Rothesaylife

Rothesay Life Plc
(Formerly Rothesay Life Limited)

Interim Consolidated Financial Statements
For the six months ended 30 June 2016

Risk Management | Investment | Innovation | Excellence

Rothesay life

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STRATEGIC REPORT

The Directors present their Interim Condensed Consolidated Financial Statements for Rothesay Life Plc (formerly Rothesay Life Limited), registered number 06127279, (the 'RL Group' or 'RLP') for the six-month period ended 30 June 2016. Comparative information has been presented for the six-month period ended 30 June 2015 and the year ended 31 December 2015. All information (unless otherwise specified) has been provided on a consolidated basis for the whole Rothesay Life Plc Group.

PRINCIPAL ACTIVITIES

RLP has been established on the core pillars of high-tech and sophisticated risk management, conservative investment philosophy, continuous innovation to meet clients' needs, and excellence in delivery.

RLP was established in 2007 and has grown to be one of the leading and largest providers of regulated insurance solutions in the UK market for pensions de-risking, with over £22bn of insurance contracts executed. This now includes the acquisitions of annuity books from insurers via reinsurance with the expectation that this will be followed by a Part VII transfer.

RLP's business strategy is focused around three key areas:

i) Protect our in-force balance sheet to ensure that our obligations to policyholders can be met.
ii) Grow through writing value-driven new business.
iii) Safeguard our brand and culture.

REVIEW OF THE BUSINESS

RLP has delivered a strong performance in the period ended 30 June 2016 which included these key highlights:

- Generated IFRS profit before tax of £104m and increased assets under management to £23.9bn.
- Generated gross written premium of £6,638m (six months ended 30 June 2015: £1,868m).
- Converted Rothesay Life Limited to Rothesay Life Plc on 24 March 2016.
- Successfully completed the acquisition of a £6.4bn block of in-force individual annuities business from Aegon N.V (the 'Aegon Transaction'). This represents the single largest transaction in any format executed by the RL Group.
- The capital position of RLP remains robust under Solvency II with SCR coverage of 162%[1] (1 January 2016: 158%).

The Consolidated Statement of Financial Position is set out on page 7. The RL Group has assets under management of £23,918m (31 December 2015: £15,356m). The increase of £8,562m was primarily driven by the Aegon Transaction and interest rate movements. 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.

Assets Under Management

	30 June 2016 £m	31 December 2015 £m
Total assets	44,017	25,508
Less reinsurance assets	(525)	(274)
Less payables and financial liabilities	(19,574)	(9,878)
Assets under management	**23,918**	**15,356**

New business

New business opportunities during the first half of 2016 have been relatively muted due to the political uncertainty and economic volatility around the EU Referendum. Interest rates in particular have been near a historical low which has resulted in most pension schemes experiencing worsening funding deficits. This may have reduced affordability of full buy-outs for pension schemes.

Against this backdrop, the RL Group has been able to capitalise on its ability to acquire annuities via three different routes – defined benefit bulk annuities, strategic acquisitions and reinsurance transactions. The Aegon Transaction is an example of this flexibility and demonstrates our ability to underwrite new business even in challenging market conditions. The Aegon Transaction involved underwriting a £6.4bn portfolio, more than two-thirds of Aegon's in-force annuities. This is initially a reinsurance transaction with Aegon N.V. which will be followed by a Part VII transfer of all relevant assets and liabilities from Aegon N.V. to RLP, including the longevity reinsurance agreements that Aegon already has in place to cover the annuity portfolio. The transfer process is expected to complete in 2017. The Aegon Transaction represents our single largest transaction in any form.

1 After allowing for the impact of re-calculation of transitional capital relief and removing excess hedges (see page 3 capital and solvency management).

Investment

During the first half of 2016, the RL Group has been active in investing premiums received from new business into low-risk, highly-secure asset opportunities consistent with the business model and risk management philosophy of the RL Group. However the Aegon Transaction means that the Group is significantly under deployed as at 30 June 2016.

The RL Group continues to pursue innovative transactions that demonstrate the RL Group's ability to diversify the investment base whilst preserving the core principles of achieving high security from assets whilst generating attractive returns. The run-up to the EU Referendum saw a period of significant market volatility, and the uncertainty from the aftermath is expected to last for an extended period of time. However, the RL Group retains a significant amount of liquid assets and remains in a strong position to deploy those into attractive opportunities.

Capital and Solvency Management

Under the new solvency regime (Solvency II), the RL Group is required to hold the greater of the capital required under the new Solvency II Pillar 1 framework and the capital required under our own economic capital models, Solvency II Pillar 2. As expected, the capital required for Rothesay Life under Pillar 1 exceeds that required under our own economic capital models, consistent with our position under the previous solvency regime. The Board aim to maintain at least 130% of the regulatory minimum requirement in RLP. Whereas under the previous solvency regime, the solvency and IFRS balance sheets were closely aligned, under the new regime, the solvency balance sheet is far more sensitive to interest rates and inflation than the IFRS balance sheet.

The RL Group has implemented a solvency management framework which targets stability of the IFRS balance sheet under normal conditions and progressively shifts towards managing the stability of the solvency balance sheet under more stressed conditions. For this reason, in the immediate aftermath of the EU Referendum, the RL Group moved towards hedging the solvency balance sheet. This involved the use of additional interest rate hedges and deliberate exposure to the US Dollar as a macro-economic hedge. Given the market volatility and continuing uncertainty, these hedges remained in place as at 30 June 2016. Following the appointment of a new UK Prime Minister on 14 July 2016 the currency hedges were unwound removing the exposure to a strengthening of Sterling against the US Dollar. Until economic conditions stabilise and the RL Group removes the additional interest rate hedges, the IFRS balance sheet will be exposed to an increase in interest rates.

