they are regarded as recoverable.

The Group has unrecognised deferred tax assets in respect:

	30 June 2015 £000s	31 December 2014 £000s
Timing differences in relation to equity-based compensation	2,183	2,338
	2,183	**2,338**

The movements in the unrecognised deferred tax balances were as follows:

	30 June 2015 £000s	31 December 2014 £000s
At 1st January	2,338	130
Temporary difference in relation to equity-based compensation	–	2,250
Reversal of prior year temporary difference	(155)	(42)
At Statement of Financial Position date	**2,183**	**2,338**

On 8th July 2015 proposed changes to the main rate of UK corporation tax were announced. The changes propose to reduce the rate from 20% to 19% by 1st April 2017 and to 18% by 1st April 2020. The changes had not been substantively enacted at the balance sheet date

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Note 11 – Deferred Taxation continued
and therefore, are not recognised in these financial statements. Had they been substantially enacted they would have reduced the deferred tax liability by £0.5m.

Note 12 – Insurance Contract Liabilities
Key Valuation Assumptions
This note details the assumptions with the greatest impact on the Group's insurance contract liability valuations.

(a) Mortality Assumptions
Mortality bases have been determined separately for each pension scheme. The resulting assumptions are equivalent to using the base mortality and improvement assumptions set out in the table below:

	30 June 2015		31 December 2014	
	Males	Females	Males	Females
Base mortality	101.0% S1PMA	101.0% S1PFA	101.8% S1PMA	101.8% S1PFA
Mortality improvements	CMI_2012_M[2.7%]	CMI_2012_F[2.2%]	CMI_2012_M[2.7%]	CMI_2012_F[2.2%]

Ultimate mortality has been used in all cases and mortality improvements are applied from 2002.

Recent mortality experience is analysed annually for each pension scheme, the last review being at the end of 2014 and, where the data was considered statistically credible, the best estimate base mortality assumptions used in the valuation are based on this actual mortality experience. Where the data is not statistically credible, the Group has taken into account reinsurance prices and proprietary socio-demographic models, based on postcode and other factors.

Mortality assumptions are set with reference to standard tables drawn up by the Continuous Mortality Investigation Bureau ('CMIB') of the Institute and Faculty of Actuaries. These tables are based on industry-wide experience. The mortality tables use a set percentage of the S1 suite of tables set by scheme.

Allowance is made for future improvements in annuitant mortality with reference to statistical analysis of historical rates of mortality improvements, expert judgement of future changes in mortality improvements, industry benchmarking and reinsurance pricing.

Prudent margins are then applied to the demographic basis to reflect the fact that future experience for the schemes may differ from that assumed. At 31st December 2014, the shape of the prudent margins applied was revised to be more reflective of reinsurance pricing. There are no changes to the prudent margins at 30th June 2015.

Note 12 – Insurance Contract Liabilities continued

(b) Valuation Rate of Interest

The valuation rate of interest used to discount the cash flows for the purpose of valuing insurance contract liabilities is based on the PRA Pillar 1 regulatory requirements, as modified by a waiver granted by the PRA in 2008 and renewed in 2013 to allow the Group to reflect the yield (internal rate of return) on the combined matching assets rather than an average yield based on market value weighted durations. It is determined based on the yield obtainable on the basket of assets matching the PRA Pillar 1 mathematical reserves at 30th June 2015.

The result is equivalent to using the valuation discount rate set out in the table below:

	30 June 2015	31 December 2014
Equivalent valuation discount rate	**3.1% p.a.**	2.9% p.a.

This reflects both the prescribed PRA 2.5% prudential margin applied to the risk adjusted internal rate of return obtained on the basket of matching assets and the allowance for investment management expenses of 3bps p.a. (2014: 3bps p.a.).

The asset yield used to calculate the valuation discount rate has been reduced to reflect counterparty default risk; where applicable adjusted for the prudent expected recoveries in the event of default. This reduction in yield is determined separately for each individual asset reflecting the risk to the return being achieved on the asset.

The table below shows the average yield deduction at 30th June 2015 and 31st December 2014 by asset category:

Asset Class

	Average yield reduction	
	30 June 2015	31 December 2014
UK Government approved securities	0 bps	0 bps
Corporate bonds after allowance for covering credit default swaps	0 bps	0 bps
Secured Lending	6 bps	6 bps
Supranational/Other Sovereign	19 bps	18 bps
Secured Residential Lending	26 bps	33 bps
Infrastructure	83 bps	82 bps
Other	36 bps	31 bps
Overall	**17 bps**	**18bps**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 12 – Insurance Contract Liabilities continued

Overall, the deduction for counterparty default risk on the assets held by the Group are generally lower than the corresponding credit default deduction on a typical unsecured credit portfolio. This is due to either expectation of higher recovery in the event of default through collateralisation, recourse to specific assets, credit default swap protection or through a low probability of default due to government guarantees.

(c) Expenses

An allowance is made for future overhead maintenance expenses following an investigation into the total costs incurred by the Group during 2014 and the projected 2015 expenses. As part of this investigation, these costs have been split between acquisition and maintenance expenses. The long-term business provisions include an allowance to provide for the expenses payable under the Third-party Administration agreements ('TPA') together with the long-term business overhead expenses expressed as an amount per policy. An additional short-term maintenance expense overrun provision has been established to provide for expected project costs. The results of the investigation continue to be used for production of the 30th June 2015 insurance liabilities.

Within these expense provisions, an allowance for future expense inflation has been provided to cover the impact of both salary and price inflation. The future rate of expense inflation is assumed to be RPI (as implied by the RPI swap curve) plus an addition at each duration of 0.25% p.a. (2014: 0.25% p.a.) for the overhead maintenance expenses and an addition at each duration of 1.00% p.a. (2014: 1.00% p.a.) for the TPA expenses.

