Rothesaylife

Rothesay Holdco UK Limited

Interim Condensed Consolidated Financial Statements
for the six months ended 30 June 2017

What we do

Rothesay Life is one of the leading and largest providers of regulated insurance solutions in the UK market for pensions de-risking, with over £22 billion of insurance contracts executed. We think originally and work diligently to achieve long-term pension security for all policyholders.

Our deep-rooted expertise and forward thinking approach gives us the ability to create sophisticated and robust insurance solutions, tailored for every client.

Strategic report

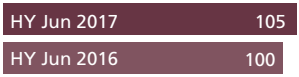
2017 Year to date highlights

- **New business:** Completed five transactions, including upsizes of existing deals, generating premiums of £610m.
- **Business transfers:** Successfully completed Part VII business transfers of the annuity portfolios acquired from Zurich Life and Aegon N.V.
- **IFRS pre-tax profit:** Generated interim IFRS pre-tax profits of £105m (period ended 30 June 2016: £100m and year ended 31 December 2016: £328m).
- **Solvency position:** Remained cautious in investment markets and focused on pro-active risk management ensuring robust solvency position and allowing repayment of £240m of bank debt. As at 30 June 2017, the Group's regulated insurance company Rothesay Life Plc (RLP) had SCR coverage of 171% (30 June 2016: 162% and 31 December 2016: 180%[1]) and Economic Capital coverage at RLP of 321% (30 June 2016: 340% and 31 December 2016: 310%).
- **Market Consistent Embedded Value (MCEV):** MCEV has increased by 5% to £2,288m (30 June 2016: £2,055m and 31 December 2016: £2,173m), driven largely by new business and investment performance.

Key performance indicators

New business premiums (£m)

IFRS profit before tax (£m)



Assets under management (£bn)

Economic capital coverage (%)

RLP Solvency II SCR coverage (%)

Market consistent embedded value (£bn)

1 RLP Coverage of 177% was disclosed in 31 December 2016 financial statements reflecting an allowance for the first linear amortisation of the transition.

Review of the business

Market backdrop

The first six months of the year saw considerable political uncertainty following the general election in the UK. Although long term interest rates and exchange rates have remained volatile, credit spreads have continued to tighten. We anticipate that the market uncertainty and volatility will continue throughout the remainder of 2017 and into 2018 as the political process of negotiating and finalising the details of the UK's exit from the EU is completed.

As a result of the uncertain market backdrop, we remain cautious in investment markets and have not yet invested all of the premiums received during 2016 and 2017. The Group has a strong track record of being patient and adapting to changing market conditions and our large holding of cash and gilts should allow us to take advantage of investment opportunities as they arise. Our sophisticated risk management systems facilitate a rapid response to new prospects and we anticipate generating profits on these assets as we invest them according to our long-term investment strategy.

From a Brexit perspective, the Group remains well positioned. While we invest and reinsure in overseas markets, our activities are largely unaffected and we do not have material passporting challenges because our primary business is domiciled in the UK.

Group performance

Over the first half of 2017, the Group generated IFRS profit before tax of £105m. Continued focus on value and risk in underwriting led to a 5% increase in MCEV to £2,288m.

During the period, the Group wrote over £600m of new business. This was made up of deals with two new pension scheme clients and upsize of three existing deals. We are always pleased when existing clients choose to place more business with us because of the confidence this demonstrates in our service and execution.

In the first half of 2017, we have remained overweight in cash and gilts and while we continue to seek investment opportunities in the UK and overseas we have been cautious. Areas we have invested in actively include financing the provision of equity release mortgages to older borrowers. By providing funding to back equity release mortgages, the Group is helping the over 55s to access the equity in their houses, without the need for them to move. Such mortgages also provide an attractive risk adjusted return to back our annuity business and we anticipate continuing to expand our activity in this area. We have also continued to selectively make low loan-to-value loans secured against prime commercial property both in the UK and the US.

As part of the Aegon transaction during 2016, the Group borrowed £240m from a syndicate of banks and injected the proceeds into RLP as equity. These loans were always intended to provide temporary bridging capital and, given the strong solvency position maintained by the Group, we were able to repay this loan during the period. The solvency position of the Group remains robust with SCR coverage of 171% (30 June 2016: 147% and 31 December 2016: 164[1]%).

Our policyholders

During the first six months of 2017, the Part VII transfers of the Zurich Life and Aegon N.V. annuity portfolios were approved with effective dates of 6 June 2017 and 30 June 2017 respectively. As a result, the Group now has over 300,000 individual policyholders. We pride ourselves on the quality of the service we provide so it was vital that the transition from Zurich Life and Aegon N.V. to Rothesay Life went smoothly. A seamless transition was achieved through the hard work of our in-house team and the dedicated team at our new third party administrator, Capita Employee Benefits Ltd.

Risk, capital and asset management

The Group manages the risks associated with our annuity business 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.

Residual risk exposures and the Group's capital position are reported and monitored daily using a sophisticated and fully integrated risk management system, which allows the Group to manage its financial exposures dynamically in changing market conditions. New business is accretive to shareholder returns and helps the business achieve economies of scale.

The Group continues to hedge a large proportion of the longevity risk associated with our business and we were 83% reinsured at the period end (period end 30 June 2016: 83% and year ended 31 December 2016: 86%). During the half year, we were pleased to have executed a reinsurance swap transaction with a new entrant to the UK longevity market and one of our shareholders, the MassMutual Financial Group.

Principal risks remain unchanged from the year ended 31 December 2016.

1 RHUK Coverage of 160% was disclosed in 31 December 2016 financial statements reflecting an allowance for the first linear amortisation of the transition.

Review of the business continued

Our people

Our people are a key strength of the Group and we have continued to recruit talent carefully to ensure we are well placed to meet future challenges and the continued growth of the business. During the period, headcount has increased from 139 to 158.

We were delighted to receive the award for Best Life Insurer/Annuity Provider 2017 from the Insurance Investment Exchange.

Our shareholders

Goldman Sachs has backed the Group since authorisation in 2007 and it will remain an important trading partner and advisor to the Group over the long term. Our other shareholders have recently announced that they will acquire Goldman Sachs' stake in the business (subject to regulatory and anti-trust approvals), demonstrating their continuing support and commitment to the business. The sale of Goldman Sachs remaining stake in the business concludes its ten year investment, supporting the creation and then growth of the business to being a market leading provider of regulated insurance solutions for pension de-risking. The change in ownership provides the Group with long-term support from its shareholders, allowing us to continue providing clients with a full range of solutions on a large scale, as well as taking advantage of strategic prospects as we maintain our value and risk-driven approach to underwriting.

Financial review

In the period to 30 June 2017, the Group achieved an operating profit before tax of £135m (HY2016: £125m, FY2016: £321m) and a profit before tax of £105m (HY2016: £100m, FY2016: £328m). The Group focuses on profit before tax as our 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 for the half year were lower than during the same period in 2016 because last year's results were dominated by the £6.4bn Aegon transaction. Premiums this half year were £610m (HY2016: £6.5bn) leading to new business profits of £58m (HY2016: £410m). The pipeline for the rest of 2017 remains strong.

With yields on assets at historically low levels, the Group remains overweight in gilts and cash. The Group expects to generate profits on these assets as we invest them according to our long-term investment strategy. The Group made a profit of £117m from the management of the in-force book in the period (HY2016: Loss of £242m).

In the first half of 2017, the Group made economic profits of £17m (HY 2016: £4m) as a result of credit gains.

IFRS financial performance

£m	**H1 2017**	H1 2016	FY 2016
New business operating profit	**58**	410	416
Management of in-force book	**117**	(242)	(26)
Acquisition costs	**(43)**	(37)	(65)
Administration expenses	**(9)**	(6)	(17)
Experience variance	**1**	(1)	1
Other	**11**	1	12
Operating profit before tax	**135**	**125**	**321**
Financing costs	**(23)**	(15)	(43)
Non-recurring and project expenditure	**(24)**	(14)	(30)
Economic profits	**17**	4	80
Profit before tax	**105**	**100**	**328**

Financial review continued

Total assets decreased from £39.7bn as at 31 December 2016 to £38.2bn as at 30 June 2017 primarily due to movements in interest rates. Assets under management decreased from £23.7bn as at 31 December 2016 to £23.6bn as at 30 June 2017. 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.

As a result of the ongoing capital strength of RLP, the Group has repaid £240m of third party syndicated loan notes leading to borrowings falling from £587m as at 31 December 2016 to £349m as at 30 June 2017. This has initially been financed via a loan from RLP to RHUK but the loan will be repaid via a dividend from RLP to RHUK later in the year. As such, the Group currently has significant capacity for new debt capital and on 19 September 2017 RLP privately placed a floating rate £300m Tier 2 bond.

Balance sheet highlights

£m	**30 June 2017**	30 June 2016	31 December 2016
Financial investments	**37,140**	42,023	38,346
Reinsurance assets	**394**	525	437
Other assets	**704**	1,454	925
Total assets	**38,238**	**44,002**	**39,708**
Share capital and share premium	**447**	448	447
Capital contribution reserve	**6**	6	3
Retained earnings	**1,121**	849	1,035
Total equity	**1,574**	**1,303**	**1,485**
Insurance contract liabilities	**22,036**	22,487	22,071
Payables and financial liabilities	**14,237**	19,557	15,532
Borrowings	**349**	587	587
Other	**42**	68	33
Total liabilities	**36,664**	**42,699**	**38,223**
Total equity and liabilities	**38,238**	**44,002**	**39,708**

Insurance contract liabilities decreased from £22.1bn as at 31 December 2016 to £22.0bn as at 30 June 2017 as a result of movements in rates.

Assets under management

£m	**30 June 2017**	30 June 2016	30 December 2016
Total assets	**38,238**	44,002	39,708
Less reinsurance assets	**(394)**	(525)	(437)
Less payables and financial liabilities	**(14,237)**	(19,557)	(15,532)
Assets under management	**23,607**	**23,920**	**23,739**

Market consistent embedded value

MCEV has increased from £2,173m at 31 December 2016 to £2,288m at 30 June 2017 (30 June 2016: £2,055m), driven largely by new business and investment performance. MCEV is summarised in the table below. Adjustments allow for Group borrowings and other Group adjustments, these adjustments increased from a deduction of £619m at 31 December 2016 to a deduction of £642m at 30 June 2017 due to market movements in the fair value of debt.

The value on an MCEV basis of new business written in the first half of 2017 was £72m (HY 2016: £322m).

Market consistent embedded value

£m	**30 June 2017**	30 June 2016	31 December 2016
Net assets	**2,185**	1,906	2,093
Value of in force	**745**	752	699
Less Debt and Group adjustments	**(642)**	(603)	(619)
MCEV	**2,288**	**2,055**	**2,173**

Capital management

The Group's capital resources are of critical importance. The Group's capital management framework is designed to meet the following objectives:

- to maintain financial strength in adverse conditions;
- to give customers long-term confidence in the Group;
- to satisfy our regulatory obligations;
- to match the profile of our assets and liabilities, taking account of the risk inherent in the business;
- to allocate capital efficiently to support new business growth; and
- to retain financial flexibility by maintaining strong liquidity.