Under Solvency II Pillar 1, we are required to hold sufficient assets to meet:

- The RL Group's technical provisions being:
  - the liabilities of the Group calculated on a best estimate basis (the 'BEL'); plus
  - the cost of transferring non-hedgeable risks (known as the risk margin); less
  - available transitional solvency relief.
- The capital required to meet a 1-in-200 year stress (known as the solvency capital requirement or 'SCR').

Capital in excess of that required to meet the technical provisions is known as Own Funds.

REVIEW OF THE BUSINESS CONTINUED

As at 30 June 2016, the RL Group's SCR calculated using the standard formula was £1,694m (1 January 2016: £1,203m) after allowing for the impact of removing interest rate and currency hedges in excess of those required to match the BEL[1].

In order to ensure that RLP remained appropriately capitalised in anticipation of the reinsurance transaction with Aegon, Rothesay Holdco UK Limited ('RHUK'), RLP's parent company, injected £430m as equity. The equity was funded partially by debt issued by RHUK and it has therefore been agreed with the PRA to treat the equity as Tier 2 capital in RLP. On 30 June 2016, RLP's Own Funds amounted to £2,743m (1 January 2015: £1,904m) giving a coverage ratio of 162% (1 January 2015: 158%).

Business Outlook

Given that the in-force portfolio is overweight in gilts and cash following the Aegon Transaction, the second half of 2016 will be focused on deploying these assets into assets consistent with the RL Group's long-term investment strategy. The RL Group will generate profits upon the deployment of these assets. Following the outcome of the EU Referendum, the RL Group expects a prolonged period of uncertainty and increased market volatility. However, the Board expect markets post the EU Referendum to provide additional opportunities to source appropriate investments.

Rothesay's capital position has been resilient to market stress and the RL Group's solvency coverage ratio post-referendum is only a few percentage points lower than before the referendum. Management will continue to actively manage the RL Group's IFRS and Solvency II positions in line with the RL Group's risk management strategy. Despite this economic backdrop, our pipeline for pensions buy-ins and buy-outs in the medium term remains strong, comprising many larger prospective transactions.

The RL Group will continue to target new business opportunities from defined benefit pension schemes, insurance companies with annuity portfolios and through acquisition, and the RL Group will continue to apply its strict business selection criteria to underwriting to ensure that we meet or exceed target return metrics. Flexibility to transact across structures and sources, combined with risk management will enable the RL Group to be competitive and take advantage of particular market opportunities that may arise. The RL Group chooses to write both small and large transactions depending on where the economics offer the most attractive returns. The RL Group's management team expects the reinsurance followed by Part VII transfer of annuity portfolios to become more prevalent over the next few years as larger, composite insurance groups look to release encumbered capital from legacy, non-core business units to redeploy in higher growth areas. Rothesay Life, as an annuity specialist, believes it can manage such liabilities with greater capital and operational efficiency. However, the RL Group does not expect to write significant volumes of additional new business in the second half of 2016.

The RL Group is based in the UK and conducts its business in the UK. As such, the RL Group considers that the vote to leave the EU will have no material operational impact on the RL Group. The RL Group will continue to monitor the regulatory implications of the vote to leave, which will only be resolved after several years of negotiating a new relationship between the UK and the EU. Until then, the RL Group will continue to operate under the Solvency II capital regime and other EU regulations.

1 The impact of removing the excess hedges is a 2.3% reduction in the Group's SCR.

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors' of the RL 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') 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.

Directors

The Directors of the Company who served throughout the period and to the date of this report, except where noted, were:

Name	Appointed	Resigned
S Q Abbas		
R D A Berliand		
R A De Beir Jarratt		
G Earle		
N Kheraj		
R King		
A Loudiadis		
D McDonogh		
T Pearce	20 May 2016	
C D Pickup		
W J Robertson	4 January 2016	
K Satchell		30 March 2016

On behalf of the Board

Addy Loudiadis
Chief Executive Officer
7 September 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 30 JUNE 2016

	Note	Period ended 30 June 2016 £m	Period ended 30 June 2015 £m	Year ended 31 December 2015 £m
Income				
Gross premiums written	2	6,638	1,868	3,764
Premiums ceded to reinsurers		(317)	(252)	(562)
Net premiums written		**6,321**	**1,616**	**3,202**
Investment return	3	2,234	(132)	(115)
Total revenue		**8,555**	**1,484**	**3,087**
Expenses				
Claims and change in insurance contract liabilities	4	(8,851)	(1,500)	(3,199)
Change in the reinsurers' share of insurance contract liabilities	4	469	233	557
Net claims incurred and change in insurance contract liabilities		**(8,382)**	**(1,267)**	**(2,642)**
Operating expenses	5	(55)	(33)	(77)
Finance costs	6	(14)	(4)	(12)
Total operating expenses		**(69)**	**(37)**	**(89)**
Profit before tax		**104**	**180**	**356**
Income tax expense	7	(20)	(36)	(71)
Profit for the period/year		**84**	**144**	**285**

All income and expenses relate to continuing operations.

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

Notes 1–21 form an integral part of these Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Note	Period ended 30 June 2016 £m	Period ended 30 June 2015 £m	Year ended 31 December 2015 £m
Assets				
Property, plant and equipment	9	2	2	2
Financial investments	10	42,023	21,784	24,591
Reinsurance assets	11	525	285	274
Accrued interest and prepayments		227	88	165
Receivables		1,045	199	392
Cash and cash equivalents		195	113	84
Total assets		**44,017**	**22,471**	**25,508**
Equity and liabilities				
Share capital	16	264	184	184
Share premium	17	550	200	200
Retained earnings	17	744	649	660
Total equity		**1,558**	**1,033**	**1,044**
Liabilities				
Insurance contract liabilities	13	22,487	13,213	14,207
Payables and financial liabilities	14	19,574	8,089	9,878
Borrowings	15	349	100	349
Deferred tax liabilities	12	3	3	3
Accruals and deferred income		46	33	27
Total equity and liabilities		**44,017**	**22,471**	**25,508**

Notes 1–21 form an integral part of these Financial Statements.