Other Assumptions

An important actuarial assumption relates to the future rate of escalation of certain benefits, but as the Group is holding appropriate matching assets (such as index linked bonds and inflation linked swaps), the impact on the overall financial position of the Group of actual or assumed changes in these rates is relatively small.

A number of other, less financially significant, actuarial assumptions are made in determining the provisions. These assumptions include, inter alia, the proportion of deferred and immediate annuitants assumed to have a dependant eligible for contingent benefits, dependant's age difference and the proportion of deferred annuitants opting to take a proportion of their benefit at retirement as a lump sum. When deferred annuitants have passed the scheme normal retirement date and have been subject to in depth tracing exercises and yet remain untraced, a prudent allowance has been made for the probability of them retiring in the future. All other individuals who have passed the scheme normal retirement date are assumed to retire immediately.

Note 12 – Insurance Contract Liabilities continued
(d) Movements in Insurance Contract Liabilities

	30 June 2015			31 December 2014		
	Insurance Liabilities £000s	Reinsurance Assets £000s	Net Liabilities £000s	Insurance Liabilities £000s	Reinsurance Assets £000s	Net Liabilities £000s
Carrying amount at 1st January	12,105,682	288,654	**11,817,028**	6,953,306	164,325	**6,788,981**
RAL value at acquisition	–	–	**–**	2,623,545	–	**2,623,545**
Increase in respect of new business	1,612,038	–	**1,612,038**	1,282,942	56,225	**1,226,717**
Release of liabilities/ liabilities discharged	(206,614)	1,987	**(208,601)**	(404,416)	20,099	**(424,515)**
Effect of non-economic assumption changes	–	–	**–**	30,708	(27,058)	**57,766**
Effect of economic assumption changes	(293,106)	(5,479)	**(287,627)**	1,629,421	75,063	**1,554,358**
Other	(5,352)	–	**(5,352)**	(9,824)	–	**(9,824)**
Closing Balance	**13,212,648**	**285,162**	**12,927,486**	**12,105,682**	**288,654**	**11,817,028**

The table above details the change in the gross and net insurance liabilities over the period. The table below provides a further split of the net impact of the most significant assumption changes.

The release of liabilities line reflects claims paid, release of prudent margins and unwind of discounting over the period.

Effect of Changes in Assumptions and Estimates During the Period

The following table shows the impact on the Insurance Contract Liabilities of changes in the assumptions used:

Change in assumptions used	Net Increase in liabilities £000s
Valuation interest rates	(327,624)
Inflation	39,997
	(287,627)

As shown previously the valuation interest rate increased by 0.2% over the period which led to the £287.6m movement in the liability shown. This change was partly through deployment through the period and partly through movements in LIBOR.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Note 12 – Insurance Contract Liabilities continued
There were no changes to the demographic or expense assumptions during the period.

(e) Sensitivity Analysis

The schedule below provides an analysis of the reasonably possible movements in key assumptions that would have a material impact on profit before tax, liabilities and equity. The analysis is based on a change in a single assumption whilst holding all other assumptions constant.

2015	Change in Assumptions	Increase/ (decrease) on liabilities £000s	Increase/ (decrease) on PBT £000s	Impact on Equity £000s
Annuitant mortality	+%5 qx	(117,570)	117,570	93,762
Annuitant mortality	–%5 qx	124,232	(124,232)	(99,075)
Interest rate	+100bps	(1,908,268)	57,023	45,476
Interest rate	–100bps	2,475,068	(34,161)	(27,244)
Inflation	+100bps	840,153	7,127	5,683
Inflation	–100bps	(794,780)	119,781	95,525
Long-term credit default assumption	+10bps	1,077	(49,404)	(39,400)
Long-term credit default assumption	-10bps	(1,077)	51,712	41,240
Expenses	+10%	25,602	(25,602)	(20,417)

The sensitivities shown above capture non-linear effects, which may be significant following large market movements.

The credit default assumption sensitivity has been calculated assuming a change in the credit spreads on non-risk-free assets with no associated change in valuation interest rate.

2015	Change in Assumptions	Increase/ (decrease) on Insurance Liability £000s	Increase/ (decrease) on Reinsurance Asset £000s	Net increase/ (decrease) on liabilities £000s
Annuitant mortality	+5% qx	(350,412)	232,843	(117,569)
Annuitant mortality	–5% qx	373,721	(249,490)	124,231

As can be seen from the table above the impact of the reinsurance is to reduce the sensitivity to mortality risk by 67%.

In the annuitant mortality stress it is assumed that in each year 5% more or fewer people survive to the end of each year than had previously been assumed.

Note 13 – Reinsurance Assets

The reinsurers' share of the Insurance Contract Liabilities is as follows:

	30 June 2015 £000s	31 December 2014 £000s
Reinsurance of Insurance Contract Liabilities	285,162	288,654

Under the reinsurance contracts, the Group has committed to pay fixed cash flows to the reinsurer for each policy covered. In exchange, the reinsurers will pay cash flows that are linked to the actual life expectancy of the underlying policies. The contracts are collateralised for changes in longevity expectations and movements in market rates.

An analysis of the movement in Reinsurance of Insurance Contract Liabilities is included in Note 12.

At 30th June 2015 the Group conducted an impairment review of the reinsurance assets and found no impairment necessary.