Under the Solvency II regime, the Group is required to hold the greater of the capital required under the new Solvency II Pillar 1 framework and the capital required under its own economic capital models, Solvency II Pillar 2.

The Group also ensures that its insurance company subsidiary, RLP, is capitalised to the greater of the economic capital requirement and the regulatory Pillar 1 position. In practice, it is the Pillar 1 requirement which is more onerous and the Group aims to maintain at least 130% of the regulatory minimum requirement in RLP. As at 30 June 2017, RLP had an SCR coverage ratio of 171% (30 June 2016: 162% and 31 December 2016 180[1]%).

1 RLP Coverage of 177% was disclosed in 31 December 2016 financial statements reflecting an allowance for the first linear amortisation of the transition.

Financial review continued

The Group has implemented a dynamic capital management framework which uses interest rate and other hedging to target stability of the IFRS balance sheet under normal conditions and seeks to manage both the IFRS and solvency balance sheets as conditions deteriorate.

Solvency II pillar 1

The solvency position of the Group and RLP is summarised in the table below. Note that for the purpose of reporting as at 31 December 2016, allowance was made for amortisation of 1/16th of transitional solvency relief (being £57m) whereas we are now allowing for amortisation on 1 January 2017 in order that reporting is consistent with the Solvency and Financial Condition Report. Group SCR coverage increased from 164% at 31 December 2016 to 171% at 30 June 2017. SCR coverage at RLP fell from 180% on 31 December 2016 to 171% on 30 June 2017 because RLP has loaned RHUK funds in order to pay back the third party syndicated loan notes and that loan will be repaid with a dividend from RLP to RHUK later in the year.

Solvency position of the Group and RLP

	Group			RLP		
£m	**30 June 2017**	30 June 2016	31 December 2016	**30 June 2017**	30 June Restated 2016	31 December 2016
Tier 1 capital	**2,348**	2,120	2,265	**2,348**	2,149	2,526
Tier 2 capital	**361**	366	361	**361**	596	361
Own funds available to meet SCR	**2,709**	2,486	2,626	**2,709**	2,745	2,887
SCR	**1,584**	1,694	1,603	**1,584**	1,694	1,603
Surplus above SCR	**1,125**	**792**	**1,023**	**1,125**	**1,051**	**1,284**
SCR coverage	**171%**	**147%**	**164%**	**171%**	**162%**	**180%**

The Group's SCR is calculated using the standard formula. The diagram below provides a breakdown of the SCR post-diversification benefit between modules. Life underwriting relates mainly to longevity risk. Market risk is primarily spread risk, i.e. the risk that credit spreads widen.

SCR 30 June 2017

Market risk	**66%**
Life underwriting risk	**24%**
Counterparty default risk	**3%**
Operational risk	**7%**

The value of transitional solvency relief was last recalculated to reflect economic conditions as at 30 June 2016[2].

During the first half of 2017, the Group's own funds increased from £2.6bn to £2.7bn after allowing for the impact of new business and amortisation of 1/16th of transitional solvency allowance on 1 January 2017. The table below provides an analysis of the movement. All numbers are shown net of tax and allow for the impact of the matching adjustment and changes in transitional solvency relief (where applicable).

Change in own funds

£m	**H1 2017**	H1 2016	FY 2016
Opening position	**2,626**	**1,902**	**1,902**
Amortisation of 1/16th of transitional on 1 January	**(57)**	–	–
New business (on a fully deployed basis)	**33**	283	288
Management of in-force book	**93**	128	232
Acquisition costs and administration expenses	**(43)**	(35)	(65)
Other (including experience variance)	**(6)**	(24)	7
Operating surplus	**20**	**352**	**462**
Finance costs	**(19)**	(13)	(36)
Non-recurring and project expenditure[3]	**(20)**	(13)	(44)
Economic profits	**99**	58	140
Share issuance	**–**	199	199
Capital contribution	**3**	1	3
Closing position	**2,709**	**2,486**	**2,626**

The table overleaf provides a range of sensitivities as at 30 June 2017. Where applicable, allowance has been made for the impact of recalculating transitional solvency relief. Interest rates are assumed to fall progressively and hedging adjusted accordingly. Comparatives as at 30 June 2016 are not shown as sensitivities were not included in last year's report.

2 We estimate that the impact of recalculating transitional solvency relief as at 30 June 2017 would be to reduce solvency coverage by 6%.
3 Including the impact of funding the Employee Benefit Trust in FY2016.

Financial review continued

Solvency II sensitivities

		30 June 2017		31 December 2016	
Assumption[4]	**Change in assumptions**	**Impact on surplus £m**	**Impact on coverage ratio %**	Impact on surplus £m	Impact on coverage ratio %
Annuitant mortality	**+5% qx**	**85**	**7%**	76	6%
Annuitant mortality	**-5% qx**	**(94)**	**(7%)**	(81)	(6%)
Interest rate	**+100bps**	**218**	**29%**	215	26%
Interest rate	**-100bps**	**(67)**	**(15%)**	(83)	(15%)
Inflation	**+100bps**	**(6)**	**(5%)**	(9)	(6%)
Inflation	**-100bps**	**56**	**7%**	58	8%
Credit spread widening[5]	**+100bps**	**(133)**	**2%**	(114)	1%
Expenses	**+10%**	**(41)**	**(3%)**	(41)	(3%)

Solvency II pillar 2 (Economic capital)

During the first half of 2017, the Group's economic capital increased from £2,741m to £2,887m and RLP's economic capital reduced from £3,000m to £2,887m as a result of the loan from RLP to RHUK. This compares to a capital requirement that has reduced from £967m to £900m. The improvement in the Group's capital position was driven by movements in interest rates and spread tightening. In percentage terms, the Group's economic capital coverage has increased from 283% to 321% and RLP's coverage has increased from 310% to 321%.

The Group's own economic capital model does not allow for the risk margin in the base balance sheet and the capital requirement is lower than under the standard formula largely because of increased diversification benefit.

4 Sensitivities were not disclosed at 30 June 2016.
5 All non-government guaranteed assets.

Report of the Directors

The Directors present their condensed financial statements for Rothesay Holdco UK Limited, registered number 08668809, (the Company or RHUK) for the period ended 30 June 2017. Comparative information has been presented for the period ended 30 June 2016 and year ended 31 December 2016.

1. Results

The consolidated results for RHUK and its subsidiaries ('the Group') for the period are set out in the consolidated statement of comprehensive income on page 13.

2. Dividends

The Directors have recommended no payment of interim dividends during the period ended 30 June 2017 (2016: £nil).

3. Registered office

The financial statements include the financial statements of RHUK and its subsidiaries; Rothesay Pensions Management Limited, Rothesay Life Plc (formerly known as Rothesay Life Limited), Rothesay Assurance Limited and LT Mortgage Financing Limited. The Company and all subsidiary undertakings are registered in the United Kingdom. The registered office and principal place of business for RHUK and each of its subsidiary undertakings is Level 25, The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AB.

4. Post balance sheet event

On 9 August 2017, the Group announced that an agreement has been reached by funds managed or advised by Blackstone, GIC and MassMutual to acquire Goldman Sachs entire shareholding in RHUK subject to regulatory and anti-trust approvals. The transaction is expected to close in the fourth quarter of 2017.

On 19 September 2017, RLP privately placed a £300m floating rate Tier 2 bond with an 11-year maturity and callable in six years.

Report of the Directors continued

5. 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		
M. T. Corbett		
G. P. J. Earle		
R. A. De Beir Jarratt		
N. Kheraj		
R. King		
A. Loudiadis		
D. W. McDonogh		
T. L. Miller	1 September 2017	
T. J. Pearce		
C. D. Pickup		
W. J. Robertson		
A. M. Stoker		

6. Statement of Directors' responsibilities

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') 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.

7. Date of authorisation of issue

The financial statements were authorised for issue by the Board of Directors on 19 September 2017.

ON BEHALF OF THE BOARD

Addy Loudiadis
Chief Executive Officer
19 September 2017

Condensed consolidated statement of comprehensive income

For the period ended 30 June 2017

	Note	**Period ended 30 June 2017 £m**	Period ended 30 June 2016 £m	Year ended 31 December 2016 £m
Income				
Gross premiums written	2	**742**	6,638	6,877
Premiums ceded to reinsurers		**(327)**	(317)	(700)
Net premiums written		**415**	**6,321**	**6,177**
Investment return	3	**237**	2,233	2,798
Total revenue		**652**	**8,554**	**8,975**
Expenses				
Claims and change in insurance contract liabilities	4	**(711)**	(8,851)	(9,248)
Change in the reinsurers' share of insurance contract liabilities and reinsurance recoveries	4	**263**	469	756
Net claims incurred and change in insurance contract liabilities		**(448)**	**(8,382)**	**(8,492)**
Operating expenses	5	**(76)**	(57)	(112)
Finance costs	6	**(23)**	(15)	(43)
Total operating expenses		**(99)**	**(72)**	**(155)**
Profit before tax		**105**	**100**	**328**
Income tax expense	7	**(19)**	(20)	(66)
Profit for the period/financial year		**86**	**80**	**262**

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 – 23 form an integral part of these financial statements.

Condensed consolidated statement of financial position

As at 30 June 2017

	Note	**30 June 2017 £m**	30 June 2016 £m	31 December 2016 £m
Assets				
Property, plant and equipment	9	**4**	2	3
Financial investments	10	**37,140**	42,023	38,346
Reinsurance assets	11	**394**	525	437
Accrued interest and prepayments		**241**	232	278
Receivables		**281**	1,015	492
Cash and cash equivalents		**178**	205	152
Total assets		**38,238**	**44,002**	**39,708**
Equity and liabilities				
Share capital	16	**2**	2	2
Employee benefit trust	17	**(20)**	(20)	(20)
Share premium	17	**465**	466	465
Capital contribution reserve	17	**6**	6	3
Other reserves	17	**1,121**	849	1,035
Total equity		**1,574**	**1,303**	**1,485**
Liabilities				
Insurance contract liabilities	12	**22,036**	22,487	22,071
Payables and financial liabilities	13	**14,237**	19,557	15,532
Borrowings	14	**349**	587	587
Deferred tax liabilities	15	**1**	3	2
Accruals and deferred income		**41**	65	31
Total equity and liabilities		**38,238**	**44,002**	**39,708**

Notes 1 – 23 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 19 September 2017 and signed on its behalf by:

Addy Loudiadis
Chief Executive Officer
19 September 2017
Company number 08668809

Condensed consolidated statement of changes in equity

For the period ended 30 June 2017

	Share capital £m	Share premium £m	Capital contribution reserve £m	Profit and loss reserve £m	Reorganisation reserve £m	Employee benefit trust £m	Total equity £m
As at 1 January 2017	**2**	**465**	**3**	**903**	**132**	**(20)**	**1,485**
Profit for the period	**–**	**–**	**–**	**86**	**–**	**–**	**86**
Capital contribution	**–**	**–**	**3**	**–**	**–**	**–**	**3**
As at 30 June 2017	**2**	**465**	**6**	**989**	**132**	**(20)**	**1,574**