The Financial Statements were approved by the Board of Directors on 7 September 2016 and signed on its behalf by:

Addy Loudiadis
Chief Executive Officer
7 September 2016
Company number 06127279

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 30 JUNE 2016

For the Period Ended 30 June 2016

	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
As at 1 January 2016	184	200	660	1,044
Share issuance	80	350	–	430
Profit for the period	–	–	84	84
As at 30 June 2016	**264**	**550**	**744**	**1,558**

For the Period Ended 30 June 2015

	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
As at 1 January 2015	184	200	505	889
Profit for the period	–	–	144	144
As at 30 June 2015	**184**	**200**	**649**	**1,033**

For the Year Ended 31 December 2015

	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
As at 1 January 2015	184	200	505	889
Profit for the period	–	–	285	285
Dividends paid	–	–	(130)	(130)
As at 31 December 2015	**184**	**200**	**660**	**1,044**

CONSOLIDATED CASH FLOW STATEMENT

FOR THE PERIOD ENDED 30 JUNE 2016

	Period ended 30 June 2016 £m	Period ended 30 June 2015 £m	Year ended 31 December 2015 £m
Cash flows from operating activities			
Profit for the period/year	84	144	285
Adjustments for non cash movements in net profit for the period/year			
Interest income	(209)	(177)	(351)
Interest expense	14	4	12
Depreciation	–	–	–
Tax expense	20	36	71
Net increase in operational assets			
Financial investments	(17,432)	(795)	(3,602)
Reinsurance asset	(251)	3	15
Receivables	(653)	162	(36)
Net increase in operational liabilities			
Insurance contract	8,280	1,107	2,102
Payables	940	(399)	(101)
Financial liabilities	8,788	(247)	1,230
Deferred tax	–	–	(1)
Accruals	10	–	(9)
Cash used in operations	**(409)**	**(162)**	**(385)**
Interest paid	(5)	(5)	(7)
Interest received	147	221	317
Tax paid	(52)	(47)	(66)
Net cash flows from operating activities	**(319)**	**7**	**(141)**
Cash flows from financing activities			
Proceeds from issuance of debt	–	–	249
Proceeds from issue of Ordinary Share capital (including share premium)	430	–	–
Dividends paid	–	–	(130)
Net cash inflows from financing activities	**430**	**–**	**119**
Cash flows from investing activities			
Net acquisition of plant, equipment and intangibles	–	(1)	(1)
Net cash flows from investing activities	**–**	**(1)**	**(1)**
Net increase/(decrease) in cash and cash equivalents	111	6	(23)
Cash at bank and in hand at 1 january	84	107	107
Cash and cash equivalents at statement of financial position date	**195**	**113**	**84**

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Accounting Policies

(a) General Information

RLP is a registered company incorporated in the UK. 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 30 June 2016 have been prepared in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the EU. The Condensed Consolidated Interim Financial Statement should be read in conjunction with the Annual Financial Statements for the year ended 31 December 2015, which has been prepared in accordance with IFRS as adopted by the EU.

The Consolidated Financial Statements of the RL Group are presented in Sterling (£) rounded to the nearest million (m) except where otherwise stated.

RLP presents its Consolidated Statement of Financial Position broadly in order of liquidity.

Assets and liabilities are offset and the net amount reported in the Consolidated 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 RL Group has not adopted any new standards or made changes to existing standards.

Note 2 – Segmental Analysis

All of the RL Group's business risks and returns are within one business segment (i.e. long-term insurance business). The RL Group's operations are materially within the UK. 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 disclosed below:

	Regular premiums			Single premiums		
	Period ended 30 June 2016 £m	Period ended 30 June 2015 £m	Year ended 31 December 2015 £m	Period ended 30 June 2016 £m	Period ended 30 June 2015 £m	Year ended 31 December 2015 £m
Group pension bulk annuities	134	137	272	12	660	2,335
Assumed reinsurance premiums	–	–	–	6,492	1,071	1,157
Total gross premiums written	**134**	**137**	**272**	**6,504**	**1,731**	**3,492**

Note 3 – Investment Return

The RL Group's investment return includes fair value gains and losses. Interest is included on an accrual basis.

	Period ended 30 June 2016 £m	Period ended 30 June 2015 £m	Year ended 31 December 2015 £m
Interest income on financial investments at fair value through profit and loss	209	177	351
Realised gains on financial investments	16	352	(925)
Unrealised gains/(losses) on financial investments	2,009	(658)	463
Investment expenses	–	(3)	(4)
Total investment return	**2,234**	**(132)**	**(115)**

The unrealised gains during the six-month period were due to the impact of falling interest rates (which led to an offsetting increase in insurance liabilities).

Note 4 – Net Claims and Change in Insurance Contract Liabilities

	Period ended 30 June 2016 £m	Period ended 30 June 2015 £m	Year ended 31 December 2015 £m
Claims paid			
Gross claims paid	(652)	(394)	(1,056)
Reinsurance recoveries	298	237	531
Change in the provision for claims outstanding	–	1	–
Total claims and changes in insurance liabilities paid	**(354)**	**(156)**	**(525)**
Change in insurance contract liabilities			
Gross change in insurance contract liabilities	(8,199)	(1,107)	(2,143)
Reinsurance recoveries	171	(4)	26
Total change in insurance liabilities	**(8,028)**	**(1,111)**	**(2,117)**
Net claims and change in insurance contract liabilities	(8,382)	(1,267)	(2,642)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 5 – 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 2016 £m	Period ended 30 June 2015 £m	Year ended 31 December 2015 £m
Acquisition costs	35	25	52
Administration expenses – recurring	6	4	10
Administration expenses – Projects and other one-off expenses	14	4	15
Total operating expenses	**55**	**33**	**77**

Note 6 – Finance Costs

	Period ended 30 June 2016 £m	Period ended 30 June 2015 £m	Year ended 31 December 2015 £m
Interest payable on collateral	2	2	4
Interest payable on third-party borrowings	10	2	3
Interest payable on borrowing from affiliates	2	–	5
Net finance costs	**14**	**4**	**12**

Debt issuance expenses associated with the issue of subordinated loans will be recognised over the term of the loan.