Note 14 – Payables and Financial Liabilities

	30 June 2015 £000s	31 December 2014 £000s
Derivative financial instruments	5,392,972	5,551,149
Collateralised financing agreements	1,933,207	2,022,430
Deposits received as collateral from third parties	381,043	640,953
Deposits received as collateral for derivatives from participating interest	327,215	464,506
Amounts due to participating interests	1,147	6,453
Current tax payable	36,634	47,031
Other taxes and social security costs	2,360	4,913
Other payables	16,159	17,732
Total	**8,090,737**	**8,755,167**

Note 15 – Borrowings

The Group's borrowings are as follows:

	30 June 2015 £000s	31 December 2014 £000s
Third-party syndicated loan	125,000	125,000
Affiliate subordinated loan	100,000	100,000
Total	**225,000**	**225,000**

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Note 15 – Borrowings continued

The amounts outstanding at 30th June 2015 include £100m of floating rate perpetual callable securities issued to an affiliate. The securities issued are unsecured and carry deferrable interest at six month Sterling LIBOR plus 425bps per annum. These securities are callable at par on 21st December 2017 and every six months thereafter. The principal constitutes regulatory capital. The repayment of the securities is subject to PRA consent.

On 29th September 2014 the Company entered into a £125,000,000 three year term loan agreement provided by a syndicate of third-party banks. The loan is secured and the rate of interest is six month Sterling LIBOR plus 350bps per annum.

The fair value of the borrowings is £225m (2014:£225m).

Note 16 – Share Capital

At 30th June 2015 and 31st December 2014 share capital comprised:

	30 June 2015		31 December 2014	
	No.	£000s	No.	£000s
Authorised share capital (Ordinary Shares of £1 each)	1,800,000	1,800	1,800,000	1,800

Note 17 – Share Premium Account and Reserve

	Share premium £000s	Capital contribution £000s	Other reserves £000s
At 1st January 2015	**265,710**	**4,520**	**488,826**
Profit for the period	–	–	139,494
Capital Contribution	–	2,183	–
At 30 June 2015	**265,710**	**6,703**	**628,320**

Note 18 – Related Parties Disclosures

Ultimate Holding Companies

The ultimate holding companies of RHUK are:

- The Goldman Sachs Group, Inc.: 36.0%
- The Blackstone Group L.P.: 28.5%
- GIC Private Limited: 28.5%
- MassMutual Financial Group: 7.0%

Related Party Transactions

The Group entered into various transactions with fellow participating interests which are subject to common control from the same source, including Goldman Sachs International, Goldman Sachs and Co, The Goldman Sachs Group Inc., Goldman Sachs Asset Management International, and Rothesay Life (Cayman) Limited.

Note 18 – Related Parties Disclosures continued

Details of transactions and balances in respect of these transactions are as follows:

	30 June 2015 £000s	31 December 2014 £000s
Statement of Comprehensive Income		
Realised/Unrealised losses on financial assets and liabilities	(16,063)	(563,639)
Interest income on bank deposits	13	36
Income from money market securities held in collective investment schemes	1,224	2,890
Interest on collateralised agreements and financing	15,053	31,786
Service fee charges	(1,543)	(4,161)
Investment management charges	(482)	(7,077)
Finance costs	–	(2,679)
Statement of Financial Position		
Derivative financial assets and liabilities	(989,331)	(1,119,032)
Collateralised agreements and financing	1,429,317	1,440,880
Collective investments schemes	611,856	708,519
Accrued interest	43	241
Amounts payable to related party	(233)	(890)
Capital		
Ultimate Parent Company	267,510	267,510
Capital contribution	6,703	4,520
Dividends paid	–	–

The nominal value of derivatives contracts outstanding with related parties as at 30th June 2015 was £38,150.3m (2014: £40,964.3m).

The Group continues to develop fully independent infrastructure and computer systems and to remove the need for infrastructure/systems support provided by Goldman Sachs. Any such services/support currently provided by Goldman Sachs are provided on an arms-length basis under a Transition Services Agreement ('TSA').

Transactions with Key Management Personnel

Key management personnel comprise the Directors of the Group, 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 transactions discussed below.

The remuneration of key management personnel of the Group as at 30th June 2015 was salaries, bonus, and other benefits of £1.2m and pensions costs of £0.08m.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 18 – Related Parties Disclosures continued

Transactions with Rothesay Pensions Management Limited

	30 June 2015 £000s	31 December 2014 £000s
Statement of Comprehensive Income		
Cost transfer	–	1
Statement of Financial Position		
Other receivables	–	3,939
Capital	**10**	10

Transactions with Rothesay Life Limited

	30 June 2015 £000s	31 December 2014 £000s
Statement of Comprehensive Income		
Finance costs	(127)	(60)
Cost transfer	(35)	(284)
Statement of Financial Position		
Other payables	11,177	5,015
Capital	**383,754**	383,754

Note 19 – Subsidiary Undertakings

Subsidiary Undertakings

The Financial Statements include the Financial Statements of RHUK and the subsidiaries listed in the following table:

Group Undertakings	Country of Incorporation	Primary business operation	Value at Cost £'000	2015 % equity interest	2014 % equity interest
Rothesay Pensions Management Limited	UK	Service Company	10	100%	100%
Rothesay Life Limited	UK	Life insurance	383,754	100%	100%
Rothesay Assurance Limited (formerly known as MetLife Assurance Limited)	UK	Life insurance	421,381	100%	100%

The above subsidiary undertakings are registered in England and Wales.

Note 20 – Capital Management

The Group's capital resources are of critical importance. The Group's risk management procedures and governance and regulatory environment are described in the Strategic Report. The objectives in managing its capital are:

- To match the profile of its assets and liabilities, taking account of the risk inherent in the business;
- To maintain financial strength to support new business growth;
- To satisfy the requirements of its policyholders and regulators;
- To retain financial flexibility by maintaining strong liquidity; and
- To allocate capital efficiently to support growth.

As at 30th June 2015 the Group had sufficient capital available to meet its regulatory capital requirements. The Group holds both debt and equity to optimise its capital structure and improve shareholder return.

The Group is required to hold sufficient capital to meet the PRA's capital requirements calculated on the statutory basis, which is based on EU Directives. As is required with all regulated insurance businesses, the Group also monitors its Individual Capital Assessment ('ICA') which considers certain business risks not reflected in the statutory basis.