For the period ended 30 June 2016

	Share capital £m	Share premium £m	Capital contribution reserve £m	Profit and loss reserve £m	Reorganisation reserve £m	Employee benefit trust £m	Total equity £m
As at 1 January 2016	2	266	5	637	132	–	1,042
Profit for the period	–	–	–	80	–	–	80
Share issuance	–	200	–	–	–	–	200
Employee benefit trust	–	–	–	–	–	(20)	(20)
Capital contribution	–	–	1	–	–	–	1
As at 30 June 2016	**2**	**466**	**6**	**717**	**132**	**(20)**	**1,303**

For the year ended 31 December 2016

	Share capital £m	Share premium £m	Capital contribution reserve £m	Profit and loss reserve £m	Reorganisation reserve £m	Employee benefit trust £m	Total equity £m
As at 1 January 2016	2	266	5	637	132	–	1,042
Profit for the financial year	–	–	–	262	–	–	262
Share issuance	–	199	–	–	–	–	199
Employee benefit trust	–	–	–	–	–	(20)	(20)
Vesting of stock appreciation plan	–	–	(4)	4	–	–	–
Capital contribution	–	–	2	–	–	–	2
As at 31 December 2016	**2**	**465**	**3**	**903**	**132**	**(20)**	**1,485**

Condensed consolidated cash flow statement

For the period ended 30 June 2017

	Period ended 30 June 2017 £m	Period ended 30 June 2016 £m	Year ended 31 December 2016 £m
Cash flows from operating activities			
Profit for the period/financial year	**86**	80	262
Adjustments for non cash movements in net profit for the period/financial year			
Depreciation	**–**	–	1
Share based payments	**4**	2	3
Interest income	**(290)**	(208)	(530)
Interest expense	**23**	15	43
Income tax expense	**19**	20	66
Net decrease/(increase) in operational assets			
Financial investments	**1,206**	(17,431)	(13,754)
Reinsurance asset	**43**	(251)	(163)
Receivables	**(19)**	(634)	(133)
Net (decrease)/increase in operational liabilities			
Insurance contract liabilities	**(39)**	8,280	7,863
Claims outstanding	**4**	–	1
Financial liabilities	**(1,196)**	8,788	5,154
Other payables	**161**	917	500
Deferred tax liabilities	**(1)**	–	–
Accruals and deferred income	**–**	9	5
Net cash flows used in operating activities	**1**	**(413)**	**(682)**
Interest paid	**(13)**	(11)	(51)
Interest received	**323**	145	423
Tax paid	**(46)**	(52)	(72)
Net cash flows used in operating activities	**265**	**(331)**	**(382)**
Cash flows from financing activities			
Repayment of borrowings	**(238)**	–	–
Proceeds from issuance of debt	**–**	238	238
Proceeds from issue of ordinary share capital	**–**	200	200
Net cash flows from financing activities	**(238)**	**438**	**438**
Cash flows from investing activities			
Net acquisition of property, plant and equipment	**(1)**	–	(2)
Net cash outflows from investing activities	**(1)**	**–**	**(2)**
Net increase in cash and cash equivalents	**26**	107	54
Cash and cash equivalents at 1 January	**152**	98	98
Cash and cash equivalents at the statement of financial position date	**178**	**205**	**152**

Notes to the financial statements

Note 1 – General information and basis of preparation

(a) General information

RHUK is the ultimate holding Company of the Rothesay group of companies. RHUK is a registered limited private company incorporated and domiciled 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 30 June 2017 have been prepared and approved by the Directors, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the EU. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with IFRSs as adopted by the EU.

The consolidated financial statements of the Group are presented in sterling (£) rounded to the nearest million (£m) except where otherwise stated.

The Group 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 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). This includes the premium generated on inwards reinsurance contracts. 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 2017 £m	Period ended 30 June 2016 £m	Year ended 31 December 2016 £m	**Period ended 30 June 2017 £m**	Period ended 30 June 2016 £m	Year ended 31 December 2016 £m
Group pension bulk annuities	**132**	134	267	**406**	12	21
Assumed reinsurance premiums	**–**	–	–	**204**	6,492	6,589
Total gross premiums written	**132**	**134**	**267**	**610**	**6,504**	**6,610**

Notes to the financial statements continued

Note 3 – Investment return

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

	Period ended 30 June 2017 £m	Period ended 30 June 2016 £m	Year ended 31 December 2016 £m
Interest income on financial investments at fair value through profit and loss	**290**	208	530
Unrealised (losses)/gains on financial investments	**(128)**	2,009	2,045
Realised gains on financial investments	**83**	16	227
Investment expenses	**(8)**	–	(4)
Total investment return	**237**	**2,233**	**2,798**

The unrealised losses during the six month period were due to the impact of raising interest rates (which led to an offsetting decrease in insurance liabilities). This compares to a large gain during the period ended 30 June 2016 which was due to a large decrease in interest rates.

Note 4 – Net claims and change in insurance contract liabilities

	Period ended 30 June 2017 £m	Period ended 30 June 2016 £m	Year ended 31 December 2016 £m
Claims paid			
Gross claims paid	(751)	(652)	(1,384)
Reinsurance recoveries	306	298	593
Total claims paid	**(445)**	**(354)**	**(791)**
Change in insurance contract liabilities			
Gross change in insurance contract liabilities	40	(8,199)	(7,864)
Change in reinsurance recoveries	(43)	171	163
Total change in insurance contract liabilities	**(3)**	**(8,028)**	**(7,701)**
Net claims and change in insurance contract liabilities	**(448)**	**(8,382)**	**(8,492)**

Note 5 – Operating expenses

This 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 2017 £m	Period ended 30 June 2016 £m	Year ended 31 December 2016 £m
Acquisition costs	**43**	37	65
Administration expenses – recurring	**9**	6	17
Administration expenses – project and other one off expenses	**24**	14	30
Total operating expenses	**76**	**57**	**112**

Note 6 – Finance costs

	Period ended 30 June 2017 £m	Period ended 30 June 2016 £m	Year ended 31 December 2016 £m
Interest payable on collateral	**1**	2	4
Interest payable on collateralised agreements and financing	**4**	–	8
Interest payable on third party borrowings	**15**	11	26
Interest payable on borrowings from affiliates	**3**	2	5
Net finance costs	**23**	**15**	**43**

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

Notes to the financial statements continued

Note 7 – Income tax expense

The major components of income tax expense for the six month period ended 30 June 2017 and 30 June 2016 and the financial year ended 31 December 2016 are:

(a) Tax charged in the income statement

	Period ended 30 June 2017 £m	Period ended 30 June 2016 £m	Year ended 31 December 2016 £m
Current income tax:			
UK corporation tax	**20**	20	67
Total current income tax	**20**	**20**	**67**
Deferred tax:			
Origination and reversal of temporary differences	**(1)**	–	(1)
Total deferred tax	**(1)**	**–**	**(1)**
Total tax expense in the condensed consolidated statement of comprehensive income	**19**	**20**	**66**

(b) Reconciliation of the total tax charge

The tax expense in the statement of comprehensive income for the period and the standard rate of corporation tax in the UK of 19.25% (30 June 2016 and 31 December 2016: 20%) is reconciled below:

	Period ended 30 June 2017 £m	Period ended 30 June 2016 £m	Year ended 31 December 2016 £m
Profit on ordinary activities before taxation	**105**	100	328
Tax calculated at UK standard rate of corporation tax of 19.25% (30 June 2016 and 31 December 2016: 20%)	**20**	20	65
Temporary differences	**(1)**	–	1
Total tax expense reported in the condensed consolidated statement of comprehensive income	**19**	**20**	**66**

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.

Note 8 – Investment in unconsolidated structured entities continued

As at 30 June 2017 our total interest in such entities, reflected on the Group's consolidated statement of financial position and classified as financial investments held at fair value through profit or loss, was £4,228m (30 June 2016: £3,317m and 31 December 2016: £4,223m). The recorded fair value represents Rothesay's maximum loss exposure to these unconsolidated structured entities.

Note 9 – Property, plant and equipment

	Computer equipment £m	Furniture and fittings £m	Total £m
Cost			
As at 1 January 2017	0.3	4.1	4.4
Additions	0.2	0.7	0.9
As at 30 June 2017	**0.5**	**4.8**	**5.3**
Accumulated depreciation			
As at 1 January 2017	0.2	0.9	1.1
Charge for the half year	–	0.5	0.5
As at 30 June 2017	**0.2**	**1.4**	**1.6**
Net book value			
As at 30 June 2017	**0.3**	**3.4**	**3.7**
As at 31 December 2016	0.1	3.2	3.3
As at 30 June 2016	0.1	1.7	1.8

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; and
- Level 3: one or more inputs to valuation techniques are significant and unobservable.

The fair value of certain debt securities classified as Level 3 instruments is determined using inputs that are not based on observable market data. One of the most significant inputs is liquidity premiums. The valuation model discounts the future cash flows using interest rate swap curves in addition to a spread to reflect the associated credit risk and liquidity premiums.

Notes to the financial statements continued

Note 10 – Fair value continued

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy for 30 June 2017, 30 June 2016 and 31 December 2016:

30 June 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial investments:				
Collective investment schemes	1,036	–	–	1,036
Government, sub sovereign and agency obligations	5,793	6,974	–	12,767
Corporate bonds and other corporate debt	–	5,965	539	6,504
Derivative assets	–	10,649	–	10,649
Collateralised agreements and financing	–	2,753	3,279	6,032
Certificate of deposits	–	152	–	152
Total financial investments at fair value	**6,829**	**26,493**	**3,818**	**37,140**
Financial liabilities:				
Derivative financial instruments	–	10,860	–	10,860
Collateralised financing agreements	–	1,901	–	1,901
Total financial liabilities at fair value	**–**	**12,761**	**–**	**12,761**

30 June 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial investments:				
Collective investment schemes	893	–	–	893
Government, sub sovereign and agency obligations*	6,418	6,357	–	12,775
Corporate bonds and other corporate debt*	–	6,884	265	7,149
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

31 December 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial investments:				
Collective investment schemes	860	–	–	860
Government, sub sovereign and agency obligations*	5,695	7,048	–	12,743
Corporate bonds and other corporate debt*	–	6,389	338	6,727
Derivative assets	–	11,709	–	11,709
Collateralised agreements and financing	–	3,243	2,911	6,154
Certificate of deposits	–	153	–	153
Total financial investments at fair value	**6,555**	**28,542**	**3,249**	**38,346**
Financial liabilities:				
Derivative financial instruments	–	12,048	1	12,049
Collateralised financing agreements	–	1,908	–	1,908
Total financial liabilities at fair value	**–**	**13,956**	**1**	**13,957**

* £2bn of Level 2 of investments as at 30 June 2016 and £2.3bn of Level 2 investments as at 31 December 2016 which were categorised as corporate bonds and other corporate debt have been reclassified to government and sub sovereign and agency obligation Level 2 to be consistent with Rothesay's Solvency II investment classification.