Note 7 – Taxation

The major components of the income tax expense for the period ended 30 June 2016 and 30 June 2015 and the year ended 31 December 2015 are:

(a) Tax Charged in the Income Statement

	Period ended 30 June 2016 £m	Period ended 30 June 2015 £m	Year ended 31 December 2015 £m
Current income tax:			
UK corporation tax	20	36	72
Total current income tax	**20**	**36**	**72**
Deferred tax:			
Origination and reversal of temporary differences	–	–	(1)
Total deferred tax	**–**	**–**	**(1)**
Total expense in the Consolidated Statement of Comprehensive Income	**20**	**36**	**71**

(b) Reconciliation of the Total Tax Charge

The tax expense in the Consolidated Statement of Comprehensive Income for the period and the standard rate of corporation tax in the UK of 20% (30 June 2015: 20.25% and 31 December 2015: 20.25%) is reconciled below:

	Period ended 30 June 2016 £m	Period ended 30 June 2015 £m	Year ended 31 December 2015 £m
Profit before tax	104	180	356
Tax calculated at UK standard rate of corporation tax	21	37	72
Expenses not deductible for tax purposes	–	–	–
Utilisation of losses surrendered by group undertakings	(1)	(1)	(1)
Total tax expense reported in the Consolidated Statement of Comprehensive Income	**20**	**36**	**71**

Note 8 – Investment in Unconsolidated Structured Entities

The RL 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 RL Group does not have the power to affect their returns.

As at 30 June 2016, our total interest in such entities, reflected on the RL Group's Consolidated Statement of Financial Position and classified as financial investments held at fair value through profit or loss, was £3,317m (30 June 2015: £1,782m and 31 December 2015: £2,892m).

Note 9 – Property, Plant and Equipment

	Computer equipment £m	Furniture and fittings £m	Total £m
Cost			
As at 1 January 2016	0.2	2.2	2.4
Additions	–	0.1	0.1
As at 30 June 2016	**0.2**	**2.3**	**2.5**
Accumulated depreciation			
As at 1 January 2016	0.1	0.4	0.5
Charge for the half year	–	0.2	0.2
As at 30 June 2016	**0.1**	**0.6**	**0.7**
Net book value			
As at 30 June 2016	**0.1**	**1.7**	**1.8**
As at 31 December 2015	0.1	1.8	1.9
As at 30 June 2015	0.2	1.9	2.1

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Note 10 – Fair Value

Determination of Fair Value and Fair Values Hierarchy

The RL 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 RL 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 are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions and liability pricing obtained via pricing services. Where prices have not been determined in an active market, the fair values are based on broker quotes and the RL 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 30 June 2016, 30 June 2015 and 31 December 2015:

30 June 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial investments:				
Collective investment schemes	893	–	–	893
Government and agency obligations	6,418	4,358	–	10,776
Corporate debt	–	8,883	265	9,148
Derivative assets	–	15,298	–	15,298
Collateralised agreements and financing	–	3,364	2,380	5,744
Certificate of deposits	–	164	–	164
Total financial investments at fair value	**7,311**	**32,067**	**2,645**	**42,023**
Financial liabilities:				
Derivative financial instruments	–	15,706	–	15,706
Collateralised financing agreements	–	1,885	–	1,885
Total financial liabilities at fair value	**–**	**17,591**	**–**	**17,591**

Note 10 – Fair Value continued

30 June 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial investments:				
Collective investment schemes	790	–	–	790
Government and agency obligations	2,802	2,845	–	5,647
Corporate debt	–	4,973	438	5,411
Derivative assets	–	5,738	2	5,740
Collateralised agreements and financing	–	4,085	–	4,085
Certificate of deposits	–	111	–	111
Total financial investments at fair value	**3,592**	**17,752**	**440**	**21,784**
Financial liabilities:				
Derivative financial instrument	–	5,381	12	5,393
Collateralised financing agreements	–	1,933	–	1,933
Total financial liabilities at fair value	**–**	**7,314**	**12**	**7,326**

31 December 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial investments:				
Collective investment scheme	470	–	–	470
Government and agency obligations	3,241	2,896	–	6,137
Corporate debt	–	5,610	182	5,792
Derivative assets	–	6,934	3	6,937
Collateralised agreements and financing	–	3,196	1,939	5,135
Certificate of deposits	–	120	–	120
Total financial investments at fair value	**3,711**	**18,756**	**2,124**	**24,591**
Financial liabilities:				
Derivative financial instrument	–	6,906	11	6,917
Collateralised financing agreements	–	1,886	–	1,886
Total financial liabilities at fair value	**–**	**8,792**	**11**	**8,803**