The available capital is subject to certain restrictions as to its availability to meet capital requirements. In particular, no transfers from the long-term fund can take place without an up to date actuarial valuation.

The capital held within the shareholders' fund is generally available to meet any requirements. It remains the intention of management to ensure that there is adequate capital to exceed the Group's regulatory requirements.
Total available capital resources at 30th June 2015 are £982.4m (2014: £843.1m) of which:

At 30th June 2015	Long-term Fund £000s	Shareholder's Funds £000s	Total £000s
Shareholders' funds outside long-term fund	–	225,969	225,969
Shareholders' funds held in long-term fund	676,564	–	676,564
Total shareholders' funds	676,564	225,969	902,533
Adjustments onto regulatory basis	(426,946)	506,803	79,857
Total Available Capital Resources	**249,618**	**732,772**	**982,390**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 20 – Capital Management continued

At 31 December 2014	Long-term Fund £000s	Shareholder's Funds £000s	Total £000s
Shareholders' funds outside long-term fund	–	230,776	230,776
Shareholders' funds held in long-term fund	530,080	–	530,080
Total shareholders' funds	530,080	230,776	760,856
Adjustments onto regulatory basis	(244,550)	326,802	82,252
Total Available Capital Resources	**285,530**	**557,578**	**843,108**

The Group does not write any with profits business. The Group has written an immaterial volume of unit linked business which is wholly reinsured.

The Group is required to hold sufficient capital to meet the Insurance Groups Directive ('IGD'). It is also required to ensure that its insurance company subsidiaries meet the higher of the Capital Resource Requirement ('CRR') determined in accordance with the PRA's regulatory rules and the ICA.

Management intends to maintain surplus capital in its insurance company subsidiaries in excess of the higher of the CRR and ICA to meet the PRA's total requirements, and to maintain an appropriate additional margin over this to absorb changes in capital requirements.

At 30th June 2015 the IGD cover was 185% (31st December 2014: 177%) of the capital requirement of £531.1m (31st December 2014: £477.1m).

Movements in Capital Resources

	30 June 2015 £000s	31 December 2014 £000s
Opening Balance	**843,108**	**640,090**
New business	87,700	60,800
Acquisition of RAL	–	210,203
Management of in force book	122,831	50,836
Expenses	(30,940)	(51,194)
Demographic experience variance	1,697	11,739
Other	1,815	(1,106)
Operating Surplus	**1,026,211**	**921,368**
Economic losses	377	(610)
Non-recurring expenses	(3,781)	(14,776)
Finance costs	(6,558)	(17,643)
Tax	(36,044)	(63,642)
Capital contribution	2,185	4,365
Group regulatory adjustment	–	14,046
Closing Balance	**982,390**	**843,108**

Note 21 – Financial Commitments and Contingencies

Operating Lease Commitment

Operating lease rentals commitments arise where a Group Company is the lessee in respect of non-cancellable operating lease agreements. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss on a straight-line basis over the period of the lease.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2015 £000s	31 December 2014 £000s
Not later than one year	756	420
Later than one year and no later than five years	3,779	3,358
Later than five years	2,309	3,779
Total Minimum Lease Payments	**6,844**	**7,557**

Other Commitments

During prior years the Group executed transactions to purchase partly funded bonds. The Group expects to pay a further £173m within the next five years (31st December 2014: £197m), £24m of this being due within 12 months of the financial reporting date (31st December 2014: £nil).

	30 June 2015 £000s	31 December 2014 £000s
Not later than one year	24,000	–
Later than one year and no later than five years	173,000	197,000
Later than five years	–	–
Total Other Commitments	**197,000**	**197,000**

Note 22 – Post Balance sheet Event

On 20th July Rothesay Life Limited completed a £1.6bn pension buy-in transaction with the Civil Aviation Authority Pension Scheme. At the same time as executing this transaction, Rothesay entered into a longevity reinsurance agreement to reinsure a proportion of the associated longevity risk.

MCEV SUPPLEMENTARY FINANCIAL STATEMENTS

Market Consistent Embedded Value

Supplementary Financial Statements

Rothesay Life has prepared supplementary financial statements on a Market Consistent Embedded Value ('MCEV') basis. The results have been prepared in accordance with the European Insurance CFO Forum Market Consistent Embedded Value Principles ('MCEV Principles') (of © Stichting CFO Forum Foundation 2008) which were published in 2008 and revised in October 2009. Rothesay Life considers that embedded value reporting provides investors with a useful measure of the future profit streams of the Group's in-force long-term business and is a valuable supplement to statutory accounts.

The Group introduced this metric for external reporting purposes as at 31st December 2014 and these figures have been provided as comparatives.

Group Statement of Financial Position

As at 30 June 2015

	Period ended 30 June 2015 £m	Year ended 31 December 2014 £m
Assets		
Value of in-force business	496.8	469.7
Financial assets & equipment	21,786.4	20,990.9
Pre-payments and accrued income	89.2	132.1
Insurance and other receivables	473.0	648.8
Cash and cash equivalents	118.8	111.6
Total Assets	**22,964.2**	**22,353.2**
Total Equity	**1,383.3**	**1,214.6**
Liabilities		
Insurance liabilities	13,228.7	12,121.7
Other liabilities	8,090.7	8,755.2
Borrowings	225.0	225.0
Current tax liabilities	3.2	3.4
Insurance and other payables	33.3	33.3
Total Liabilities	**21,580.9**	**21,138.6**
Total Equity and Liabilities	**22,964.2**	**22,353.2**

The notes on pages 14 to 47 form an integral part of these supplementary financial statements.