Approximately 10% (30 June 2016: 6% and 31 December 2016: 8%) 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 bonds and other corporate debt £m	Collateralised agreements £m	Derivatives £m	**Total £m**
At 1 January 2017	**338**	**2,911**	**(1)**	**3,248**
Total gains in the statement of comprehensive income:				
Unrealised gains/(losses)	15	(151)	1	**(135)**
Transfer into Level 3	159	195	–	**354**
Purchase/additions	27	324	–	**351**
At 30 June 2017	**539**	**3,279**	**–**	**3,818**

	Corporate bonds and other corporate debt £m	Collateralised agreements £m	Derivatives £m	Total £m
At 1 January 2016	**182**	**1,939**	**(8)**	**2,113**
Total gains in the statement of comprehensive income:				
Unrealised gains	83	346	–	429
Transfer out of Level 3	–	–	8	8
Purchases/additions	–	95	–	95
At 30 June 2016	**265**	**2,380**	**–**	**2,645**

	Corporate bonds and other corporate debt £m	Collateralised agreements £m	Derivatives £m	Total £m
At 1 January 2016	**182**	**1,939**	**(8)**	**2,113**
Total gains in the statement of comprehensive income:				
Unrealised gains	81	403	7	491
Transfer into Level 3	–	338	–	338
Transfer out of Level 3	(38)	–	–	(38)
Purchases/additions	113	231	–	344
At 31 December 2016	**338**	**2,911**	**(1)**	**3,248**

Note 10 – Fair value continued

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 £354m (30 June 2016: £nil, 31 December 2016: £338m) and from Level 3 to Level 2 is £nil (30 June 2016: £8m, 31 December 2016: £38m). The reason for the transfer 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:

	30 June 2017 £m	30 June 2016 £m	31 December 2016 £m
Reinsurance of insurance contract liabilities	**394**	525	437
Total reinsurance of insurance contract liabilities	**394**	**525**	**437**

Under the outward 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 longevity of the underlying policies. The contracts are generally collateralised for changes in longevity expectations and movements in market rates. Where a contract is collateralised no additional reserves are held as the expected loss on default would be expected to be covered by the collateral. For the contracts where no collateral is held an additional counterparty default allowance is held to reflect the risk of loss on default. The calculation of the allowance considers the probability of default of the counterparty along with the expected level of collateral available to be reclaimed in the event of default.

An analysis of the movement in reinsurance of insurance contract liabilities is included in Note 12.

At 30 June 2017, 30 June 2016 and 31 December 2016 the Group conducted an impairment review of the reinsurance assets and found no impairment necessary.

Notes to the financial statements continued

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. Note that insurance contract liabilities include reinsurance inwards, i.e. where the 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:

There were no changes to the assumptions at 30 June 2017 from those used at 31 December 2016. The average mortality rate assumed for new business is slightly lighter than that used for the existing business leading to a slightly lighter average assumption.

	Base mortality					
	30 June 17		30 June 16		31 December 16	
	Pensions originated	**Insurance originated**	Pensions originated	Insurance originated (restated)	Pensions originated	Insurance originated
Males	**97.4% S2PMA**	**104.4% PMA08**	94.6% S2PMA	104.5% PMA08	97.5% S2PMA	104.5% PMA08
Females	**97.4% S2PFA**	**104.4% PFA08**	94.6% S2PFA	104.5% PFA08	97.5% S2PFA	104.5% PFA08

	Mortality Improvements		
	30 June 17	30 June 16	31 December 16
Males	**CMI_2014_M[2.4%]**	CMI_2014_M[2.7%]	CMI_2014_M[2.4%]
Females	**CMI_2014_F[2.4%]**	CMI_2014_F[2.2%]	CMI_2014_F[2.4%]

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, the stated base mortality incorporates the effect of selection adjustments for relevant policies and mortality improvements are applied assuming mortality rates are at 2008.

Recent mortality experience is analysed annually for each pension scheme and block of insurance contracts (individually or grouped). The last review was carried out during 2016. The best estimate base mortality assumptions used in the valuation are based on this actual mortality experience. The 30 June 2016 assumptions have been restated to reflect methodology changes to the calculation of the single equivalent rates applied from 31 December 2016.

Note 12 – Insurance contract liabilities continued

For pension scheme business mortality assumptions are generally set with reference to an RLP specific suites of mortality tables. These have been expressed for reporting purposes as an equivalent to the CMI S2 series of mortality tables drawn up by the Continuous Mortality Investigation Bureau (CMIB) of the Institute and Faculty of Actuaries. The S2 tables are based on industry wide experience.

For the blocks of insurance originated 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. During 2016 the long term rate was recalibrated and the female long term rate was brought in line with the male rate.

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 2017.

(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 obtainable on the basket of asset matching the applicable insurance contract liabilities at 30 June 2017.

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

	30 June 2017	30 June 2016	31 December 2016
Equivalent valuation discount rate	**2.4% pa**	2.3% pa	2.4% pa

This reflects a 2.5% prudential margin applied to the risk adjusted internal rate of return obtained on the basket of matching assets and an allowance for investment management expenses of 3bps p.a. (30 June 2016: 3bps p.a. and 31 December 2016: 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.

Notes to the financial statements continued

Note 12 – Insurance contract liabilities continued

The table below shows the average yield deduction at 30 June 2017, 30 June 2016 and 30 December 2016 by asset category:

	Average yield reduction		
Asset class	**30 June 2017**	30 June 2016	31 December 2016
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**	7 bps	9 bps
Supranational/other sovereign	**21 bps**	22 bps	19 bps
Secured residential lending	**21 bps**	28 bps	24 bps
Corporate bonds (without covering credit default swaps)	**48 bps**	75 bps	52 bps
Infrastructure	**76 bps**	91 bps	84 bps
Other	**41 bps**	83 bps	47 bps
Overall yield reduction	**17 bps**	**23 bps**	**19 bps**

Overall, the deduction for counterparty default risk on the assets held by the Group is generally lower than the corresponding credit default deduction on a typical unsecured credit portfolio. This is due to a significant proportion of the portfolio being invested in assets with 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.

(c) Expenses

An allowance is made for future overhead maintenance expenses following an investigation into the total costs incurred by the Group during 2016 and the projected 2017 expenses. The investigation was last updated for the 31 December 2016 valuation. 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 2017 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 2016: 0.25% p.a. and 31 December 2016: 0.25% p.a.) or 1.00% p.a (30 June 2016: 1.00% and 31 December 2016: 1.00%) for the TPA expenses depending on the TPA provider.

Note 12 – Insurance contract liabilities continued

(d) 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 with associated caps and floors), 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.

(e) Movements in insurance contract liabilities

	30 June 2017		
	Insurance liabilities £m	Reinsurance assets £m	**Net liabilities £m**
Carrying amount at 1 January	22,071	437	**21,634**
Increase in respect of new business	558	6	**552**
Release of liabilities/liabilities discharged	(592)	(3)	**(589)**
Effect of economic assumption changes	34	(45)	**79**
Other	(35)	(1)	**(34)**
Closing Balance at 30 June	**22,036**	**394**	**21,642**

	30 June 2016		
	Insurance liabilities £m	Reinsurance assets £m	Net liabilities £m
Carrying amount at 1 January	14,207	274	13,933
Increase in respect of new business	6,210	116	6,094
Release of liabilities/liabilities discharged	(518)	4	(522)
Effect of economic assumption changes	2,588	131	2,457
Closing Balance at 30 June	**22,487**	**525**	**21,962**

Notes to the financial statements continued

Note 12 – Insurance contract liabilities continued

	31 December 2016		
	Insurance liabilities £m	Reinsurance assets £m	Net liabilities £m
Carrying amount at 1 January	14,207	274	13,933
Increase in respect of new business	6,503	117	6,386
Release of liabilities/liabilities discharged	(1,093)	1	(1,094)
Effect of non-economic assumption changes	(139)	(142)	3
Effect of economic assumption changes	2,599	187	2,412
Other	(6)	–	(6)
Closing Balance at 31 December	**22,071**	**437**	**21,634**

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, net of reinsurance, changes in the assumptions used:

Net increase in net liabilities Change in assumptions used	**30 June 2017 £m**	30 June 2016 £m	31 December 2016 £m
Valuation interest rates	**159**	2,700	2,114
Inflation	**(80)**	(243)	298
Effect of economic assumption changes	**79**	**2,457**	**2,412**
Demographics	**–**	–	(46)
Expenses	**–**	–	49
Effect of non-economic assumption changes	**–**	**–**	**3**
Total change in assumptions used	**79**	**2,457**	**2,415**

As shown previously the valuation interest rate when expressed as a single equivalent to 0.1% did not change over the period. This was, however, due to offsetting movements with increasing interest rates offset by falling asset spreads. This led to a small overall movement in the liability reflecting the move of less than 0.1% in the discount rate.

There were no changes to the demographic or expense assumptions during the period.

Note 12 – Insurance contract liabilities continued

(f) Sensitivity analysis

The schedule below provides an analysis of the reasonably possible movements in key assumptions that would have a material impact on liabilities (net of reinsurance), profit before tax (PBT), and equity. The analysis is based on a change in a single assumption whilst holding all other assumptions constant. The analysis assumes an instantaneous shock to the assumptions, other than for the interest rate sensitivities where the impact of dynamic hedging is allowed for as an interest rate change. At 31 December 2016 an adjustment was made to the presentation of the credit default assumption sensitivity to allow for both asset and liability impacts. The 30 June 2016 comparatives are restated to be consistent.

30 June 2017	**Change in assumptions**	**(Decrease)/ increase on liabilities £m**	**Increase/ (decrease) on PBT £m**	**Impact on equity £m**
Annuitant mortality	**+%5 qx**	**(96)**	**96**	**78**
Annuitant mortality	**-%5 qx**	**101**	**(101)**	**(82)**
Interest rate	**+100bps**	**(2,656)**	**10**	**8**
Interest rate	**-100bps**	**3,375**	**219**	**177**
Inflation	**+100bps**	**1,046**	**73**	**59**
Inflation	**-100bps**	**(1,010)**	**62**	**50**
Credit default assumption	**+10bps**	**(116)**	**(104)**	**(84)**
Credit default assumption	**-10bps**	**119**	**105**	**85**
Expenses	**+10%**	**56**	**(56)**	**(45)**

30 June 2016	Change in assumptions	(Decrease)/ increase 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
Credit default assumption (restated)	+10bps	(88)	(130)	(105)
Credit default assumption (restated)	-10bps	93	130	105
Expenses	+10%	45	(45)	(36)

Notes to the financial statements continued

Note 12 – Insurance contract liabilities continued

31 December 2016	Change in assumptions	(Decrease)/ increase on liabilities £m	Increase/ (decrease) on PBT £m	Impact on equity £m
Annuitant mortality	+%5 qx	(85)	85	68
Annuitant mortality	–%5 qx	88	(88)	(71)
Interest rate	+100bps	(2,685)	32	25
Interest rate	–100bps	3,406	254	203
Inflation	+100bps	1,030	117	94
Inflation	–100bps	(1,026)	51	41
Credit default assumption	+10bps	(102)	(114)	(91)
Credit default assumption	–10bps	108	111	89
Expenses	+10%	58	(58)	(46)

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 Group being immunised to market movements in either direction.