Approximately 6% 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 £m	Collateralised agreements £m	Derivatives £m	Total £m
At 1 January 2016	**182**	**1,939**	**(8)**	**2,113**
Acquisition at market value	–	–	–	–
Total gains in the Statement of Comprehensive Income:				
Unrealised gains	83	346	–	429
Realised gain	–	–	–	–
Transfer into Level 3	–	–	–	–
Transfer out of Level 3	–	–	8	8
Purchase	–	95	–	95
At 30 June 2016	**265**	**2,380**	**–**	**2,645**
At 1 January 2015	**248**	**–**	**(5)**	**243**
Acquisition at market value	–	–	–	–
Total gains in the Statement of Comprehensive Income:				
Unrealised losses	(11)	–	(5)	(16)
Realised gain	–	–	–	–
Transfer into Level 3	213	–	–	213
Transfer out of Level 3	–	–	–	–
Purchases/(sales)	(12)	–	–	(12)
At 30 June 2015	**438**	**–**	**(10)**	**428**
At 1 January 2015	**248**	**–**	**(5)**	**243**
Acquisition at market value	–	–	–	–
Total gains in the Statement of Comprehensive Income:				
Unrealised gain	2	–	(3)	(1)
Realised gain	1	–	–	1
Transfer into Level 3	–	456	–	456
Transfer out of Level 3	(137)	–	–	(137)
Purchases	68	1,483	–	1,551
At 31 December 2015	**182**	**1,939**	**(8)**	**2,113**

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

Note 10 – Fair Value continued

During the period, the RL 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 £nil (31 December 2015: £213.1m) and from Level 3 to Level 2 is £8m (Full year 2015: £nil). The reason for the change is a change in the availability of observable market transactions for the same or similar instruments.

Note 11 – Reinsurance Assets

The reinsurers' share of the insurance contract liabilities is as follows:

	Period ended 30 June 2016 £m	Period ended 30 June 2015 £m	Year ended 31 December 2015 £m
Reinsurance of insurance contract liabilities	525	285	274
Total reinsurance of insurance contract liabilities	**525**	**285**	**274**

Under the outward reinsurance contracts, the RL 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 longevity 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 13.

At 30 June 2016, 30 June 2015 and 31 December 2015 the RL Group conducted an impairment review of the reinsurance assets and found no impairment necessary.

Note 12 – Deferred Taxation Liabilities

Deferred tax balances comprise:	Period ended 30 June 2016 £m	Period ended 30 June 2015 £m	Year ended 31 December 2015 £m
Temporary differences between the Financial Statements and the tax deductions for insurance liabilities	(3)	(3)	(3)
Total temporary differences	**(3)**	**(3)**	**(3)**

NOTES TO THE FINANCIAL STATEMENTS
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Note 12 – Deferred Taxation Liabilities continued

The movements in the deferred tax balances were as follows:

	Period ended 30 June 2016 £m	Period ended 30 June 2015 £m	Year ended 31 December 2015 £m
At 1 January	(3)	(3)	(3)
Consolidation adjustment	–	–	–
Capital allowances	–	–	–
Transitional adjustments	–	–	–
At Financial Statement date	(3)	(3)	(3)

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

Further reductions to the UK corporation tax rate were announced in the March 2016 Budget. The changes propose to reduce the rates to 17% by 1 April 2020. The changes had not been substantively enacted at the balance sheet date and therefore, are not recognised in these Financial Statements. Had they been substantively enacted they would reduce the deferred tax asset at the 30 June 2016 by £0.07m.

Note 13 – Insurance Contract Liabilities

Key Valuation Assumptions

This note details the assumptions with the greatest impact on the RL Group's insurance contract liability valuations. Note that insurance contract liabilities include reinsurance inwards, i.e. where the RL Group has reinsured a third-party insurer.

(a) Mortality Assumptions

Mortality bases have been determined separately for each insurance contract. The resulting assumptions are equivalent to using the base mortality and improvement assumptions set out in the table below:

	Base mortality			
	30 June 2016		30 June 2015	31 December 2015
	Pensions originated	Insurance originated	All	All
Males	94.6% S2PMA	110.9% PMA08	101.0% S1PMA	97.2% S2PMA
Females	94.6% S2PFA	110.9% PFA08	101.0% S1PFA	97.2% S2PFA

	Mortality improvements		
	30 June 2016	30 June 2015	31 December 2015
Males	CMI_2014_M[2.7%]	CMI_2012_M[2.7%]	CMI_2014_M[2.7%]
Females	CMI_2014_F[2.2%]	CMI_2012_F[2.2%]	CMI_2014_F[2.2%]

Note 13 – Insurance Contract Liabilities continued

For pension scheme originated business ultimate mortality has been used in all cases and mortality improvements are applied assuming mortality rates are as at 2007. For insurance originated business select adjustments are applied to the above basis for certain policies and mortality improvements are applied assuming mortality rates are as at 2008.

Recent mortality experience is analysed annually for each pension scheme (individually or grouped). The last review was carried out as at the end of 2015. Where the data is 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 RL Group takes into account reinsurance prices, and external and proprietary socio-demographic models, based on postcode and other factors.

For pension scheme business mortality assumptions are generally set with reference to the CMI S2 series of mortality 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.

For the reinsured blocks of in payment Zurich Assurance annuities and most of the reinsured block of in payment Aegon annuities, the CMI 08 series of annuitant mortality tables are used to value the pension liabilities. These are expected to better reflect the shape of mortality for insured blocks.

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. There are no changes to the prudent margins at 30 June 2016.