Reconciliation of Shareholders' Equity on IFRS Basis to Shareholders' Equity on MCEV Basis

	Period ended 30 June 2015 £m	Year ended 31 December 2014 £m
Shareholders' equity on IFRS basis	902.5	760.9
Value of in-force business	496.8	469.7
Reserving differences	(16.0)	(16.0)
Shareholders' equity on MCEV basis	**1,383.3**	**1,214.6**
Analysis of ordinary Shareholders' equity		
IFRS basis Ordinary Shareholders' equity	902.5	760.9
Additional retained profit on an MCEV basis	480.8	453.7
Shareholders' equity on MCEV basis	**1,383.3**	**1,214.6**

The value of in-force business ('VIF') component corresponds to the Operational Company VIF. The reserving differences reflects an additional closure reserve of £16m held on a Pillar 1 basis (£16.0m at 31st December 2014), which has been deducted from the adjusted net worth of the Operational Company. This reserve is not held on an IFRS basis and is therefore deducted from the VIF contribution in the above table.

Reconciliation of Rothesay Life Available Capital to Shareholders' Equity on IFRS basis:

	Period ended 30 June 2015 £m	Year ended 31 December 2014 £m
RL Operational Co available capital	**1,112.9**	**970.9**
Inadmissible assets	4.1	1.7
IFRS reserving differences	16.0	16.0
Sub-Debt	(100.0)	(100.0)
Other Group debt	(125.0)	(125.0)
Other Group adjustments	(5.5)	(2.8)
Shareholders' equity on IFRS basis	**902.5**	**760.9**

The Rothesay Life available capital is consistent with the available capital resources set out in the Rothesay Life Ltd Consolidated Interim accounts for 30th June 2015. The shareholders' equity on an IFRS basis is consistent with the Total Equity in the Rothesay Holdco UK Limited consolidated statement of financial position in the primary financial statements set out on page 11.

MCEV SUPPLEMENTARY FINANCIAL STATEMENTS
CONTINUED

Group MCEV analysis of Earnings (net of tax) £m	Covered Business (MCEV)	Non-Covered Business (IFRS)	Total Group MCEV
Opening MCEV	**1,342.4**	**(127.8)**	**1,214.6**
Opening adjustments	–	–	–
Adjusted opening MCEV	**1,342.4**	**(127.8)**	**1,214.6**
Operating MCEV earnings	151.5	–	151.5
Non-operating MCEV earnings	19.9	–	19.9
Total MCEV earnings	**171.4**	**–**	**171.4**
Other movements in IFRS net equity	–	(2.7)	–
Operating MCEV earnings	**1,513.8**	**(130.5)**	**1,383.3**

NOTES TO THE MCEV SUPPLEMENTARY FINANCIAL STATEMENTS

1. Basis of presentation

The Group's primary financial statements have been prepared in accordance with International Financial Reporting Standards. The MCEV supplementary financial statements have been prepared in accordance with the European Insurance CFO Forum Market Consistent Embedded Value Principles ('MCEV Principles') (of © Stichting CFO Forum Foundation 2008) which were published in 2008 and revised in October 2009. Non-compliance with the guidance has been noted below.

This is the first year that Rothesay Life has included supplementary financial statements and as such a comparative opening MCEV at 30th June 2014 has not been included. Comparative information has been provided as at 31st December 2014.

Full comparatives will be provided in supplementary financial statements from 31st December 2015 with the intention being that at that point the statements will be fully compliant with the MCEV principles.

a. Covered business

The covered business includes all business written by Rothesay Life and Rothesay Assurance Limited. This business falls under the definition of long-term insurance business for UK regulatory purposes.

The adjustments applied to arrive at the Group MCEV include the deduction of £125m of debt from Rothesay Holdco UK Limited, as well as the fair value of other entities within the Group. This represents non-covered business measured on an IFRS basis.

b. New business

New business is defined as:

- premiums from the sale of new policies written throughout the year; and
- non-contractual increments on existing policies, transacted during the year.

Acquisitions are presented separately within the new business section. For the December 2014 comparatives, this covers the acquisition of MetLife Assurance Limited ('MAL') in May 2014.

2. Methodology

The MCEV is the sum of the net worth of the Group Companies plus the value of in-force business.

a. Net worth

The net worth is the market value of the shareholders' funds and the shareholders' interest in the surplus held in the long-term business funds, determined on a statutory solvency basis with inadmissible assets included.

2. Methodology continued

The net worth consists of the required capital plus the free surplus of the Company. Free surplus is defined as the assets over and above the level of required capital, described below.

b. Value of in-force

The value of in-force covered business ('VIF') consists of the following components:

- present value of future profits;
- time value of financial options and guarantees;
- frictional costs of required capital; and
- cost of residual non-hedgeable risks.

c. Present value of future profits

The present value of future profits ('PVFP') is the present value of the distributable profits to shareholders arising from the in-force covered business projected on a best estimate basis and discounted using the risk-free rate adjusted (where applicable) for the liquidity premium.

d. Time value of financial options and guarantees

There are no material financial options and guarantees, and therefore the time value is nil. The basis for policyholder options is generally set by the Company to be profit-neutral. Where there are specific contractual clauses that diverge from this, these have been appropriately allowed for within the PVFP.

The Company currently has no guaranteed surrender terms exercisable at the unilateral discretion of the pension schemes. Some counterparties are able to surrender conditional upon certain solvency events. However for the purposes of the MCEV, it is assumed that the Company continues to meet these solvency requirements and hence no value is placed on these surrender rights.

e. Frictional costs of required capital

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

Frictional costs are calculated by projecting forwards the future levels of required capital. Tax on investment return and investment expenses are payable on the assets backing required capital, up until the point that they are assumed to be released to shareholders.

f. Cost of non-hedgeable risk

The cost of residual non-hedgeable risks (CNHR) covers risks not already allowed for in the time value of options and guarantees or in the PVFP. The allowance includes the impact of

2. Methodology continued

both non-hedgeable financial and non-financial risks. No allowance has been made within the CNHR for symmetric risks as these are diversifiable by investors.