The -100bp interest rate sensitivity assumes interest rates fall below zero for the period up to 5 years at 30 June 2017 (10 years 30 June 2016 and 6 years 31 December 2016).

The table below shows the impact of the reinsurance on the sensitivity to mortality risk, a reduction of 83% (30 June 2016: 83% and 31 December 2016: 86%).

30 June 2017	**Change in assumptions**	**(Decrease)/ increase on insurance liabilities £m**	**Increase/ (decrease) on reinsurance asset £m**	**Net (decrease)/ increase on liabilities £m**
Annuitant mortality	**+%5 qx**	**(567)**	**471**	**(96)**
Annuitant mortality	**–%5 qx**	**607**	**(506)**	**101**

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

Note 12 – Insurance contract liabilities continued

31 December 2016	Change in assumptions	(Decrease)/ increase on insurance liabilities £m	Increase/ (decrease) on reinsurance asset £m	Net (decrease) / increase on liabilities £m
Annuitant mortality	+%5 qx	(577)	493	(84)
Annuitant mortality	–%5 qx	618	(530)	88

The annuitant mortality assumes that in each year 5% more or fewer people survive to the end of each year than had previously been assumed.

Note 13 – Payables and financial liabilities

	30 June 2017 £m	30 June 2016 £m	31 December 2016 £m
Derivative financial instruments	**10,860**	15,706	12,049
Collateralised financing agreements	**1,901**	1,885	1,908
Deposits received as collateral from third parties	**763**	1,248	921
Deposits received as collateral for derivatives from participating interest	**626**	455	547
Current tax payable	**20**	20	46
Other taxes and social security costs	**3**	–	38
Other payables	**64**	243	23
Total payables and financial liabilities	**14,237**	**19,557**	**15,532**

Note 14 – Borrowings

RLP's borrowings are as follows:

	30 June 2017 £m	30 June 2016 £m	31 December 2016 £m
Third party syndicated loan	**–**	238	238
Affiliate subordinated loan	**100**	100	100
Subordinated loan notes	**249**	249	249
Total borrowed	**349**	**587**	**587**

The amounts outstanding at 30 June 2017 include £100m of floating rate perpetual callable loan notes and £249m unsecured, subordinated loan notes. The Group repaid the £240m 3 year term loan facility agreement provided by a syndicate of third party banks on 16 May 2017.

Notes to the financial statements continued

Note 14 – Borrowings continued

The £100m of floating rate perpetual callable loan notes are callable at par on 21 December 2017 and every 6 months thereafter. They carry deferrable interest at 6 month sterling LIBOR plus 425bps per annum. The notes are unsecured and classified as qualifying dated Tier 2 securities for the purpose of the 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 2016: £100m and 31 December 2016 £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 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 2017 the notes have a carrying value of £249m which is calculated based on an amortised cost basis, and a fair value of £279m (30 June 2016: £248m and 31 December 2016: £258m), as determined by traded levels. The notes are issued through the public debt markets.

For the period ended 30 June 2017, an interest expense of £18m was recognised in the consolidated statement of comprehensive income in respect of these borrowings.

During March, Rothesay signed a new £300m revolving credit facility with a syndicate of third party banks. The facility can be drawn to provide support but would not impact the Group's solvency position. The facility has not been utilised at the period end.

Note 15 – Deferred taxation liabilities

Deferred tax balances comprise:

	30 June 2017 £m	30 June 2016 £m	31 December 2016 £m
Temporary differences between the financial statements and the tax deductions	**(1)**	(3)	(2)
Total temporary differences	**(1)**	**(3)**	**(2)**

The movements in the deferred tax balances were as follows:

	30 June 2017 £m	30 June 2016 £m	31 December 2016 £m
At 1 January	**(2)**	(3)	(3)
Transitional adjustments	**1**	–	1
At statement of financial position date	**(1)**	(3)	(2)

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

Note 15 – Deferred tax liabilities continued

The Group has unrecognised deferred tax assets in respect:

	30 June 2017 £m	30 June 2016 £m	31 December 2016 £m
Temporary differences in relation to equity based compensation	**1**	3	2
Total temporary differences	**1**	**3**	**2**

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

	Period ended 30 June 2017 £m	Period ended 30 June 2016 £m	Year ended 31 December 2016 £m
At 1 January	**2**	3	3
Temporary difference in relation to equity based compensation	**(1)**	–	(1)
At statement of financial position date	**1**	**3**	**2**

Note 16 – Share capital

At 30 June 2017, 30 June 2016 and 31 December 2016 share capital comprised:

	30 June 2017		30 June 2016		31 December 2016	
	No.	**£m**	No.	£m	No.	£m
Ordinary share capital of £1.00 each	**30,001**	**–**	30,001	–	30,001	–
Ordinary share capital of £0.001 each	**1,034,034,369**	**1.0**	1,034,034,369	1.0	1,034,034,369	1.0
Preference share capital of £0.001 each	**1,034,034,369**	**1.0**	1,034,034,369	1.0	1,034,034,369	1.0
Authorised share capital	**2,068,098,739**	**2.0**	**2,068,098,739**	**2.0**	**2,068,098,739**	**2.0**

The ordinary shares issued are analysed into the following categories:

	30 June 2017		30 June 2016		31 December 2016	
	No.	**£m**	No.	£m	No.	£m
A £0.001 ordinary	**789,429,000**	**0.8**	789,429,000	0.8	789,429,000	0.8
B £0.001 ordinary	**81,427,369**	**0.1**	81,427,369	0.1	81,427,369	0.1
C £0.001 ordinary	**76,426,000**	**0.1**	76,426,000	0.1	76,426,000	0.1
D £1.00 ordinary	**30,001**	**–**	30,001	–	30,001	–
E £0.001 ordinary	**49,798,000**	**–**	49,798,000	–	49,798,000	–
F £0.001 ordinary	**36,954,000**	**–**	36,954,000	–	36,954,000	–
Total	**1,034,064,370**	**1.0**	**1,034,064,370**	**1.0**	**1,034,064,370**	**1.0**

Notes to the financial statements continued

Note 16 – Share capital continued

The A, B, C, D, E and F ordinary shares entitle the holder to participate in dividends. All ordinary shares entitle the holder to share in the proceeds of winding up of the Company in proportion to the number of and amounts paid on the shares held. Only the A shares have full voting rights. The other classes of share have limited voting rights.

Number of shares	**30 June 2017 No.**	30 June 2016 No.	31 December 2016 No.
At 1 January	**2,068,098,739**	1,800,000,001	1,800,000,001
Ordinary share issuance	**–**	34,064,369	34,064,369
Preference share issuance	**–**	234,034,369	234,034,369
At statement of financial position date	**2,068,098,739**	**2,068,098,739**	**2,068,098,739**

Employee benefit trust (EBT)

On 6 January 2016 the Company established an EBT, the Rothesay Employee Share Trust (the Trust). The Trust has been established to purchase and hold shares of the Company for delivery to employees under employee share schemes. Shares owned by the Trust are included at cost in the consolidated statements of financial position and are shown as a deduction from shareholders equity. They are disclosed as employee scheme shares until they vest to employees.

During the period 203,975 shares previously awarded to employees have been bought back by the trust.

Note 17 – Share premium account and reserve

	Share premium £m	Capital contribution £m	Employee scheme treasury shares £m	Profit and loss reserve £m	Reorganisation reserve £m
At 1 January 2017	**465**	**3**	**(20)**	**903**	**132**
Profit for the period	**–**	**–**	**–**	**86**	**–**
Capital contribution	**–**	**3**	**–**	**–**	**–**
At 30 June 2017	**465**	**6**	**(20)**	**989**	**132**

Note 17 – Share premium account and reserve continued

	Share premium £m	Capital contribution £m	Employee scheme treasury shares £m	Profit and loss reserve £m	Reorganisation reserve £m
At 1 January 2016	**266**	**5**	**–**	**637**	**132**
Profit for the period	–	–	–	80	–
Share issuance	200	–	–	–	–
Employee scheme treasury shares	–	–	(20)	–	–
Capital contribution	–	1	–	–	–
At 30 June 2016	**466**	**6**	**(20)**	**717**	**132**

	Share premium £m	Capital contribution £m	Employee scheme treasury shares £m	Profit and loss reserve £m	Reorganisation reserve £m
At 1 January 2016	**266**	**5**	**–**	**637**	**132**
Profit for the financial year	–	–	-	262	–
Share issuance	199	–	–	–	–
Vesting of stock appreciation rights	–	(4)	-	4	–
Employee scheme treasury shares	–	–	(20)	–	–
Capital contribution	–	2	-	–	–
At 31 December 2016	**465**	**3**	**(20)**	**903**	**132**

Note 18 – Capital management

The Group's capital resources are of critical importance. The objectives in managing its capital are:

- to maintain financial strength in adverse conditions;
- to give customers long-term confidence in the Group;
- to satisfy our regulatory obligations;
- to match the profile of our assets and liabilities, taking account of the risk inherent in the business;
- to allocate capital efficiently to support new business growth; and
- to retain financial flexibility by maintaining strong liquidity.

From 1 January 2016, the Group was required to operate under the new Solvency II regime. The Group had sufficient capital available to meet its regulatory capital requirements at all times during the period ended 30 June 2017.

Notes to the financial statements continued

Note 18 – Capital management continued

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

- The Group's technical provisions, being:
  - the liabilities of the Group calculated on a best estimate basis (the 'BEL'); plus
  - 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 2017, own funds for the Group are £2,709m (30 June 2016: £2,486m and 31 December 2016: £2,626m) made up as follows:

	30 June 2017 £m	30 June 2016 Restated £m	31 December 2016 Restated £m
Total IFRS equity	**1,574**	1,303	1,485
Liability valuation differences and other adjustments	**774**	817	780
Total tier 1	**2,348**	**2,120**	**2,265**
SII debt valuation	**361**	366	361
Total tier 2	**361**	**366**	**361**
Own funds	**2,709**	**2,486**	**2,626**

Note that for the purpose of reporting as at 31 December 2016, allowance was made for amortisation of 1/16th of transitional solvency relief (being £57m). For the purpose of this note, amortisation is allowed for on 1 January 2017 rather than on 31 December 2016 and the position changed accordingly. The restatement of the movement in own funds shown is to reflect this change in order that reporting is consistent with the Solvency and Financial Condition Report. The value of transitional solvency relief was last recalculated to reflect economic conditions as at 30 June 2016.

The table below provides an analysis of the movement in the Group's own funds over the first half of 2017. All numbers are shown net of tax and allow for the impact of matching adjustment and changes in transitional solvency relief (where applicable).

Note 18 – Capital management continued

Movement in own funds net of tax

	Period ended 30 June 2017 £m	Period ended 30 June 2016 Restated £m	Year ended 31 December 2016 Restated £m
Opening balance	**2,626**	**1,367**	**1,367**
Impact of change of solvency regime	**–**	535	535
Amortisation of 1/16th of transitional on 1 January	**(57)**	–	–
New business	**33**	283	288
Management of in-force book	**93**	128	232
Acquisition costs and administration expenses	**(43)**	(35)	(65)
Demographic experience variance	**1**	(4)	1
Economic profits	**99**	58	140
Non recurring expenses	**(20)**	(13)	(24)
Finance costs	**(19)**	(13)	(36)
Share issuance	**–**	199	199
Employee benefit trust	**–**	(20)	(20)
Capital contribution	**3**	1	3
Debt issuance	**–**	–	–
Other	**(7)**	–	6
Closing balance	**2,709**	**2,486**	**2,626**

The Group holds both debt and equity to optimise its capital structure and improve shareholder return.