(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 yield (internal rate of return) on the combined matching assets. It is determined based on the yield obtainable on the basket of assets matching the applicable Insurance Contract Liabilities at 30 June 2016.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 13 – Insurance Contract Liabilities continued

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

	30 June 2016	30 June 2015	31 December 2015
Equivalent valuation discount rate	2.3% p.a.	3.1% p.a.	3.21% p.a.

This reflects a 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. (30 June 2015: 3bps p.a. and 31 December 2015: 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 30 June 2016, 30 June 2015 and 31 December 2015 by asset category:

	Average yield reduction		
Asset class	30 June 2016	30 June 2015	31 December 2015
UK Government approved securities	0 bps	0 bps	0 bps
Corporate bonds after allowance for covering credit default swaps	0 bps	0 bps	0 bps
Secured lending	7 bps	6 bps	6 bps
Supranational/other sovereign	22 bps	19 bps	15 bps
Secured residential lending	28 bps	26 bps	24 bps
Corporate bonds	75 bps	N/A	N/A
Infrastructure	91 bps	83 bps	83 bps
Other	83 bps	36 bps	56 bps
Overall yield reduction	**23 bps**	**17 bps**	**18 bps**

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

Note 13 – Insurance Contract Liabilities continued

(c) Expenses

An allowance is made for future overhead maintenance expenses following an investigation into the total costs incurred by the RL Group during 2015 and the projected 2016 expenses. The investigation was updated during the period to allow for the additional expected future costs as a result of the Aegon Transaction. 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 ('TPA') agreements 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 30 June 2016 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. (30 June 2015: 0.25% p.a. and 31 December 2015: 0.25% p.a.) or 1.00% p.a. (30 June 2015: 1.00% p.a. and 31 December 2015: 1.00% p.a.) for the TPA expenses depending on the TPA provider.

Other Assumptions

An important actuarial assumption relates to the future rate of escalation of certain benefits, but as the RL Group is holding appropriate matching assets (such as index-linked bonds and inflation-linked swaps with associated caps and floors), the impact on the overall financial position of the RL 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.

NOTES TO THE FINANCIAL STATEMENTS
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Note 13 – Insurance Contract Liabilities continued
(d) Movements in Insurance Contract Liabilities

	30 June 2016			31 December 2015		
	Insurance liabilities £m	Reinsurance assets £m	Net liabilities £m	Insurance liabilities £m	Reinsurance assets £m	Net liabilities £m
Carrying amount at 1 January	14,207	274	**13,933**	12,106	289	**11,817**
Increase in respect of new business	6,210	116	**6,094**	3,320	9	**3,311**
Release of liabilities/ liabilities discharged	(518)	4	**(522)**	(617)	2	**(619)**
Effect of non-economic assumption changes	–	–	**–**	(83)	(103)	**20**
Effect of economic assumption changes	2,588	131	**2,457**	(520)	77	**(597)**
Other	–	–	**–**	1	–	**1**
Closing balance at 30 June/31 December	**22,487**	**525**	**21,962**	**14,207**	**274**	**13,933**

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:

Net Increase/(decrease) in liabilities Change in assumptions used	30 June 2016 £m	31 December 2015 £m
Valuation interest rates	2,700	(441)
Inflation	(243)	(156)
Demographics	–	(24)
Expenses	–	44
Total change in assumptions used	**2,457**	**(577)**

Note 13 – Insurance Contract Liabilities continued

As shown previously the valuation interest rate decreased by 0.9% over the period which led to the £2.7bn movement in the liability shown. This change was predominantly through movements in LIBOR with 30-year rates falling close to 100bps over the period.

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 liabilities, profit before tax ('PBT'), and equity. The analysis is based on a change in a single assumption whilst holding all other assumptions constant.

30 June 2016	Change in assumptions	Increase/ (decrease) on liabilities £m	Increase/ (decrease) on PBT £m	Impact on equity £m
Annuitant mortality	+%5 qx	(97)	97	78
Annuitant mortality	–%5 qx	101	(101)	(81)
Interest rate	+100bps	(2,961)	(74)	(59)
Interest rate	–100bps	3,777	180	144
Inflation	+100bps	1,235	(25)	(20)
Inflation	–100bps	(1,107)	101	80
Long-term credit default assumption	+10bps	1	(92)	(73)
Long-term credit default assumption	–10bps	(1)	91	73
Expenses	+10%	45	(45)	(36)

31 December 2015	Change in assumptions	Increase/ (decrease) on liabilities £m	Increase/ (decrease) on PBT £m	Impact on equity £m
Annuitant mortality	+%5 qx	(86)	86	68
Annuitant mortality	–%5 qx	90	(90)	(72)
Interest rate	+100bps	(1,934)	29	23
Interest rate	–100bps	2,474	65	(52)
Inflation	+100bps	912	11	9
Inflation	–100bps	(845)	59	47
Long-term credit default assumption	+10bps	1	(53)	(42)
Long-term credit default assumption	–10bps	(1)	54	43
Expenses	+10%	29	(29)	(23)

The sensitivities shown above capture non-linearity effects, which may be significant following large market movements. The risk management strategy adopted can result in the RL Group being immunised to market movements in either direction.

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.

NOTES TO THE FINANCIAL STATEMENTS
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Note 13 – Insurance Contract Liabilities continued

The table below shows the impact of the reinsurance on the sensitivity to mortality risk, a reduction of 83% (31 December 2015: 77%) compared to the sensitivity of the gross insurance liability.

30 June 2016	Change in assumptions	Increase/ (decrease) on insurance liabilities £m	Increase/ (decrease) on reinsurance asset £m	Net increase/ (decrease) on liabilities £m
Annuitant mortality	+%5 qx	(576)	479	(97)
Annuitant mortality	–%5 qx	616	(515)	101

31 December 2015	Change in Assumptions	Increase/ (decrease) on liabilities £m	Increase/ (decrease) on PBT £m	Impact on equity £m
Annuitant mortality	+%5 qx	(378)	292	(86)
Annuitant mortality	–%5 qx	403	(314)	89

The annuitant mortality sensitivity is defined in terms of a qx stress where qx represents the probability of a life dying during the year. As such 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 14 – Payables and Financial Liabilities

	Period ended 30 June 2016 £m	Period ended 30 June 2015 £m	Year ended 31 December 2015 £m
Derivative financial instruments	15,706	5,393	6,917
Collateralised financing agreements	1,885	1,933	1,886
Deposits received as collateral from third parties	1,248	381	753
Deposits received as collateral for derivatives from participating interest	455	327	227
Amounts due to Group undertakings	18	15	21
Current tax payable	20	37	52
Other payables	242	3	22
Total payables and financial liabilities	**19,574**	**8,089**	**9,878**

Note 15 – Borrowings

The RL Group's borrowings are as follows:

	Period ended 30 June 2016 £m	Period ended 30 June 2015 £m	Year ended 31 December 2015 £m
Affiliate subordinated loan	100	100	100
Subordinated loan notes	249	–	249
Total borrowings	**349**	**100**	**349**

The amounts outstanding at 30 June 2016 include £100m of floating rate perpetual callable loan notes and £249m unsecured, subordinated loan notes.