The risks which contribute to the CNHR component of MCEV are:

- Counterparty default risk: the risk of losses following the failure of counterparties, for example for longevity reinsurance and over the counter derivative transactions.
- Expense risk: the risk that the amount of expenses incurred differs from current projections.
- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

These are considered to be asymmetric risks, of which operational risk is the most material element. We have allowed for diversification benefits to the extent that these are identifiable. The Group's demographic risks exhibit no material asymmetry. Appropriate allowance has been made within the PVFP for these risks; therefore no further allowance has been made in the CNHR.

The CNHR has been presented as an equivalent average cost of capital charge across all residual non-hedgeable risks considered to be asymmetric (as defined above), after allowing for diversification between these risks. The capital charge has been calculated in line with Rothesay's Individual Capital Assessment ('ICA'). This capital requirement has been modelled as running off in line with the cash flow profile of the best estimate liabilities excluding the longevity swap cash flows.

The resulting annual capital charge is 3.2% (3.0% at 31st December 2014).

g. Tax

The projected cash flows take into account all tax which the Company expects to pay. The UK corporation tax rate reduced from 21% to 20% at 1st April 2015. This was a known future change as at 31st December 2014, and was therefore reflected in the MCEV then, as set out below:

	30 June 2015	31 December 2014
2015	20.25%	20.25%
2016 +	20.00%	20.00%

It was announced in the Summer Budget in July 2015 that the UK corporation tax rate is expected to be reduced to 19% in April 2017 and 18% in April 2020. This change has not been reflected in the Group's position at 30th June 2015 and the estimated benefit of the reduction in the tax rate is £18.6m.

2. Methodology continued

h. Consolidation adjustments

Group entities have been incorporated at the market consistent value. This is equal to the IFRS net asset value.

The Group MCEV is net of external debt.

3. Assumptions

Economic assumptions

a. Reference rates

In setting the risk-free rate a mid-price swap yield curve provided by Goldman Sachs is used. A constant forward rate is applied after the 80 year point.

Term (years)	1	5	10	20	30
30 Jun 2015	0.83%	1.72%	2.18%	2.41%	2.36%
31 Dec 2014	0.74%	1.47%	1.89%	2.27%	2.31%

For annuity business, swap rates are adjusted for a 'liquidity premium' in deriving the reference rates. The liquidity premium is applied as a term specific addition to the swap curve set out above. The derivation uses a target investment mix and therefore aims to consider the types of investments in which the Company invests, but does not correspond exactly to the current assets holdings.

The liquidity premium is calculated on a daily basis and considers the spread over the risk-free rate observable for various asset classes. An appropriate deduction is made to the spread for credit risk. The deductions make reference to market observable credit risk information, and the resulting deduction is prudent relative to historical defaults.

The in-force liquidity premium adjustment as at 30th June 2015 was 86bps, after the deduction of investment management costs. The comparable liquidity premium adjustment as at 31st December 2014 was 80bps.

No liquidity premium is used in the valuation of longevity swap contracts.

The liquidity premium on new business is calculated at the point of sale and is determined using an approach consistent with that assumed for the in-force business.

b. Expenses

Expenses attributed to covered businesses have been included in the MCEV calculations. Future expense assumptions include an allowance for third-party administration, investment management and maintenance expenses as well as project expenses.

3. Assumptions continued

No future productivity gains have been anticipated. Where subsidiary companies provide administration, investment management or other services to our life businesses, the value of profits or losses arising from these services have been included in the embedded value of new business.

c. Expense inflation

Internal and third-party administration expenses are projected to increase at RPI, plus a margin where appropriate.

As at 30th June 2015 the assumed rate of future expense inflation is equivalent to 3.98%. The comparable assumed rate of future expense inflation at 31st December was equivalent to 3.84%.

For internal service companies the fees charged to the life company reflect the underlying expenses incurred.

d. Exchange rates

The Group has a small amount of euro denominated liabilities. These cash flows have been converted to GBP using levels implied from cross currency swap quotes.

Non-Economic assumptions

e. Demographic assumptions

Assumed future mortality has been derived from an analysis of experience with a view to giving a best estimate of future experience. Where appropriate this has been adjusted for anticipated future changes in experience, i.e. improvements in future policyholder longevity are allowed for.

Recent mortality experience has been analysed for each pension scheme at the end of 2014. Where the data was considered statistically credible, the mortality assumptions used in the valuation are based on this actual mortality experience. Where the data is not statistically credible, the Group has taken into account reinsurance quotes and proprietary socio-demographic models, based on postcode and other factors.

A consistent approach has been used to derive the demographic assumptions used for new business written during 2015.

f. Non-hedgeable risk

For the balance sheet a charge of 3.2% has been applied to the group-diversified capital required on a 1-in-200 one-year basis over the remaining lifetime of in-force business. The capital levels used are projected to be sufficient to cover non-hedgeable risks at the 99.5% confidence. The level of the diversified capital requirement to which the charge is applied is £171m (£167m at 31st December 2014). The resulting cost of non-hedgeable risks is £65.4m (£61.3m at 31st December 2014).

3. Assumptions continued

g. Required capital

The projected level of required capital to support the business is derived from the Group's capital management policy, which is to hold sufficient assets to meet the higher of:

- Prudent reserves plus 150% of Rothesay Life's long-term insurance capital requirement ('LTICR'), together with 150% of Rothesay Life's resilience capital requirement ('RCR'), and
- Best estimate liabilities plus the economic capital requirement.

The economic capital requirement calculates the one year value at risk to a 99.8% confidence interval. Historically the Group's capital requirement has been driven by 150% of Rothesay Life's LTICR and RCR. This continues to be the case at 30th June 2015.

h. Valuation of debt

Borrowings in the MCEV consolidated statement of financial position are valued at their market value. This is consistent with the Fair Value valuation as detailed on Note 15 of the primary financial statements.