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 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.

Notes to the financial statements continued

Note 19 – Related parties disclosures

Ultimate holding companies

The companies with an economic interest in RHUK are:

- The Goldman Sachs Group, Inc.: 32.7%
- The Blackstone Group L.P.: 26.5%
- GIC Private Limited: 26.5%
- MassMutual Financial Group: 6.5%

The remaining percentage is owned by management, employees and the Trust. Percentages are based on economic interest in RHUK.

Related party transactions

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

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

	Period ended 30 June 2017 £m	Period ended 30 June 2016 £m	Year ended 31 December 2016 £m
Statement of comprehensive income			
Realised/unrealised gains/(losses) on financial assets and liabilities	**216**	(625)	(936)
Interest income on bank deposits	**–**	1	–
Income from money market securities held in collective investment schemes	**1**	–	2
Interest on collateralised agreements and financing	**15**	12	37
Service fee charges	**(3)**	(2)	(4)
Investment management charges	**–**	–	(8)
Finance costs	**–**	(1)	–
Statement of financial position			
Derivative financial assets and liabilities	**(1,841)**	(1,967)	(2,085)
Collateralised agreements and financing	**924**	942	935
Collective investments schemes	**1,036**	891	860
Accrued interest	**8**	–	9
Amounts payable to related party	**(626)**	(455)	(547)
Capital			
Ultimate parent company	**467**	468	468
Capital contribution	**6**	6	3

Note 19 – Related parties disclosures continued

The nominal value of derivatives contracts outstanding with related parties as at 30 June 2017 was £42,652m (30 June 2016: £32,599m and 31 December 2016: £35,431m).

The Group continues to develop fully independent infrastructure and computer systems. As of 1 September 2015 the Group fully migrated its middle office and back office functions to an independent third party. The services which continue to be provided by Goldman Sachs are provided on an arms-length basis.

Transactions with key management personnel

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

The 30 June 2017 and 31 December 2016 numbers are not directly comparable to the 30 June 2016 numbers as we have amended the definition of key management personnel in line with the Solvency II regulations.

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

	Period ended 30 June 2017 £m	Period ended 30 June 2016 £m	Year ended 31 December 2016 £m
Salaries, bonus and other employee benefits	**2**	1	15
Equity based compensation payments	**1**	–	1
Total transactions	**3**	**1**	**16**

The tables below represent transactions between RHUK and its subsidiaries RPML and RLP.

Transactions with RPML	**30 June 2017 £m**	30 June 2016 £m	31 December 2016 £m
Statement of financial position			
Other receivables	**2**	1	1

Transactions with RLP	**30 June 2017 £m**	30 June 2016 £m	31 December 2016 £m
Statement of comprehensive income			
Finance cost	**1**	1	–
Statement of financial position			
Other payables	**272**	30	30
Capital	**814**	814	814

Notes to the financial statements continued

Note 20 – 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	**30 June 2017 £m**	30 June 2016 £m	31 December 2016 £m	**30 June 2017 % equity interest**	30 June 2016 % equity interest	30 December 2016 % equity interest
Rothesay Pensions Management Limited (RPML)	UK	Service company	**–**	–	–	**100%**	100%	100%
Rothesay Life Plc (RLP)	UK	Life insurance	**814**	814	814	**100%**	100%	100%
Rothesay Assurance Limited (RAL)	UK	Service company	**2**	2	2	**100%**	100%	100%
LT Mortgage Financing Limited (LTMF)	UK	Service company	**–**	–	–	**100%**	100%	100%

Subsidiaries are held at lower of cost and net realisable value.

The above subsidiary undertakings are registered in the United Kingdom. The registered office and principal place of business for all subsidiary undertakings is Level 25, The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AB.

LTMF has remained dormant during 2017. On 3 October 2016 the Prudential Regulatory Authority (PRA) granted an application to cancel the permissions of RAL. As it is now no longer needed the Group has begun proceedings to voluntarily liquidate RAL.

Note 21 – Financial commitments and contingencies

Operating lease commitments

Operating lease rental 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 2017 £m	30 June 2016 £m	31 December 2016 £m
Not later than one year	**2**	1	1
Later than one year and no later than five years	**9**	7	8
Later than five years	**3**	8	6
Total minimum lease payments	**14**	**16**	**15**

The Group signed a new lease during 2016 for an additional floor of the Leadenhall Building to accommodate the growth of the business.

Other commitments

During the period the Group purchased a bond with a notional of £40m, paying £3m in 2017 and undertaking to pay the remaining amount through a series of pre agreed cash flows by 31 December 2020. During previous years RLP executed transactions to purchase partly funded bonds.

As a result of these transactions RLP expects to pay a further £210m within the next 5 years (30 June 2016: £173m and 31 December 2016: £173m), £74m of this being due within 12 months of the financial reporting date (30 June 2016: £25m and 31 December 2016: £25m).

	30 June 2017 £m	30 June 2016 £m	31 December 2016 £m
Not later than one year	**74**	25	25
Later than one year and no later than five years	**136**	148	148
Later than five years	**–**	–	–
Total other commitments	**210**	**173**	**173**

Notes to the financial statements continued

Note 22 – Part VII transfer

In 2015 RLP reinsured £1.2bn of annuities written by Zurich UK Life and in 2016 RLP reinsured £6.4bn of annuities written by Aegon N.V. The Part VII transfers of the Zurich and Aegon annuities and associated reinsurance agreements were approved by the court on 24 May 2017 and 13 June 2017 respectively. The Zurich transfer was effective from 6 June 2017 and the Aegon transfer from 30 June 2017. The financial assets and liabilities were already recognised on the Group's balance sheet and therefore the Part VII transfers represented no change in the risk profile of RLP. As a result, there was no impact on the condensed consolidated income statement.

Note 23 – Post balance sheet events

On 9 August 2017, the Group announced that an agreement had been reached by funds managed or advised by Blackstone, GIC and MassMutual to acquire Goldman Sachs entire shareholding in RHUK subject to regulatory and anti-trust approvals. The transaction is expected to close in the fourth quarter of 2017.

On 19 September 2017, RLP privately placed a £300m floating rate Tier 2 bond with an 11-year maturity and callable in six years.

Market Consistent Embedded Value

Supplementary financial statements

The Group 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) (Copyright © Stichting CFO Forum Foundation 2008) which were published in 2008 and revised in October 2009 and May 2016. Consistent with the MCEV Principles revision in May 2016 an explicit allowance has been made for Solvency II.

The Group 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.

Group statement of financial position

As at 30 June 2017

	Period ended 30 June 2017 £m	Period ended 30 June 2016 £m	Year ended 31 December 2016 £m
Assets			
Value of in-force business	**745**	752	699
Financial investments and property, plant and equipment	**37,144**	42,026	38,349
Accrued interest and prepayments	**241**	232	278
Reinsurance assets	**394**	525	437
Receivables	**281**	1,015	492
Cash and cash equivalents	**178**	205	152
Total assets	**38,983**	**44,755**	**40,407**
Total equity	**2,288**	**2,055**	**2,173**
Liabilities			
Insurance contract liabilities	**22,036**	22,487	22,071
Payables and financial liabilities	**14,237**	19,557	15,532
Borrowings	**380**	588	598
Deferred tax liabilities	**1**	3	2
Accruals and deferred income	**41**	65	31
Total liabilities	**36,695**	**42,700**	**38,234**
Total equity and liabilities	**38,983**	**44,755**	**40,407**

The notes on pages 50 to 61 form an integral part of these supplementary financial statements.

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

The shareholders' equity on an MCEV basis is consistent with the sum of the shareholders' equity on an IFRS basis, the value of in-force business (VIF) as shown on page 55 and any debt valuation differences as shown on page 54.

Group MCEV analysis of Earnings (net of tax)

For the six months period ending 30 June 2017

Movement £m	Covered business (MCEV)	Non covered business (IFRS)	Total Group MCEV
Opening MCEV	**2,434**	**(261)**	**2,173**
Opening adjustments	–	–	–
Adjusted opening MCEV	**2,434**	**(261)**	**2,173**
Operating MCEV earnings	92	–	92
Non-operating MCEV earnings	24	(1)	23
Total MCEV earnings	**116**	**(1)**	**115**
Other movements in IFRS net equity	–	–	–
Closing MCEV	**2,550**	**(262)**	**2,288**

For the six months period ending 30 June 2016

In the tables below, for 30 June 2016 and 31 December 2016 opening adjustments reflect the impact of adopting the revised MCEV principles as at 1 January 2016 to allow for the impact of Solvency II.

Movement £m	Covered business (MCEV)	Non covered business (IFRS)	Total Group MCEV
Opening MCEV	**1,447**	**(2)**	**1,445**
Opening adjustments	(36)	–	(36)
Adjusted opening MCEV	**1,411**	**(2)**	**1,409**
Operating MCEV earnings	339	–	339
Non-operating MCEV earnings	560	(253)	307
Total MCEV earnings	**899**	**(253)**	**646**
Other movements in IFRS net equity	–	–	–
Closing MCEV	**2,310**	**(255)**	**2,055**

For the year ending 31 December 2016

Movement £m	Covered Business (MCEV)	Non Covered Business (IFRS)	Total Group MCEV
Opening MCEV	**1,447**	**(2)**	**1,445**
Opening adjustments	(36)	–	(36)
Adjusted opening MCEV	**1,411**	**(2)**	**1,409**
Operating MCEV earnings	357	–	357
Non-operating MCEV earnings	666	(259)	407
Total MCEV earnings	**1,023**	**(259)**	**764**
Other movements in IFRS net equity	–	–	–
Closing MCEV	**2,434**	**(261)**	**2,173**

Notes to the MCEV supplementary financial statements

1. Basis of presentation

The Group's primary financial statements have been prepared in accordance with IFRSs. The MCEV supplementary financial statements have been prepared in accordance with the MCEV Principles revised in May 2016 to allow for Solvency II.

Comparative information has been provided as at 30 June 2016 and 31 December 2016.

Covered business

The covered business includes all business written by RLP. This business falls under the definition of long-term insurance business for UK regulatory purposes.

The adjustments applied to arrive at the Group MCEV are the market value of other entities within the Group.

At 31 December 2016 the Group adjustment included the deduction of £240m of debt from RHUK, which was issued during 2016. This debt was repaid during 2017.

New business

For MCEV purpose, 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 dates shown there were no acquisitions.

Methodology

The MCEV is the sum of the net worth of the Group companies plus the VIF. For 30 June 2016 reporting, onwards the methodology reflects the introduction of Solvency II as described on the opposite page.

a. Net worth

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

b. Value of in-force

VIF consists of the following components:

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

c. Present value of future profits

The PVFP reflects the distributable profits, net of tax payable, calculated on an IFRS basis rather than on a Solvency II basis. The PVFP has not been updated to reflect Solvency II technical provisions to retain consistency with the payment of tax. Solvency II allowances are made through the definition of required capital and the associated frictional costs of required capital elements of the MCEV.