The £100m of floating rate perpetual callable loan notes are callable at par on 21 December 2017 and every six-months thereafter. They carry deferrable interest at six-month Sterling LIBOR plus 425bps p.a. The notes are unsecured and classified as qualifying dated Tier 2 securities for the purpose of the RL Group's regulatory capital requirements. The notes are issued to an affiliate. The notes have a carrying value of £100m and a fair value of £100m (30 June 2015: £100m, 31 December 2015: £100m).

The £249m subordinated loan notes mature in 2025 with a fixed 8% coupon paid annually in arrears. The notes are unsecured and classified as qualifying dated Tier 2 securities for the purpose of the RL Group's regulatory capital requirements. The notes were issued and initially recognised at fair value of £249m being issue proceeds of £250m less capitalised issue costs of £1m.

At 30 June 2016, the notes have a carrying value of £249m which is calculated based on an amortised cost basis, and a fair value of £248m (31 December 2015: £258m), as determined by traded levels. The notes are issued through the public debt markets.

For the period ended 30 June 2016, an interest expense of £12m was recognised in the Consolidated Statement of Comprehensive Income in respect of these borrowings.

Note 16 – Share Capital

At 30 June 2016 and 30 June 2015, share capital comprised:

	30 June 2016		30 June 2015		31 December 2015	
	Number	£m	Number	£m	Number	£m
Authorised share capital (Ordinary Shares of £1 each)	264,380,809	264	183,900,840	184	183,900,840	184

On 11 April 2016, the Company allotted 73,516,986 shares of £1.00 each to RHUK, the ultimate parent of RLP. The total cash consideration received was £390m, reflecting share premium of £317m.

NOTES TO THE FINANCIAL STATEMENTS
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Note 16 – Share Capital continued
On 30 June 2016, the Company allotted 6,962,983 share of £1.00 each to RHUK, the ultimate parent of RLP. The total cash consideration received was £40m, reflecting share premium of £33m.

Note 17 – Share Premium Account and Reserve

	Share premium £m	Retained earnings £m
At 1 January 2016	200	660
Profit for the period	–	84
Share issuance	350	–
At 30 June 2016	550	744

	Share premium £m	Retained earnings £m
At 1 January 2015	200	505
Profit for the period	–	144
At 30 June 2015	200	649

	Share premium £m	Retained earnings £m
At 1 January 2015	200	505
Profit for the period	–	285
Dividends paid	–	(130)
At 31 December 2015	200	660

Note 18 – Capital Management
The RL Group's capital resources are of critical importance. The objectives in managing its capital are:

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

From 1 January 2016, the RL Group was required to operate under the new Solvency II regime. The RL Group had sufficient capital available to meet its regulatory capital requirements at all times during the six months to 30 June 2016.

Note 18 – Capital Management continued

Under the Solvency II regime, the RL Group is required to hold sufficient assets to meet:

- The RL Group's technical provisions, being:
  - the liabilities of the RL Group calculated on a best estimate basis (the 'BEL'); plus
  - the cost of transferring non-hedgeable risks (known as the Risk Margin); less
  - available transitional solvency relief.
- The capital required to meet a 1-in-200-year stress (calculated on a prescribed basis and known as the solvency capital requirement or 'SCR').

Capital in excess of that required to meet the technical provisions is known as Own Funds. As at 30 June 2016, Own Funds for the RL Group are £2,743m (1 January 2016: £1,904m) made up as follows:

	30 June 2016 £m	1 January 2016 £m
Total IFRS equity	1,558	1,044
Liability valuation differences and other adjustments	590	511
Total Tier 1	**2,148**	**1,555**
IFRS valuation of subordinated debt	349	349
Debt valuation differences	16	–
Tier 2 equity	230	–
Total Tier 2	**595**	**349**
Own Funds	**2,743**	**1,904**

The RL Group holds both debt and equity to optimise its capital structure and improve shareholder return. During the period to 30 June 2016, £430m of equity was issued by the RL Group. As £230m of the equity was funded by debt at RHUK, the RL Group has agreed with the PRA that it will classify this equity as Tier 2 capital at the RL Group level.

NOTES TO THE FINANCIAL STATEMENTS
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Note 18 – Capital Management continued
Movement in Own Funds

	30 June 2016 £m
Closing Solvency I balance (31 December 2015)	**1,369**
Impact of change of solvency regime	**535**
Opening balance (1 January 2016)	**1,904**
New business	388
Management of in-force book	53
Expenses	(41)
Demographic experience variance	(5)
Other	4
Operating surplus	**2,399**
Economic profits	58
Non-recurring expenses	(14)
Finance costs	(14)
Tax	(20)
Share issuance	430
Closing balance as at 30 June 2016	**2,743**

As part of the transitional arrangements in relation to the introduction of Solvency II, the RL Group is permitted to take credit for transitional solvency relief which amortises to zero over the next 16 years. Recalculating the transitional solvency relief as at 30 June 2016 results in an increase in the amount of solvency relief to reflect the change in economic conditions since the Aegon Transaction and this is allowed for in the relevant line items in the analysis above.