At 30th June 2015 the value of the debt of the Group was £225m (£225m at 31st December 2014).

4. Group Embedded Value

Rothesay Life Group MCEV (£m)	Period ended 30 June 2015 £m	Year ended 31 December 2014 £m
Adjusted net worth	1,117.0	972.6
Value of in-force business		
Present value of future profits	642.2	598.8
Frictional cost of required capital	(80.1)	(67.8)
Cost of non-hedgeable risks	(65.4)	(61.3)
Value of in-force business	**496.8**	**469.7**
Sub-debt	(100.0)	(100.0)
MCEV of RL	**1,513.8**	**1,342.4**
Net assets/(liabilities) of other Group Companies	(130.5)	(127.8)
RL Group MCEV	**1,383.3**	1,214.6

5. Covered Business analysis of movement in embedded value (net of tax)

Movement £m	Free Surplus	Required Capital	VIF	RL MCEV
Opening MCEV	**257.0**	**715.6**	**369.7**	**1,342.4**
New business value	(231.7)	110.6	212.3	91.3
Expected existing business contribution (reference rate)	9.1	(0.6)	2.1	10.6
Transfers from VIF and required capital to free surplus	26.4	(10.1)	(12.9)	3.5
Experience variance	(5.7)	(1.9)	1.4	(6.2)
Assumption changes	–	–	–	–
Other operating variances	258.7	(6.3)	(200.1)	52.4
Operating MCEV earnings	**56.9**	**91.7**	**2.8**	**151.5**
Economic variances	8.5	(10.7)	19.2	17.0
Other non-operating variances	(2.0)	–	4.9	2.9
Total MCEV earnings	**63.4**	**81.0**	**27.0**	**171.4**
Closing MCEV	**320.4**	**796.6**	**396.7**	**1,513.8**

Commentary

The new business value shows the incremental MCEV, at the point of sale, from single premium bulk annuity and reinsurance transactions over the first six months of 2015. As highlighted in Note 22 of the primary financial statements, Rothesay Life Limited completed a £1.6bn pension buy-in during July 2015 which has not been reflected in the MCEV at 30th June 2015.

NOTES TO THE MCEV SUPPLEMENTARY FINANCIAL STATEMENTS CONTINUED

5. Covered Business analysis of movement in embedded value (net of tax) continued

The expected existing business contribution is the change in the MCEV calculated by projecting the opening assets and liabilities forward using the reference rate (interest rate plus liquidity premium). No further returns in excess of this have been assumed.

Experience variance represents the impact on MCEV of actual experience during the period and the expected assumptions at the start of the period.

Other operating variances are primarily driven by management actions to redeploy assets to continue pursuing a low risk, highly secure liability matching asset strategy. New investments over the six-month period are described in the Strategic Report. The new business value is presented at the point of sale so additional gains from redeployment are shown in this line as an operating variance.

Economic variances arise from market movements in credit spreads, illiquidity premium, interest rates and inflation compared to expectations.

6. Value of new business and acquisitions over the half year ended 30th June 2015

The following table sets out the after-tax value of the new and acquired business for the period ended 30th June 2015, calculated at the point of sale:

	Period ended 30 June 2015 £m	Year ended 31 December 2014 £m		
Rothesay Life Group MCEV for new business and acquisitions (£m)	New business	MAL acquisition	New business	Total new business and acquisition
Adjusted net worth	(121.1)	28.6	(100.4)	(71.9)
Present value of future profits	229.8	226.7	187.6	414.3
Frictional cost of required capital	(10.9)	(17.7)	(10.4)	(28.1)
Cost of non-hedgeable risks	(6.5)	(10.0)	(5.5)	(15.5)
RL Group MCEV	**91.3**	**227.6**	**71.3**	**298.9**

£1,715m of new business premiums were written in the six-month period ending 30th June 2015. This excludes regular premiums generated on the in-force inwards longevity reinsurance business written in prior years. £1,070m of this was in respect of a reinsurance transaction with Zurich UK Life, and £644m of this was in respect of a bulk annuity transaction with the Lehman Brothers Pension Scheme Trustees.

For the 31st December 2014 comparative figures, £1,397m of new business premiums were written in 2014. The acquisition of MAL increased the Group's assets under management by £2,680m during 2014.

Economic and demographic assumptions have been used at the point of sale. The MCEV modelling assumptions for new business are consistent with those used for the inforce business, as has been described in the basis of preparation.

6. Value of new business and acquisitions over the half year ended 30th June 2015 continued

The Adjusted Net Worth does not reflect the impact of managing the new and acquired business, such as profits arising from investing assets received as premiums through the rest of the financial year. This results in a lower net worth than that shown in the Financial Review on page 5.

The weighted average liquidity premia at point of sale for new business written during the period ending 30th June 2015 was 88bps. This is higher than the total in-force assumption at the end of the year of 86bps due to the prevailing economic conditions at the point the business was written.