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 Group to be profit-neutral. Where there are specific contractual clauses that diverge from this, these have been appropriately allowed for within the PVFP.

The Group 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 Group continues to meet these solvency requirements and hence no value is placed on these surrender rights.

e. Frictional costs of required capital

Frictional costs are calculated by projecting forwards the future levels of required capital as set out in assumption section (g) on page 54. 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 residual non-hedgeable risk

CNHR covers risks not already allowed for in the TVFOG or in the PVFP. The allowance includes the impact of 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.

Notes to the MCEV supplementary financial statements continued

Methodology continued

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 previously), after allowing for diversification between these risks. The capital charge has been calculated in line with Rothesay's ORSA. 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 3.6% (3.5% at 30 June 2016 and 3.5% at 31 December 2016).

g. Tax

The projected cash flows take into account all tax which the Group expects to pay.

	30 June 2017	30 June 2016	31 December 2016
2017	**19.25%**	19.25%	19.25%
2018	**19.00%**	19.00%	19.00%
2019	**19.00%**	19.00%	19.00%
2020	**17.50%**	18.25%	17.50%
2021 +	**17.00%**	18.00%	17.00%

h. Consolidation adjustments

Group entities have been incorporated at market value.

The Group MCEV is net of external debt.

Assumptions

Economic assumptions

a. Reference rates

In setting the risk-free rate a mid-price swap yield curve is used as shown in the table below:

Term (years)	1	5	10	20	30	50
30 June 2017	**0.55%**	**0.99%**	**1.36%**	**1.65%**	**1.62%**	**1.43%**
30 June 2016	0.56%	0.60%	1.00%	1.26%	1.21%	1.07%
31 December 2016	0.55%	0.87%	1.26%	1.49%	1.45%	1.26%

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 Group 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 30 June 2017 was 101bps, after the deduction of investment management costs. The comparable liquidity premium adjustment as at 30 June 2016 was 127bps and 116bps as at 31 December 2016 .

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.

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 30 June 2017 the assumed rate of future expense inflation is equivalent to 3.70% (30 June 2016: 3.23% and 31 December 2016: 3.76%).

For services provided by RPML, the fees charged to RLP 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, that is improvements in future policyholder longevity are allowed for.

Recent mortality experience has been analysed for each pension scheme at the end of 2016. 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 2017.

Notes to the MCEV supplementary financial statements continued

Assumptions continued

f. Non-hedgeable risk

For the balance sheet a charge of 3.6% (30 June 2016: 3.5% and 31 December 2016: 3.5%) 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 £236m (£252m at 30 June 2016 and £253m at 31 December 2016). The resulting CNHR is £94m (£98m at 30 June 2016 and £99m at 31 December 2016).

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:

- Solvency II Pillar 1 Technical Provisions (net of transitional measures) plus 130% of RLP's SCR.
- Best estimate liabilities plus the Economic Capital requirement.

h. Valuation of debt

Borrowings in the MCEV consolidated statement of financial position are valued at their market value as determined by traded levels.

Movement £m	**Period ended 30 June 2017**	Period ended 30 June 2016	Year ended 31 December 2016
Face value	350	590	590
Amortised costs	(1)	(3)	(3)
IFRS valuation	**349**	587	587
Face value	350	590	590
Effect of marking to market	30	(2)	8
Market value/fair value	**380**	**588**	**598**

The debt valuation difference arises as a result of the market value approach under MCEV which differs from amortised cost valuation under IFRS. During 2015 RLP issued £250m of subordinated debt through the public debt markets. This debt valuation was £31m higher on an MCEV basis as at 30 June 2017 (30 June 2016: £1m lower on an MCEV basis and 31 December 2016: £9m higher on an MCEV basis).

During the period, the Group repaid £240m of debt.

2. Group embedded value

MCEV £m	**Period ended 30 June 2017**	Period ended 30 June 2016	Year ended 31 December 2016
Net worth	**2,185**	1,906	2,093
Value of in-force business			
Present value of future profits	**935**	953	899
Frictional cost of required capital	**(96)**	(103)	(101)
Cost of non-hedgeable risks	**(94)**	(98)	(99)
Value of in-force business	**745**	**752**	**699**
Sub-debt	**(380)**	(348)	(358)
MCEV of RLP	**2,550**	**2,310**	**2,434**
Debt	**–**	(240)	(240)
Net liabilities of other Group companies	**(262)**	(15)	(21)
Group MCEV	**2,288**	**2,055**	**2,173**

3. Covered business analysis of movement in embedded value (net of tax)

For the period ending 30 June 2017

Movement £m	Net worth	VIF	Debt	MCEV impact	Group adjustments	MCEV
Opening MCEV	**2,093**	**699**	**(358)**	**2,434**	**(261)**	**2,173**
New business value	(32)	104	–	72	–	72
Management of In force book	168	(117)	–	51	–	51
Expenses	(33)	–	–	(33)	–	(33)
Demographic experience variance	1	–	–	1	–	1
Operating MCEV earnings	**104**	**(13)**	**–**	**91**	**–**	**91**
Economic variances	14	56	(22)	48	–	48
Other non-operating variances	(26)	3	–	(23)	(1)	(24)
Total MCEV earnings	**92**	**46**	**(22)**	**116**	**(1)**	**115**
Closing MCEV	**2,185**	**745**	**(380)**	**2,550**	**(262)**	**2,288**

Notes to the MCEV supplementary financial statements continued

3. Covered business analysis of movement in embedded value (net of tax) continued

Commentary

The new business value shows the incremental MCEV, at the point of sale, from single premium bulk annuity transactions and inward reinsurance over the first half of 2017.

The management of in force book reflects assumption changes (both VIF and liability valuation) and includes profits made through the period due to asset trading activities, transacting additional reinsurance, expected returns and demographic releases, data cleanse exercises and other data movements.

Expenses reflect the actual maintenance expenses along with acquisition expenses that have not been allocated against new business profits.

Demographic experience variance represents the impact on MCEV of actual experience during the period relative to the expected experience at the start of the year.

Economic variances arise from market movements in credit spreads, illiquidity premium, interest rates and inflation compared to expectations. Economic conditions were less volatile during 2017 than in previous years leading to a smaller variance in MCEV due to economic conditions in 2017 than during the same period in 2016.

The main contributor to the movement in MCEV due to economic variances was the general tightening of credit spreads through the period, as demonstrated by the 15bp reduction in the illiquidity premium. This was partially offset by the increase in interest rates during the period.

Other non-operating variances includes the movement in net worth from non-operating variances reflects debt financing costs and non-recurring expenses net of tax.

For the period ending 30 June 2016

Movement £m	Net worth	VIF	Debt	MCEV impact	Group adjustments	MCEV
Opening MCEV	**1,370**	**435**	**(358)**	**1,447**	**(2)**	**1,445**
Solvency II model adjustment	22	(58)	–	(36)	–	(36)
Adjusted Opening MCEV	**1,392**	**377**	**(358)**	**1,411**	**(2)**	**1,409**
New business value	31	291	–	322	–	322
Expected existing business contribution (reference rate)	13	4	–	17	–	17
Transfers from VIF and required capital to free surplus	23	(23)	–	–	–	–
Experience variance	28	(26)	–	2	–	2
Assumption changes	–	–	–	–	–	–
Other operating variances	2	(4)	–	(2)	–	(2)
Operating MCEV earnings	**97**	**242**	**–**	**339**	**–**	**339**
Economic variances	4	133	–	137	–	137
Other non-operating variances	413	–	10	423	(253)	170
Total MCEV earnings	**514**	**375**	**10**	**899**	**(253)**	**646**
Closing MCEV	**1,906**	**752**	**(348)**	**2,310**	**(255)**	**2,055**

The format of the analysis of operating MCEV earnings was updated in 2016, as permitted by the MCEV Principles to be consistent with IFRS reporting given the move during the period to reflect IFRS net worth in the MCEV presentation. The 30 June 2016 analysis has not been reformatted.

Notes to the MCEV supplementary financial statements continued

3. Covered business analysis of movement in embedded value (net of tax) continued
For the year ended 31 December 2016

Movement £m	Net worth	VIF	Debt	MCEV impact	Group adjustments	MCEV
Opening MCEV	**1,370**	**435**	**(358)**	**1,447**	**(2)**	**1,445**
Solvency II model adjustment	22	(58)	–	(36)	–	(36)
Adjusted opening MCEV	**1,392**	**377**	**(358)**	**1,411**	**(2)**	**1,409**
New business value	31	299	–	330	–	330
Management of In force book	267	(194)	–	73	–	73
Expenses	(47)	–	–	(47)	–	(47)
Demographic experience variance	1	–	–	1	–	1
Operating MCEV earnings	**252**	**105**	**–**	**357**	**–**	**357**
Economic variances	64	124	–	188	–	188
Other non-operating variances	385	93	–	478	(259)	219
Total MCEV earnings	**701**	**322**	**–**	**1,023**	**(259)**	**764**
Closing MCEV	**2,093**	**699**	**(358)**	**2,434**	**(261)**	**2,173**

4. Value of new business over the period ended 30 June 2017
The following table sets out the after-tax value of new business for the period ended 30 June 2017, calculated at the point of sale:

Group MCEV for new business £m	**Period ended 30 June 2017**	Period ended 30 June 2016	Period ended 31 December 2016
Net worth	**(32)**	31	31
Present value of future profits	**106**	327	335
Frictional cost of required capital	**–**	(14)	(14)
Cost of non-hedgeable risks	**(2)**	(22)	(22)
Group MCEV	**72**	**322**	**330**

£0.6bn of new business premiums were written in the period ending 30 June 2017 (period ending 30 June 2016: £6.5bn and year ended 31 December 2016: £6.6bn). This excludes regular premiums generated on the in-force inwards longevity reinsurance business written in prior years.

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 in-force business, as described in the basis of preparation.

The 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.

The weighted average liquidity premium at point of sale for new business written during the period ending 30 June 2017 was 108bps (129bps for 30 June 2016 and 31 December 2016). The figure was slightly higher than the total in-force assumption at 30 June 2017 reflecting the reduction in illiquidity premium through the period.

5. Sensitivities

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

- 1% increase and decrease in the risk-free rate of interest. No floor has been applied to the risk-free rate of interest in these sensitivities. The impact of dynamic hedging is allowed for as interest rates change.
- 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. This stress has not been applied to UK government guaranteed debt or supranational bonds.
- Required capital equal to 100% of SCR.
- No sensitivity to equity or property has been shown as the Group does not directly invest in these asset classes.
- No sensitivity to swaption implied volatility has been shown as the Group 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.
- No sensitivity to lapse rates has been shown as the Group is not exposed to the lapse of future premiums.
- In calculating the change in Solvency II capital required in each scenario it is assumed that the transitional has been recalculated and that the Financial Resource Requirement which underpins the liability to Solvency I Pillar 1 does not bite.