The capital position is sensitive to changes in market conditions, due to changes in the value of the assets and the effect that changes in investment conditions may have on the value of the liabilities. The RL Group seeks to mitigate these risks through the use of derivative hedges and reinsurance. Management monitors market conditions and emerging longevity experience on a regular basis. As these conditions change, management will take remedial action such as adjustment of hedging strategies and redeployment of assets as appropriate.

Note 19 – Related-Parties Disclosures
Ultimate Holding Company
At the balance sheet date, the immediate and ultimate parent company was RHUK, which is incorporated in the United Kingdom. Company Financial Statements are prepared for RHUK, copies of which can be obtained from the Company Secretary, Level 25, The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AB.

Related-Party Transactions
The RL 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 19 – Related-Parties Disclosures continued

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

	30 June 2016 £m	30 June 2015 £m	31 December 2015 £m
Statement of Comprehensive Income			
Realised/unrealised losses on financial assets and liabilities	(625)	(16)	(134)
Interest income on bank deposits	1	–	–
Income from money market securities held in collective investment schemes	–	1	3
Interest on collateralised agreements and financing	12	15	37
Service fee charges	(2)	(2)	(3)
Investment expenses and charges	(1)	(1)	(7)

	30 June 2016 £m	30 June 2015 £m	31 December 2015 £m
Statement of Financial Position			
Derivative financial assets and liabilities	(1,967)	(989)	(1,355)
Collateralised agreements and financing	942	1,429	914
Collective investments schemes	891	772	470
Accrued interest and prepayments	–	83	10
Amounts payable to related-parties	(455)	(233)	(227)

The notional amount of derivatives contracts outstanding with Related-Parties as at 30 June 2016 was £32,599m (30 June 2015: £38,150m and 31 December 2015: £36,465m).

The RL Group continues to develop fully independent infrastructure and computer systems. As of 1 September 2015, the RL Group fully migrated its middle office and back office functions to an independent third party. Any services/support which remains is provided by Goldman Sachs and are provided on an arm's-length basis under a Transitional Service Agreement ('TSA').

Transactions with Key Management Personnel

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

There are no material transactions between the RL Group and its key management personnel other than transactions discussed below.

The remuneration of key management personnel of the Group as at 30 June 2016 was salaries, bonus, and other benefits of £1.4m (period ended 30 June 2015: £1.2m and year ended 31 December 2015: £9.1m), equity-based compensation payments of £0.1m (period ended 30 June 2015: £nil and year ended 31 December 2015: £nil) and pensions costs of £0.1m (period ended 30 June 2015: £0.1m and year ended 31 December 2015: £0.1m).

NOTES TO THE FINANCIAL STATEMENTS
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Note 19 – Related-Parties Disclosures continued

The table below represents transactions between RLP and its subsidiary Rothesay Assurance Limited ('RAL'), its parent RHUK and other group company Rothesay Pensions Management Limited ('RPML').

Transactions with RPML

	30 June 2016 £m	30 June 2015 £m	31 December 2015 £m
Statement of Comprehensive Income			
Cost transfer	(18)	(16)	(33)

	30 June 2016 £m	30 June 2015 £m	31 December 2015 £m
Statement of Financial Position			
Other payables	17	15	20

Transactions with RAL

	30 June 2016 £m	30 June 2015 £m	31 December 2015 £m
Statement of Comprehensive Income			
Interest on collateral	–	–	(1)
Realised/unrealised gains on financial assets and liabilities	–	–	135
Cost transfer	–	–	1

	30 June 2016 £m	30 June 2015 £m	31 December 2015 £m
Statement of Financial Position			
Investment in subsidiary undertaking	3	421	3
Derivative financial instruments	–	135	–
Other receivables	–	1	–
Other payables	–	(111)	–
Capital	–	–	–
Dividends	180	–	180

Transactions with RHUK

	30 June 2016 £m	30 June 2015 £m	31 December 2015 £m
Statement of Comprehensive Income			
Interest on collateralised agreements and financing	1	–	–

Note 19 – Related-Parties Disclosures continued

	30 June 2016 £m	30 June 2015 £m	31 December 2015 £m
Statement of Financial Position			
Other receivables	30	11	11
Capital	814	384	384
Dividends	(130)	–	(130)

Note 20 – Subsidiary Undertakings

Subsidiary Undertakings

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

Group undertakings	Country of Incorporation	Primary business operation	2016 % equity interest	2015 % equity interest
Rothesay Assurance Limited (Formerly known as MetLife Assurance Limited)	UK	Services company	100%	100%
LT Mortgage Financing Limited	UK	Services company	100%	100%

The above subsidiary undertakings are registered in the UK. The registered office and principal place of business for all subsidiary undertakings is Level 25, The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AB. LT Mortgage Financing Limited has remained dormant during the first half of 2016. Rothesay Assurance Limited is in the process is in the process of being de-authorised and will be wound up in due course.

Note 21 – Financial Commitments and Contingencies

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 2016 £m	30 June 2015 £m	31 December 2015 £m
Not later than one year	1	1	1
Later than one year and no later than five years	7	4	3
Later than five years	8	2	3
Total minimum lease payments	**16**	**7**	**7**

The Company signed a new lease during the period for an additional floor of The Leadenhall Building. This is to accommodate the growth of the business.

NOTES TO THE FINANCIAL STATEMENTS
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Note 21 – Financial Commitments and Contingencies continued

Other Commitments

During previous years the RL Group executed transactions to purchase partly-funded bonds. The RL Group expects to pay a further £173m within the next five years (30 June 2015: £197m and 31 December 2015: £197m), £25m of this being due within 12 months of the financial reporting date (30 June 2015: £24m and 31 December 2015: £24m).

	30 June 2016 £m	30 June 2015 £m	31 December 2015 £m
Not later than one year	25	24	24
Later than one year and no later than five years	148	173	173
Later than five years	–	–	–
Total other commitments	**173**	**197**	**197**

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