The comparable liquidity premium figures at point of sale for acquisitions and new business written during 2014 are as follows:

- MAL acquisition: 62bps
- New business: 70bps

7. Sensitivities

The following tables show the sensitivity of the total MCEV to:

- 1% increase and decrease in the risk-free rate of interest.
- 1% increase and decrease in inflation. The covers both expense inflation and benefit inflation.
- 10 basis point increase and decrease in long-term credit default assumptions with no change to liquidity premium. This stress has not been applied to UK government guaranteed debt or supranational bonds.
- 10 basis point increase and decrease in the liquidity premium, only affecting the liabilities. The market value of assets, swap curves or risk-free rate used are therefore unchanged under these sensitivities.
- Required capital equal to 100% of LTICR plus 100% of RCR.
- No sensitivity to equity or property has been shown as Rothesay Life does not directly invest in these asset classes.
- No sensitivity to swaption implied volatility has been shown as the Company has no risk to swaption implied volatilities.
- Annuity base mortality 5% higher and lower than the central case (i.e. 105% and 95%, respectively, of the central mortality rates).
- Expenses 10% higher and lower than the central case (i.e. 110% and 90% of the central assumption). Maintenance, third-party administration, investment management and project expenses have all been subjected to the stress. There is no change to expense inflation assumption.
- Corporation tax rate being reduced to 19% in April 2017 and 18% in April 2020, in line with the changes announced in the July 2015 Summer Budget.
- No sensitivity to lapse rates has been shown as Rothesay Life is not exposed to the lapse in future premiums.

7. Sensitivities continued

Sensitivities at 30 June 2015

	Impact on IFRS pre-tax profit	Tax	Adjusted Net Worth	VIF	Debt & group adjustments	MCEV
As reported (£m)	–	–	1,117.0	496.8	(230.5)	1,383.3
Economic assumptions						
interest rates +1%	57.0	(11.5)	45.5	(129.5)	–	(84.0)
interest rates -1%	(34.2)	6.9	(27.2)	174.8	–	147.5
inflation +1%	7.1	(1.4)	5.7	81.0	–	86.7
inflation -1%	119.8	(24.3)	95.5	(104.7)	–	(9.2)
credit default + 10bps	(49.4)	10.0	(39.4)	(0.9)	–	(40.3)
credit default - 10bps	51.7	(10.5)	41.2	0.9	–	42.1
illiquidity premium +10 bps	–	–	–	143.2	–	143.2
illiquidity premium -10 bps	–	–	–	(146.9)	–	(146.9)
Required capital equal to 100% LTICR + 100% RCR	–	–	–	26.0	–	26.0
Non-economic assumptions						
Base mortality -5%	(124.2)	25.2	(99.1)	7.7	–	(91.3)
Base mortality +5%	117.6	(23.8)	93.8	(7.2)	–	86.6
Expenses +10%	(25.6)	5.2	(20.4)	2.7	–	(17.7)
Expenses -10%	25.6	(5.2)	20.4	(2.7)	–	17.7
Tax assumptions						
Proposed change in corporation tax	–	–	–	18.6	–	18.6

The impact on the MCEV, including new business, has been presented as follows:

- The impact on IFRS profit; consistent with the Note 12 of the financial statements as set out on page 22.
- The tax impact of the IFRS profit; taken by applying the current tax rate at 30th June 2015, of 20.25%, to the pre-tax profit figure.
- The impact on adjusted net worth; being the sum of the two previous items. A simplified approach has been taken to the treatment of any potential deferred tax asset created under the shock, as it has been assumed that losses have offset profit created in the current accounting period.
- The VIF component of the MCEV; which is the sum of the PVFP, CoC and CNHR.
- The sub-debt, and group adjustments, which are not affected by the sensitivities.

In each sensitivity calculation all other assumptions remain unchanged unless otherwise stated.

7. Sensitivities continued

The sensitivities above include the new business written over the year. The risk profile of the new business written was materially similar to that of the in-force business. The impact of the sensitivities applied to new business in isolation can therefore be simplified as the same proportional impacts as those shown in the previous table.

Comparative Sensitivities at 31 December 2014

	Impact on IFRS pre-tax profit	Tax	Adjusted Net Worth	VIF	Debt & group adjustments	MCEV
As reported (£m)	–	–	972.6	469.7	(227.8)	1,214.6
Economic assumptions						
interest rates +1%	24.6	(5.3)	19.4	(93.8)	–	(74.4)
interest rates -1%	0.9	(0.2)	0.7	135.2	–	135.9
inflation +1%	12.7	(2.7)	10.0	78.4	–	88.4
inflation -1%	63.1	(13.6)	49.5	(64.3)	–	(14.7)
credit default + 10bps	(41.1)	8.8	(32.3)	(0.5)	–	(32.8)
credit default - 10bps	42.7	(9.2)	33.5	0.5	–	34.1
illiquidity premium +10 bps	–	–	–	130.4	–	130.4
illiquidity premium -10 bps	–	–	–	(134.0)	–	(134.0)
Required capital equal to 100% LTICR + 100% RCR	–	–	–	22.1	–	22.1
Non-economic assumptions						
Base mortality -5%	(102.4)	22.0	(80.4)	5.4	–	(75.0)
Base mortality +5%	97.0	(20.8)	76.2	(4.9)	–	71.2
Expenses +10%	(24.3)	5.2	(19.1)	3.3	–	(15.7)
Expenses -10%	24.3	(5.2)	19.1	(3.3)	–	15.7

STATEMENT OF DIRECTORS' RESPONSIBILITIES

In Respect of the MCEV Basis Supplementary Financial Statements

When compliance with the MCEV Principles is stated, those principles require the Directors to prepare supplementary information in accordance with the methodology contained in the CFO Forum Principles and explain any non-compliance with the guidance included in the CFO Forum Principles.

In preparing this supplementary information, the Directors have done so in accordance with these CFO Forum Principles and have also fully complied with all the guidance included therein, except where highlighted above. Specifically, the Directors have:

- determined assumptions on a realistic basis, having regard to past, current and expected future experience and to relevant external data, and then applied them consistently;
- made estimates that are reasonable and consistent; and,
- provided additional disclosures when compliance with the specific requirements of the CFO Forum Principles is insufficient to enable users to understand the impact of particular transactions, other events and conditions and the Group's financial position and financial performance.

The supplementary financial statements were approved by the Board of Directors on 9th September 2015 and were signed on its behalf by:

Andrew Stoker
Chief Financial Officer
23rd September 2015

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