Notes to the MCEV supplementary financial statements continued

5. Sensitivities continued

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

- The net worth calculated based on the impact on IFRS profit; consistent with the Note 12 of the financial statements net of tax. The tax impact of the IFRS profit; taken by applying the current tax rate at 30 June 2017, of 19.25%, to the pre-tax profit figure. 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, frictional cost of capital and cost of non-hedgeable risk.
- The debt and group adjustments include the effect of marking the debt to market in the interest sensitivities. £250m of fixed debt was issued in 2015 for which there are traded levels; therefore the valuation is sensitive to market movements.

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

The sensitivities below 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.

Sensitivities at 30 June 2017

	Net worth	VIF	Debt & group adjustments	MCEV
As reported £m	2,185	745	(642)	2,288
Economic assumptions				
Interest rates +1%	8	(49)	17	(24)
Interest rates -1%	177	113	(18)	272
Inflation +1%	59	46	–	105
Inflation -1%	50	(71)	–	(21)
Credit default + 10bps	(84)	1	–	(83)
Credit default - 10bps	85	(1)	–	84
Required capital equal to 100% of SCR	–	29	–	29
Non-economic assumptions				
Base mortality -5%	(82)	10	–	(72)
Base mortality +5%	78	(10)	–	68
Expenses +10%	(45)	15	–	(30)

Comparative sensitivities at 30 June 2016

	Net worth	VIF	Debt & Group adjustments	MCEV
As reported £m	1,906	752	(603)	2,055
Economic assumptions				
Interest rates +1%	(59)	(150)	16	(193)
Interest rates -1%	144	234	(17)	361
Inflation +1%	(20)	144	–	124
Inflation -1%	80	(117)	–	(37)
Credit default + 10bps	(105)	20	–	(85)
Credit default - 10bps	105	(20)	–	85
Required capital equal to 100% of SCR	–	31	–	31
Non-economic assumptions				
Base mortality -5%	(81)	8	–	(73)
Base mortality +5%	78	(7)	–	71
Expenses +10%	(36)	10	–	(26)

Comparative sensitivities at 31 December 2016

	Net worth	VIF	Debt & Group adjustments	MCEV
As reported £m	2,093	699	(619)	2,173
Economic assumptions				
Interest rates +1%	25	(39)	16	2
Interest rates -1%	203	74	(18)	259
Inflation +1%	94	23	–	117
Inflation -1%	41	(66)	–	(25)
Credit default + 10bps	(91)	11	–	(80)
Credit default - 10bps	89	(8)	–	81
Required capital equal to 100% of SCR	–	30	–	30
Non-economic assumptions				
Base mortality -5%	(71)	5	–	(66)
Base mortality +5%	68	(5)	–	63
Expenses +10%	(46)	15	–	(31)

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 to disclose 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. 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;
- 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 19 September 2017 and were signed on its behalf by:

Andrew Stoker
Chief Financial Officer
19 September 2017

Glossary of Terms

Acquisition costs	Acquisition costs comprise the expenses associated with the origination of new business, including incentive payments made to employees.
Administration expenses	Administration costs represent the cost of administering the in-force book of business.
Annuity	A series of regular payments made to an individual until their death. Payments may be indexed.
Assets under management	Assets being managed by the Group. Can be derived by taking total assets and adjusting for reinsurance, derivative liabilities and collateralised liabilities.
Assumed reinsurance premiums	Premiums received by RLP in respect of reinsurance inwards, i.e. a policy where RLP is acting as the reinsurer.
Best estimate liability (BEL)	The liabilities of the Group calculated on a best estimate basis, under Solvency II i.e. where all the assumptions made in the calculation are best estimate.
Bid price	A bid price is the price a buyer is willing to pay for a security.
Bulk annuity	A bulk annuity, sometimes referred to as a bulk purchase annuity, is a contract between a defined benefit pension scheme and an insurance company, whereby an insurance company insures some or all of the annuities being paid by the pension scheme.
Capital contribution reserve	The capital contribution reserve arose as a result of the stock appreciation rights granted in relation to the Rothesay Life share incentive plan.
Collateralised agreements/ Investments	Loans secured on property or other collateral.
Collective investment schemes	A way of investing money alongside other investors.
Corporate bonds and other corporate debt	These are debt securities issued by corporations which are not guaranteed by governments.
Credit risk	The risk of loss or of adverse change in the financial situation resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors.

Glossary of Terms continued

Currency risk	The risk that asset or liability values, cash flows, income or expenses will be affected by changes in exchange rates. Also referred to as foreign exchange risk.
Deferred annuities	Annuities or pensions due to be paid from a future date or when the policyholder reaches a specified age.
Demographics	Statistical data relating to the population and particular groups within it.
Distributable profits	A company's profits available for distribution are its accumulated realised profits.
Economic capital	Represents management's internal risk-based calculation of the capital required to remain solvent for a 99.8% confidence level over a 1-year period.
Economic profits	Represent the change in profit as a result of changes in market conditions.
Employee benefit trust (EBT)	A trust established to purchase and hold shares of the company for delivery to employees under employee share schemes.
Equity based transactions	Share based transactions awarded to employees under incentive plans.
Equity release mortgages	Mortgages extended to older customers (aged 55 and over) against their residential property at low loan to value percentage. Unlike a typical residential mortgage, no interest is paid monthly by the customer. Instead, the interest is simply added to the principal loan amount with the loan only repayable on death or entry into long-term care of the last remaining homeowner.
Fair value	Amount that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Finance costs	Represent interest payable on borrowings.

Frictional costs of required capital	Additional costs to a shareholder of holding the assets backing required capital within an insurance company rather than directly in the market. The additional costs allowed for are the tax costs and any additional investment expenses on the assets backing the required capital. These costs are explicitly deducted from the present value of future premiums.
Government, sub sovereign and agency obligations	A bond issued by a country's government or corporate debt which is guaranteed by a government to repay borrowed money at a specific time.
Gross premiums written	Premiums received by RLP on new business and generated through regular premiums.
In force	An insurance policy or contract reflected on records that has not expired, matured or otherwise been surrendered or terminated.
Infrastructure	Investments in infrastructure such as water, energy and transportation.
International Financial Reporting Standards (IFRS)	Accounting standards that are applied in preparing the Group's consolidated financial statements.
Investment return	Comprises all interest income on financial investments at fair value through profit and loss, realised investment gains and losses and movements in unrealised gains and losses, as well as expenses directly related to investments executed during the year.
Lifetime mortgage loans	See equity release mortgages.
Liquidity premium	An addition to the risk free rate used when projecting investment returns and discounting cash flows on certain types of contracts where the liabilities are illiquid and have cash flows that are predictable.
LTMF	LT Mortgage Financing Limited.
Longevity risk	The risk that a company could be exposed to a higher pay out as a result of increasing life expectancy.
Management of in-force book	Profits or losses generated on the in-force book of business.

Glossary of Terms continued

Market consistent embedded value (MCEV)	Provides an indication of the value of business written by measuring the risk-adjusted value of the in-force business, allowing for the unwind of margins.
Market risk	The risk of loss or of adverse change resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.
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.
Mortality tables	A table which shows for each age, what the probability is that a person of that age and gender will die before his or her next birthday.
Net premiums	Life insurance premiums, net of reinsurance premiums paid to third-party reinsurers.
Net worth	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 IFRS basis at 30 June 2017 (or statutory solvency basis, with inadmissible assets included, for comparative periods).
New business	New insurance contracts and reinsurance inwards sold during the period. Includes business acquired through purchase of companies.
New business operating profit	Profit generated on business transacted during the period.
New business premium	Premium paid on new business transacted during the period.
No negative equity guarantee	In equity release mortgages, the guarantee that the liability under the mortgage cannot exceed the value of the house.
Non-hedgeable risk	Under MCEV, risks not already allowed for in the time value of options and guarantees or PVFP. The allowance includes the impact of 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.

Operating profit before tax	Profit generated excluding recurring and non-recurring items as well as market fluctuations. Measure of profitability, capturing new business profit, in-force profit and assumption changes, but excluding market fluctuations and exceptional expenses.
Operational risk	The risk arising from inadequate or failed internal processes, personnel or systems, or from external events.
Own funds	Capital under the Solvency II regime.
Own risk and solvency Assessment (ORSA)	An assessment of the risk to which the business is exposed as well as solvency forecasting in a range of scenarios, including consideration of the stresses that could jeopardise the Group's business plans.
Partial internal model	Under Solvency II, insurer's own model used to calculate the solvency capital requirement in relation to particular risks approved by the PRA.
Part VII transfers	Court-approved transfer of a portfolio of contracts from one entity to another.
Pillar I	Under Solvency II, represents the solvency capital requirement calculated using a standard formula, or (partial) internal model.
Present value of future profits (PVFP)	Present value of the distributable profits to shareholders arising from the in-force covered business projected on a best estimate basis and discounted during the risk free rate adjusted for the liquidity premium.
Prudential Regulation Authority (PRA)	The PRA is a UK regulatory body responsible for prudential regulation and supervision of banks, building societies, credit unions, insures and major investment firms.
qx	qx is actuarial notation used to represent the probability of a life aged x dying during the year.
RAL	Rothesay Assurance Limited.
Regular premiums	Payments of premium made regularly over the duration of the policy.
Reinsurance	Protection sold to or purchased from another insurance company.

Glossary of Terms continued

Reorganisation reserve	Reflects the impact of the Group reorganisation in 2013 which led to an increase in reserves of £132m reflecting the excess of consolidated net assets to the historical cost of investment in subsidiary entities.
RHUK	Rothesay Holdco UK Limited.
Risk free rate	The rate of return on an investment with zero risk.
Risk margin	Under Solvency II, the cost of transferring non-hedge able risks.
RLP	Rothesay Life Plc.
RPML	Rothesay Pensions Management Limited.
Single premiums	Single premium policies of insurance are those that require only a single lump sum payment from the policyholder.
Solvency capital requirement (SCR)	Under Solvency II, capital requirement to withstand a 1-in-200 year event.
SCR coverage ratio	Own funds divided by SCR. Measure of surplus above capital requirement.
Solvency II	The solvency regime applicable from 1 January 2016. Under Solvency II, the 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.
Stock appreciation rights (SARs)	Method for companies to give their management or employees a bonus if the company performs well. SARs resemble employee stock options in that the employee benefits from an increase in stock price.
Subordinated loan	A fixed interest issue or debt that ranks below other debt in order of priority for repayment if the issuer is liquidated. Holders are compensated for added risk through higher rates of interest. Under EU insurance regulation, subordinated debt is not treated as a liability and counts towards the coverage of the required minimum margin of solvency with limitations.

Surrender	The termination of a life insurance policy or annuity contract at the request of the policyholder after which the policyholder receives the cash surrender value, if any, of the contract.
Third party administration (TPA) agreements	Contract with pensions administrator to process claims and payroll on behalf of RLP.
TVFOG	Time value of financial options and guarantees.
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. These structured entities have not been consolidated as the Group does not have the power to affect their returns.
Value of in force business	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-hedge able risks.
Yield	A measure of the income received from an investment compared to the price paid for the investment. Normally expressed as a percentage.

Notes

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